# REPOSITIONING
## FOR THE FUTURE

East Caribbean Financial Holding Company Limited

2018 ANNUAL REPORT

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# MISSION AND VISION

## VISION

Our Bank • Strong • Secure • Profitable

## MISSION

We are the Bank of choice, dedicated to meeting the needs and aspirations of our people in a professional and efficient manner.

## OUR CORE VALUES "I CARE"

- Integrity & Ethics
- Commitment to Results
- Accountability
- Respect for the Individual
- Excellence in Service

# NOTICE
# OF MEETING

## NOTICE: SPECIAL MEETING OF SHAREHOLDERS

Notice is hereby given that a Special Meeting of the East Caribbean Financial Holding Company Limited will be held at the Finance Administrative Complex, Pointe Seraphine, Castries, Saint Lucia on Thursday, May 16th 2019, at 4:00 p.m., for the following purposes:

1. To consider a resolution to amend the Company's Bye Laws.

The details of the resolution are contained in the Information Circular accompanying this notice.

BY ORDER OF THE BOARD

Estherlita Cumberbatch
Corporate Secretary

NOTE:
PERSONS ENTITLED TO NOTICE

In accordance with Section 108(2) of the Companies Act, Chapter 13.01 Revised Laws of Saint Lucia 2001, the Directors of the Company have fixed April 16, 2019 as the Record Date for the determination of shareholders who are entitled to receive Notice of the Annual Meeting. A list of such shareholders will be available for examination by shareholders at the Registered Office of the Company during usual business hours.

# NOTICE
## OF MEETING

### NOTICE OF EIGHTEENTH ANNUAL MEETING

Notice is hereby given that the Eighteenth Annual Meeting of the East Caribbean Financial Holding Company Limited will be held at the Finance Administrative Complex, Pointe Seraphine, Castries, Saint Lucia on Thursday May 16th 2019, at 4:15 p.m., for the following purposes:

1. To consider and adopt the Report of Directors
2. To consider and adopt the Report of the Auditors and the Audited Financial Statements for the year ended December 31, 2018
3. To appoint Auditors and authorize Directors to fix their remuneration
4. To sanction Dividends
5. To elect Directors

BY ORDER OF THE BOARD

Estherlita Cumberbatch
Corporate Secretary

NOTE:
PERSONS ENTITLED TO NOTICE

In accordance with Section 108(2) of the Companies Act, Chapter 13.01 Revised Laws of Saint Lucia 2001, the Directors of the Company have fixed April 16th 2019 as the Record Date for the determination of shareholders who are entitled to receive Notice of the Annual Meeting.  A list of such shareholders will be available for examination by shareholders at the Registered Office of the Company during usual business hours.

# ECFH
# CORPORATE INFO

## REGISTERED OFFICE
# 1 Bridge Street
P O Box 1860
Castries, Saint Lucia, West Indies.
Tel: (758) 456 6000
Fax: (758) 456 6702
Email: ecfh@candw.lc
Website: www.ecfh.com

## CHAIRMAN
Andre Chastanet, FCCA, OBE

## CORPORATE SECRETARY
Estherlita Cumberbatch B.Sc. (Mgmt.),
LLB (Hons), FCIS

## LEGAL COUNSELS
Deterville, Thomas & Co
99 Chaussee Road
P.O. Box 835,
Castries, Saint Lucia

Gordon, Gordon & Co.
10 Manoel Street
P.O. Box 161
Castries, Saint Lucia

Du Boulay, Anthony & Co.
Noble House, 6 Brazil Street
P.O. Box 1761
Castries, Saint Lucia

## SUBSIDIARIES
Bank of Saint Lucia Limited
# 1 Bridge Street
P.O. Box 1862
Castries, Saint Lucia, West Indies
Tel: (758) 456 6000
Fax: (758) 456 6720
Email: info@bankofsaintlucia.com
Website: www.bankofsaintlucia.com

## REGULATORS
Eastern Caribbean Central Bank
Eastern Caribbean Securities Regulatory Commission
Financial Services Regulatory Authority - Saint Lucia

## EXTERNAL AUDITORS
KPMG
Chartered Accountants
204 Johnsons Centre
Rodney Bay, Gros Islet, Saint Lucia

# ECFH
# OWNERSHIP

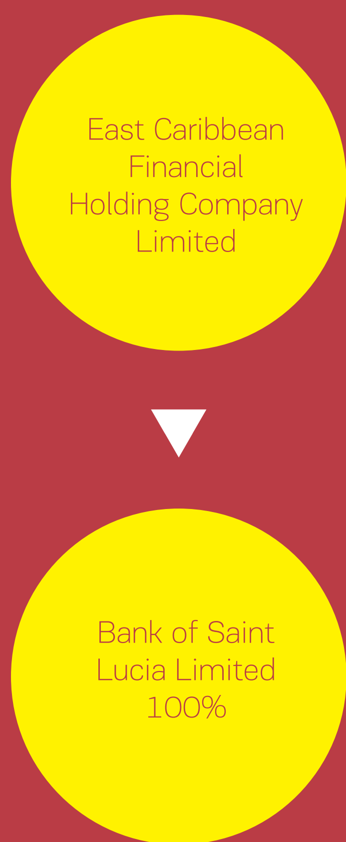
## ECFH OWNERSHIP

| Name | Percentage of Holding |
|---|---|
| Private Individuals & Institutions | 29.72% |
| Government of Saint Lucia | 19.36% |
| Republic Bank Limited | 19.36% |
| National Insurance Corporation (Saint Lucia) | 17.41% |
| OECS Indigenous Banks & Financial Institutions | 14.15% |

## CORRESPONDENT BANKS AND RELATIONSHIPS

| OECS | REGIONAL | INTERNATIONAL |
|---|---|---|
| Antigua Commercial Bank | First Citizens Bank Limited | Bank of America Merrill Lynch |
| Bank of Montserrat Ltd. | National Commercial Bank of Jamaica Limited | The Bank of New York Mellon |
| Bank of Nevis | Republic Bank Ltd | Banque Cramer &Cie SA |
| Bank of St. Vincent & the Grenadines | Republic Bank (Barbados) Ltd | Citibank NA |
| Eastern Caribbean Amalgamated Bank (ECAB) | Republic Bank (Guyana) Ltd | Crown Agents Financial Services Limited |
| First Citizens Investment Services Limited | RBC Dominion Securities Global Limited | London & Capital |
| National Bank of Anguilla Limited | Unit Trust Corporation | Lloyds TSB Bank Plc |
| National Bank of Dominica Limited | | Morgan Stanley Smith Barney |
| Republic Bank (Grenada) Limited | | Oppenheimer & Co |
| Saint Kitts Nevis Anguilla National Bank Limited | | RBC Emerging Market Securities |
| | | Tellco AG |
| | | Toronto Dominion Bank |
| | | UBS International Inc. |

# ECFH STRUCTURE



# ECFH
## FINANCIAL HIGHLIGHTS

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| | EC$000 | EC$000 | EC$000 | EC$000 | EC$000 | EC$000 | EC$000 |
| **INCOME STATEMENT** | | | | | | | |
| Interest Income | 84,157 | 80,503 | 76,981 | 155,803 | 162,911 | 169,806 | 175,301 |
| - Interest Expense | 27,919 | 32,145 | 35,490 | 64,717 | 77,879 | 84,237 | 82,173 |
| **= Net Interest Income** | **56,238** | **48,358** | **41,491** | **91,086** | **85,032** | **85,569** | **93,128** |
| + Other Income | 62,597 | 59,916 | 51,020 | 62,218 | 62,284 | 67,895 | 50,444 |
| **= Operating Income** | **118,835** | **108,274** | **92,511** | **153,304** | **147,316** | **153,464** | **143,572** |
| - Staff Costs | 26,216 | 25,609 | 29,917 | 47,093 | 44,318 | 46,539 | 43,864 |
| - Administrative Costs | 38,087 | 36,915 | 37,018 | 62,578 | 64,054 | 59,536 | 57,318 |
| - Impairment Losses - Loans & Investments | 8,920 | 16,431 | 128,782 | 45,009 | 20,431 | 41,250 | 161,962 |
| **= Profit before Taxes and Dividends** | **45,612** | **29,319** | **(103,206)** | **(1,376)** | **18,513** | **6,139** | **(119,572)** |
| + Profit for the year from discontinued operations | - | 683 | 12,882 | - | - | - | - |
| + Gain on disposal of controlling interest in subsidiary | - | 4,472 | - | - | - | - | - |
| - Provision for loss on disposal of subsidiary | - | - | 15,453 | - | - | - | - |
| - Taxes | 355 | (2,806) | 5,726 | 4,045 | 7,158 | 2,156 | 3,088 |
| - Dividends on Preference Shares | 291 | 291 | 291 | 291 | 291 | 291 | 291 |
| - Minority Interest | - | - | 2,419 | 2,871 | 1,516 | 3,504 | 2,500 |
| **= Profit/(Loss) for the year** | **44,966** | **36,989** | **(114,213)** | **(8,583)** | **9,548** | **188** | **(125,451)** |
| | | | | | | | |
| **BALANCE SHEET** | | | | | | | |
| Cash and Balances with Central Bank | 223,983 | 347,950 | 366,874 | 344,212 | 291,837 | 166,613 | 196,889 |
| + Investments | 905,394 | 686,651 | 813,572 | 1,518,013 | 1,415,748 | 1,399,482 | 987,232 |
| + Loans | 849,215 | 874,051 | 1,474,613 | 1,667,579 | 1,770,710 | 1,868,728 | 1,868,294 |
| + Other | 208,630 | 209,338 | 994,052 | 243,686 | 244,711 | 289,511 | 310,328 |
| **= Total Assets** | **2,187,222** | **2,117,990** | **3,649,111** | **3,773,490** | **3,723,006** | **3,724,334** | **3,362,743** |
| Deposits | 1,877,168 | 1,842,886 | 2,527,787 | 3,312,414 | 3,235,180 | 3,181,671 | 2,827,500 |
| + Borrowings | 71,519 | 79,181 | 139,710 | 116,646 | 152,883 | 213,125 | 203,913 |
| + Other Liabilities | 48,614 | 47,350 | 836,032 | 92,756 | 65,262 | 68,827 | 54,388 |
| + Capital | 189,921 | 148,573 | 145,582 | 251,674 | 269,681 | 260,711 | 276,942 |
| **= Total Liabilities and Capital** | **2,187,222** | **2,117,990** | **3,649,111** | **3,773,490** | **3,723,006** | **3,724,334** | **3,362,743** |
| | | | | | | | |
| **OTHER INFORMATION** | | | | | | | |
| **ROE** | **26.6%** | **25.1%** | **-57.5%** | **-3.3%** | **3.6%** | **0.1%** | **-37.2%** |
| **ROA** | **2.1%** | **1.4%** | **-3.1%** | **-0.2%** | **0.3%** | **0.0%** | **-3.7%** |
| **Ordinary Dividend Payout % age** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **-2.0%** |
| **Book Value of Ordinary Shares ($)** | **$7.76** | **$6.07** | **$3.83** | **$8.22** | **$9.03** | **$8.62** | **$9.43** |
| **Average Market Value of Ordinary shares ($)** | **$4.13** | **$4.75** | **$5.44** | **$6.22** | **$6.42** | **$7.93** | **$10.86** |
| **Earnings / (Loss) per Ordinary Share ($)** | **$1.84** | **$1.30** | **($4.46)** | **($0.69)** | **$0.39** | **$0.01** | **($5.13)** |
| **Dividends per Ordinary Share ($)** | - | - | - | - | - | - | **0.10** |
| **Provisions as % of Loan Portfolio** | **6.9%** | **9.9%** | **7.1%** | **7.4%** | **5.1%** | **10.7%** | **10.1%** |
| **Provisions as % of Non-performing Loan Portfolio** | **60.8%** | **59.1%** | **49.1%** | **39.6%** | **28.7%** | **42.0%** | **72.0%** |

# CHAIRMAN'S STATEMENT

The fast-changing operating and regulatory environment, will continue to remain in focus. A performance-based bonus payment for employees is intended to incentivize a results driven team to ensure sustained profitability.

## PERFORMANCE

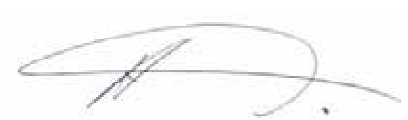
In 2018 we continued to focus on the implementation of our three-year Strategic Plan to ensure that Our Bank remains Strong, Secure and Profitable in a sustainable manner and to be a more resilient institution. We are therefore pleased to announce that for the year ended 2018, ECFH has recorded a net profit after tax of $44.9 million up from 2017's $36.9 million. However, after adjustments for unrealized loss on investments and the re-measurement loss on the defined benefits pension plan, total comprehensive income attributed to Equity holders was $33.9 million in 2018 down from $45.3 million in 2017. In 2018 we were also able to improve our Tier1 and total capital adequacy ratios to 12.87% and 18.36% respectively. As promised last year and given the strong and improved capital adequacy ratio, the Board has approved a dividend payment of 30 cents per share to ordinary shareholders in keeping with a very prudent dividend policy.

## LOOKING AHEAD

The Board will continue to provide guidance and support to Management in implementing the necessary initiatives to ensure that the vision of the Bank is achieved. Critical to this is talent management, including succession planning. The fast-changing operating and regulatory environment, will continue to remain in focus. A performance-based bonus payment for employees is intended to incentivize a results driven team to ensure sustained profitability. We remain committed to building up our reserves to strengthen the capital adequacy ratio position and to increase share value in the foreseeable future. I wish, however, to caution that the road ahead will remain challenging given our vulnerability to global economic, environmental and regulatory uncertainty. To this end, all stakeholders must appreciate the need for the Bank to remain strong, secure and profitable to deal effectively with future shocks.

## ACKNOWLEDGMENTS

On behalf of the Board of Directors, I wish to thank the Managing Director, Management and Staff of the institution for the unwavering commitment and invaluable contributions they have made towards the success of the institution. The Board also wishes to thank our valued shareholders for entrusting it with the responsibility of providing guidance and direction of the organization. To our loyal customers, thank you for the continued confidence in your Bank. We now look to the future with an even greater sense of confidence and renewed optimism.



Andre Chastanet, OBE
Chairman

# CORPORATE GOVERNANCE

The Board approves the Bank's strategies, financial objectives, operating plans and programmes for management succession. The Board meets bi-monthly with other meetings held as necessary.

The Board of Directors of the East Caribbean Financial Holding Company Limited is responsible for the governance of the Bank, and is committed to adhering to the highest standards of Corporate Governance. It is guided by a formal Corporate Governance Policy and has adopted the ECCB Guidelines on Corporate Governance.

The Board comprises appointed and elected directors who govern the affairs of the Bank. It approves the Bank's strategies, financial objectives, operating plans and programmes for management succession. The Board meets bi-monthly with other meetings held as necessary.

**Board Responsibilities**

The Board provides leadership of its subsidiary Bank of Saint Lucia Limited within a framework of sound corporate governance practices, prudent policies and effective controls that facilitate risk assessment and management. It sets the Bank's strategic goals and objectives, through strategic plans, budgets and work plans. This ensures that the Company would continue to achieve sustained growth, efficiency and profitability. The Board establishes the Company's values and ensures that its obligations to the institution, shareholders and other stakeholders are understood and met.

**Independence of the Board**

The majority of Directors on the Board are independent in accordance with established Corporate Governance principles and must take decisions in the best interest of the Company.

There is a clear delineation of responsibilities between the running of the Board and the Executive responsibility for the running of the Bank. No one individual has unrestricted powers of decision making. The roles of Chairman and Managing Director cannot be exercised by the same individual. To facilitate accountability and transparency, no single individual or group of individuals dominates the decision-making process.

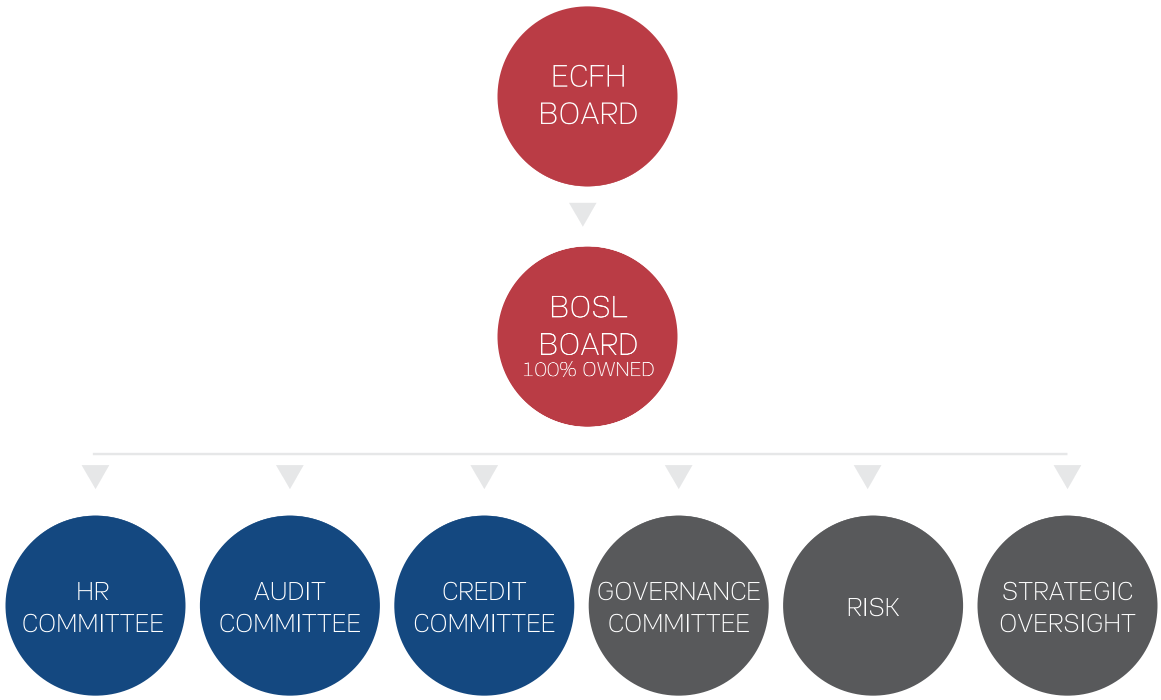
**Size of the Board**

The Board comprises eleven members, ten of whom are elected or appointed by the holders of ordinary shares and the Managing Director who is an Executive Director. Collectively, the members of the Board must demonstrate a balance of skills and experience appropriate for the requirements of the business.

**Conflict of Interest**

Directors are required to complete and sign a Directors Declaration of Interest Form upon their appointment to Office, which shall be completed annually during their term of office and any material changes shall be reported immediately to the Corporate Secretary.

A member of the Board of Directors having a conflict of interest concerning a decision to be taken by the Board shall declare it to the Chairman or Secretary of the Board Meeting at the start of that meeting and shall absent him/herself from the discussion on the matter and voting on such decision.




**Subsidiary Board**

ECFH has one subsidiary, Bank of Saint Lucia Limited whose Board is comprised of the same Directors. The ECFH Board has to be aware of all material risks and other issues that may ultimately affect its subsidiary to be able to exercise adequate oversight over the activities of the subsidiary.

The Board shall ensure that adequate risk management procedures are in place to identify, assess and monitor risk activities and to provide the desired balance between risk acceptance and returns. The Risk Management committee meets at least quarterly and reports to the Board quarterly.

**Board Committees**

In an effort to effectively allocate tasks and responsibilities at the Board level, the Board has established committees with clearly defined objectives, authorities, responsibilities and tenure. The Board shall not delegate matters requiring special approvals to any of its committees.

Committees comprise mainly independent Directors and meet at least three times a year or when the need may arise. The Committees are as follows:

**1. Human Resource Committee**

This Committee is responsible for the following:

- Approving staff compensation
- Staff policies
- Appointment of Senior Management
- Management succession planning
- Staff structure

MEMBERS

- **Martin Dorville - Chairman**
- Jacqueline Emmanuel-Flood
- Llewellyn Gill
- Trevor Louisy
- Bernard La Corbiniere

**2. Audit Committee**

This Committee is responsible for providing oversight over the Company's operations, in particular:

- The quality and integrity of the financial statements of the Group
- The effectiveness of the systems of internal control over financial reporting
- The internal and external audit processes, the Group's processes for monitoring compliance with applicable laws and regulations, risk management processes and the code of conduct.
- Review of significant accounting and reporting issues.
- The effectiveness of the Company's system of internal controls including information technology controls and their impact over annual and interim financial reporting.

MEMBERS

- **Omar Davis-Chairman**
- Marcus Joseph
- Martin Dorville
- Llewellyn Gill
- Stewart Haynes

### 3. Credit Committee

This Committee is responsible for the following:

- Reviewing and approving all policies regarding loans, credit facilities and investments.
- Setting lending limits
- Approving loans above the limit of management and submission of appropriate recommendations to the Board for approval.
- Monitoring the implementation of the Board approved policies regarding loans and investments.

MEMBERS

- **Llewellyn Gill - Chairman**
- Andre Chastanet
- Omar Davis
- Marcus Joseph

### 4. Governance Committee

This committee assists the Board in fulfilling its responsibilities, in particular:

- Providing for qualified Board succession
- Promoting the integrity of the Company through the establishment of appropriate corporate governance principles.

MEMBERS

- **Trevor Louisy - Chairman**
- Omar Davis
- Andre Chastanet
- Jacqueline Emmanuel-Flood
- Stewart Haynes

### 5. Risk Management Committee

The purpose of the Board's Risk Management Committee is to assist the Board to oversee the risk profile and approve the risk management framework of the Company and its subsidiary within the context of the strategy determined by the Board. The committee:

- Reviews and monitors aggregate risk levels in the business and the quality of risk mitigation and control for all areas of risk to the business.
- Makes recommendations to the Board on areas for improvement, management and mitigation of risk
- Apprises the Board of progress of the implementation of improvements and other mitigation actions.

MEMBERS

- **Stewart Haynes- Chairman**
- Andre Chastanet
- Marcus Joseph

### 6. Strategic Oversight Committee

The mandate of this Committee is to perform oversight of matters relating to, or affecting the Bank's strategic direction, in accordance with the approved Strategic Plan.

The committee:

- Provides oversight and advice to Management in the development and implementation of all such strategic initiatives.
- Makes recommendations to the Board

MEMBERS

- **Andre Chastanet-Chairman**
- Martin Dorville
- Jacqueline Emmanuel-Flood
- Trevor Louisy

# PROFILE
## OF DIRECTORS

| 1 | PAT PAYNE
Appointed: January 2019
MSc. HR Development

| 2 | STEWART HAYNES
Appointed: August 2017
FICCFA

| 3 | ANDRE CHASTANET
Appointed: September 2016
FCCA

| 4 | LLEWELLYN GILL
Appointed: May 2016
FCGA, FCIS, FCCA

| 5 | MARTIN DORVILLE
Appointed: April 2014
MBA-Marketing & Finance

|6| MARCUS JOSEPH
Appointed: September 2016
CGA

|7| TREVOR LOUISY
Appointed: September 2014
BSc. (Hons) Electrical Engineering

|8| BERNARD LA CORBINIÈRE
Appointed: March 2018
Ph.D Economics
MSc. Computer Science

|9| JACQUELINE EMMANUEL-FLOOD
Appointed: May 2012
BSc. MSc. Accredited Director and Member-ICSA

|10| OMAR DAVIS
Appointed: May 2012
ACCA, Accredited Director and Member-ICSA

# DIRECTORS' REPORT

There has been no change in Directors' interests occurring between the end of the Company's Financial Year and one month prior to the date of the Notice convening the Annual Meeting.


The Directors hereby submit their Report for the Financial Year ended December 31, 2018.

## CHANGES TO THE BOARD

The following changes were made to the Board during the financial year:

i. Director Derry Williams, Managing Director (Ag) was appointed to the Board effective May, 2017 on secondment from BOSVG to March 31, 2018.
ii. Director Bernard La Corbinière was appointed Managing Director on March 19, 2018, replacing Derry Williams whose tenure came to an end on March 31, 2018.
iii. Farid Antar and John Tang Nian appointed by Republic Bank Limited resigned effective November 27, 2018 and have not been replaced.
iv. Pat Payne was appointed on January 24, 2019 to fill a casual vacancy and she will be proposed to shareholders for election at the upcoming Annual Meeting.

## DIRECTORS' INTEREST

The interests of the Directors holding office at the end of the Company's Financial Year 2018 in the Ordinary Shares of the Company were as follows:

| Director | Beneficial Interest |
|---|---|
| Andre Chastanet | 10,000 |
| Omar Davis | 3,530 |
| Marcus Joseph | 2,710 |
| Jacqueline Emmanuel-Flood | 1,150 |
| Llewellyn Gill | 200 |
| Trevor Louisy | 200 |
| Stewart Haynes | Nil |
| Martin Dorville | Nil |
| Pat Payne | Nil |
| Bernard La Corbinière | 1,386 |

There has been no change in these interests occurring between the end of the Company's Financial Year and one month prior to the date of the Notice convening the Annual Meeting. At no time during or at the end of the Financial Year has any Director had any material interest in any contract or arrangement in relation to the business of the Company or any of its subsidiaries.

**Substantial Interests in Share Capital as at December 31, 2018**

| Name of shareholder | Class of shares | No. of shares | Percentage of ownership |
|---|---|---|---|
| Government of Saint Lucia | Ordinary | 4,736,600 | 19.36% |
| Republic Bank Limited | Ordinary | 4,736,600 | 19.36% |
| National Insurance Corporation | Ordinary | 4,258,400 | 17.41% |
| National Insurance Corporation | Preference | 830,000 | 100% |

**Restrictions on Trading of Shares by Directors**

In accordance with the Securities Act No. 23 of 2001, and the Company's policy on Trading of shares by Directors and staff, Directors are restricted from trading in the shares of the Company except during two (2) thirty (30)-day periods per year.

## SHAREHOLDER RELATIONS

The shares of East Caribbean Financial Holding Company Limited (ECFH) have been listed on the Eastern Caribbean Securities Exchange (ECSE) from October 19, 2001. As a result, all shares are traded on the exchange and records maintained by the ECSE in accordance with the regulations. A total of 26,614 shares were traded at an average price of $4.17 per share during the 2018 financial year.

As the issuer of the shares, the ECFH has the responsibility of ensuring that all necessary information is communicated to shareholders on a timely basis and that dividends are paid in accordance with the dividend policy approved by the Board of Directors.

During the year, Directors approved and granted two new secondary school scholarships to children of shareholders residing in St. Lucia. The total number of scholarships granted is ten (10) at an annual cost of Fifteen Thousand dollars ($15,000). The scholarships are awarded annually on the basis of the students obtaining the highest scores at the Common Entrance Examinations.

## AUDITORS

The Auditors KPMG retire and offer themselves for re-appointment. The Directors have agreed that a resolution for their re-appointment as Auditors of the Company for the ensuing year will be proposed at the Annual Meeting.

In accordance with Section 162 (i) of the Companies Act, Cap.13.01, the term of the appointment will extend from the close of the Annual Meeting until the next Annual Meeting of the Company.

# SENIOR MANAGEMENT TEAM

BERNARD LA CORBINIÈRE
Managing Director

MEDFORD FRANCIS
Deputy Managing Director - Lending & Investments

LYNDON ARNOLD
Deputy Managing Director - Operations

KETHA AUGUSTE
Chief Financial Officer

MELISSA SIMON
Senior Manager - Internal Audit

BALDWIN TAYLOR
Senior Manager - Retail Banking

CECILIA FERDINAND LA-CORBINIÈRE
Senior Manager - Credit Administration

CYNTHIA LAURENT
Senior Manager -
Operations

OMARI FREDERICK
Senior Manager – Marketing &
Corporate Communications

ESTHERLITA CUMBERBATCH
Corporate Secretary

PATRICIA JOSEPH
Senior Manager -
Corporate Banking

MINELVA OCULIEN-MOSES
Senior Manager -
Human Resource Management &
Development

SHANTA LOUIS
Senior Manager -
Risk Management &
Compliance Services

# MANAGEMENT
## DISCUSSION AND ANALYSIS

The Bank reported a favourable financial performance for the financial year 2018, despite the challenging economic climate and competitive environment. The result reflected an improvement in asset and liability management.

### OVERVIEW

The regional and international financial services landscape continues to undergo profound change and 2018 was no exception. In 2018, the ECFH Group adopted the International Financial Reporting Standard-IFRS 9 which relates to changes in the classification and measurement of financial assets, replacing the incurred loss model of provisioning with an expected loss model. The adoption of this new standard did not adversely affect the Group's financial position.

The global economic climate remains volatile and uncertain. It is driven by (a) rising interest rates; (b) fears of trade wars between the USA and China and (c) continued uncertainty surrounding Brexit. The regulatory landscape is becoming even more onerous with the implementation of regulatory requirements such as the Foreign Account Tax Compliance Act (FATCA), Common Reporting Standards (CRS) and General Data Protection Regulation (GDPR). The Group has made significant strides in developing robust systems to ensure compliance with these requirements.

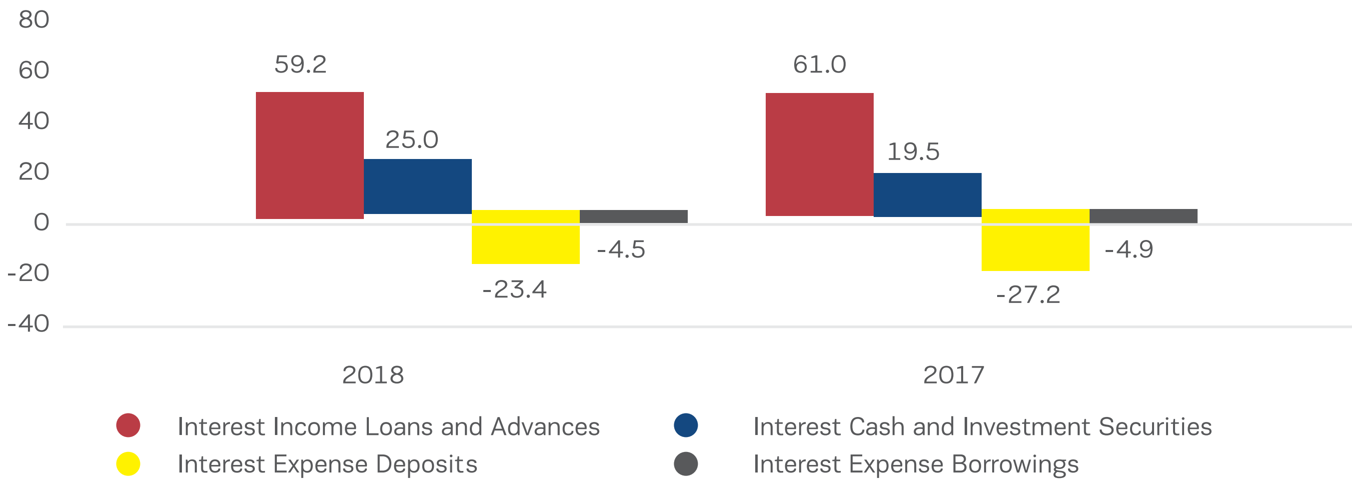
The Eastern Caribbean Central Bank is currently in the process of implementing the Basel II and III capital adequacy frameworks throughout reporting Banks in the Eastern Caribbean Currency Union (ECCU). The Group is currently assessing the potential impact of the proposed changes on capital adequacy requirements.


The Bank reported a favourable financial performance for the financial year 2018, despite the challenging economic climate and competitive environment. The results reflect improved asset/liability management which led to increased net interest spreads, as well as lower loan loss provisioning. Additionally, the level of non-performing loans (NPLs) continued to decline over the period. With a financially stronger organization, the Group continues to focus on the achievement of its 2018-2020 strategic plan with the theme "Repositioning for the Future". The strategic priorities are to: (1) Sustain Profitability (2) Enhance Customer Value (3) Achieve Operational Excellence and (4) Achieve Intangible Asset (Human Resource) Development. The focus will remain on addressing the central issues including aggressive loan recovery and continuous improvement in asset quality, cost reduction, employee engagement and change management.

## FINANCIAL ANALYSIS

The reported profit of the Group of $45 million ($1.84 basic earnings per share), for the year ending December 31, 2018, exceeded 2017 profits by 21.6%. Total comprehensive income attributable to equity holders of $33.9 million was $11.4 million or 25% below the prior year. Total Shareholders' equity increased by 28% and amounted to $41.3 million. The implementation of IFRS9 resulted in an opening credit adjustment to reserves of $16.6 million.

## NET INTEREST INCOME



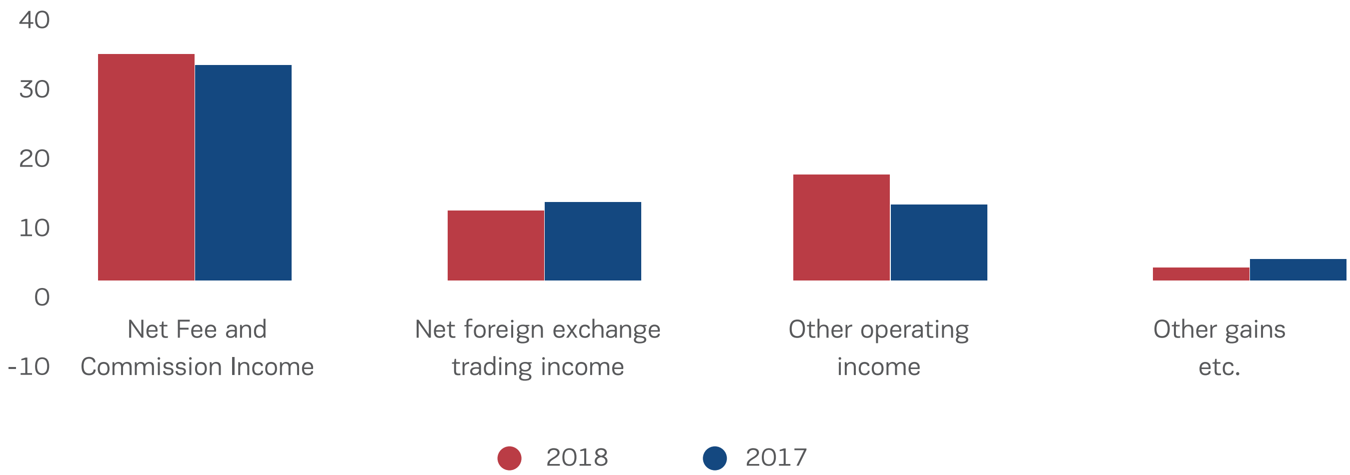

The 16.3% growth in Net Interest Income is attributable to growth in the investment portfolio and certificate of deposits with other Banks. Increases in the federal funds interest rate during the year had a positive impact on investment income. On the interest expense side, net interest income was also positively impacted by a shift in the deposit allocation from higher to lower cost certificates of deposit resulting in lower interest cost.

Total non-interest income increased only marginally by 0.60%. However, there were significant shifts in the various components. Recovery income increased by 47% ($3.7M) from the previous year as the Group continued to aggressively pursue and recover depositors' funds tied up in bad assets. Rental of excess space resulted in growth in rental income of 38% ($0.90 million). This was partially offset by the loss of $500 thousand as the Group disposed of assets in keeping with a mandate to comply with Section 55 of the Banking Act. The trading portfolio of assets held at fair value through Profit or Loss, incurred unrealized losses of $0.80 million from shifts in market dynamics.

Operating expenses were 2.85% or $1.8 million over the 2017 amount, primarily due to higher fees levied by the credit card issuing agency and to support staff productivity.

The 45% or $7 million reduction in estimated credit losses (loan loss provisioning) reflects the improved portfolio quality and a sign of some recovery in the local economy. The introduction of IFRS9 required a new approach to categorizing and analyzing loans - Stage 1-loans with no significant increase in credit risk, Stage 2-loans with a significant increase in credit risk and Stage 3-loans which are credit impaired. Stages 1 and 2 loan provisioning fundamentally replaced the general provisioning except that the IFRS9 methodology involves probability weighted outcomes.

## NON-INTEREST INCOME



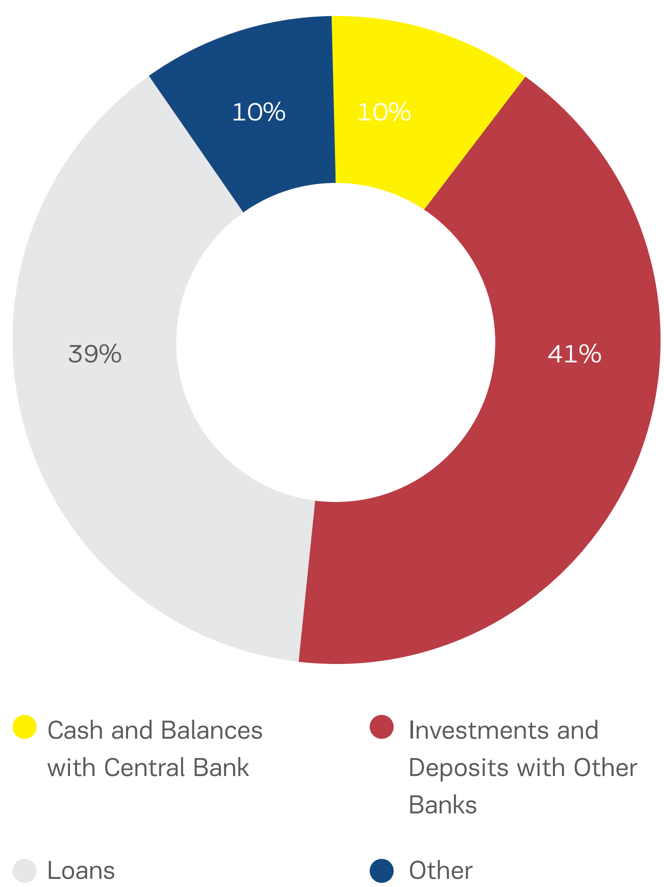

The computation of provisioning for Stage 3 loans remains unchanged from the former IAS39. The provision to non-performing loans ratio increased by 1.7 percentage points from 59.1% to 60.8%.

**Group Balance Sheet**

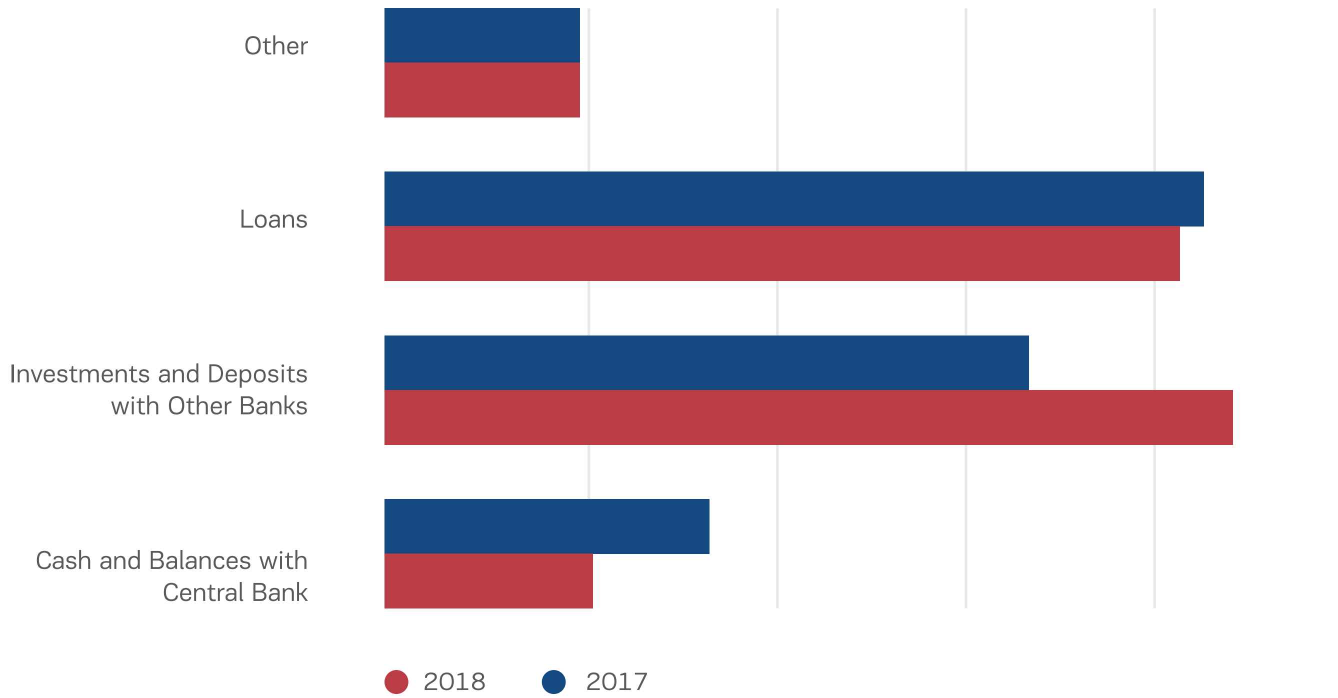
Notwithstanding the growth in total assets of $69.2 million or 3.27%, net loans declined by $24.8 million or 2.84%. There were also significant shifts in the other asset classes as the Bank directed liquid funds held in cash and balances with the Central Bank as well as funds arising from the reduction in loans to more productive use in investments and certificate of deposits with international Banks. The Group's balance sheet is highly weighted towards investments and deposits with Banks an indication of the tightening loan growth market.

The Gross loan portfolio was down $57.6 million. The settlement of student loans, sales of collateral and write offs resulted in a reduction in the ratio of non-performing loans to total loans by 5.4 percentage points from 16.7% in 2017 to 11.3% in 2018. The ratio of provisioning to non-performing loans has increased and remains at comfortable levels above international benchmarks.

## ASSET CLASS



## BALANCE SHEET GROWTH




BANK OF SAINT LUCIA LIMITED LOANS

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Performing Loans | 808,770 | 807,789 | 817,199 |
| Non-Performing Loans | 103,278 | 161,877 | 181,591 |
| Gross Loans | 912,048 | 969,666 | 998,790 |
| | | | |
| Loan loss provisions | (62,833) | (95,615) | (100,612) |
| Provisions to Non-performing loans | 60.8% | 59.1% | 55.41% |
| NPL ratio | 11.3% | 16.7% | 18.2% |

**Customer Deposits**

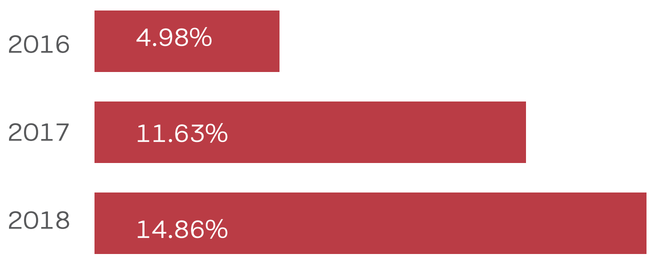
Despite the net increase of $21.7 million in customer deposits, term deposits suffered a decline of $47.8 million which partly contributed to the reduction in interest cost. The Call category which largely comprised institutional funds, increased by $54.2 million and savings which largely comprised householders increased by $14.6 million.

Shareholders' equity was enhanced by 28% or $41.3 million from $148.6 million to $189.9 million. Return on equity and return on assets were 26.6% and 2.1% respectively, an improvement from 25.1% and 1.4% in 2017.

The core Tier 1 capital of the Bank of Saint Lucia (the regulated entity) improved by 3.23 percentage points from 11.63% in 2017 to 14.86% in 2018. However, uncertainties lie ahead with the imminent introduction of the Basel II/III accord within the ECCU banking system.

| | 2018 | 2017 | Change |
|---|---|---|---|
| Term Deposits | 368,045 | 415,861 | (47,816) |
| Savings | 645,432 | 630,748 | 14,684 |
| Call deposits | 336,537 | 282,324 | 54,213 |
| Demand deposits | 471,309 | 470,655 | 654 |
| | 1,821,323 | 1,799,588 | 21,735 |

## TIER 1 RATIO




The Tier 1 capital ratio measures the Bank's core tier 1 capital-its equity capital and reserves to its risk weighted assets. It is a key measure of financial strength and it has been adopted in the Basel III accord.

## UPDATE: REPOSITIONING STRATEGY

The Bank continued its implementation of the Repositioning Strategy which was previously articulated in 2017. A review in 2018 determined that the strategic pillars - Sustained Financial Prosperity, Enhanced Customer Value and Public Image, Operational Excellence and Intangible Asset Development - remain relevant.

Based on the generally accepted view that the high incidence of NPLs had to be addressed in order to achieve sustained financial prosperity, a concerted effort was made towards strengthening the loan underwriting process. This included a review of the methodology for loan interest rate determination based on the assessed risk of the borrower as well as training of all relevant personnel in key aspects of underwriting. A notable initiative in that regard was the documentation of lessons learnt from our loan underwriting experience over the years to identify the common pitfalls and outline best practice going forward.

**Sustained Financial Prosperity**

Progress was also made in executing the Bank's Recovery Strategy. This strategy, developed for the year 2018/2019 centered on a three-pronged approach to address the high level of NPLs. The first aspect involved the restructuring of the Recoveries Department to ensure that dedicated resources were assigned to follow up on the delinquent loans in a very structured and proactive manner. These efforts collectively curtailed migration to NPL and overall the NPL ratio dropped from 16.7% in 2017 to 11.3% at the end of 2018. The second aspect of the Recovery Strategy centered on the outright outsourcing of a portion of the written-off accounts to external collectors which achieved moderate success in 2018. The final element of the strategy, involved efforts to sell the toxic assets serving as loan collateral to an asset management company. This required a review of the non-performing portfolio to identify accounts where our internal efforts to realize the security had been exhausted and that the use of an asset management company would improve recovery prospects. Overall bad debt recovery income of $11.69 million was recorded in 2018 on the heels of $7.97 million in 2017.

The Bank also seriously sought to address the large contingent liability associated with its defined benefit pension plan which requires that shortfalls in the funding of the plan is met by the employer. Critical therefore to removing the uncertain cost and risks of a defined benefit plan, was the transitioning arrangements to a new defined contribution plan which was initiated is expected to be complete by mid-2019.

### Operational Excellence

A review of the branch structure was initiated in order to ascertain its effectiveness in promoting proactive selling and delivering an enhanced customer experience. This review, which will continue into 2019 is expected to identify weaknesses with the structure with a view to making recommendations to achieve a more defined separation between the Operations and Business activities of the branch. The objective is to develop a specialized sales force supported by centralized back office activities that will enable us to improve the portfolio of products per customer, improve cross-sell ratios and drive sales productivity to the levels required for the Bank to secure a higher market share.

The strategy in 2018 was also focused on enhancing the diversity of our product and service offerings including the articulation of a pricing strategy and review of the schedule of fees and commissions charged. These were all in an effort to ensure that market competitiveness is maintained, improve customer retention rates and inspire a greater level of referrals by satisfied customers. In keeping with our operational excellence priority, a most promising development is on the horizon with respect to digital currency by the ECCB, and further pronouncements will be made regarding this pioneering initiative.

### Enhanced Customer Value & the Public Image

These initiatives geared at enhancing customer value and the public image of the Bank, are expected to be supported by a drive towards improved operational excellence which will leverage IT based solutions for more efficient service delivery. In that regard, work on enhancing functionality within the existing channels such as wire transfers and inter customer account transfers within the online and mobile banking channels got underway in 2018 and is expected to be completed by the second quarter of 2019. Further improved functionality of the ATM and POS platforms began in 2018 and will continue in 2019.

### Intangible Asset Development

Finally, the key strategic priority of the development of the Bank's human resource received focused attention in 2018. To this end, foundational work on ascertaining the capacity of our human resource was initiated as part of an initiative to strengthen talent management including the articulation of a succession and leadership development plan. Also work on the development of a comprehensive rewards and recognition programme began as part of the thrust to ensure that employees remained engaged, motivated and productive. Finally, the design of a performance-based compensation system, supported by agreed key performance indicators (KPIs) of achievement at the individual level that ties to organizational KPIs, got underway. Performance bonuses are expected in 2019 to encourage a culture of performance, accountability and an overall greater level of staff engagement.

## RISK MANAGEMENT

BOSL continued to employ a range of tools towards risk mitigation and compliance. Efforts to bolster our risk and compliance culture continue, with key roles assigned to all employees of the organization and efforts geared at aligning employee behavior with the risk appetite of the Bank.

With further emphasis and resources directed towards the required interventions, Board and Management are confident that the current culture will be further enhanced.

As the risk environment of the Bank continues to rapidly evolve, the Board of Directors with ultimate responsibility for Risk Management, ensures that the Bank maintains an appropriate strategic management process that takes risk into consideration. This is addressed through effective subcommittees of the Board, with charters in line with global best practice, all working effectively to mitigate against the various risk areas of the Bank.

Also, the keen attention of the Board of Directors to timely and comprehensive reports on risk assessments, risk monitoring, risk modification, risk avoidance and risk sharing, generated under its robust Enterprise Risk Framework, facilitate prompt attention to triggers in line with its early warning system.

This Framework employed by BOSL, fosters continuous monitoring of the risk environment and promotes risk awareness and sound operational and strategic decision making. It also ensures a consistent approach to monitoring, managing and mitigating the risks accepted and incurred in day to day business activities.

The Bank's principal risk types are reviewed regularly to ensure an adequate reflection of the Bank's risk profile. The key risks can be categorized into Financial and Non-Financial Risks. Financial risks including Credit, Market and Liquidity Risks, are more predictable and arise as a result of the operations of the Bank in the financial sector. Whilst the overall risk appetite of the Bank remains moderate, it operates with a higher risk appetite for financial risks, when understood and within established limits, as these risks are considered to be a fundamental part of doing business. Non-Financial Risks include Operational, Information Technology, Cybersecurity, Money Laundering and Terrorist Financing, Reputational and Strategic Risks. These are less predictable, but inherent within the banking business, and must be managed to reduce potential losses. Credit and Operational Risks remain areas of heightened concern over the years, with the remaining risks deemed moderate.

**Credit Risk**

Although BOSL remained compliant with the credit risk treatment and measurement approaches outlined by the regulator and global best practice, credit risk remained high due mainly to tough local foreclosure legislation and lackluster economic performance. With significant focus on the recovery of challenged debts, the Bank again recorded success in this area. However, additional attention will be directed towards further enhancing underwriting, creating efficiencies and building staff skillsets in the management and mitigation of credit risk. The Bank continued to pay keen attention to adherence to the Board approved Credit Policy, with timely reporting to the Credit, Risk Management and Audit Committees of the Board. With the appointment of a Deputy Managing Director with responsibility for Lending and Investments, the Bank expects to make significant strides in this area over the upcoming year.

**Operational Risk**

The Bank ensured that appropriate internal controls were adhered to, to mitigate operational risks. In light of the increasing costs of compliance, correspondent banks have remained steadfast in taking steps towards reducing the risk exposure of their organisations to financial loss. While significant controls were implemented continuously to eliminate facilitation of the major threats of money laundering, terrorist financing and financing of weapons of mass destruction, the Bank remains aware of this looming threat to correspondent Banks. The Bank, however retained all correspondent banking relationships, and compliance oversight was further enhanced, to ensure that these critical relationships remain stable. The inherent and growing Information Technology and Cybersecurity risks, which consists of information technology related events (e.g. cybersecurity incidents, outages) which could potentially have an adverse impact on our business, contributed towards the high rating of this risk area. As such, the Bank continued to maintain and improve its risk mitigation strategies, including comprehensive business continuity and Crisis/ Incident Management programme, to ensure that the Bank could recover and resume business operations, following the occurrence of any disaster. This risk area was further bolstered with the effective use of insurance, aligned with the Bank's risk management strategy and risk appetite. The appointment of a Deputy Managing Director with responsibility for Operations, is expected to result in significant strides in this area over the upcoming year.

# BANK OF SAINT LUCIA LIMITED

BANK OF SAINT LUCIA LIMITED

Statement of Financial Position

**As at 31 December 2018**

(in thousands of Eastern Caribbean dollars)

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

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

Approved by the Board of Directors on March 21, 2019

Director                Director

# BANK OF SAINT LUCIA LIMITED

Statement of Profit or Loss and Other Comprehensive Income

**For the year ended 31 December 2018**

(in thousands of Eastern Caribbean dollars)

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

(in thousands of Eastern Caribbean dollars)

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

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

# FINANCIAL
## REPORTING RESPONSIBILITIES

The management of the East Caribbean Financial Holding Company is responsible for the preparation and fair presentation of the financial statements and other financial information contained within this Annual Report. The accompanying financial statements were prepared in accordance with International Financial Reporting Standards. Where amounts had to be based on estimates and judgments, these represent the best estimates and judgments of Management.

In discharging its responsibility for the integrity and fairness of the financial statements, and for the accounting systems from which they were derived, Management has developed and maintains a system of accounting and reporting which provides the necessary internal controls that ensure transactions are properly authorized, assets are safeguarded against unauthorized use of or disposition and liabilities are recognized. This is supported by written policies and procedures; quality standards in recruiting and training employees; and an established organizational structure that permits accountability for performance within appropriate and well-defined areas of responsibility. An Audit Unit that conducts periodic audits of all aspects of the Group's operations further supports the system of internal controls.

The Board of Directors oversees Management responsibility for financial reporting through the Audit Committee, which comprises only Directors who are neither officers nor staff of the Bank. The primary responsibility of the Audit Committee is to review the Group's internal control procedures and plan revision of those procedures, and to advise Directors on auditing matters and financial reporting issues. The Group's Head of Internal Audit has full and unrestricted access to the Audit Committee.

The Eastern Caribbean Central Bank makes such examination and enquiry into the affairs of the Group as deemed necessary to ensure that the provision of the Banking Act relating to safety of depositors' funds and shareholders' equity is being observed and that the Group is in a sound financial condition.

KPMG appointed as Auditors by the shareholders of the Group, have examined the financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Group's financial reporting and adequacy of the systems of internal control.

Bernard La Corbinière
MANAGING DIRECTOR

Ketha Auguste
CHIEF FINANCIAL OFFICER

# CONSOLIDATED FINANCIAL STATEMENTS FOR ECFH

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Email: ecinfo@kpmg.lc

# INDEPENDENT AUDITORS' REPORT

**To the Shareholders of East Caribbean Financial Holding Company Limited**

## Report on the Audit of the Consolidated Financial Statements

***Opinion***
We have audited the consolidated financial statements of East Caribbean Financial Holding Company Limited and its subsidiaries (collectively, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying 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 Saint Lucia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***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.

KPMG

**INDEPENDENT AUDITORS' REPORT, continued**

**To the Shareholders of East Caribbean Financial Holding Company Limited**

***Key Audit Matters, continued***

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">IFRS 9 Expected Credit Losses</td></tr>
<tr><td>
Refer to Notes 2, 11, 12, and 47 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.
</td><td>
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.
</td></tr>
</table>

INDEPENDENT AUDITORS' REPORT, continued

**To the Shareholders of East Caribbean Financial Holding Company Limited**

***Key Audit Matters, continued***

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">IFRS 9 Expected Credit Losses (cont'd)</td></tr>
<tr><td>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.<br><br>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.<br><br>We therefore determined that the impairment of loans and advances has a high degree of estimation uncertainty.</td><td>• 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.<br><br>Stage 3 Loans and advances<br><br>• 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.<br><br>• 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.</td></tr>
</table>

**INDEPENDENT AUDITORS' REPORT, continued**

**To the Shareholders of East Caribbean Financial Holding Company Limited**

***Key Audit Matters, continued***

| **Key Audit Matter** | **How the matter was addressed in our audit** |
|---|---|
| **IFRS 9 Expected Credit Losses (cont'd)** | |
| 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. | • 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.<br><br>• 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.<br><br>• Re-performed management's allowance calculation.<br><br>**Financial statement disclosures**<br><br>• 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 East Caribbean Financial Holding Company Limited**

***Key Audit Matters, continued***

| **Key Audit Matter** | **How the matter was addressed in our audit** |
|---|---|
| **Valuation of financial instruments held at fair value** | |
| *Refer to Notes 2, 3, 14 and 47 of the consolidated financial statements*<br><br>The Group invests in various investment securities for which no published prices in active markets are available. These have been classified as Level 2 assets within the IFRS fair value hierarchy.<br><br>Valuation techniques for these financial instruments can therefore be subjective in nature. Fair value is determined through the application of valuation techniques which often involve the exercise of judgment by management and the use of assumptions, estimates and valuation models.<br><br>For Level 2 assets, valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analyses making maximum use of market inputs, such as market risk free yield curve. | With the support of our valuation specialists, we performed the following tests:<br><br>- Challenged the appropriateness of assumptions and valuation methodologies used in calculating fair values and testing their application.<br>- Independently assessed the fair value of the investments by developing an independent model.<br>- Compared the valuation provided by the Group to those calculated using our model.<br><br>We also reviewed and verified that the financial statement disclosures were appropriate and included the required IFRS 13 fair value measurement disclosures which are key to explaining the valuation techniques, key judgments, assumptions and material inputs. |

***Other Matter***

The consolidated financial statements of East Caribbean Financial Holding Company Limited for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 22 March 2018.

KPMG

**INDEPENDENT AUDITORS' REPORT, continued**

**To the Shareholders of East Caribbean Financial Holding Company Limited**

***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.

***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.

**INDEPENDENT AUDITORS' REPORT, continued**

**To the Shareholders of East Caribbean Financial Holding Company Limited**

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

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 East Caribbean Financial Holding Company Limited**

***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

Chartered Accountants
Castries, Saint Lucia
21 March 2019

# EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Consolidated Statement of Financial Position

**As at 31 December 2018**

(in thousands of Eastern Caribbean dollars)

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Bank | 6 | **223,983** | 347,950 |
| Treasury bills | 7 | **17,409** | 23,811 |
| Deposits with other banks | 8 | **159,565** | 96,632 |
| Financial assets held for trading | 9 | **18,623** | 19,642 |
| Deposits with non-bank financial institutions | 10 | **33,437** | 5,412 |
| Investment securities | 14 | **668,171** | 530,444 |
| Financial instruments - pledged assets | 15 | **8,189** | 10,710 |
| Loans and receivables - loans and advances to customers | 11 | **849,215** | 874,051 |
| Investment in associates | 16 | **55,793** | 49,781 |
| Property and equipment | 17 | **45,606** | 45,885 |
| Investment properties | 18 | **31,955** | 37,455 |
| Intangible assets | 19 | **847** | 1,093 |
| Other assets | 20 | **56,206** | 55,336 |
| Retirement benefit asset | 22 | **10,446** | 13,615 |
| Deferred tax asset | 27 | **4,000** | 820 |
| Income tax recoverable | | **3,777** | 5,353 |
| **Total assets** | | **2,187,222** | 2,117,990 |
| **Liabilities** | | | |
| Deposits from banks | 23 | **55,845** | 43,298 |
| Due to customers | 24 | **1,821,323** | 1,799,588 |
| Repurchase agreements | 15 | **7,953** | 13,703 |
| Dividends payable | | **581** | 291 |
| Borrowings | 25 | **71,519** | 79,181 |
| Preference shares | 46 | **4,150** | 4,150 |
| Other liabilities | 26 | **35,930** | 29,206 |
| **Total liabilities** | | **1,997,301** | 1,969,417 |

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Consolidated Statement of Financial Position...*continued*

**For the year ended 31 December 2018**

(in thousands of Eastern Caribbean dollars)

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| **Equity** | | | |
| **Share capital** | 28 | **170,081** | 170,081 |
| **Contributed capital** | 29 | **1,118** | 4,118 |
| **Reserves** | 31 | **206,377** | 184,420 |
| **Revaluation surplus** | | **13,855** | 13,855 |
| **Fair value through OCI reserve (Unrealized gain on available-for-sale investments)** | | **1,040** | 7,017 |
| **Accumulated deficit** | | **(202,550)** | (230,918) |
| **Total equity** | | **189,921** | 148,573 |
| **Total liabilities and equity** | | **2,187,222** | 2,117,990 |

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

Approved by the Board of Directors on March 21, 2019

______________________ Director ______________________ Director

Consolidated Statement of Changes in Equity

**For the year ended 31 December 2018**

(in thousands of Eastern Caribbean dollars)

| | Share Capital $ | Con-tributed Capital $ | Reserves $ | Revalua-tion Surplus $ | Unrealised Gain/(Loss) on Available for sale investments $ | Fair value through OCI securities $ | Accumulated Deficit $ | Total $ | Non-con-trolling Interests $ | Total Equity $ |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | 170,081 | 1,118 | 163,567 | 13,855 | (793) | - | (254,104) | 93,724 | 51,858 | 145,582 |
| Total comprehensive income for the year | - | - | - | - | 7,810 | - | 37,510 | 45,320 | - | 45,320 |
| Transfers to reserves | - | - | 14,324 | - | - | - | (14,324) | - | - | - |
| Contributions to student loan guarantee fund | - | 3,000 | 6,529 | - | - | - | - | 9,529 | - | 9,529 |
| Disposal of subsidiary | - | - | - | - | - | - | - | - | (51,858) | (51,858) |
| **Balance at 31 December 2017** | 170,081 | 4,118 | 184,420 | 13,855 | 7,017 | - | (230,918) | 148,573 | - | 148,573 |
| **Balance at 1 January 2018** | **170,081** | **4,118** | **184,420** | **13,855** | **7,017** | **-** | **(230,918)** | **148,573** | **-** | **148,573** |
| Changes on initial application of IFRS 9 | **-** | **-** | **16,599** | **-** | **(7,017)** | **8,282** | **(384)** | **17,480** | **-** | **17,480** |
| Restated balance at 1 January 2018 | **170,081** | **4,118** | **201,019** | **13,855** | **-** | **8,282** | **(231,302)** | **166,053** | **-** | **166,053** |
| Total comprehensive income for the year | **-** | **-** | **-** | **-** | **-** | **(7,242)** | **41,131** | **33,889** | **-** | **33,889** |
| Transfers to reserves | **-** | **-** | **12,379** | **-** | **-** | **-** | **(12,379)** | **-** | **-** | **-** |
| Contributions withdrawn | | **(3,000)** | **(7,021)** | **-** | **-** | **-** | **-** | **(10,021)** | **-** | **(10,021)** |
| **Balance at 31 December 2018** | **170,081** | **1,118** | **206,377** | **13,855** | **-** | **1,040** | **(202,550)** | **189,921** | **-** | **189,921** |

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

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED
Consolidated Statement of Profit of Loss and Other Comprehensive Income
**For the year ended 31 December 2018**
(in thousands of Eastern Caribbean dollars)

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| ***Continuing operations*** | | | |
| **Interest income** | 33 | **84,157** | 80,503 |
| **Interest expense** | 33 | **(27,919)** | (32,145) |
| **Net interest income** | | **56,238** | 48,358 |
| **Other operating income** | 34 - 37 | **57,173** | 56,842 |
| **Impairment losses - loans** | 12 | **(8,675)** | (15,696) |
| **Impairment losses - investments** | 14 | **(245)** | (735) |
| **Operating expenses** | 38 | **(64,303)** | (62,524) |
| **Operating profit** | | **40,188** | 26,245 |
| **Share of profit of associates** | 16 | **5,424** | 3,074 |
| **Profit for the year before income tax and dividends** | | **45,612** | 29,319 |
| **Dividends on preference shares** | | **(291)** | (291) |
| **Profit for the year before income tax** | | **45,321** | 29,028 |
| **Income tax (expense)/recovery** | 41 | **(355)** | 2,806 |
| **Profit for the year from continuing operations** | | **44,966** | 31,834 |
| ***Discontinued operations*** | | | |
| **Profit for the year from discontinued operations** | 40 | **-** | 683 |
| **Gain on disposal of controlling interest of subsidiary** | 40 | **-** | 4,472 |
| **Profit for the year** | | **44,966** | 36,989 |
| Profit per share from continuing operations for earnings attributable to the equity holders of the Company during the year | 42 | | |
| - basic | | **1.84** | 1.30 |
| - diluted | | **1.83** | 1.26 |

(in thousands of Eastern Caribbean dollars)

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Profit for the year** | **44,966** | 36,989 |
| **Other comprehensive income** | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | |
| Unrealised (loss)/gain on debt FVOCI instruments (2017 – available for-sale investments) | **(7,466)** | 5,665 |
| Realised gains transferred to profit or loss | **(188)** | (401) |
| Reclassification of fair value gains on disposal of subsidiaries | **-** | (3,221) |
| | **(7,654)** | 2,043 |
| Share of fair value gains on assets carried at fair value of associated companies | **412** | 5,767 |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods:* | | |
| Re-measurement (loss)/gains on defined benefit pension scheme | **(5,478)** | 744 |
| Income tax effect | **1,643** | (223) |
| | **(3,835)** | 521 |
| **Other comprehensive (loss)/income** | **(11,077)** | 8,331 |
| **Total comprehensive income for the year** | **33,889** | 45,320 |

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

EAST CARIBBEAN FINANCIAL HOLDING COMPANY LIMITED

Consolidated Statement of Cash Flows

**For the year ended 31 December 2018**

(in thousands of Eastern Caribbean dollars)

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit after tax | **44,966** | 36,989 |
| Adjustments for: | | |
| Interest income on investments | **(23,520)** | (19,329) |
| Depreciation and amortisation | **4,500** | 4,509 |
| Impairment losses on loans, advances and investment securities | **8,675** | 15,696 |
| Impairment loss on investment securities | **245** | 735 |
| Unrealised loss on investments held for trading | **796** | 25 |
| Retirement benefit expense | **611** | 809 |
| Gain on disposal of property and equipment | **(132)** | (52) |
| Loss/(gain) on disposal of investment properties | **500** | (813) |
| Fair value gains reclassified | **-** | (25) |
| Share of profit of associate | **(5,424)** | (3,074) |
| Gain on disposal of controlling interest | **-** | (4,472) |
| Net gains on disposal of investments | **(58)** | (2,152) |
| Unamortised premium on investments | **362** | (520) |
| Retirement benefit contributions paid | **(2,920)** | (3,053) |
| Dividends on preference shares | **291** | 291 |
| Income tax expense/(recovery) | **355** | (2,806) |
| Cash flows before changes in operating assets and liabilities | **29,247** | 22,758 |
| Changes in: | | |
| Mandatory deposits with Eastern Caribbean Central Bank | **1,328** | (30,358) |
| Loans and advances to customers | **32,802** | (15,203) |
| Other assets | **(871)** | (9,416) |
| Due to customers | **21,735** | 100,474 |
| Deposits from banks | **(54,609)** | - |
| Deposits with banks | **(10,120)** | - |
| Repurchase agreements | **(5,750)** | (136) |
| Deposits from banks | **12,547** | 25,420 |
| Other liabilities | **6,683** | (3,802) |
| Financial instruments - pledged assets | **2,494** | 10,509 |
| Trading assets | **141** | (3,063) |
| Treasury bills | **1,634** | 1,777 |
| Cash generated from operations | **37,261** | 98,960 |
| Income tax paid | **(317)** | - |
| Interest received | **22,538** | 17,379 |
| Dividend received | **774** | - |
| Net cash generated from operating activities | **60,256** | 116,339 |

**For the year ended 31 December 2018**
(in thousands of Eastern Caribbean dollars)

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of investment securities | | **(300,104)** | (231,621) |
| Proceeds from disposal and redemption of investment securities | | **155,292** | 167,247 |
| Dividends from associates | | **-** | 264 |
| Purchase of property and equipment | | **(3,497)** | (1,941) |
| Proceeds from disposal/(purchase) of investment properties | | **5,000** | (65) |
| Purchase of intangible assets | | **(478)** | (800) |
| Proceeds from disposal of property and equipment | | **132** | 50 |
| Proceeds from sale of subsidiary | | **-** | 67,747 |
| Disposal of subsidiary - net cash outflow | | **-** | (601,149) |
| Net cash used in investing activities | | **(143,655)** | (600,268) |
| **Cash flows from financing activities** | | | |
| Dividends paid to preference shareholders | | **-** | (581) |
| Reserve reduction | | **(10,021)** | - |
| Proceeds from capital contributions | | **-** | 9,529 |
| Repayment of borrowings | | **(7,662)** | (14,448) |
| Net cash used in financing activities | | **(17,683)** | (5,500) |
| **Decrease in cash and cash equivalents during the year** | | **(101,082)** | (489,429) |
| **Cash and cash equivalents at beginning of year** | | **351,045** | 840,474 |
| **Cash and cash equivalents at end of year** | 43 | **249,963** | 351,045 |

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

## 1 General information

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

Bank of Saint Lucia Limited, and ECFH are in compliance with the Companies Acts and Banking Acts and the provisions of the Insurance Act, 1995.

The principal activity of the Company and its subsidiaries (the "Group") is the provision of financial services. The registered office and principal place of business of the Company is located at No.1 Bridge Street, Castries, Saint Lucia.

The principal shareholding of the Group is stated in Note 45.

The Company is listed on the Eastern Caribbean Securities Exchange.

## 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**
East Caribbean Financial Holding Company Limited's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as at 31 December 2018 (the reporting date).

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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*

**Basis of preparation***...continued*

### (a) Changes in accounting policies and disclosures

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

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

- **IFRS 9 *Financial Instruments***

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

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

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

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

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

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

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

**Basis of preparation***...continued*

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

**Impairment of financial assets**
The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing the "incurred loss" model under IAS 39 with a forward looking "expected credit loss" model. IFRS 9 requires the 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 method are disclosed in Note 2. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 47.

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

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

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

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

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

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

**Basis of preparation***...continued*

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

The Group's other revenue stream not regulated by IFRS 9 and 15 relate to service and management fees under a management contract with related companies.

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

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

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

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

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

### Basis of preparation*...continued*

#### (b) Standards issued but not yet effective*...continued*

**IFRS 16 Leases**

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

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

The Group is not early adopting IFRS 16 and is currently evaluating its impact.

#### (c) Consolidation

The financial statements of the subsidiaries used to prepare the consolidated financial statements were prepared as of the Parent Company's reporting date. 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 all subsidiaries as of 31 December 2018.

Control is achieved when the Group is exposed, 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, 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
- 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

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

### (c) Consolidation*...continued*

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 profit or loss 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 into 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.

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

**(c) 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 profit or loss.

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.

<u>Transactions with non-controlling interests and associates</u>

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 remeasured 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*

**(c) Consolidation***...continued*

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in associates is accounted for by the equity method of accounting and initially recognised at cost.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as 'Share of profit of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss. The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**(d) 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 2,3,14 and 18 |
| Quantitative disclosures of fair value measurement hierarchy | Note 3 |
| Investment properties | Note 18 |
| Financial instruments (including those carried at amortised cost) | Note 14, 9 |
| Land and buildings | Note 17 |

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.

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

**(d) Fair value measurement***...continued*

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 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.

**(e) Cash and cash equivalents**

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

**(f) Financial assets**

**Policy applicable from January 1, 2018**

The Group allocates financial assets to the following IFRS 9 categories:

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

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

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

**Debt instrument**

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

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

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

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

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

### (f) Financial assets*...continued*

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

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale. The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives. The model is not assessed on an instrument-by-instrument basis, but rather at a portfolio level and based on factors such as:

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

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

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

### (f) Financial assets*...continued*

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

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs as well as profit margin.

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

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

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

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and

- Are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

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

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

**(f) Financial assets***...continued*

**Debt instruments measured at Fair value through Other Comprehensive Income***...continued*
Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss (ECL) approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Consolidated Statement of Financial Position, which remains at its fair value.

**Debt instruments measured at Fair value through profit or loss**
Debt instruments are measured at FVTPL if assets:
i) Are held for trading purposes;
ii) Are held as part of a portfolio managed on a fair value basis; or
iii) Whose cash flows do not represent payments that are solely payments of principal and interest

These instruments are measured at fair value in the consolidated statement of financial position, with transaction costs recognized immediately in profit or loss. Realized and unrealized gains and losses are recognized in profit or loss.

**Equity instruments**

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

- Fair value through profit or loss (FVTPL) ; or

- Elected at fair value through other comprehensive income (FVOCI).

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

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

### (f) Financial assets*...continued*

**Equity instruments measured at FVOCI (designated)**
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 to equity instruments that are held for trading purposes.

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

**Recognition/derecognition**

A financial asset is recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and receivables are recognised when cash is advanced (or settled) to the borrowers.

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

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

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

**Impairment of financial assets**

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

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

Equity instruments are not subject to impairment under IFRS 9.

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

**(f) Financial assets***...continued*

**Impairment of financial assets***...continued*

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

The three stage approach applied by the Group is as follows:

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

<u>Stage 2: Lifetime ECL – not credit impaired</u>
The 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 Group recognises as a collective provision a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset).

<u>Stage 3: Lifetime ECL – credit impaired</u>
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.

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

**(f) Financial assets***...continued*

**Impairment of financial assets***...continued*

**Measurement of expected credit losses (ECL)**
ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

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

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

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

**Forward looking information**

The standard requires the incorporation of forward looking information in the estimation of expected credit losses for each stage and the assessment of significant increases in credit risk. It considers 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 information requires significant judgement.

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

**(f) Financial assets***...continued*

**Impairment of financial assets***...continued*

**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 central-Group interest rates. The results of the assessment however failed to reveal meaningful relationships between the Group's historical loss and the economic inputs and as such economic inputs were not utilised in the models used for calculating ECLs.

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

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

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

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

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

### (f) Financial assets*...continued*

**Impairment of financial assets***...continued*

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

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

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

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

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

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

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

### (f) Financial assets*...continued*

**Impairment of financial assets***...continued*

**Definition of default**

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

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

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

**Write-offs**

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

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

### (f) Financial assets*...continued*

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

**Financial assets**

(a) Financial assets at fair value through profit or loss

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

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

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

(b) Loans and receivables

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

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

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

**(f) Financial assets***...continued*

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

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

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

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

## 2 Summary of significant accounting policies…*continued*

### (g) Recognition/derecognition

The Group uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the consolidated statement of financial position as 'Assets pledged as collateral.'

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

### (h) Impairment of financial assets

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

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

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

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

## 2 Summary of significant accounting policies…*continued*

### (h) Impairment of financial assets… *continued*

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

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

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

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

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

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

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

### (h) Impairment of financial assets *...continued*

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

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

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

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

### (i) Offsetting financial instruments

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

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

### (j) Sale and repurchase agreements

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

### (k) Property and equipment

Land and buildings comprises mainly branches and offices occupied by the parent or its subsidiaries. Land and buildings are shown at fair value less subsequent depreciation for buildings. Valuations are reviewed annually by quantity surveyors.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

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

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

| | |
|---|---|
| Buildings | 2% |
| Leasehold improvements | 2 – 33 1/3% |
| Motor vehicles | 20 – 25% |
| Office furniture & equipment | 10 – 20% |
| Computer equipment | 33 1/3% |

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

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

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

**(l) Investment properties**

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment property comprises freehold land and building which are leased out under operating leases. Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost was incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

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

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

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

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

## 2 Summary of significant accounting policies…*continued*

### (m) Intangible assets

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 20 years.

Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Group have a definite useful life. At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable.

An impairment loss is recognized if the carrying amount exceeds the recoverable amount. The Group chooses to use the cost model for the measurement after recognition.

*(a) Computer software licences*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 4 years.

*(b) Other intangible assets*

Other intangible assets consist of customer relationships (core deposit intangibles). Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method. Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 12 years.

### (n) Impairment of other non-financial assets

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

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

### (o) Income tax

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

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position.

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

*(b) 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 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 principal temporary differences arise from depreciation of property and equipment, amortisation of intangible assets and their tax base, unutilised tax losses and pension gains. 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.

### (p) Financial liabilities
The Group's holding in financial liabilities are at amortised cost. Financial liabilities are derecognised when extinguished.

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

### (q) 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 over the period of the borrowings using the effective interest method.

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

### (r) 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.

### (s) Redeemable preference shares

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

### (t) Employee benefits

Pension obligations

The Group operates a defined benefit plan. The scheme is funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The plan is registered in St. Lucia and is regulated by the Insurance Act, 1994 which was enacted in 1995. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The pension obligation valuations are undertaken annually.

The Group's policy is to fully fund the pension and to meet any funding shortfalls over a period of ten years following regular periodical actuarial reviews.

The asset recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets, are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to the consolidated statement of income in subsequent periods.

Past service costs are recognised in the consolidated statement of income on the earlier of:

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'operating expenses' in the consolidated statement of income:

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

The pension plan is exposed to inflation risk, interest rate risk and changes in the life expectancy for pensioners.

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

**(t) Employee benefits***....continued*

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

**(u) Guarantees and letters of credit**
Guarantees and letters of credit comprise undertakings by the Group's Grouping entities to pay bills of exchange drawn on customers. The Bank expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

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

**(v) Fiduciary activities**
The Group commonly acts a trustees and in other fiduciary capacities that result in the holding and placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.

**(w) 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.

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

**(x) Interest income and expense**

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost using the effective interest method.

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

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

**(y) Fee and commission income**

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of 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.

**(z) Dividend income**

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

**(zi) Foreign currency translation**

Functional and presentation currency

Items included in the 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 thousands of Eastern Caribbean dollars, which is the Company's functional and the Group's presentation currency.

Transactions and balances

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

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

**(zi) Foreign currency translation***...continued*

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

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

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

<u>Group companies</u>
The functional currency of the wholly owned offshore banking subsidiary is United States dollars. For consolidation purposes the results and financial position are translated to the presentation currency of the Group using the pegged rate of EC$2.70 = US$1.00.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;

- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- All resulting exchange differences are recognised in other comprehensive income.

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

**(zii) Leases**

A Group company is the lessee

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

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

A Group company is the lessor

Assets leased out under operating leases are included in investment properties in the consolidated statement of financial position. They are depreciated over the expected useful life. Rental income is recognised in the consolidated statement of income on a straight-line basis over the period of the lease.

**(ziii) 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, deposits from banks, due to customers and borrowings. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

**(ziv) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Company's Board of Directors as its chief operating decision maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8, the Group had the following reportable segments: Bank of St. Lucia Limited, Bank of St. Vincent and the Grenadines Limited until the disposal date of June 30$^{th}$ 2017, Bank of St. Lucia International Limited until the disposal date of March 10, 2017, and other. During the reporting period the Group disposed of its majority holding in Bank of St. Vincent and the Grenadines Limited and Bank of St. Lucia International.

**Non-current assets held for sale and disposal groups**

Non-current assets and disposal group's classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

## 2 Summary of significant accounting policies*…continued*

**Non-current assets held for sale and disposal groups***…continued*

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and: (i) Represents a separate major line of business or geographical area of operations (ii) Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations Or (iii) Is a subsidiary acquired exclusively with a view to resale.

In the consolidated statement of profit or loss and other comprehensive income for the reporting period, and the comparable period in the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Bank retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of profit or loss and other comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised. See Note 40 (Disposal Group Classified as held for sale) for further discussion.

## 3 Financial risk management

**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.

## 3 Financial risk management…*continued*

### 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, 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 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 and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

Loans and advances

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 that have been incurred at the reporting date. 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 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 requirements at the same time.

Cash and balances with Central Bank

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.

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

### Credit risk*...continued*

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.

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 premises, 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 entities are secured; individual credit facilities are generally secured. In addition, in order to minimize the credit loss, the Group will seek additional credit collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

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

**Credit risk**...*continued*

Credit-related commitments
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the 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.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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 using a three-stage expected credit loss approach. Stages 1 and 2 credit losses are made for assets that are not credit impaired and stage ECLs are for assets which are credit impaired.

Management determines whether objective evidence of impairment exists based on the following criteria set out by the Group:

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

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

(in thousands of Eastern Caribbean dollars)

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

**Credit risk***...continued*

Maximum exposure to credit risk

| | Maximum exposure | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Credit risk exposures relating to the financial assets in the statement of financial position : | | |
| Balances with Central bank | **190,349** | 315,534 |
| Treasury bills | **17,409** | 23,811 |
| Deposits with other banks | **159,565** | 96,632 |
| Deposits with non-bank financial institutions | **33,437** | 5,412 |
| Loans and advances to customers: | | |
| Large corporate loans | **281,976** | 280,565 |
| Term loans | **185,143** | 208,447 |
| Mortgages | **357,153** | 355,747 |
| Overdrafts | **24,943** | 29,292 |
| Bonds | **-** | - |
| Financial assets held for trading | **18,623** | 19,642 |
| Investment securities | **647,363** | 517,280 |
| Financial instruments - pledged assets | **8,189** | 10,710 |
| Other assets | **53,532** | 52,580 |
| | **1,977,682** | 1,915,652 |
| Credit risk exposures relating to the financial assets off the statement of financial position: | | |
| Loan commitments | **115,442** | 69,838 |
| Guarantees, letters of credit and other credit obligations | **21,098** | 23,765 |
| | **136,540** | 93,603 |
| | **2,114,222** | 2,009,255 |

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2018 and 2017 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as at the reporting date.

As shown above 42.8% (2017 – 46%) of the total maximum exposure is derived from loans and advances to customers and 34% (2017 – 27%) represents investments in debt securities.

(in thousands of Eastern Caribbean dollars)

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

**Credit risk***…continued*

Loans and advances are summarised as follows:

| | Loans and advances and loan commitments for which the loss allowance is measured at: | | | | | |
|---|---|---|---|---|---|---|
| | Stage 1 12-months expected credit loss not credit impaired | | Stage 2 Lifetime expected credit losses not credit impaired | | Stage3 Lifetime expected credit losses credit impaired | |
| | 2018 $ | 2017 $ | 2018 $ | 2017 $ | 2018 $ | 2017 $ |
| Gross | **688,864** | - | **13,160** | - | **210,024** | 969,666 |
| Less allowance for impairment on loans and advances | **(5,110)** | - | **(1,041)** | - | **(56,682)** | (95,615) |
| Net | **683,754** | - | **12,119** | - | **153,342** | 874,051 |

Further information on the allowance for impairment losses on loans and advances to customers is provided in Notes 11 and 12.

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

**Loans and advances to customers**

| | Overdrafts $ | Term Loans $ | Mortgages $ | Large Corporate loans $ | Total $ |
|---|---|---|---|---|---|
| **31 December 2018** | **22,183** | **133,500** | **285,295** | **164,648** | **605,626** |
| 31 December 2017 | 24,623 | 125,549 | 264,708 | 108,319 | 523,199 |

(in thousands of Eastern Caribbean dollars)

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

**Credit risk***…continued*

Loans and advances to customers*...continued*

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

| | Term Loans $ | Mortgages $ | Large Corporate loans $ | Total $ |
|---|---|---|---|---|
| **At 31 December 2018** | | | | |
| Past due up to 30 days | **21,402** | **33,643** | **14,125** | **69,170** |
| Past due 30 – 60 days | **2,311** | **3,904** | **1,028** | **7,243** |
| Past due 60 – 90 days | **6,258** | **7,773** | **5,953** | **19,984** |
| | **29,971** | **45,320** | **21,106** | **96,397** |

| | Term loans $ | Mortgages $ | Large Corporate Loans $ | Total $ |
|---|---|---|---|---|
| **At 31 December 2017** | | | | |
| Past due up to 30 days | 19,557 | 33,100 | 18,897 | **71,554** |
| Past due 30 – 60 days | 4,778 | 5,641 | 10,577 | **20,996** |
| Past due 60 – 90 days | 4,422 | 2,803 | 4,463 | **11,688** |
| | 28,757 | 41,544 | 33,937 | **104,238** |

(in thousands of Eastern Caribbean dollars)

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

### Credit risk*...continued*

Loans and advances to customers*...continued*

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

| | Overdrafts $ | Term Loans $ | Mortgages $ | Large Corporate Loans $ | Total $ |
|---|---|---|---|---|---|
| **31 December 2018** | **7,890** | **31,492** | **35,333** | **135,309** | **210,024** |
| 31 December 2017 | 9,655 | 70,933 | 61,151 | 200,490 | 342,229 |

(in thousands of Eastern Caribbean dollars)

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

**Credit risk***...continued*

Debt securities, treasury bills and other eligible bills

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

| | Financial assets held for trading $ | Investment Securities $ | Pledged Assets $ | Treasury Bills $ | Total $ |
|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | |
| A- to A+ | - | **190,260** | - | - | **190,260** |
| Lower than A- | - | **294,901** | - | - | **294,901** |
| Unrated | **18,623** | **163,519** | **8,189** | **17,409** | **207,740** |
| | **18,623** | **648,680** | **8,189** | **17,409** | **692,901** |
| **At 31 December 2017** | | | | | |
| A- to A+ | - | 126,059 | - | - | 126,059 |
| Lower than A- | - | 251,516 | - | - | 251,516 |
| Unrated | 19,642 | 139,705 | 10,710 | 23,811 | 193,868 |
| | 19,642 | 517,280 | 10,710 | 23,811 | 571,443 |

The Group's balances held with other banks, non-bank financial institutions are held with reputable financial institutions, and as such, credit risk is deemed minimal.

**Concentrations of risks of financial assets with credit exposure**

(a) *Geographical sectors*
The Group operates primarily in Saint Lucia. Based on the country of domicile of its counterparties, exposure to credit risk is concentrated in these locations, except for investments which have other exposures, primarily in the United States of America.

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

(in thousands of Eastern Caribbean dollars)

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

**Credit risk***...continued*

**Concentration of risks of financial assets with credit exposure**

| | Financial institutions $ | Manufacturing $ | Tourism $ | Government $ | Professional and other services $ | Personal $ | *Other industries $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | | |
| Balances with Eastern Caribbean Central Bank | 190,349 | - | - | - | - | - | - | 190,349 |
| Treasury bills | - | - | - | 17,409 | - | - | - | 17,409 |
| Deposits with other banks | 159,565 | - | - | - | - | - | - | 159,565 |
| Deposits with non-bank financial institutions | 33,437 | - | - | - | - | - | - | 33,437 |
| Loans and receivables to customers | | | | | | | | |
| Overdrafts | 185 | 578 | 4,279 | 25 | 1,897 | 964 | 17,015 | 24,943 |
| Term loans | 149 | 1,775 | 5,193 | 204 | 14,926 | 141,696 | 21,200 | 185,143 |
| Large corporate loans | 1,124 | 1,730 | 52,998 | 68,390 | 51,874 | 10,482 | 95,378 | 281,976 |
| Mortgages | - | - | - | - | - | 357,153 | - | 357,153 |
| Financial assets held for trading | - | - | - | 18,623 | - | - | - | 18,623 |
| Investment securities | 203,014 | - | - | 77,497 | - | - | 366,852 | 647,363 |
| Financial instruments - pledged assets | - | - | - | 8,189 | - | - | - | 8,189 |
| Other assets | - | - | - | - | - | - | 53,532 | 53,532 |
| | 587,823 | 4,083 | 62,470 | 190,337 | 68,697 | 510,295 | 553,977 | 1,977,682 |
| Loan commitments, letters of credit guarantees and other credit obligations | 68 | 4,241 | 2,636 | 30,031 | 1,789 | 19,672 | 78,103 | 136,540 |

*Other industries include construction and land development.

(in thousands of Eastern Caribbean dollars)

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

### Credit risk...*continued*

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

| | Financial institutions $ | Manufacturing $ | Tourism $ | Government $ | Professional and other services $ | Personal $ | *Other industries $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2017** | | | | | | | | |
| Balances with Eastern Caribbean Central Bank | 315,534 | - | - | - | - | - | - | 315,534 |
| Treasury bills | - | - | - | 23,811 | - | - | - | 23,811 |
| Deposits with other banks | 96,632 | - | - | - | - | - | - | 96,632 |
| Deposits with non-bank financial institutions | 5,412 | - | - | - | - | - | - | 5,412 |
| Loans and receivables to customers | | | | | | | | |
| Overdrafts | 81 | 381 | 4,390 | 80 | 2,259 | 6,839 | 15,262 | 29,292 |
| Term loans | 187 | 2,029 | 2,718 | 54 | 18,018 | 161,163 | 24,278 | 208,447 |
| Large corporate loans | 2,232 | 3,206 | 61,494 | 41,145 | 56,808 | 9,847 | 105,833 | 280,565 |
| Mortgages | - | - | - | - | - | 355,747 | - | 355,747 |
| Financial assets held for trading | - | - | - | 19,642 | - | - | - | 19,642 |
| Investment securities | 199,187 | - | - | 119,634 | - | - | 198,459 | 517,280 |
| Financial instruments - pledged assets | - | - | - | 10,710 | - | - | - | 10,710 |
| Other assets | - | - | - | - | - | - | 52,580 | 52,580 |
| | 619,265 | 5,616 | 68,602 | 215,076 | 77,085 | 533,596 | 396,412 | 1,915,652 |
| Loan commitments, letters of credit, guarantees and other credit obligations | 1,050 | 4,789 | 2,412 | 30,032 | 1,105 | 19,233 | 34,982 | 93,603 |

*Other industries include construction and land development

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

**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's exposure to market risks arises from its non-trading and trading portfolios. Senior management of the Group monitors and manages market risk through the Asset Liability Committee which advises on financial risks and assigns risk limits for the Group.

Non-trading portfolios primarily arise 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 (Note 14).

**Currency risk**

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total 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. The following table summarises the Group's exposure to foreign currency exchange rate risk at 31 December.

(in thousands of Eastern Caribbean dollars)

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

### Currency risk...*continued*

| | ECD<br>$ | USD<br>$ | BDS$<br>$ | Euro<br>$ | GBP<br>$ | CAD<br>$ | Other<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | | |
| Cash and balances with Central Bank | 217,055 | 5,603 | 152 | 655 | 235 | 283 | - | 223,983 |
| Treasury bills | 17,409 | - | - | - | - | - | - | 17,409 |
| Deposits with other banks | 40,647 | 111,255 | 1,577 | 2,284 | 673 | 325 | 2,804 | 159,565 |
| Financial assets at FVTPL | 18,623 | | - | - | - | - | - | 18,623 |
| Deposits with non-bank financial institution | 10,121 | 23,033 | - | 261 | 22 | - | - | 33,437 |
| Loans and receivables: | | | | | | | | |
| Loans and advances to customers | 818,905 | 34,162 | - | - | - | - | - | 853,067 |
| Investment securities: | | | | | | - | - | |
| Amortised cost | 175,930 | 4,212 | - | - | - | - | - | 180,142 |
| FVOCI | 116,680 | 359,636 | - | - | - | - | - | 476,316 |
| FVTPL | 6 | 11,680 | - | - | - | 28 | - | 11,714 |
| Financial instruments - pledged assets | 8,189 | - | - | - | - | - | - | 8,189 |
| Other assets | 53,530 | - | - | - | - | - | - | 53,530 |
| **Total financial assets** | 1,477,095 | 549,581 | 1,729 | 3,200 | 930 | 636 | 2,804 | 2,035,975 |

(in thousands of Eastern Caribbean dollars)

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

**Currency risk**...*continued*

| | ECD $ | USD $ | BDS $ | Euro $ | GBP $ | CAD $ | Other $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Deposits from banks | 55,845 | - | - | - | - | - | - | 55,845 |
| Due to customers | 1,691,707 | 126,415 | - | 3,201 | - | - | - | 1,821,323 |
| Repurchase agreements | 4,711 | 3,242 | - | - | - | - | - | 7,953 |
| Borrowings | 51,231 | 20,288 | - | - | - | - | - | 71,519 |
| Preference shares | 4,150 | - | - | - | - | - | - | 4,150 |
| Other liabilities | 35,930 | - | - | - | - | - | - | 35,930 |
| **Total financial liabilities** | 1,843,574 | 149,945 | - | 3,201 | - | - | - | 1,996,720 |
| **Net assets/(liabilities)** | (366,479) | 399,636 | 1,729 | (1) | 930 | 636 | 2,804 | 39,255 |
| **Loan commitments, letters of credit, guarantees and other credit obligations** | 136,540 | - | - | - | - | - | - | 136,540 |

(in thousands of Eastern Caribbean dollars)

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

### Currency risk...*continued*

| | ECD $ | USD $ | BDS$ $ | Euro $ | GBP $ | CAD $ | Other $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2017** | | | | | | | | |
| Cash and balances with Central Bank | 342,755 | 4,090 | 151 | 472 | 269 | 213 | - | 347,950 |
| Treasury bills | 23,811 | - | - | - | - | - | - | 23,811 |
| Deposits with other banks | 57,934 | 20,006 | 1,760 | 14,562 | 754 | 211 | 1,405 | 96,632 |
| Financial assets held for trading | 19,642 | - | - | - | - | - | - | 19,642 |
| Deposits with non-bank financial institution | - | 5,388 | - | - | 24 | - | - | 5,412 |
| Loans and receivables: | | | | | | | | |
| Loans and advances to customers | 837,408 | 37,643 | - | - | - | - | - | 875,051 |
| Bonds | - | - | - | - | - | - | - | - |
| Investment securities: | | | | | | | | |
| Held to maturity | 4,916 | 115,133 | - | - | - | - | - | |
| Available for sale | | | | | | | | 120,049 |
| Available-for-sale | 92,838 | 317,557 | - | - | - | - | - | 410,395 |
| Financial instruments - pledged assets | 10,710 | - | - | - | - | - | - | 10,710 |
| Other assets | 52,580 | - | - | | - | - | - | 52,580 |
| **Total financial assets** | 1,442,594 | 499,817 | 1,911 | 15,034 | 1,047 | 424 | 1,405 | 1,962,232 |

(in thousands of Eastern Caribbean dollars)

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

**Currency risk**...*continued*

| | ECD $ | USD $ | BDS $ | Euro $ | GBP $ | CAD $ | Other $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2017** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Deposits from banks | 43,298 | - | - | - | - | - | - | 43,298 |
| Due to customers | 1,656,570 | 133,708 | - | 9,310 | - | - | - | 1,799,588 |
| Repurchase agreements | 10,485 | 3,218 | - | - | - | - | - | 13,703 |
| Borrowings | 51,231 | 27,950 | - | - | - | - | - | 79,181 |
| Preference shares | 4,150 | - | - | - | - | - | - | 4,150 |
| Other liabilities | 29,206 | - | - | - | - | - | - | 29,206 |
| **Total financial liabilities** | 1,794,940 | 164,876 | - | 9,310 | - | - | - | 1,969,126 |
| **Net assets/(liabilities)** | (352,346) | 334,941 | 1,911 | 5,724 | 1,047 | 424 | 1,405 | (6,894) |
| **Loan commitments, letters of credit, guarantees and other credit obligations** | 93,603 | - | - | - | - | - | - | 93,603 |

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

**Interest rate risk**

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

(in thousands of Eastern Caribbean dollars)

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

**Interest rate risk***...continued*

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

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and balances with Central Bank | - | - | - | - | - | 223,983 | 223,983 |
| Treasury bills | 1,750 | 15,659 | - | - | - | - | 17,409 |
| Deposits with other banks | 14,826 | 32,852 | 66,556 | | | 45,331 | 159,565 |
| Financial assets held for trading | - | - | 2,257 | 10,932 | 5,434 | - | 18,623 |
| Deposits with non-bank financial institutions | 5,438 | 13,610 | 10,121 | - | - | 4,268 | 33,437 |
| Loans and receivables: | | | | | | | |
| – loans and advances to customers | 15,092 | 7,321 | 38,435 | 172,083 | 616,284 | - | 849,215 |
| Investment securities: | | | | | | | |
| – amortised cost | 3,877 | 3,309 | 21,652 | 92,789 | 58,514 | - | 180,141 |
| – FVOCI | 5,121 | 16,317 | 94,936 | 262,586 | 97,356 | | 476,316 |
| Financial instruments - pledged assets | - | | 100 | 55 | 8,034 | - | 8,189 |
| Other assets | - | - | - | - | - | 56,206 | 56,206 |
| **Total financial assets** | **46,104** | **89,068** | **234,057** | **538,445** | **785,622** | **329,788** | **2,023,084** |

(in thousands of Eastern Caribbean dollars)

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

**Interest rate risk**...*continued*

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Deposits from banks | - | 3,169 | 28,520 | - | - | 24,156 | 55,845 |
| Due to customers | 946,773 | 77,311 | 269,114 | 23,567 | 32,642 | 471,916 | 1,821,323 |
| Repurchase agreements | - | - | 7,953 | - | - | - | 7,953 |
| Borrowings | 2,128 | 1,231 | 5,695 | 26,796 | 35,669 | - | 71,519 |
| Preference shares | - | - | - | - | 4,150 | | 4,150 |
| Other liabilities | - | - | - | - | - | 35,930 | 35,930 |
| **Total financial liabilities** | 948,901 | 81,711 | 311,282 | 50,363 | 72,461 | 532,002 | 1,996,720 |
| **Total interest repricing gap** | (902,797) | 7,357 | (77,225) | 488,082 | 713,161 | (202,214) | 26,364 |

(in thousands of Eastern Caribbean dollars)

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

**Interest rate risk***...continued*

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|---|---|---|
| **At 31 December 2017** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and balances with Eastern Caribbean Central Bank | - | - | - | - | - | 347,950 | 347,950 |
| Treasury bills | 11,677 | 10,403 | 1,731 | - | - | - | 23,811 |
| Deposits with other banks | 1,230 | - | 11,805 | - | - | 83,597 | 96,632 |
| Financial assets held for trading | - | - | 1,204 | 10,963 | 7,475 | - | 19,642 |
| Deposits with non-bank financial institutions | - | - | - | - | - | 5,412 | 5,412 |
| Loans and receivables: | | | | | | | |
| – loans and advances to customers | 36,768 | 11,931 | 14,428 | 169,447 | 641,477 | - | 874,051 |
| Investment securities: | - | | | | | | |
| – held-to-maturity | 2,235 | 1,763 | 7,326 | 50,402 | 58,323 | - | 120,049 |
| – available-for-sale | 10,416 | 12,064 | 73,389 | 183,409 | 117,953 | - | 397,231 |
| Financial instruments - pledged assets | - | - | 659 | 1,985 | 8,066 | - | 10,710 |
| Other assets | - | - | - | - | - | 52,580 | 52,580 |
| **Total financial assets** | 62,326 | 36,161 | 110,542 | 416,206 | 833,294 | 489,539 | 1,948,068 |

(in thousands of Eastern Caribbean dollars)

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

### Interest rate risk...*continued*

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|---|---|---|
| **At 31 December 2017** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Deposits from banks | 9,162 | 3,123 | 31,013 | - | - | - | 43,298 |
| Due to customers | 886,086 | 95,401 | 301,582 | 26,300 | 22,329 | 467,890 | 1,799,588 |
| Repurchase agreements | - | - | 13,703 | - | - | - | 13,703 |
| Borrowings | 2,197 | 1,231 | 5,695 | 22,383 | 47,675 | - | 79,181 |
| Preference shares | - | - | - | - | 4,150 | - | 4,150 |
| Other liabilities | - | - | - | - | - | 29,206 | 29,206 |
| **Total financial liabilities** | 897,445 | 99,755 | 351,993 | 48,683 | 74,154 | 497,096 | 1,969,126 |
| **Total interest repricing gap** | (835,119) | (63,594) | (241,451) | 367,523 | 759,140 | (7,557) | (21,058) |

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

**Interest rate risk***...continued*

Cash flow interest rate risk arises from loans and advances to customers 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 $633 (2017 – $841) higher/lower, mainly as a result of higher/lower interest income on variable rate loans.

**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 outflows.

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 of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Liquidity risk management process
The matching and controlled mismatching of the 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.

(in thousands of Eastern Caribbean dollars)

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

**Liquidity risk***...continued*

Non-derivative cash flows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the liquidity risk based on expected discounted cash inflows.

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Total $ |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| **At 31 December 2018** | | | | | | |
| Deposits from banks | **24,156** | **3,181** | **28,742** | **-** | **-** | **56,079** |
| Due to customers | **1,419,065** | **77,584** | **271,885** | **23,567** | **32,642** | **1,824,743** |
| Repurchase agreements | **-** | **-** | **8,012** | **-** | **-** | **8,012** |
| Borrowings | **2,128** | **1,827** | **8,059** | **50,735** | **28,405** | **91,154** |
| Preference shares | **-** | **-** | **-** | **-** | **4,150** | **4,150** |
| Other liabilities | **10,997** | **19,795** | **5,126** | **-** | **-** | **35,918** |
| **Total financial liabilities** | **1,456,346** | **102,387** | **321,824** | **74,302** | **65,197** | **2,020,056** |

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Total $ |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| **At 31 December 2017** | | | | | | |
| Deposits from banks | 9,162 | 3,135 | 31,260 | - | - | 43,557 |
| Due to customers | 1,362,074 | 95,766 | 304,437 | 26,329 | 22,328 | 1,810,934 |
| Repurchase agreements | - | - | 13,810 | - | - | 13,810 |
| Borrowings | 1,946 | 1,827 | 8,246 | 49,610 | 43,397 | 105,026 |
| Preference shares | - | - | - | - | 4,150 | 4,150 |
| Other liabilities | 9,077 | 16,744 | 3,837 | - | - | 29,658 |
| **Total financial liabilities** | 1,382,259 | 117,472 | 361,590 | 75,939 | 69,875 | 2,007,135 |

(in thousands of Eastern Caribbean dollars)

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

### 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 bank, certificates of deposit, 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.

### Off-balance sheet items

(a) *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 44) are summarised in the table below.

(b) *Financial guarantees and other financial facilities*
Financial guarantees (Note 44) are also included below based on the earliest contractual maturity date.

| | <1 Year $ | Total $ |
|---|---|---|
| **As at 31 December 2018** | | |
| Loan commitments | **115,442** | **115,442** |
| Financial guarantees, letters of credit and other credit obligations | **21,098** | **21,098** |
| **Total** | **136,540** | **136,540** |
| **As at 31 December 2017** | | |
| Loan commitments | 69,838 | 69,838 |
| Financial guarantees, letters of credit and other credit obligations | 23,765 | 23,765 |
| **Total** | 93,603 | 93,603 |

(in thousands of Eastern Caribbean dollars)

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

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

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-balance sheet commitments are also assumed to approximate the amounts disclosed in Note 44 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 at rates which reflect market conditions and are assumed to have fair values which approximate carrying value.

Investment securities
Investment securities include interest bearing debt and equity securities held to maturity and available-for-sale. 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.

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

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

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

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | |
| Loans and receivables | | | | |
| − Large corporate loans | **281,976** | 280,565 | **421,514** | 406,844 |
| − Term loans | **185,143** | 208,447 | **187,810** | 214,664 |
| − Mortgages | **357,153** | 355,748 | **363,859** | 366,179 |
| − Overdrafts | **24,943** | 29,291 | **24,943** | 29,291 |
| Amortised cost | **180,142** | 120,049 | **183,564** | 113,548 |
| **Financial liabilities** | | | | |
| Borrowings | **71,519** | 79,181 | **63,539** | 73,748 |

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

### Fair values of financial assets and financial liabilities*…continued*

Management assessed that cash and short term deposits, treasury bills, trade receivables, trade payables, repurchase agreements and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments. The Group's interest-bearing borrowings and loans are determined by using Discounted Cash Flow method using the discount rate that reflects the average rates at the end of the period.

### Fair value hierarchy

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

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

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

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

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

(in thousands of Eastern Caribbean dollars)

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

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

Fair value hierarchy*...continued*

| | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| **31 December 2018** | | | | |
| **Assets measured at fair value:** | | | | |
| **Investment properties** | - | 31,955 | - | 31,955 |
| **Land and buildings** | - | - | 38,916 | 38,916 |
| **Financial assets held for trading** | | | | |
| - debt securities | - | 18,623 | - | 18,623 |
| **Financial assets at FVTPL** | | | | |
| - equity securities | 10,241 | 1,473 | - | 11,714 |
| **Financial assets at FVOCI (2017: AFS)** | | | | |
| - debt securities | 137 | 441,888 | 26,513 | 468,538 |
| - equity securities | - | 7,777 | - | 7,777 |
| Financial instruments – pledged assets | - | 8,189 | - | 8,189 |
| **Total financial assets** | 10,378 | 509,905 | 65,429 | 585,712 |
| **31 December 2017** | | | | |
| Assets measured at fair value: | | | | |
| Investment properties | - | 37,445 | - | 37,445 |
| Land and buildings | - | - | 39,495 | 39,495 |
| Financial assets held for trading | | | | |
| - debt securities | - | 19,642 | - | 19,642 |
| - equity securities | - | - | - | - |
| Financial assets - available-for-sale | | | | |
| - debt securities | - | 368,379 | 28,852 | 397,231 |
| - equity securities | 3,042 | 9,124 | - | 12,166 |
| Financial instruments – pledged assets | - | 10,710 | - | 10,710 |
| Total financial assets | 3,042 | 445,300 | 68,347 | 516,689 |

(in thousands of Eastern Caribbean dollars)

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

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

Fair value hierarchy*...continued*

Assets for which fair values are disclosed

| | Level 2<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|
| **31 December 2018** | | | |
| Loans and advances to customers | - | 998,126 | 998,126 |
| Amortised cost investments | 174,508 | 9,055 | 183,563 |
| **Total financial assets** | 174,508 | 1,007,181 | 1,181,689 |
| **31 December 2017** | | | |
| Loans and advances to customers | - | 1,016,978 | 1,016,978 |
| Bonds | - | - | - |
| Held to maturity investments | 113,548 | - | 113,548 |
| **Total financial assets** | 113,548 | 1,016,978 | 1,130,526 |

Liabilities for which fair values are disclosed

| | Level 3<br>$ | Total<br>$ |
|---|---|---|
| **31 December 2018** | | |
| Borrowings | 63,539 | 63,539 |
| **31 December 2017** | | |
| Borrowings | 73,748 | 73,748 |

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

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

Fair value hierarchy*...continued*

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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

(in thousands of Eastern Caribbean dollars)

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

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

Fair value hierarchy*...continued*

There were no gains or losses for the period included in profit or loss or comprehensive income for assets held at 31 December 2018.

| | FVOCI (2017: Available-for-Sale) | | | |
|---|---|---|---|---|
| | **Debt Securities 2018 $** | **Equity Securities 2018 $** | **Total 2018 $** | **Debt Securities 2017 $** |
| **31 December 2018** | | | | |
| **At beginning of year** | **32,508** | **1,046** | **33,554** | 9,014 |
| Disposals | **(5,995)** | **(1,046)** | **(7,041)** | 23,494 |
| At end of year | **26,513** | **-** | **26,513** | 32,508 |

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

**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 set by the regulators of the banking markets where the entities within the Group operate;

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the East 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%.

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

- Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent 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, unrealised gains arising on the fair valuation of equity instruments held as available-for-sale and fixed asset revaluation reserves (limited to 20% on Tier 1 capital).

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

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

(in thousands of Eastern Caribbean dollars)

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

### Capital management*...continued*

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

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| **Tier 1 capital** | | |
| Share capital | **170,081** | 170,081 |
| Reserves | **206,377** | 184,420 |
| Accumulated deficit | **(202,550)** | (230,918) |
| **Total qualifying Tier 1 capital** | **173,908** | 123,583 |
| **Tier 2 capital** | | |
| Revaluation reserve | **13,855** | 13,855 |
| Redeemable preference shares | **4,150** | 4,150 |
| Unrealised gain on FVOCI (2017: AFS) investments | **1,040** | 7,017 |
| Subordinated debt | **50,000** | 50,000 |
| Collective impairment allowance | **5,140** | 18,052 |
| **Total qualifying Tier 2 capital** | **74,185** | 93,074 |
| **Total regulatory capital** | **248,093** | 216,657 |
| **Risk-weighted assets:** | | |
| On-balance sheet | **1,322,528** | 1,315,238 |
| Off-balance sheet | **28,388** | 18,720 |
| **Total risk-weighted assets** | **1,350,916** | 1,333,958 |
| **Basel capital adequacy ratio** | **18.36%** | 16.24% |

**Fiduciary activities**

The Group provides investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. At the statement of financial position date, the Group had financial assets under administration amounting to $102,753 (2017 – $94,690).

## 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 measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is detailed in note 2.
A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

Impairment of assets carried at fair value
The Group determines that available-for-sale and held for trading 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 available-for-sale debt securities for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to be accrued on the reduced carrying amount of the asset and is recorded as part of "interest income". If the fair value of the instrument increases in a subsequent year, the impairment loss is reversed through 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.

Fair value of financial instruments
For financial instruments, where 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.

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

Retirement benefits
The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The most sensitive assumptions used in determining the net cost (income) for pensions include the discount rate and future salary increases. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of Government that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is shown below:

(in thousands of Eastern Caribbean dollars)

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

**2018:**

| Assumption | Sensitivity Level | Impact on defined benefit obligation Increase $ | Decrease $ |
|---|---|---|---|
| Discount rate | **1%** | **9,922** | **7,166** |
| Future salary increases | **1%** | **4,563** | **3,876** |
| Increase in average life expectancy | **1 year** | **458** | **-** |

**2017:**

| Assumption | Sensitivity Level | Impact on defined benefit obligation Increase $ | Decrease $ |
|---|---|---|---|
| Discount rate | 1% | 8,738 | 5,923 |
| Future salary increases | 1% | 4,137 | 3,376 |
| Increase in average life expectancy | 1 year | 297 | - |

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. 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.

## 5 Segment analysis

In the financial years 2018 and 2017, segment reporting by the Group was prepared in accordance with IFRS 8, ‘Operating segments’.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Company’s Board of Directors (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assessing their performance.

The Group previously had five operating segments which met the definition of reportable segment under IFRS 8. Two of these segments were disposed of in 2017 as indicated below:

**5 Segment analysis***...continued*

- Bank of St. Lucia Limited (BOSL) –operating in St. Lucia and provides domestic banking services.
- Bank of St. Lucia Limited- Investment Banking Services (BOSL GINV)-incorporating Capital market activities and Merchant Banking.
- Bank of St. Vincent and the Grenadines Limited (BOSVG) –operating in St. Vincent and the Grenadines and provides domestic banking services. On June 30th 2017, the Group disposed of its majority holding in Bank of St. Vincent and the Grenadines and retained a 20% as an investment in associate.
- Bank of St. Lucia International Limited- incorporating International banking including International corporate and International personal banking, and a wide range of other services to International clients. On March 10th 2017 the Group disposed of its 100% holding in Bank of St. Lucia International Limited.
- Other comprises of the holding company of the Group.

The Group's segment operations are all financial with a majority of revenues being derived from interest. The Company's Board of Directors relies primarily on net interest income to assess the performance of the segment, therefore the total interest income and expense for all reportable segments is presented on a net basis.

The revenue from external parties reported to the Company's Board of Directors is measured in a manner consistent with that in the consolidated statement of income.

Revenue from external customers is recorded as such and can be directly traced to each business segment.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. As the Company's Board of Directors reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Company's Board of Directors.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position. Transactions between business segments are on an arms length basis and are eliminated on consolidation and reflected in the consolidations entries.

There were no revenues derived from transactions with a single external customer that amount to 10% or more of the Group's revenue.

(in thousands of Eastern Caribbean dollars)

## 5 Segment analysis*...continued*

| | BOSL | BOSVG (Discontinued) | BOSLIL (Discontinued) | BOSL GINV | Other | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| **At 31 December 2018** | | | | | | | |
| Net interest income | **55,746** | **-** | **-** | **348** | **144** | **-** | **56,238** |
| Net fee and commission income | **27,977** | **-** | **-** | **4,705** | **-** | **-** | **32,682** |
| Other income | **24,562** | **-** | **-** | **204** | **506** | **-** | **25,272** |
| Impairment charge loans | **(8,920)** | **-** | **-** | **-** | **-** | **-** | **(8,920)** |
| Depreciation and amortization | **(4,484)** | **-** | **-** | **(16)** | **-** | **-** | **(4,500)** |
| Operating expenses | **(59,035)** | **-** | **-** | **(768)** | **(7)** | **-** | **(59,810)** |
| Profit before taxation | **35,846** | **-** | **-** | **4,473** | **643** | **-** | **40,962** |
| Dividends on preference shares | **(291)** | | | | | | **(291)** |
| Income tax | **(355)** | **-** | **-** | **-** | **-** | **-** | **(355)** |
| Profit for the year | **35,200** | **-** | **-** | **4,473** | **643** | **-** | **40,316** |
| Total assets | **2,189,948** | **-** | **-** | **29,077** | **284,591** | **-** | **2,503,616** |
| Total liabilities | **1,989,971** | **-** | **-** | **10,337** | **82,015** | **-** | **2,082,323** |
| **At 31 December 2017** | | | | | | | |
| Net interest income | 47,848 | 8,159 | 1,648 | 254 | 256 | (9,807) | 48,358 |
| Net fee and commission income | 26,209 | 1,210 | 659 | 5,164 | - | (1,869) | 31,373 |
| Other income | 25,698 | 1,377 | 76 | 34 | 1,300 | (1,453) | 27,032 |
| Impairment charge loans, investments | (16,014) | (4,737) | - | - | (417) | 4,737 | (16,431) |
| Depreciation and amortization | (4,492) | (711) | (192) | (16) | - | 903 | (4,508) |
| Operating expenses | (57,268) | (6,538) | (1,399) | (743) | (972) | 7,937 | (58,983) |
| Profit before taxation | 21,981 | (1,240) | 792 | 4,693 | 167 | 448 | 26,841 |
| Dividends on preference shares | (291) | - | - | - | - | | (291) |
| Income tax | 2,020 | - | - | - | 786 | - | 2,806 |
| Profit for the year | 23,710 | (1,240) | 792 | 4,693 | 953 | 448 | 29,356 |
| Total assets | 2,130,395 | 1,032,529 | 810,003 | 18,886 | 297,908 | (1,842,532) | 2,447,189 |
| Total liabilities | 1,971,312 | 931,593 | 757,253 | 3,779 | 82,423 | (1,688,846) | 2,057,514 |

(in thousands of Eastern Caribbean dollars)

## 5 Segment analysis*...continued*

Reconciliation of segment results of operations to consolidated results of operations:

| | Total Management Reporting $ | Consolidation entries $ | Total $ |
|---|---|---|---|
| **At 31 December 2018** | | | |
| Net interest income | **56,238** | **-** | **56,238** |
| Net fee and commission income | **32,682** | **(7)** | **32,675** |
| Other income | **25,272** | **(774)** | **24,498** |
| Impairment charge loans, investments and property | **(8,920)** | **-** | **(8,920)** |
| Depreciation and amortisation | **(4,500)** | **-** | **(4,500)** |
| Operating expenses | **(59,810)** | **7** | **(59,803)** |
| Profit before tax | **40,962** | **(774)** | **40,188** |
| Dividends on preference shares | **(291)** | **-** | **(291)** |
| Share profit of associates | **5,424** | **-** | **5,424** |
| Income tax expense | **(355)** | **-** | **(355)** |
| Net profit for the year | **45,740** | **(774)** | **44,966** |
| Assets | **2,503,616** | **(316,394)** | **2,187,222** |
| Liabilities | **2,082,323** | **(85,022)** | **1,997,301** |
| **At 31 December 2017** | | | |
| Net interest income | 48,358 | - | 48,358 |
| Net fee and commission income | 31,373 | (24) | 31,349 |
| Other income | 27,032 | (1,539) | 25,493 |
| Impairment charge loans, investments and property | (16,431) | - | (16,431) |
| Depreciation and amortisation | (4,508) | - | (4,508) |
| Operating expenses | (58,983) | 967 | (58,016) |
| Profit before tax | 26,841 | (596) | 26,245 |
| Dividends on preference shares | (291) | - | (291) |
| Share profit of associates | 3,074 | - | 3,074 |
| Income tax expense | 2,806 | - | 2,806 |
| Net profit for the year | 32,430 | (596) | 31,834 |
| Assets | 2,447,189 | (329,199) | 2,117,990 |
| Liabilities | 2,057,514 | (88,097) | 1,969,417 |

(in thousands of Eastern Caribbean dollars)

## 6 Cash and balances with Central Bank

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| Cash in hand | | **33,634** | 32,416 |
| Balances with Central Bank other than mandatory deposits | | **70,647** | 194,505 |
| Included in cash and cash equivalents | 43 | **104,281** | 226,921 |
| Mandatory deposits with Central Bank | | **119,702** | 121,029 |
| | | **223,983** | 347,950 |

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

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

## 7 Treasury bills

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| Cash and cash equivalents | 43 | **17,409** | 22,080 |
| More than 90 days to maturity | | **-** | 1,731 |
| | | **17,409** | 23,811 |

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

## 8 Deposits with other banks

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| Items in the course of collection with other banks | | **9,040** | 8,152 |
| Placements with other banks | | **36,291** | 75,965 |
| Interest bearing deposits - cash and cash equivalents | | **59,625** | 12,515 |
| Included in cash and cash equivalents | 43 | **104,956** | 96,632 |
| Interest bearing deposits more than 90 days to maturity | | **54,609** | - |
| | | **159,565** | 96,632 |

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

(in thousands of Eastern Caribbean dollars)

## 9 Financial assets held for trading

| | 2018 $ | 2017 $ |
|---|---|---|
| Debt securities – listed | **18,623** | 19,642 |

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

## 10 Deposits with non-bank financial institutions

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| Deposits - cash and cash equivalents | 43 | **23,317** | 5,412 |
| Deposits - more than 90 days to maturity | | **10,120** | - |
| | | **33,437** | 5,412 |

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

## 11 Loans and advances to customers

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| Large corporate loans | | **321,064** | 342,746 |
| Term loans | | **194,964** | 225,239 |
| Mortgage loans | | **365,947** | 367,404 |
| Overdrafts | | **30,073** | 34,277 |
| **Gross** | | **912,048** | 969,666 |
| Less allowance for impairment losses on loans and advances | 12 | **(62,833)** | (95,615) |
| **Net** | | **849,215** | 874,051 |

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2018 was 7.15% (2017 – 7.6%) and productive overdrafts stated at amortised cost was 14.04% (2017 – 14.66%).

(in thousands of Eastern Caribbean dollars)

## 12 Allowance for impairment losses on loans and advances to customers

The movement for impairment on financial assets was as follows:

| | 12 months ECL $ | Lifetime ECL Stage 2 $ | Lifetime ECL credit impaired Stage 3 $ | Collective provision $ | Total provisions $ |
|---|---|---|---|---|---|
| **Large corporate loans** | | | | | |
| At beginning of the year as previously stated | - | - | 49,845 | 12,337 | 62,182 |
| Effects of adoption of IFRS 9 | 2,427 | 1,532 | 49,845 | - | 53,804 |
| **Changes due to financial assets recognized in the opening balance that have:** | | | | | |
| Transferred to 12-months ECL stage 1 | 91 | (91) | - | - | - |
| Transferred to Lifetime ECL not credit impaired - stage 2 | (6) | 6 | - | - | - |
| Transferred to Lifetime ECL credit impaired stage 3 | (650) | (1,117) | 1,767 | - | - |
| New financial assets originated or purchased | 462 | - | 2,653 | - | 3,115 |
| Financial assets that have been derecognised | (2,495) | (324) | (489) | - | (3,308) |
| Bad debts written off | - | - | (22,111) | - | (22,111) |
| Provision for the period | 2,234 | 55 | 5,299 | - | 7,588 |
| **Balance at 31 December 2018** | **2,063** | **61** | **36,964** | **-** | **39,088** |

(in thousands of Eastern Caribbean dollars)

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

| | 12 months ECL $ | Lifetime ECL Stage 2 $ | Lifetime ECL credit impaired Stage 3 $ | Collective provision $ | Total provisions $ |
|---|---|---|---|---|---|
| **Term loans** | | | | | |
| At beginning of the year as previously stated | - | - | 11,814 | 4,977 | 16,791 |
| Effects of adoption of IFRS 9 | 743 | 752 | 11,814 | - | 13,309 |
| **Changes due to financial assets recognized in the opening balance that have:** | | | | | |
| Transferred to 12-months ECL stage 1 | 410 | (410) | - | - | - |
| Transferred to Lifetime ECL not credit impaired - stage 2 | (5) | 5 | - | - | - |
| Transferred to Lifetime ECL credit impaired stage 3 | (12) | (114) | 126 | - | - |
| New financial assets originated or purchased | 297 | 5 | 34 | - | 336 |
| Financial assets that have been derecognised | (627) | (51) | (333) | - | (1,011) |
| Bad debts written off | (8) | (36) | (717) | - | (761) |
| Provision for the period | 304 | 90 | (2,446) | - | (2,052) |
| **Balance at 31 December 2018** | **1,102** | **241** | **8,478** | **-** | **9,821** |

(in thousands of Eastern Caribbean dollars)

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

| | 12 months ECL $ | Lifetime ECL Stage 2 $ | Lifetime ECL credit impaired Stage 3 $ | Collective Provision $ | Total provisions $ |
|---|---|---|---|---|---|
| **Mortgage Loans** | | | | | |
| At beginning of the year as previously stated | - | - | 5,912 | 5,749 | 11,656 |
| Effects of adoption of IFRS 9 | 4 | 410 | 5,912 | - | 6,326 |
| **Changes due to financial assets recognized in the opening balance that have:** | | | | | |
| Transferred to 12-months ECL stage 1 | 203 | (203) | - | - | - |
| Transferred to Lifetime ECL not credit impaired - stage 2 | - | - | - | - | - |
| Transferred to Lifetime ECL credit impaired stage 3 | - | (72) | 72 | - | - |
| New financial assets originated or purchased | 36 | - | 294 | - | 330 |
| Financial assets that have been derecognised | - | (35) | (167) | - | (202) |
| Bad debts written off | - | - | (432) | - | (432) |
| Provision for the period | 585 | 171 | 2,016 | - | 2,772 |
| **Balance at 31 December 2018** | **828** | **271** | **7,695** | **-** | **8,794** |

(in thousands of Eastern Caribbean dollars)

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

| | 12 months ECL $ | Lifetime ECL Stage 2 $ | Lifetime ECL credit impaired Stage 3 $ | Collective Provision $ | Total provisions $ |
|---|---|---|---|---|---|
| **Overdrafts** | | | | | |
| At beginning of the year as previously stated | - | - | 3,953 | 1,034 | 4,987 |
| Effects of adoption of IFRS 9 | 822 | 761 | 3,953 | - | 5,536 |
| **Changes due to financial assets recognized in the opening balance that have:** | | | | | |
| Transferred to 12-months ECL stage 1 | 630 | (420) | (210) | - | - |
| Transferred to Lifetime ECL not credit impaired - stage 2 | (85) | 85 | - | - | - |
| Transferred to Lifetime ECL credit impaired stage 3 | - | (30) | 30 | - | - |
| New financial assets originated or purchased | 150 | 212 | 68 | - | 430 |
| Financial assets that have been derecognised | (112) | (283) | (0) | - | (395) |
| Bad debts written off | - | (5) | (803) | - | (808) |
| Provision for the period | (289) | 149 | 507 | - | 367 |
| **Balance at 31 December 2018** | **1,116** | **469** | **3,545** | **-** | **5,130** |

(in thousands of Eastern Caribbean dollars)

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

| | 12 months ECL $ | Lifetime ECL Stage 2 $ | Lifetime ECL credit impaired Stage 3 $ | Collective Provision $ | Total provisions $ |
|---|---|---|---|---|---|
| **Total credit provisioning** | | | | | |
| At beginning of the year as previously stated | - | - | 71,524 | 24,091 | 95,615 |
| Effects of adoption of IFRS 9 | | | | | |
| Loans and advances | 3,996 | 3,455 | - | (24,091) | (16,640) |
| Undrawn loans (included in other provisions) | 41 | - | - | - | 41 |
| Total impact of adoption of IFRS 9 included in contingency reserve | 4,037 | 3,455 | - | (24,091) | (16,599) |
| **Loss allowance for loans and undrawn commitments as at January 1, 2018 restated** | **4,037** | **3,455** | **71,524** | **-** | **79,016** |
| Changes in the allowance as at January 1, 2018 | | | | | |
| Transferred to stage 1 | 1,335 | (1,125) | (210) | - | - |
| Transferred to stage 2 | (96) | 96 | - | - | - |
| Transferred to stage 3 | (662) | (1,333) | 1,995 | - | - |
| New financial assets originated or purchased | 944 | 216 | 3,050 | - | 4,210 |
| Financial assets that have been derecognised | (3,233) | (693) | (989) | - | (4,915) |
| Bad debts written off | (8) | (41) | (24,063) | - | (24,112) |
| Provision for the period | 2,834 | 466 | 5,375 | - | 8,675 |
| | 1,114 | (2,414) | (14,842) | | (16,142) |
| Less provision for undrawn loans included in other liabilities | (41) | - | - | - | (41) |
| | **1,073** | **(2,414)** | **(14,842)** | **-** | **(16,183)** |
| Loan loss allowance as at December 31, 2018 | **5,110** | **1,041** | **56,682** | **-** | **62,833** |

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

| | |
|---|---|
| Balance at January 1, 2018 | **246,614** |
| Change in allowance for impairment | **(38,933)** |
| Classified as credit impaired during the year | **15,910** |
| Transferred to not credit impaired during the year | **(37,193)** |
| Net repayments | **(11,627)** |
| Recoveries of amounts previously written off | **-** |
| Disposals | **(21,428)** |
| **Balance at December 31, 2018** | **153,343** |

(in thousands of Eastern Caribbean dollars)

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

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

| **Financial assets modified during the year** | **$** |
|---|---|
| Amortised cost before modification | **4,832** |
| Net modification loss | **59** |
| **Financial assets modified since initial recognition** | **$** |
| Gross carrying amount at December 31, 2018 of financial assets for which loss allowance has changed to 12-month measurement during the year | **56,039** |

## 13 Allowance for impairment losses on investment securities

| | **2018** | | | | **2017** |
|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total | Total |
| **Debt investment securities at FVOCI (2017: available-for-sale)** | | | | | |
| Balance at January 1, 2018 | **1,410** | **-** | **526** | **1,936** | 401 |
| Net remeasurement of loss allowance for the year | **150** | **-** | **-** | **150** | 542 |
| **Balance at December 31, 2018** | **1,560** | **-** | **526** | **2,086** | 943 |

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

| | **2018** | | | | **2017** |
|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total | Total |
| **Debt investment securities at amortised cost (2017: held-to-maturity)** | | | | | |
| Balance at January 1, 2018 | **71** | **-** | **4,506** | **4,577** | 4,312 |
| Net remeasurement of loss allowance for the year | **94** | | | **94** | 194 |
| **Balance at December 31, 2018** | **165** | **-** | **4,506** | **4,671** | 4,506 |

(in thousands of Eastern Caribbean dollars)

## 14 Investment securities

| | Held to maturity $ | Available-for-sale $ | Held for trading $ | Loans and receivables – bonds $ | Total $ |
|---|---|---|---|---|---|
| **At 1 January 2018** | **120,049** | **410,395** | **19,642** | **-** | **550,086** |
| Transferred to amortised cost | **(120,049)** | **-** | **-** | **-** | **(120,049)** |
| Transferred to fair value through OCI | | | | | |
| - Debt | **-** | **(397,231)** | **-** | **-** | **(397,231)** |
| - Equity | **-** | **(8,542)** | **-** | **-** | **(8,542)** |
| Transferred to FVTPL - Equities | **-** | **(4,622)** | | | **(4,622)** |
| Transferred to FVTPL – HFT | **-** | **-** | **(19,642)** | **-** | **(19,642)** |
| **At 31 December 2018** | **-** | **-** | **-** | **-** | **-** |
| **At 1 January 2017** | 131,459 | 371,596 | 18,600 | 10,033 | 531,688 |
| Exchange differences on monetary assets | 48,573 | - | – | **-** | 48,573 |
| Additions | 312 | 183,048 | 1,786 | **-** | 185,146 |
| Movement in accrued interest | (23,086) | 646 | 4 | **-** | (22,436) |
| Disposals (sale and redemption) | 520 | (144,161) | (723) | **-** | (144,364) |
| Amortisation of discounts/premiums | - | - | - | **-** | - |
| Gains from changes in fair value | - | 2,718 | (25) | **-** | 2,693 |
| Increase in provision | (194) | (541) | - | | (735) |
| Transfer to disposal of subsidiary | (37,535) | (2,911) | - | (10,033) | (50,479) |
| **At 31 December 2017** | 120,049 | 410,395 | 19,642 | - | 550,086 |

(in thousands of Eastern Caribbean dollars)

## 14 Investment securities*...continued*

### On adoption of IFRS 9 on 1 January 2018

| | Amortised Cost | FVTOCI - Debt | FVTOCI - Equity | FVTPL - Equities | FVTPL - Held for Trading | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **At 1 January 2018** | | | | | | |
| **Opening Balance** | 120,049 | 397,231 | 8,542 | 4,622 | 19,642 | 550,086 |
| **Additions** | 78,928 | 212,908 | 181 | 8,033 | 2,205 | 302,255 |
| **Movement in Interest Accrued** | 353 | 957 | - | - | (82) | 1,228 |
| **Disposals (sale and redemption)** | (18,731) | (135,964) | (976) | - | - | (155,671) |
| **Unrealised Gain from changes in fair value** | - | (6,593) | 30 | (941) | (3,142) | (10,646) |
| **Provision for the year** | (95) | - | - | - | - | (95) |
| **Amortization of Premium/Discount** | (362) | - | - | - | - | (362) |
| **At 31 December 2018** | 180,142 | 468,539 | 7,777 | 11,714 | 18,623 | 686,795 |

(in thousands of Eastern Caribbean dollars)

## 14 Investment securities*...continued*

### On adoption of IFRS 9 on 1 January 2018*...continued*

| | 2018 $ | 2017 $ |
|---|---|---|
| **Securities measured at held-to-maturity** | | |
| Debt securities at amortised cost | | |
| - Listed | - | 120,939 |
| - Unlisted | - | 3,616 |
| | - | 124,555 |
| Less provision for impairment | - | (4,506) |
| Total securities – held to maturity | - | 120,049 |
| **Securities measured at available-for-sale** | | |
| Debt securities at fair value | | |
| - Listed | - | 368,259 |
| - Unlisted | - | 29,915 |
| | - | 398,174 |
| Less provision for impairment on debt securities | - | (943) |
| | - | 397,231 |
| Equity securities | | |
| - Listed | - | 12,166 |
| - Unlisted | - | 998 |
| **Total securities at available-for-sale** | - | 410,395 |
| **Total investment securities** | - | 530,444 |

**From January 1, 2018**

(in thousands of Eastern Caribbean dollars)

**14 Investment securities**... *continued*

**On adoption of IFRS 9 on 1 January 2018**...*continued*

| | 2018 $ | 2017 $ |
|---|---|---|
| **Securities measured at amortised cost** | | |
| Debt securities at amortised cost | | |
| - Listed | **178,022** | - |
| - Unlisted | **6,791** | - |
| | **184,813** | - |
| Less provision for impairment | **(4,671)** | - |
| **Total securities at amortised cost** | **180,142** | - |
| **Securities measured at fair value through OCI** | | |
| Debt securities at fair value | | |
| - Listed | **428,115** | - |
| -Unlisted | **41,366** | - |
| Total | **469,481** | - |
| Less provision for impairment | **(943)** | |
| Total debt securities at fair value | **468,538** | |
| Equity securities at fair value | **7,777** | - |
| **Total securities at fair value through OCI** | **476,315** | - |
| **Total equity securities at fair value through P&L - listed** | **11,714** | - |
| **Total investment securities** | **668,171** | - |

The weighted average effective interest rate on available-for-sale securities at fair value at 31 December 2018 was 3.51% (2017 – 3.54%).

(in thousands of Eastern Caribbean dollars)

## 15 Financial instruments - pledged assets and repurchase agreements

The following assets are pledged against certain other funding instruments:

| | Financial instruments - pledged assets | |
|---|---|---|
| | **2018** | **2017** |
| | **$** | **$** |
| Pledged against repurchase agreements | **8,189** | **10,710** |
| | **8,189** | **10,710** |

The value of repurchase agreements on the statement of financial position which are secured by pledged assets is $7,953 (2017 - $13,703). The variance between investment pledged against repurchase agreements and the value of repurchase agreement represents accrued interest.

(in thousands of Eastern Caribbean dollars)

## 16 Investment in associates

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Investment in associates | **55,793** | **49,781** |

The investments in associates are as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Associate** | | |
| At beginning of year | **49,781** | **17,704** |
| Interest retained in BOSVG | **-** | **25,500** |
| Derecognition of BOSVG associate holding in ECAB | **-** | **(2,000)** |
| Dividends from associate | **(774)** | **(264)** |
| Impact of adopting IFRS 9 | **951** | **-** |
| Share of other comprehensive income | **411** | **5,767** |
| Share of profit of associate | **5,424** | **3,074** |
| At end of year | **55,793** | **49,781** |

The Group invested $4,800 and has a 20% shareholding in the East Caribbean Amalgamated Bank Limited of Antigua (ECAB). The company is an unlisted company incorporated in St. Kitts. This undertaking represented the Group's contribution to a joint initiative of indigenous banks of the East Caribbean Currency Union to salvage and restructure the previous Bank of Antigua Limited.

East Caribbean Amalgamated Bank Limited of Antigua financial reporting period ends on 30 September. The Group's interest in its associate East Caribbean Amalgamated Bank Limited of Antigua, as at 31 December 2018 is as follows:

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Current assets | **220,610** | 69,633 |
| Non-current assets | **749,935** | 795,773 |
| Liabilities | **(804,818)** | (715,092) |
| Preference Shares | **(47,869)** | (47,869) |
| Equity | **117,858** | 102,445 |
| % ownership | **20%** | 20% |
| Share of equity in associate | **23,571** | 20,489 |
| Previous share of profits from BOSVG holding | **3,207** | 3,207 |
| Carrying amount of the investment | **26,778** | 23,696 |

(in thousands of Eastern Caribbean dollars)

**16 Investment in associates**…*continued*

Summarised statement of profit and loss of East Caribbean Amalgamated Bank Limited:

| | 2018 $ | 2017 $ |
|---|---|---|
| Revenue | **46,228** | 45,521 |
| Administrative cost | **(25,902)** | (24,324) |
| Depreciation | **(1,813)** | (1,826) |
| Profit for the year | **18,513** | 19,371 |
| Tax expense | **(4,199)** | (4,176) |
| Other comprehensive income | **15,562** | 28,725 |
| Total comprehensive income | **29,876** | 43,920 |

(in thousands of Eastern Caribbean dollars)

**16 Investment in associates***...continued*

In 2017, the Group diposed of its majority holding in Bank if St. Vincent and the Grenadines Limited and retained a 20% holding. The company is a listed company incorporated in St. Vincent.

The Group's interest in its associate Bank of St. Vincent and the Grenadines Limited, as at 31 December 2018 is as follows:

| | **2018 $** | **2017 $** |
|---|---|---|
| Current assets | **105,749** | 118,625 |
| Non-current assets | **895,444** | 855,218 |
| Liabilities | **(882,683)** | (869,983) |
| Equity | **118,510** | 103,860 |
| % ownership | **20%** | 20% |
| Share of Equity in associate | **23,702** | 20,772 |
| Adjustment for fair value of associate interest at acquisition date | **5,313** | 5,313 |
| Carrying amount of the investment | **29,015** | 26,085 |

Summarised statement of profit and loss of Bank of St. Vincent & the Grenadines Limited at December 2018:

| | **2018 $** | **2017 $** |
|---|---|---|
| Revenue | **48,636** | 22,013 |
| Administrative cost | **(34,530)** | (16,185) |
| Depreciation | **-** | (1,346) |
| Profit for the year | **14,106** | 4,482 |
| Tax expense | **(212)** | (1,667) |
| Other comprehensive income | **(136)** | 109 |
| Total comprehensive income | **13,758** | 2,924 |

The associate had no contingent liabilities or capital commitments as at 31 December 2018 or 2017.

(in thousands of Eastern Caribbean dollars)

## 17 Property and equipment

| | Land and buildings $ | Leasehold improvements $ | Motor vehicles $ | Office furniture and equipment $ | Computer equipment $ | Work-in-progress buildings $ | Total $ |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2017** | | | | | | | |
| Opening net book amount | 117,775 | 1,776 | 513 | 10,067 | 2,212 | 1,043 | 133,386 |
| Additions | 428 | 72 | - | 609 | 832 | - | 1,941 |
| Disposals at cost | - | - | (246) | (8) | (4) | - | (258) |
| Accumulated depreciation on disposal | - | - | 241 | 8 | 2 | - | 251 |
| Transfer to investment properties | (30,029) | - | - | - | - | - | (30,029) |
| Depreciation charge | (1,126) | (602) | (117) | (1,476) | (527) | - | (3,848) |
| Transfer to disposal group | (47,553) | - | (262) | (5,139) | (1,561) | (1,043) | (55,558) |
| **Closing net book amount** | 39,495 | 1,246 | 129 | 4,061 | 954 | - | 45,885 |
| **At 31 December 2017** | | | | | | | |
| Cost or valuation | 56,956 | 9,388 | 1,223 | 27,593 | 20,907 | - | 116,067 |
| Accumulated depreciation | (17,461) | (8,142) | (1,094) | (23,532) | (19,953) | - | (70,182) |
| **Net book amount** | 39,495 | 1,246 | 129 | 4,061 | 954 | - | 45,885 |
| **Year ended 31 December 2018** | | | | | | | |
| Opening net book amount | **39,495** | **1,246** | **129** | **4,061** | **954** | **-** | **45,885** |
| Additions | **461** | **2** | **394** | **1,245** | **1,395** | **-** | **3,497** |
| Disposals at cost | **-** | **-** | **(661)** | **(38)** | **(955)** | **-** | **(1,654)** |
| Accumulated depreciation on disposal | **-** | **-** | **661** | **38** | **955** | **-** | **1,654** |
| Depreciation charge | **(1,040)** | **(521)** | **(125)** | **(1,246)** | **(844)** | **-** | **(3,776)** |
| **Closing net book amount** | **38,916** | **727** | **398** | **4,060** | **1,505** | **-** | **45,606** |
| **At 31 December 2018** | | | | | | | |
| Cost or valuation | **57,417** | **9,390** | **956** | **28,800** | **21,347** | **-** | **117,910** |
| Accumulated depreciation | **(18,501)** | **(8,663)** | **(558)** | **(24,740)** | **(19,842)** | **-** | **(72,304)** |
| **Net book amount** | **38,916** | **727** | **398** | **4,060** | **1,505** | **-** | **45,606** |

(in thousands of Eastern Caribbean dollars)

## 17 Property and equipment*...continued*

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

The historical cost of land and buildings is:

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

## 18 Investment properties

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| **Land and buildings** | | | |
| At beginning of year | | **37,455** | 9,328 |
| Additions | | **-** | 65 |
| Transfer from PPE | 17 | **-** | 30,029 |
| Disposal of subsidiary | | **-** | (2,780) |
| Disposal of building | | **(5,500)** | - |
| Fair value adjustment | | **-** | 813 |
| **At end of year** | | **31,955** | 37,455 |

The investment properties are valued annually based on open market value by an independent, professionally qualified valuer. Comparative analysis was used to determine the market value of the investment properties.

The Group has no restrictions on the realisability of its investment properties and no contractual obligation to either purchase, construct or develop investment properties or for repairs maintenance and enhancements.

The following amounts have been recognised in profit or loss:

| | 2018 $ | 2017 $ |
|---|---|---|
| Rental income | **3,110** | **2,260** |
| Direct operating expenses arising from investment properties that generated rental income | **(354)** | **(736)** |
| | **2,756** | **1,524** |

(in thousands of Eastern Caribbean dollars)

## 19 Intangible assets

| | Computer software $ | Total $ |
|---|---|---|
| **Year ended 31 December 2017** | | |
| Opening net book amount | 4,893 | 4,893 |
| Additions | 800 | 800 |
| Accumulated amortisation on disposal | 9 | 9 |
| Amortisation on disposal of subsidiary | (3,948) | (3,948) |
| Amortisation charge for the year | (661) | (661) |
| Closing net book amount | 1,093 | 1,093 |
| **At 31 December 2017** | | |
| Cost | 22,074 | 22,074 |
| Accumulated amortisation | (20,981) | (20,981) |
| Net book amount | 1,093 | 1,093 |
| **Year ended 31 December 2018** | | |
| Opening net book amount | **1,093** | **1,093** |
| Additions | **478** | **478** |
| Amortisation charge for the year | **(724)** | **(724)** |
| Closing net book amount | **847** | **847** |
| **At 31 December 2018** | | |
| Cost | **22,552** | **22,552** |
| Accumulated amortisation | **(21,705)** | **(21,705)** |
| Net book amount | **847** | **847** |

(in thousands of Eastern Caribbean dollars)

## 20 Other assets

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| Receivable accounts | | **16,074** | 13,149 |
| Receivable accounts - credit card | | **37,504** | 38,587 |
| Prepaid expenses | | **2,056** | 2,229 |
| Stationery and supplies | | **620** | 527 |
| Accounts receivable | | **1,507** | 2,070 |
| Accrued income | | **-** | 122 |
| | | **57,761** | 56,684 |
| Less provision for impairment on other assets | 21 | **(1,555)** | (1,348) |
| | | **56,206** | 55,336 |

## 21 Provision for impairment on other assets

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

| | 2018 $ | 2017 $ |
|---|---|---|
| At beginning of year | **1,348** | 1,874 |
| Provisions made during the year | **407** | 494 |
| Receipts | **(31)** | (154) |
| Write offs during the year | **(169)** | (866) |
| At end of year | **1,555** | 1,348 |

(in thousands of Eastern Caribbean dollars)

## 22 Retirement benefit asset

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

| | 2018 $ | 2017 $ |
|---|---|---|
| Fair value of plan assets | **64,995** | 62,217 |
| Present value of funded obligation | **(54,549)** | (48,602) |
| Asset in the consolidated statement of financial position | **10,446** | 13,615 |

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

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

| | 2018 $ | 2017 $ |
|---|---|---|
| Beginning of year | **48,602** | 45,797 |
| Current service cost | **1,327** | 1,382 |
| Interest cost | **3,750** | 3,549 |
| Employee contribution | **819** | 862 |
| Actuarial gains/(loss) | **1,546** | (1,557) |
| Benefits paid | **(1,495)** | (1,431) |
| End of year | **54,549** | 48,602 |

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

| | 2018 $ | 2017 $ |
|---|---|---|
| Beginning of year | **62,217** | 56,424 |
| Actual return on plan assets | **808** | 3,504 |
| Employer contributions | **2,920** | 3,053 |
| Employee contributions | **819** | 862 |
| Benefits paid | **(1,495)** | (1,431) |
| Administrative expenses | **(274)** | (195) |
| End of year | **64,995** | 62,217 |

(in thousands of Eastern Caribbean dollars)

## 22 Retirement benefit asset*...continued*

| | **2018** **$** | **2017** **$** |
|---|---|---|
| Net asset at beginning of year | **13,615** | 10,627 |
| Net periodic cost | **(611)** | (809) |
| Contributions paid | **2,920** | 3,053 |
| Effect on statement of comprehensive income | **(5,478)** | 744 |
| Net asset at end of year | **10,446** | 13,615 |

**Benefit cost**

| | **2018** **$** | **2017** **$** |
|---|---|---|
| Current service cost | **1,327** | 1,382 |
| Net interest on net defined benefit asset | **3,750** | 3,549 |
| Expected return on plan assets | **(4,740)** | (4,317) |
| Administration expenses | **274** | 195 |
| Net periodic cost at end of year | **611** | 809 |

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

| | **2018** **$** | **2017** **$** |
|---|---|---|
| Gain from change in assumptions | **672** | - |
| Gain/(loss) from experience | **874** | (1,557) |
| Expected return on plan assets | **4,740** | 4,317 |
| Actual return on plan assets | **(808)** | (3,504) |
| | **5,478** | (744) |

The principal actuarial assumptions used were as follows:

| | **2018** **%** | **2017** **%** |
|---|---|---|
| Discount rate | **7.50** | 7.50 |
| Future promotional salary increases | **5.00-6.50** | 3.00-4.52 |
| Future inflationary salary increases | **1.75** | 2.00 |

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

(in thousands of Eastern Caribbean dollars)

## 22 Retirement benefit asset*...continued*

Plan assets allocation is as follows:

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

The pension plan assets do not include assets or ordinary shares of the Group.

**Mortality rate**

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

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

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

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

(in thousands of Eastern Caribbean dollars)

**22 Retirement benefit asset***...continued*

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Investments quoted in active markets:** | | |
| Quoted equity investments: | | |
| - Energy | **34** | 27 |
| - Consumer staples | **2,618** | 2,155 |
| - Other | **3,674** | 3,882 |
| Quoted debt securities | | |
| - Sovereign bonds | **23,254** | 20,700 |
| - Energy | **-** | 1,617 |
| - Industrial | **4,700** | 679 |
| - Consumer staples | **-** | - |
| - Other | **10,440** | 15,532 |
| **Cash and cash equivalents** | **4,986** | 1,816 |
| **Unquoted investments** | | |
| Unquoted debt securities | | |
| - Sovereign bonds | **14,872** | 15,759 |
| - Other | **-** | - |
| **Unquoted equity securities** | | |
| - Other | **417** | 50 |
| **Total** | **64,995** | 62,217 |

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Within the next 12 months | **863** | 784 |
| Between 2 and 5 years | **4,506** | 3,959 |
| Between 5 and 10 years | **11,815** | 9,005 |
| Total expected payments | **17,184** | 13,748 |

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

(in thousands of Eastern Caribbean dollars)

## 23 Deposits from banks

| | 2018 $ | 2017 $ |
|---|---|---|
| Deposits from banks | **55,845** | 43,298 |

The weighted average effective interest rate on deposits from banks was 1.78% (2017 – 1.59%).

## 24 Due to customers

| | 2018 $ | 2017 $ |
|---|---|---|
| Term deposits | **368,045** | 415,861 |
| Savings deposits | **645,432** | 630,748 |
| Call deposits | **336,537** | 282,324 |
| Demand deposits | **471,309** | 470,655 |
| | **1,821,323** | 1,799,588 |

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

(in thousands of Eastern Caribbean dollars)

## 25 Borrowings

| | Due | Interest rate % | 2018 $ | Interest rate % | 2017 $ |
|---|---|---|---|---|---|
| **Other borrowed funds** | | | | | |
| Caribbean Development Bank | 2017-2020 | **4.46** | **20,288** | 3.8% | 27,949 |
| National Insurance Corporation (Saint Lucia) | 2017-2026 | **7.25** | **51,231** | 7.25% | 51,232 |
| | | | **71,519** | | 79,181 |

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

The final maturity date of the Prodev bond issue was December 2018.

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

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

(in thousands of Eastern Caribbean dollars)

## 26 Other liabilities

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Trade and other payables | **31,485** | 26,151 |
| Managers' cheques outstanding | **4,184** | 2,899 |
| Agency loans | **261** | 156 |
| | **35,930** | 29,206 |

The agency loans are funds issued to the Group by the Government of Saint Lucia for disbursement to the related projects. The Group earns an agency fee on the amounts disbursed. The funds belong to the Government of Saint Lucia and the Group bears no risk in relation to these funds.

## 27 Deferred tax

The movements on the deferred tax asset are as follows:

| | Notes | 2018<br>$ | 2017<br>$ |
|---|---|---|---|
| Net deferred tax position at beginning of year | | **(820)** | 298 |
| **Deferred tax charge to the income statement**: | | | |
| Arising from retirement benefit plan | | **694** | 674 |
| Arising from disposal of subsidiary | | **-** | 298 |
| Arising from other timing differences | | **(638)** | (277) |
| Arising from tax losses not utilised | | **(1,592)** | (1,738) |
| **Deferred tax charge for the year** | 41 | **(1,536)** | (1,043) |
| | | | |
| **Deferred tax charge to other comprehensive income** | | | |
| Deferred tax arising from retirement benefit plan | | **(1,643)** | 223 |
| Net deferred tax position at end of year | | **(4,000)** | (820) |

(in thousands of Eastern Caribbean dollars)

## 27 Deferred tax *...continued*

The deferred tax account is detailed as follows:

| | 2018 $ | 2017 $ |
|---|---|---|
| Accelerated capital allowances | **1,307** | 1,943 |
| Fair value of pension assets | **3,133** | 4,084 |
| Unutilised tax losses | **( 8,440)** | (6,847) |
| Net deferred tax asset | **(4,000)** | (820) |

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.

## 28 Share capital

| | No. of Shares | 2018 $ | No. of Shares | 2017 $ |
|---|---|---|---|---|
| **Ordinary shares** | | | | |
| Authorised: | | | | |
| 50,000,000 ordinary shares of no par value | | | | |
| **Issued and fully paid** | | | | |
| At beginning and end of year | **24,465,589** | **170,081** | 24,465,589 | 170,081 |

## 29 Contributed capital

Total capital contributions received at 31 December were as follows:

| | 2018 $ | 2017 $ |
|---|---|---|
| Productive Sector Equity Fund Incorporated | **1,118** | 1,118 |
| Student Loan Guarantee Fund | **-** | 3,000 |
| | **1,118** | 4,118 |

The figures above represent the contributions to the Group by Third Parties in support of the two funds listed.

(in thousands of Eastern Caribbean dollars)

## 30 Non-controlling interests

| | 2018 $ | 2017 $ |
|---|---|---|
| At beginning of year | - | **51,858** |
| Disposal group | - | **(51,858)** |
| At end of year | - | - |

## 31 Reserves

| | 2018 $ | 2017 $ |
|---|---|---|
| (a) General reserve | **62,957** | 62,957 |
| (b) Statutory reserve | **101,587** | 93,652 |
| (c) Student loan guarantee fund reserve | **739** | 7,627 |
| (d) Special reserve | **2,034** | 2,034 |
| (e) Retirement benefit reserve | **10,445** | 13,615 |
| (f) Contingency reserve | **28,615** | 4,535 |
| **Total reserves at 31 December** | **206,377** | 184,420 |

Movements in reserves were as follows:

| | 2018 $ | 2017 $ |
|---|---|---|
| **(a) General** | | |
| At beginning of the year | **62,957** | 62,957 |
| Transferred from retained earnings | - | - |
| At end of the year | **62,957** | 62,957 |

It is the policy of the Group to maintain a general reserve for reinvestment in operations. Transfers to the reserve are based on a maximum of 35% of the consolidated Group's profit for the year after transfers to statutory reserve.

(in thousands of Eastern Caribbean dollars)

**31 Reserves**...*continued*

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **(b) Statutory** | | |
| At beginning of the year | **93,652** | 87,971 |
| Transferred from retained earnings | **7,935** | 5,681 |
| At end of the year | **101,587** | 93,652 |

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **(c) Student loan guarantee fund** | | |
| At beginning of the year | **7,627** | (22) |
| Transferred from retained earnings | **133** | 1,120 |
| Contributions | **-** | 6,529 |
| Capital drawing | **(7,021)** | - |
| At end of the year | **739** | 7,627 |

This is a non-distributable reserve. Transfers are made to the reserve at an amount equal to the net profit of the subsidiary Student Loan Guarantee Fund Limited.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **(d) Special** | | |
| At beginning and end of the year | **2,034** | 2,034 |

The finance contract between the European Investment Bank ("EIB") and the former St. Lucia Development Bank, now assumed by Bank of Saint Lucia Limited, requires the institution to establish and maintain a special reserve. Annually, an amount as specified under Section 6.05 of the Contract is credited to the reserve.

(in thousands of Eastern Caribbean dollars)

**31 Reserves***...continued*

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **(e) Retirement benefit** | | |
| At beginning of the year | **13,615** | 10,627 |
| Transferred (to)/from retained earnings | **(3,170)** | 2,988 |
| At end of the year | **10,445** | 13,615 |

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

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **(f) Contingency reserve** | | |
| At beginning of the year | **4,535** | - |
| Transferred from retained earnings | **7,481** | 4,535 |
| Adjustment on adoption of IFRS 9 | **16,599** | - |
| At end of the year | **28,615** | 4,535 |

The contingency reserve fund is created as an appropriation from retained earnings to set aside a portion of profits against loan loss provisions. This reserve will be funded annually to the extent that the reserve fund does not exceed 100% of non-performing loans.

(in thousands of Eastern Caribbean dollars)

## 32 Related party transactions and balances

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 by making financial and operational decisions.

Interest income and interest expense with related parties were as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Income $** | **Expense $** | **Income $** | **Expense $** |
| Government of Saint Lucia | **1,475** | **697** | 1 | 729 |
| Statutory bodies – Saint Lucia | **1,153** | **5,652** | 966 | 6,156 |
| Directors and key management | **646** | **83** | 661 | 99 |

(in thousands of Eastern Caribbean dollars)

## 32 Related party transactions and balances *...continued*

Related party balances with the Group were as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Loans $** | **Deposits $** | **Loans $** | **Deposits $** |
| Government of Saint Lucia | **56,528** | **184,726** | 25,043 | 183,742 |
| Statutory bodies – Saint Lucia | **17,835** | **498,608** | 17,710 | 469,742 |
| Directors and key management | **12,097** | **3,858** | 14,362 | 5,551 |

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

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of 8 years and have a weighted average effective interest rate of 5.5% ( 2017 – 5.1%). The secured loans advanced to the directors during the year are collateralised by mortgages over residential properties.

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

**Key management compensation**

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

| | **2018 $** | **2017 $** |
|---|---|---|
| Salaries and other short-term benefits | **5,315** | 6,143 |
| Pension costs | **653** | 495 |
| | **5,968** | 6,638 |
| Directors remuneration | **444** | 435 |

(in thousands of Eastern Caribbean dollars)

## 33 Net interest income

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Interest income** | | |
| Loans and advances | **59,166** | 60,984 |
| Treasury bills and investment securities | **23,520** | 19,329 |
| Cash and short-term funds | **1,471** | 190 |
| | **84,157** | 80,503 |
| **Interest expense** | | |
| Time deposits | **8,964** | 12,774 |
| Borrowings | **4,542** | 4,933 |
| Savings deposits | **13,395** | 13,231 |
| Demand deposits | **459** | 387 |
| Correspondent banks | **559** | 820 |
| | **27,919** | 32,145 |
| **Net interest income** | **56,238** | 48,358 |

## 34 Net fee and commission income

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Fee and commission income** | | |
| Credit related fees and commissions | **32,324** | 31,016 |
| Asset management and related fees | **352** | 333 |
| | **32,676** | 31,349 |

## 35 Net foreign exchange trading income

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| **Foreign exchange** | | |
| Net realised gains | **9,764** | 10,108 |
| Net unrealised gains | **515** | 1,361 |
| | **10,279** | 11,469 |

(in thousands of Eastern Caribbean dollars)

## 36 Other operating income

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Rental income | **3,110** | 2,260 |
| Bad debt recovery income | **11,688** | 7,972 |
| Other | **658** | 792 |
| | **15,456** | 11,024 |

## 37 Other gains, net

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Gains on disposal of FVOCI (2017: Available-for-sale) investments | **44** | 2,222 |
| Gains/(losses) on disposal of Amortised Cost (2017: Held-to-Maturity) investments | **14** | (70) |
| Gains on FVTPL (2017: Held for trading) investment | **-** | 35 |
| Unrealised losses on FVTPL (2017: Held for trading) investments | **(796)** | (25) |
| Loss on disposal of investment property | **(500)** | - |
| Fair value gain on disposal of investment property | **-** | 813 |
| Reclassification of fair value gains on disposal of subsidiaries | **-** | 25 |
| | **(1,238)** | 3,000 |

(in thousands of Eastern Caribbean dollars)

## 38 Operating expenses

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| Employee benefit expense | 39 | **26,216** | 25,609 |
| Depreciation and amortisation | | **4,500** | 4,508 |
| Utilities and telecommunications | | **4,238** | 4,056 |
| Repairs and maintenance | | **6,872** | 6,475 |
| Advertising and promotion | | **598** | 469 |
| Bank and other licences | | **215** | 217 |
| Security | | **1,381** | 1,509 |
| Printing and stationery | | **844** | 760 |
| Legal and professional fees | | **578** | 707 |
| Insurance | | **731** | 366 |
| Credit card & IDC visa charges | | **8,922** | 7,183 |
| Borrowing fees | | **34** | 62 |
| Corporate responsibility | | **146** | 148 |
| Bank charges | | **1,215** | 951 |
| Travel and entertainment | | **385** | 211 |
| Other expenses | | **7,428** | 9,293 |
| | | **64,303** | 62,524 |

## 39 Employee benefit expense

| | 2018 $ | 2017 $ |
|---|---|---|
| Wages and salaries | **19,882** | 20,360 |
| Other staff costs | **5,723** | 4,440 |
| Pensions | **611** | 809 |
| | **26,216** | 25,609 |

(in thousands of Eastern Caribbean dollars)

## 40 Disposal group classified as held for sale

On March 10th 2017, the Group officially sold its holding in Bank of St. Lucia International Ltd. to Proven Investments Limited.

The loss arising on the disposal of Bank of St. Lucia International Ltd. is as follows:

| | 2018 $ | 2017 $ |
|---|---|---|
| Cash consideration | - | 35,383 |
| Less: Net assets carried at lower of cost and fair value less costs to sell | - | (52,751) |
| | - | (17,368) |
| Provision for loss on disposal | | 15,453 |
| Loss on disposal of controlling interest | | (1,915) |

On June 30th 2017, the Group disposed of 31% of its holding in Bank of Saint Vincent and the Grenadines Ltd., retaining an effective interest of 20%.

The gain arising on the disposal is as follows:

| | 2018 $ | 2017 $ |
|---|---|---|
| Cash consideration | - | 32,364 |
| Fair value of retained interest | - | 25,500 |
| Less: Net assets carried at lower of cost and fair value less costs to sell | - | (51,477) |
| Gain on disposal of controlling interest | - | 6,387 |

The analysis of the results of discontinuing operations is as follows:

| | 2018 $ | 2017 $ |
|---|---|---|
| Revenue | - | 16,324 |
| Impairment losses-loans | - | (4,737) |
| Administrative cost | - | (8,881) |
| Depreciation | - | (2,023) |
| Profit for the year | - | 683 |
| Income tax expense | | - |
| Total comprehensive income | - | 683 |

(in thousands of Eastern Caribbean dollars)

## 41 Income tax expense/(recovery)

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| Current tax | | **1,891** | 1,076 |
| Over provision of prior year tax | | **-** | (2,839) |
| Deferred tax charge | 27 | **(1,536)** | (1,043) |
| | | **355** | (2,806) |
| Deferred tax income in other comprehensive income: | | | |
| Deferred tax arising from defined benefit pension plan | | **(1,643)** | 223 |

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

| | 2018 $ | 2017 $ |
|---|---|---|
| Profit for the year before income tax and dividends | **45,612** | 29,319 |
| Tax calculated at the applicable tax rate of 30% | **13,683** | 8,796 |
| Tax effect of income not subject to tax | **(10,105)** | (5,734) |
| Deferred tax asset recognised/ unrecognised on tax losses | **(1,592)** | (1,738) |
| Tax effect of expenses not deductible for tax purposes | **260** | (321) |
| Tax effect of utilised losses | **(1,891)** | (970) |
| Under provision of income tax | **-** | (2,839) |
| | **355** | (2,806) |

(in thousands of Eastern Caribbean dollars)

## 41 Income tax expense/(recovery) *…continued*

The Group has unutilised tax losses of $28,133 (2017 – $22,827) for which a deferred tax asset of $8,440 (2017: $6,847) has been recognised due to the certainty of its recoverability. Unutilized tax losses may be carried forward and deducted against 50% of future taxable income within six years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department. The Group also has unutilised tax losses of $121,889 (2017 – $225,460) for which no deferred tax asset has been recognized.

Tax losses expire as follows:

| | **2018 $** | **2017 $** |
|---|---|---|
| 2018 | **-** | 98,265 |
| 2019 | **24,957** | 24,957 |
| 2020 | **6,367** | 6,367 |
| 2021 | **13,619** | 13,619 |
| 2022 | **105,079** | 105,079 |
| | **150,022** | 248,287 |

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

## 42 Earnings per share

**Basic and diluted**

The calculation of basic earnings per share is based on the profit from continuing operations attributable to ordinary shareholders of $44,966 (2017 – $31,834) and 24,465 (2017 – 24,465) shares, being the weighted average number of ordinary shares in issue in each year. For the purpose of calculating diluted earnings per share, the profit/(loss) for the year attributable to ordinary shares is the profit for the year after deducting preference dividends of $291 (2017 – $291).

(in thousands of Eastern Caribbean dollars)

## 43 Cash and cash equivalents

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

| | Notes | 2018 $ | 2017 $ |
|---|---|---|---|
| Cash and balances with Central Bank | 6 | **104,281** | **226,921** |
| Deposits with other banks | 8 | **104,956** | **96,632** |
| Deposits with non-bank financial institutions | 10 | **23,317** | **5,412** |
| Treasury Bills | 7 | **17,409** | **22,080** |
| | | **249,963** | **351,045** |

## 44 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 | **115,442** | 69,838 |
| Guarantees, letters of credit and other credit obligations | **21,098** | 23,765 |
| | **136,540** | 93,603 |

Operating leases
The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

| | 2018 $ | 2017 $ |
|---|---|---|
| Not later than 1 year | **1,257** | 1,977 |
| Later than 1 year and not later than 5 years | **6,055** | 4,912 |
| | **7,312** | 6,889 |

(in thousands of Eastern Caribbean dollars)

## 45 Principal subsidiary undertakings

| | Holding 2018 % | Holding 2017 % |
|---|---|---|
| Bank of Saint Lucia Limited | **100** | 100 |
| Student Loan Guarantee Fund Limited ** | - | - |
| Productive Sector Equity Fund Incorporated ** | - | - |

** Allotment of shares had not been completed at the reporting date.

As part of its strategic objectives, the local companies of the ECFH Group namely; Bank of Saint Lucia Limited and ECFH Global Investment Solutions were amalgamated with ECFH holding company in October 2016, and this amalgamated entity continued as Bank of Saint Lucia Limited.

Another company named East Caribbean Financial Holding Company Limited was then incorporated at the same time to hold the shares of Bank of Saint Lucia Limited, and Bank of Saint Vincent and the Grenadines Limited. On June 30th 2017, the group disposed of its majority holding in Bank of St. Vincent and the Grenadines Limited, as part of its strategic objective to focus on its local share of Bank of St. Lucia Limited.

## 46 Cumulative preference shares

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

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

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

Dividends declared and unpaid on the preference shares during the year amounted to $291 (2017 – $291).

(in thousands of Eastern Caribbean dollars)

## 47 Transition to IFRS 9

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

| | IAS 39 Carrying amount as at 31 December 2017 | Reclassification | Remeasurements | IFRS 9 carrying amount as at 1 January 2018 |
|---|---|---|---|---|
| **Amortised cost** | $ | $ | $ | $ |
| Opening balance under IAS 39 | | | | |
| Cash and balances with central bank | 347,950 | - | - | **347,950** |
| Deposits with other banks | 96,112 | - | - | **96,112** |
| Deposits with non-bank financial institutions | 5,412 | - | - | **5,412** |
| Treasury bills | 23,132 | - | - | **23,132** |
| **Closing balance under IFRS 9** | **472,606** | **-** | **-** | **472,606** |
| ***Loans and receivables - loans and advances to customers*** | | | | **-** |
| Opening balance under IAS 39 | 874,051 | - | - | **874,051** |
| Remeasurement: ECL allowance | - | - | 16,640 | **16,640** |
| **Closing balance under IFRS 9** | 874,051 | - | 16,640 | **890,691** |
| ***Investment securities Held to maturity*** | | | | |
| Opening balance under IAS 39 | 120,049 | - | - | **120,049** |
| Transferred to amortised cost | - | (120,049) | - | **(120,049)** |
| Remeasurement: ECL allowance | - | - | - | **-** |
| **Closing balance under IFRS 9** | 120,049 | (120,049) | - | **-** |
| **From held to maturity** | - | 120,049 | - | **120,049** |
| Remeasurement: ECL allowance | - | - | (71) | **(71)** |
| **Closing balance under IFRS 9** | - | 120,049 | (71) | **119,978** |
| **Total financial assets measured at amortised cost** | **1,466,706** | **-** | **16,569** | **1,483,275** |

(in thousands of Eastern Caribbean dollars)

## 47 Transition to IFRS 9*...continued*

| | IAS 39 Carrying amount as at 31 December 2017 $ | Reclassification $ | Remeasurements $ | IFRS 9 carrying amount as at 1 January 2018 $ |
|---|---|---|---|---|
| **Financial assets measured at FVOCI** | | | | |
| ***Investment securities - available for sale*** | | | | |
| Opening balance under IAS 39 | 410,395 | - | - | **410,395** |
| To FVTPL - equity | - | (4,622) | - | **(4,622)** |
| To FVOCI - debt | - | (397,231) | - | **(397,231)** |
| To FVOCI - equity | | (8,542) | | **(8,542)** |
| **Closing balance AFS under IFRS 9** | 410,395 | (410,395) | - | **-** |
| ***FVOCI – debt and equity*** | | | | |
| Opening balance | - | - | - | **-** |
| From available for sale - debt | - | 397,231 | - | **397,231** |
| From available for sale - equity | | 8,542 | | **8,542** |
| **Closing balance under IFRS 9** | - | 405,773 | - | **405,773** |
| **Total measured at FVOCI** | | **405,773** | **-** | **405,773** |
| **Financials assets held for trading and pledged** | | | | |
| Opening balance under IAS 39 | 19,642 | - | - | **19,642** |
| Pledged assets | 10,710 | - | - | **10,710** |
| Transferred to FVTPL | - | (30,352) | - | **(30,352)** |
| **Total financial assets HFT** | 30,352 | (30,352) | - | **-** |
| **Financial assets measured at FVTPL (including pledged assets)** | | | | |
| Opening balance under IAS 39 | - | - | - | **-** |
| From available for sale | - | 4,622 | - | **4,622** |
| From held for trading | - | 19,642 | - | **19,642** |
| From pledged assets | | 10,710 | - | **10,710** |
| **Total financial assets measured at FVTPL** | **-** | **34,974** | **-** | **34,974** |
| **Total financial assets** | | | | **1,924,022** |

(in thousands of Eastern Caribbean dollars)

## 47 Transition to IFRS 9*...continued*

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

| Measurement category | Loan loss allowance under IAS 39 | Remeasurement | Loan loss allowance under IFRS 9 |
|---|---|---|---|
| | $ | $ | $ |
| **Loans and receivables (IAS39) / Financial assets at amortised cost (IFRS 9)** | | | |
| Cash and balances with central bank | - | - | - |
| Deposits with other banks | - | - | - |
| Deposits with non-bank financial institutions | - | - | - |
| Treasury bills | - | - | - |
| Loans and receivables - loans and advances to customers | 95,615 | (16,640) | 78,975 |
| **Total** | **95,615** | **(16,640)** | **78,975** |
| **Available for sale: Bonds (IAS 39)/ Financial Assets at FVOCI (IFRS 9)** | | | |
| Investment securities | 526 | 1,410 | 1,936 |
| **Held to maturity (IAS 39)/ Financial Assets at Amortised cost (IFRS 9)** | | | |
| Investment securities | 4,506 | 71 | 4,577 |
| **Undrawn loan commitments** | | | |
| Provisions | - | 41 | 41 |
| **Total** | **5,032** | **1,522** | **6,554** |
| | **100,647** | **(15,118)** | **85,529** |

## 48 Dividends

At the meeting held on 21 March 2019, the Board of Directors proposed a dividend in respect of the 2018 financial year end of $0.30 for each unit of paid up share capital, or EC$7,340 (2017: nil). The financial statements for the year ended 31 December 2018 do not reflect this proposed dividend which will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2019.

DESIGNED AND PRODUCED BY SAVVY CARIBBEAN MARKETING

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