BOSVG

Doing *more* Together

Annual Report 2019

A brand...

Made Stronger TOGETHER

A strong brand that withstands the winds of change is one built on integrity, purpose and trust. This is BOSVG – an evolving and responsive brand, deeply rooted in the heart and soul of our people. An indigenous brand that inspires pride and aspires to greatness.

Over the years BOSVG has grown in part through the strong direction of the Board, stellar leadership of its management and undying commitment of its staff. The other part is the passionate loyalty of our customers from all walks of life and diverse businesses.

Today our brand has refreshed with an updated logo and a new tagline. We take this energy of a new day into the future as we develop our nation, build generations of deep wealth and do more amazing things together.

MISSION STATEMENT

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

VISION STATEMENT

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

CORE VALUES

Professionalism
Accountability & Transparency
Integrity
Innovation
Continuous Learning
Results Orientation

Contents

Youthful Visionaries
NEXT GENERATION CALENDAR 2020

In this the 6th edition of our Next Generation calendar, we once again highlight the achievements and aspirations of twelve extremely talented young Vincentians. The stories that adorn the pages of the 2020 calendar are inspirational. These stories give an insight into the carefully crafted vision of each individual, and the discipline, courage and sheer determination that have helped them realise their goals.

The Bank of St. Vincent and the Grenadines hopes that these stories will impact others, far and wide, and serve to motivate them to build the confidence to pursue their own dreams. To this end, 15,000 copies of the 2020 calendar will be displayed on the walls of homes and workplaces across St. Vincent and the Grenadines and in the wider Vincentian diaspora. The calendar will also be distributed digitally on our website and social media pages, thereby providing expanded coverage.

To our 2020 Achievers, we celebrate your remarkable achievements and are indeed honoured to have this unique opportunity to share your individual stories. For this, we express our profound thanks. We also wish to commend and acknowledge all those who have played an integral role in your development, including members of your respective communities, friends, teachers and mentors, and most importantly, your families.

We thank too, our customers who look forward with great anticipation to receiving a copy of our calendar each year. We trust that you will enjoy this 6th edition.

Best wishes to everyone for 2020! Let us all continue to build our Bank and our Nation, brick by brick.

Derry Williams, Managing Director
October 25, 2019

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

REGISTERED OFFICE & POSTAL ADDRESS:

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

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

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

LEGAL COUNSELS:

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

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

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

SUBSIDIARY COMPANY:

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

AFFILIATIONS:

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

REGULATORS:

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

EXTERNAL AUDITORS:

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

OWNERSHIP IN BANK OF ST.VINCENT AND THE GRENADINES LTD. AS AT 31/12/2019

Government of SVG 43.13%
NIS 20%
ECFH 20%
The Public & Staff of BOSVG 16.87%

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

CORRESPONDENT BANKS

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

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

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

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

National Bank of Dominica
Roseau, Dominica

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

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

First Citizens Bank
62 Independence Square, Port of Spain
Trinidad

National Commercial Bank Jamaica
54 King Street
Kingston, Jamaica

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

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

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

INTERNATIONAL

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

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

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

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

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

Financial Highlights 2015 - 2019

Bank Of St. Vincent And The Grenadines Ltd.

	2019	2018	2017	2016	2015
OPERATING RESULTS					
Interest income	52,799,229	50,965,020	49,659,001	49,887,423	50,068,147
Interest expense	(16,150,656)	(15,777,317)	(17,382,035)	(17,642,436)	(19,412,837)
NET INTEREST INCOME	36,648,573	35,187,703	32,276,966	32,244,987	30,655,310
Non-interest income	18,846,435	15,962,510	12,420,377	12,540,550	12,290,053
NET OPERATING INCOME	55,495,008	51,150,213	44,697,343	44,785,537	42,945,363
Impairment losses on financial assets	3,077,041	2,559,163	9,911,971	6,159,722	3,607,851
Impairment losses on investment securities	-	-	-	-	410,408
Impairment losses on property and equipment	214,506	-	-	-	-
Income tax expense	2,072,159	1,149,548	1,993,503	2,698,931	2,206,384
Non interest expense	36,037,821	34,526,454	31,995,497	30,990,513	30,861,766
Net income	14,093,481	12,915,048	796,372	4,936,371	5,858,954
Dividend declared	7,049,927	6,449,932	2,549,973	2,551,157	2,900,000
OPERATING PERFORMANCE					
Basic and diluted earnings per share	0.94	0.86	0.05	0.49	0.59
Cash dividends per share	0.47	0.43	0.17	0.17	0.29
Book value per share	8.36	7.85	6.95	10.58	10.39
Return on equity	11.2%	11.0%	0.8%	4.7%	5.6%
Return on assets	1.2%	1.3%	0.1%	0.5%	0.7%
Efficiency ratio	70.9%	72.5%	93.8%	83.0%	80.3%
Core banking margin (spread)	3.3%	3.5%	3.3%	3.3%	3.4%
FINANCIAL POSITION DATA					
Cash and deposits with banks	361,427,626	224,603,444	234,197,883	264,963,024	195,560,043
Total assets	1,126,608,002	1,001,282,839	974,582,643	971,281,102	899,188,648
Loans and advances	603,116,302	616,595,632	605,030,164	578,813,735	586,006,095
Investments	80,662,829	79,013,983	55,025,191	42,715,267	39,250,294
Customers deposits	910,319,763	767,161,792	745,782,313	715,812,152	655,935,277
Shareholders equity	125,373,187	117,675,714	104,272,671	105,831,658	103,898,879
CAPITAL AND LIQUIDITY MEASURES					
Capital adequacy	26.2%	23.8%	21.5%	20.9%	20.4%
Total risk weighted assets	497,421,029	519,516,889	528,595,619	533,435,125	517,993,966
Loans to deposits	66.3%	80.4%	81.1%	80.9%	89.3%
CREDIT QUALITY					
Non performing loans	40,564,191	39,589,589	48,291,574	45,995,529	37,702,505
Allowance for loan losses	19,836,290	17,006,295	20,670,580	12,508,727	7,019,004
General provision reserve	4,542,702	3,133,354	-	-	-
Impaired loans as a % of loans	6.5%	6.2%	7.7%	7.8%	6.4%
Allowances for credit loss plus contingency reserve fund as a % of non performing loans	60.1%	50.9%	42.8%	27.2%	18.6%
Provisions for loan losses as a % of loans	3.2%	2.7%	3.3%	2.1%	1.2%
Non performing loans to total assets	3.6%	4.0%	5.0%	4.7%	4.2%
OTHER					
Number of staff	165	169	169	172	166
Earnings per staff	84,964	76,420	4,712	28,700	35,295
Number of shares	14,999,844	14,999,844	14,999,844	10,000,000	10,000,000

Chairman's Message

Maurice Edwards
Chairman

> *We've committed ourselves to broadening our horizons everyday to create new possibilities for our customers, present and future. We understand old ways won't open new doors.*

On behalf of the Board of Directors, I am pleased to present the Annual Report of the Bank of St. Vincent and the Grenadines for the year ended 31 December 2019.

The year was challenging, yet a very successful one for the Bank of St. Vincent and the Grenadines (BOSVG). Emerging trends in the global, regional and local environment are challenging our traditional business model. New players are entering the local market as longstanding names make their exit; technological developments are blurring the lines between banking and other parts of the economy and; mounting regulatory requirements restrict the way we can respond.

The Board of Directors, notwithstanding these challenges, continued to ensure the highest standards of corporate governance and adherence to the Bank's policies and international best practices. In this regard, numerous policies were introduced or updated during 2019, with particular attention paid to cyber-security and other risk management policies. This emphasis on Risk Management is not accidental as this is an area of great concern to regulators and other stakeholders in the banking industry.

The Board accepts fiscal responsibilities for risk management and internal control systems of the Bank. The Risk and Compliance Committee has responsibility for oversight and review of the Bank's risk management framework. In this regard, the committee regularly reviews reports on risk management and makes recommendations to the Board.

FINANCIAL PERFORMANCE

During the year under review, the Bank realized a net profit of $14.09 million, a modest increase over the $12.92 million earned in 2018. This improved performance was largely attributed to a 38.4% increase in interest earned in investment securities, and a 19.6% increase in commission and credit related fees. Interest on loans and advances for the year was flat.

The 2019 financial year continued the trend of balance sheet growth with total assets increasing by $125.3 million or 12.5%. Asset growth was primarily in the areas of Cash and Balances with Central Bank and Deposits with other banks, which grew by a combined amount of $136.8 million or 60.9%. The growth in assets was funded through increase in deposits of $143. 2 million or 18.7%."

Based on the existing dividend policy and with this financial performance during the year, the Board has approved a dividend payment of $0.47 per share. We thus started 2020 with a strong balance sheet, and combined with a clear strategy on improving the brand, the Bank of St. Vincent and the Grenadines is in a good position for the future.

OUTLOOK

The economy of St. Vincent & the Grenadines is expected to be negatively impacted by emergence of the COVID 19 (CORONA VIRUS). Preliminary indications are that the Bank's interest-earning potential by way of interest income from investments and foreign exchange earnings are the categories most likely to be impacted in the short term.

We have prepared a relief package for our customers which, includes a moratorium on interest and /or principal for our loan customers who are affected. In our view, the major impact of this initiative will be on the Bank's loan loss provisions, as the occurrence of the event triggers a review of the Bank's IFRS 9 model.

While the impact of the pandemic is likely to have some impact on the Bank's operation, the present liquidity and capital buffers are deemed adequate to withstand any major fallouts. The Liquid Asset to Deposit ratio at the end of 2019 Financial Year was approximately 41%. This currently exceeds the benchmarked ratio of 20-25%. There is also an approved Liquidity Contingency plan which identifies the steps to be followed in the event of a liquidity crisis.

Further, as at December 31st the Bank's Capital Adequacy Ratio (CAR) was approximately 26.2%, this was well above the benchmarked guideline of 8 %. As such, we are of the view that there is enough capital buffer to cushion any major fallout from impact of the pandemic on the Bank's operations.

ACKNOWLEDGMENTS

I acknowledge the contribution of all stakeholders who would have assisted the Bank in reaching its strategic goals for the 2019 Financial Year. I am particularly grateful to the sub-committees of the Board of Directors which worked tirelessly during the 2019 Financial Year in overseeing a number of initiatives on behalf of the Board.

I wish to thank the management and staff who have shown dedication and commitment towards this noble institution and for choosing the Bank of St. Vincent and the Grenadines as their employer of choice. To our shareholders and customers, we appreciate your support and encouragement and look forward to your continued relationship as we **DO MORE TOGETHER.**

Maurice Edwards
Chairman

Profile Of Directors

Mr. Maurice Edwards

Financial Consultant | BSc. Accounting, Chartered Financial Analyst (CFA)

Mr. Edwards is the Chairman of the Board (BOSVG), a member of the Audit Committee and member of the Risk & Compliance Committee. He was reappointed by the Government of St. Vincent and the Grenadines on May 31, 2019.

Sir. Errol Allen

Economist - Retired | BSc. Economics, MSc. International Economics, Chartered Director

Sir Allen is a Director (BOSVG), Chairman of the Human Resources Committee and a member of the Credit Committee. He was re-appointed by the Government of St. Vincent and the Grenadines on May 31, 2019.

Mrs. Judith Veira

Consulting Actuary | BA Hons. Actuarial Science Fellow of the Society of Actuaries

Mrs. Veira is a Director (BOSVG), Chairperson of the Audit Committee and also a member of the Risk & Compliance Committee. She was reappointed by the Government of St. Vincent and the Grenadines on May 31, 2019.

Dr. Timothy Providence

Medical Doctor | MBBS, MRCOG, FRCOG

Dr. Providence is a Director (BOSVG), Chairman of the Credit Committee and a member of the Human Resources Committee. He was reappointed by the Public on May 31, 2019.

Mrs. Saibrina Brewster-Dickson

Accountant | BSc. Management, ACCA, MBA

Mrs. Brewster-Dickson is a Director (BOSVG), member of the Credit Committee and member of the Human Resources Committee. She was reappointed by the Government of St. Vincent and the Grenadines on May 31, 2019.

Mr. Medford Francis

Economist | BSc. Economics, MSc. Financial Management

Mr. Francis is a Director (BOSVG)and a member of the Risk & Compliance Committee. He was reappointed by the East Caribbean Financial Holding Company Ltd. on May 31, 2019.

Mr. Lennox Bowman

Chief Executive Officer | MAAT, ACIB

Mr. Bowman is a Director (BOSVG), a member of the Credit Committee and member of the Human Resources Committee. He was reappointed by the St. Vincent and the Grenadines National Insurance Services on May 31, 2019.

Mr. Omar Davis

Financial & Management Consultant | ACCA

Mr Davis is a Director (BOSVG), a member of the Audit Committee. He was reappointed by the East Caribbean Financial Holding Company Ltd on May 31, 2019.

Mr. Lennox Timm

Chartered Accountant | FCCA, MAAT, CBV, MSc. International Banking and Finance

Mr. Timm is a Director (BOSVG), Chairman of the of the Risk & Compliance Committee and member of the Audit Committee. He was reappointed by the St. Vincent and the Grenadines National Insurance Services on May 31, 2019.

Profile Of Management

DERRY WILLIAMS
Managing Director | MBA - Finance

FIRST APPOINTED:
April 2011 – April 2016
RE-APPOINTED: May 2018

BENNIE STAPLETON
Chief Financial Officer
Certified Internal Auditor, FCCA, BSc. Accounting

APPOINTED: September 2009

CERLIAN RUSSELL
Senior Manager Business and Operations
MBA – General Management, Certified Mortgage Residential, Underwriter, Anti-Money Laundering Certified Associate (AMLCA)

APPOINTED: March 2010

NANDI WILLIAMS-MORGAN
Corporate Secretary
GDL, LLM International Trade Law, BSc. Economics with Law

APPOINTED: December 2004

LA FLEUR HALL
Manager Risk and Compliance
MSc. Audit Management and Consultancy, CAMS, Anti-Money Laundering Certificate Associate (AML/CA)

APPOINTED: February 2011

Profile Of Management

NAME: Kenroy Alexander
POSITION: Branch Manager Operations
QUALIFICATION: ICA International Diploma in Financial Crime Prevention
APPOINTED: July 1, 2013

NAME: Lisa Henry
POSITION: Senior Human Resources Officer
QUALIFICATION: Certificate in Business Administration, BSc. Accounting Special, Diploma in Counselling
APPOINTED: December 1, 2013

NAME: Nicole Fernandez
POSITION: Senior Information Technology Officer
QUALIFICATION: Executive Diploma in Information Technology
APPOINTED: January 3, 2006

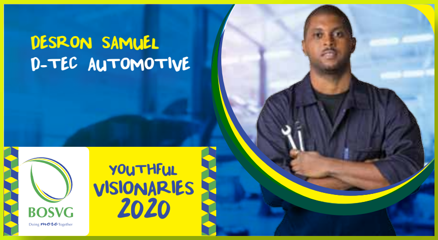
NAME: Celestine Jackson
POSITION: Senior Accountant
QUALIFICATION: Certified Accounting Technician, BSc (Hons) Applied Accounting, ACCA, Diploma in Forensic Accounting
APPOINTED: October 1, 2009

NAME: Irvia Haynes
POSITION: Senior Audit Officer
QUALIFICATION: Bachelor in Business Administration
APPOINTED: September 15, 2009

NAME: Patricia John
POSITION: Sales and Service Manager
QUALIFICATION: Certificate – Eastern Caribbean Securities Market Representative
Representative Licence - Eastern Caribbean Securities Regulatory Commission
APPOINTED: July 1, 2013

NAME: Andrene Hazell
POSITION: Sales and Service Manager
QUALIFICATION: Executive Diploma- General Management
APPOINTED: July 1, 2013

NAME: Monifa Latham
POSITION: Senior Officer Treasury and Investment
QUALIFICATION: BSc Economics, Principal Licence – Eastern Caribbean Securities Regulatory Commission
APPOINTED: October 1, 2010



Directors' Report

The Directors of the Bank of St. Vincent and the Grenadines Ltd. (BOSVG) are pleased to present the report of the Directors for the period January 1, 2019 to December 31, 2019:

DIRECTORSHIP

All members of the Board of Directors were re-elected for a further three- year term at the Annual General Meeting of the Shareholders held on May 31, 2019 in accordance with article 4.4 of the By-Laws of BOSVG.

The Directors on the Board as at December 31, 2019, were:

- Mr. Maurice Edwards – Chairman
- Sir Errol Allen
- Mrs. Judith Veira
- Mrs. Saibrina Brewster- Dickson
- Mr. Omar Davis
- Mr. Medford Francis
- Mr. Lennox Bowman
- Mr. Lennox Timm
- Dr. Timothy Providence

GOVERNANCE

The Board is responsible for the development of adequate policies and controls and ensures that the activities of the Bank are in compliance with these policies and procedures, the Bank's Articles of Association and all relevant laws and regulatory requirements. During the financial year, among the main areas of Board oversight were:

1) **On-going implementation of the 2018 -2020 Strategic Plan** – There are five Strategic objectives of the Plan namely: Enhancing Financial Prosperity, Enhancing Customer Value, Enhancing Brand Value, Enhancing Process Excellence and, Enhancing People and Culture. Under these objectives there are in total Twenty-Eight (28) initiatives for the three-year Plan. Twenty-One (21) were started and two (2) of the initiatives were deferred to 2020. There are five (5) to commence for the 2020 financial year.

2) **Human Resources: Job Evaluation and Reclassification Exercise** – The Bank has been involved in a Job Evaluation and Reclassification Exercise through the engagement of two consulting Firms. The first phase of the exercise was conducted by LCI International Inc. whose remit was to conduct a Job Evaluation Programme for the Bank by conducting a compensation survey and using this to develop a revised classification system, and an updated salary and compensation system.
The scope of the second phase of the project which is being conducted by Simplicity Consulting Limited includes: advisory services for the implementation of the Rewards Program for management staff; development and implementation of a Job Evaluation program for the non-management staff; development of total remunerations for non-management staff; revised organizational structure and; review and update of current HR policies.

   The Board is pleased to report that as at December 2019 the revised organizational structure; the recommendations for the management and non-management job evaluations; salary adjustments for both management and non-management jobs; pay philosophy and commitment statements were all approved.

3) **Risk Management** – The purpose of the Risk and Compliance Committee is to assist the Board in overseeing the risk profile and report on the risk management framework of the Bank. In doing so, it will: review and monitor aggregate risk levels in the business and the quality of risk mitigation and control for all areas of risk to the business; make recommendation to the Board on areas for improvement; report on the progress of risk management framework.

   During the reporting period the Board through the Risk and Compliance Committee subsumed the responsibility of overseeing the IT Governance Committee, a Management Committee which was established in March 2019. The Committee's role is to have oversight for governance of IT activities of the Bank.

   On the recommendations of the IT Governance Committee and the Risk and Compliance Committee eighteen (18) IT policies and the Disaster Recovery Project Plan were approved by the Board. The Board approved in total thirty (30) policies (IT Policies included) and the revised Risk and Compliance Committee Terms of Reference (TOR) on the recommendation of the Risk and Compliance Committee. The revision of the TOR was to incorporate oversight of the IT Governance Committee. The policies approved are:

- IT Security Policy Framework
- EISP Cloud Computing Security Policy
- EISP Cloud Computing Usage Policy
- CCTV Usage Policy
- Medicinal Cannabis Industry Banking Services Framework
- Medicinal Cannabis Industry Policy
- Correspondent Banking Relationship Policy
- Fraud Management Policy
- AML/CFT Policy (Compliance Programme)
- Business Continuity Plan
- Provision Reserve Policy
- Liquidity Management & Contingency Policy
- Asset & Liability Policy
- Investment Policy
- Compliance Risk Policy
- Capital Management Policy
- EISP Project Management Policy
- EISP Change Management Policy
- EISP Risk Management Policy
- EISP Procurement Policy
- EISP Password Policy
- EISP Data Backup Policy
- EISP Data Management Policy
- EISP Data Backup Policy
- EISP Information Protection Policy
- EISP Internet Acceptable Use Policy
- EISP Patch Management Policy
- EISP Security Incident Policy
- EISP Vulnerability Management Policy
- EISP Email Acceptable Use Policy

The Board also focused on enhancing the quarterly Enterprise Risk Management Reporting to the Board and efforts to develop internal resource capacity in this area.

4) **Credit: Policies and Procedures** – In the area of Credit, the Board through its Credit Committee of the Board approved the Consultancy of Mr. Edwin Chariah to conduct a full review of the existing Credit Policy and Procedures Manual and assist with capacity building within the Credit function. The Board also approved the revision of the Credit Committee Charter to incorporate responsibility for the oversight of the Bank's investment portfolio.

5) **Audit** – The Board continues to be assisted by the Audit Committee of the Board of Directors in fulfilling its oversight responsibilities for: the quality and integrity of the financial statements of the Bank; the effectiveness of the systems of internal control over financial reporting; the internal and external audit processes; the Bank's processes for monitoring compliance with applicable laws and regulations and the code of conduct.

   During the period under review, the Audit Committee submitted to the Board ten (10) Audit Reports for the Board's review. Among the other submissions of the Audit Committee was a revised Internal Audit Charter to ensure continued alignment with the organizational structure.

Board of Directors Meetings and Attendance

Meetings of the Board are held every other month. There was however a Special meeting of the Board of Directors convened for the period under review. The total number of meetings held for the year 2019 were seven (7).

Board Attendance Record as at December 31, 2019

MEMBER	NUMBER OF MEETINGS ATTENDED
Maurice Edwards	7
Judith Veira	7
Saibrina Brewster -Dickson	7
Errol Allen	7
Lennox Timm	7
Lennox Bowman	6
Timothy Providence	7
Omar Davis	7
Medford Francis	7

Committees Composition & Meetings

The Credit Committee – The Committee members as at December 31, 2019, were Timothy Providence - Chairman, Lennox Bowman, Errol Allen and Saibrina Brewster-Dickson. The Committee is required to meet at least four (4) times for the year and met four times for 2019 satisfying its Charter requirements.

MEMBER	NUMBER OF MEETINGS ATTENDED
Saibrina Brewster -Dickson	4
Errol Allen	3
Lennox Bowman	3
Timothy Providence	4

The Audit Committee – The Committee members as at December 31, 2019 were Judith Veira - Chairperson, Omar Davis, Maurice Edwards and Lennox Timm. The Audit Committee should meet at least once per quarter and met five (5) times in 2019.

MEMBER	NUMBER OF MEETINGS ATTENDED
Judith Veira	5
Maurice Edwards	5
Omar Davis	5
Lennox Timm	5

The Human Resources Committee – The Committee members as at December 31, 2019 were Errol Allen – Chairman, Timothy Providence, Lennox Bowman and Saibrina Brewster-Dickson. The Committee is required to meet at least twice per year and met seven (7) times for the year.

MEMBER	NUMBER OF MEETINGS ATTENDED
Errol Allen	7
Saibrina Brewster -Dickson	6
Lennox Bowman	6
Timothy Providence	7

Risk & Compliance Committee – The members of the Committee as at December 31, 2019 were Lennox Timm – Chairman, Maurice Edwards, Medford Francis and Judith Veira. The Committee is required to meet at least quarterly and met four (4) times for 2019.

MEMBER	NUMBER OF MEETINGS ATTENDED
Lennox Timm	4
Maurice Edwards	4
Medford Francis	4
Judith Veira	4

Due Diligence & Assessments

Annual due diligence and assessments were conducted for the Directors, Committees and Board for the year under review.

DIRECTORS' INTEREST

Directors' and Managing Director's interests in the ordinary shares of BOSVG as at December 2019 were as follows:

DIRECTOR	BENEFICIAL INTEREST
Maurice Edwards	7,500
Errol Allen	5,325
Judith Veira	46,500
Timothy Providence	90,000
Omar Davis	4,665
Derry Williams	5,475

The Actuarial review for the Bank's Pension plan period January 1, 2016 to December 31, 2018 commenced in September 2019. The Trustees of the Pension Plan appointed Trinity Consulting Ltd. to conduct the review. Trinity Consulting Ltd. is owned and operated by Director Judith Veira. This contract was not a significant contract. As such, there was no contract of significance subsisting during or at the end of the financial year in which a Director was materially interested, directly or indirectly.

DIRECTORS' EDUCATION

The Board of Directors received KYC/AML Compliance training in May 2019. This training is a requirement of the Proceeds of Crime Act 2013. Two (2) members of the Audit Committee attended the Caribbean Association of Audit Committee Members Inc. (CAACM) annual conference held over the period June 27, 2019 to June 28 2019 in Antigua. The Conference was held under the theme Riding the Wave of Disruption: Practical Aids for the Impending Challenges.

SUBSTANITAL INTEREST IN SHARE CAPITAL AS AT DECEMBER 31, 2019

The shareholding at December 31, 2019, was as follows:

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

SIGNIFICANT TRANSACTIONS

There were no significant transactions for the period under review.

EVENTS SUBSEQUENT TO BALANCE SHEET:

Dividends

A cash dividend in the amount of $0.47 cents per share was declared by the Board on March 20, 2020 for the financial year ending December 31, 2019. The record date for shareholders who are entitled to receive payment of this cash dividend is May 06, 2020. The financial effect of the cash dividend is not included in the financial statements for the year ended December 31, 2019, and will be recognized in the 2020 financial statements.

AUDITORS

The Audit Committee recommended to the Board of Directors the re-appointment of KPMG as the Bank's external auditors for the period January 1 to December 31, 2020.

Producing More TOGETHER

When I decided to open my own coconut and potato chips manufacturing business, we needed a Bank that we could count on. We chose BOSVG. Because of them we have grown the business tremendously. They are our local bank and they understand the local scene.

Julian Walters | Seven Peaks and Dawn Chips

Management Discussion
& Analysis

The local banking sector continues to undergo changes of significant proportions with the exit and pending exit of several foreign-owned banks from the Caribbean region. As a local institution, the Bank of St. Vincent and the Grenadines continues "to do more" and plays a pivotal role in the socio-economic development of this country. Notwithstanding, the aforementioned changes, the Bank continues to maintain its share of the key components of the market assets, loans and deposits.

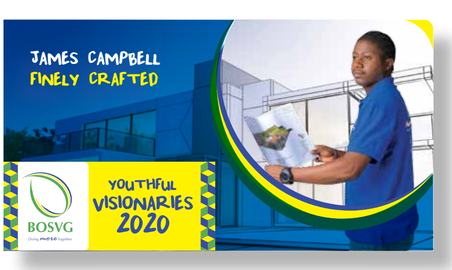
OPERATING HIGHLIGHTS

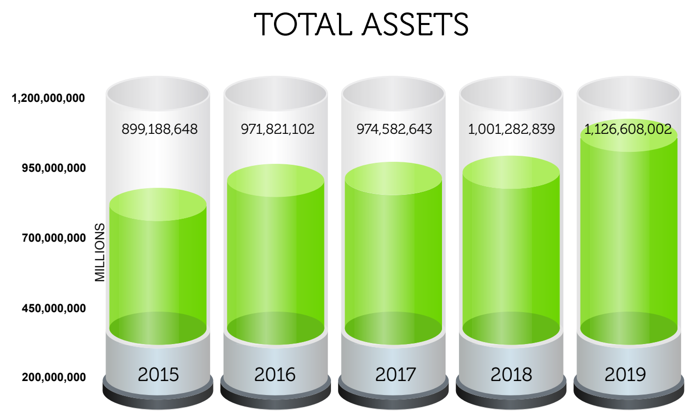
The 2019 financial year was another successful one for the Bank of St. Vincent and the Grenadines as significant progress was made in advancing the initiatives outlined in the Bank's Strategic Plan. Buoyed by an increase in total revenue of $4.7 million, the Bank recorded a net profit $14.1 million compared to $12.9 million recorded for the 2018 financial year. Revenue growth was mainly manifested in both interest and non- interest income categories, with non-interest income growing by approximately $2.9 million or 18 % over the previous financial year.

The investment in technology to support the ongoing digitization of the Bank in conjunction with other volume-driven costs resulted in an increase in operating expenses of $1.5 million during the year.

TOTAL ASSETS

Total assets increased by $125 million or 12.5% over the 2018 financial year; this growth was mainly concentrated in the areas of Cash and Balances with Central Bank and Deposits from Banks, which grew by $52 million or 49.2% and $84.8 million or 71.4% respectively. The growth in assets was funded through increased deposit liabilities of $143.1 million or 18.7%. Despite the significant growth in deposits, the Bank was able to manage its cost of funds in a manner that allowed the achievement of profitability targets.

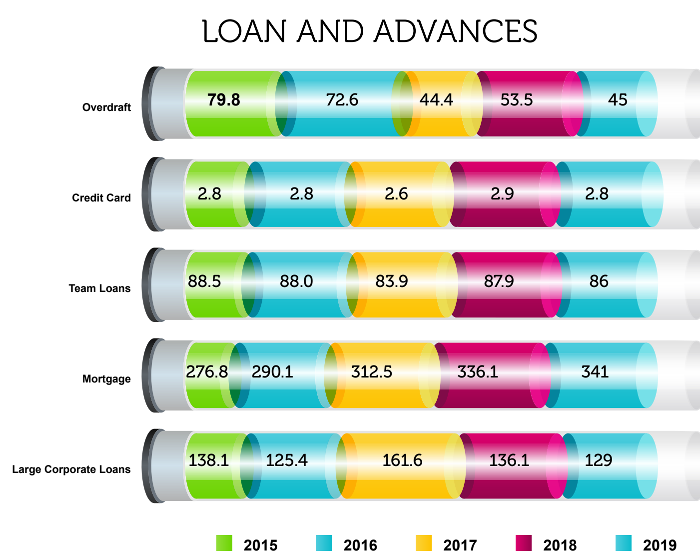




INVESTMENTS

The Bank's total investment portfolio of $80.7 million was comparable to the previous financial year. During the 2019 financial year, a decision was taken to invest the Bank's excess liquidity funds with international Banks which offered rates comparable to those offered by the Bank's Portfolio Managers. This strategy has contributed in part to the overall improvement in net interest income.

LOANS AND ADVANCES



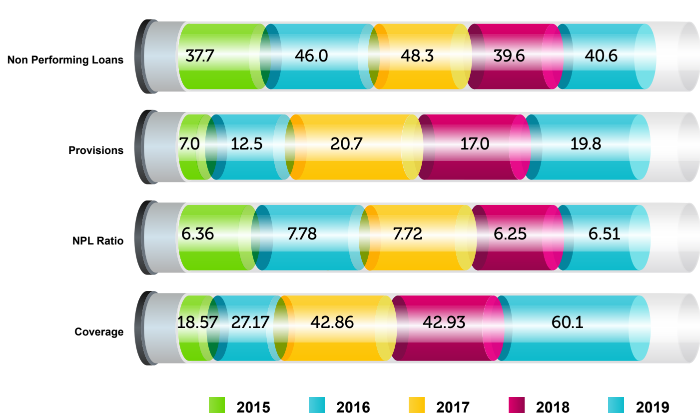
There was a marginal decline of $13.5 million or 2.2% in the loans and advances portfolio. This reduction was primarily in the overdraft category and resulted from reduced public sector exposure at the end of the financial year. The average loan portfolio balance maintained during the year was consistent with the performance in the comparative period as the Bank was successful in recycling principal collections. Significant internal focus was also placed on strengthening the Bank's Credit Risk

Framework; this culminated with the approval of a new Credit Policy and training of staff in all critical areas of credit risk management.

ASSET QUALITY

Consistent with the strategic theme of enhancing financial performance, the Bank continued to implement a number of initiatives geared at sustaining asset quality. As such, there was a marginal increase of $0.9 million in total non- performing loans when compared with the 2018 financial year. As at the December 31, 2019, the balance on the portfolio was $40.6 million compared with $39.6 million in the comparative period. The major contributing category to the overall increase was mortgages, which moved from $15.3 million in 2018, to $18.2 million at the end of 2019. There were also reductions of $1.2 million and $0.96 million in the term loans and corporate loans categories.

ASSET QUALITY



The non-performing loans as a percentage of total loans moved from 6.2 to 6.5 percent, while provisions for loan losses moved from $17.0 million to $19.8 million as at December 31, 2019. Additionally, an amount of $1.4 million was transferred to the Bank's General Provision Reserves, increasing that Reserve to $4.5 million. Consequently, the provisions (including the General Provision Reserves) as a percentage of non performing loans improved from 50.7% in 2018 to 60.3% in 2019.

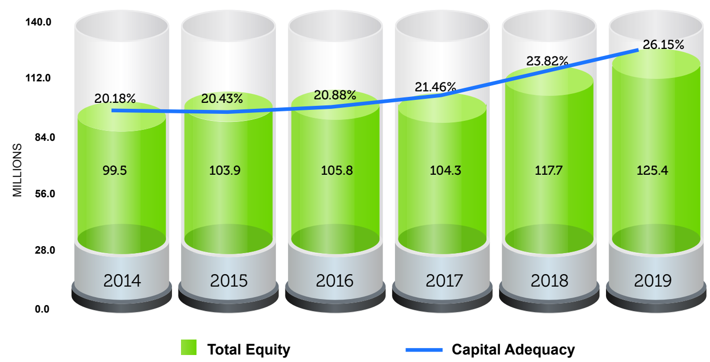
FUNDING

Given the prevailing economic environment, the domestic banking sector continues to be characterized by high levels of liquidity. During the year, the Bank's deposit portfolio grew by $143 million. Total deposits as at December 31, 2019 was $910 million compared to $767 million in 2018. Overall growth in deposit of 18.7% was mainly in the areas of savings deposits and demand deposits which increased by $61.3 million or 15.4% and $78.9 million or 30.8% respectively. Despite the significant increase in deposits, the Bank was able to maintain the associated interest-expense at an acceptable level.

CAPITAL & RESERVES

In light of the growth in profitability, the Bank's total Capital & Reserves increased by $7.7 million moving from $117.6 million at December 31, 2018 to $125.4 million at the end of 2019. During the 2019 financial year, an amount of $6.4 million in dividends was paid to shareholders while $1.4 million was transferred from Retained Earnings to the General Provision Reserves. The Capital Adequacy at 26.2% remains well above the 8 % regulatory benchmarked requirement. During the year, we conducted a sensitivity analysis to assess the impact of the implementation of the Basel II/III. The results of these analyses indicate that there is significant capital buffer to facilitate the implementation of the proposed requirements for capital adequacy under the new framework.

CAPITAL & RESERVES



OPERATING RESULTS

The growth in profitability was mainly as a result of the following two factors:

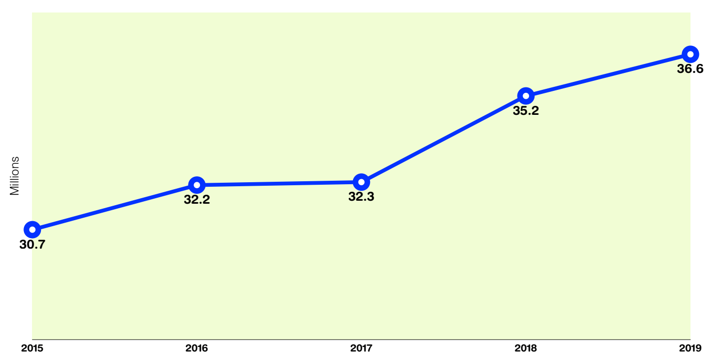
1) Increase in net interest income of $1.4 million.

2) Increase in non- interest income of $2.9 million

NET INTEREST INCOME

The growth in net interest income of $1.4 million was mainly as a result of the deployment of excess liquidity and was mainly reflected in the category of Income from Investments and Bank Deposits, which grew by $1.6 million. Consistent with the growth in savings deposits, there was an increase in interest expense of $0.65 million or 6.1%. The Bank's cost of funds was managed in a manner that allowed it to achieve its budgetary targets for the 2019 financial year.

NET INTEREST INCOME



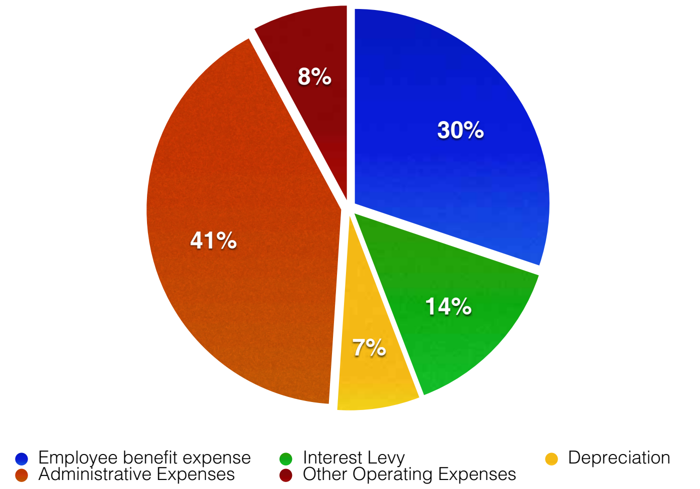
NON-INTEREST INCOME

Over the past years, the Bank introduced a number of fees to offset the rising cost of risk management and digitization. The adjustments also brought the fee structure in line with the market. The revised fees have contributed significantly to the increase in fee income of $2.9 million.

NON-INTEREST INCOME

OPERATING EXPENSES

Total operating expenses increased by $1.5 million (4.4%) when compared to the comparative period in 2018. This increase is consistent with the initiatives in the Bank's Strategic Plan as it relates to the development of human capital, increased digitization and the re- branding of the institution. Within this context, an additional amount of $0.16 million was spent in the training of the staff, and marketing expenses increased by $0.40 million. Other areas of increases include interest levy of $0.22 million and credit card expenses, with the increase in membership fees and licenses



driven by additional compliance cost.

EXPENSE CATEGORY	2019	2018	2017	2016	2015	2014
Employee benefit expense	10,867,702	11,647,235	9,641,719	9,661,973	10,027,311	9,677,982
Repairs and maintenance	573,940	446,777	422,056	472,366	376,371	444,428
Subscription and donations	198,281	141,141	157,165	222,823	113,474	665,684
Bank and other licenses	2,697,700	2,280,037	1,548,483	1,166,628	1,061,287	958,162
Legal and professional fees	879,008	850,973	783,370	744,729	446,371	111,992
Credit card expenses	2,336,018	2,023,330	1,749,494	1,504,282	1,404,237	1,222,953
Depreciation	2,466,674	2,466,021	2,741,407	2,851,220	2,941,254	3,021,297
Interest levy expense	5,050,699	4,835,151	4,575,432	4,282,163	4,060,066	3,926,720
Rent	280,193	292,357	287,126	263,308	260,213	275,117
Audit and accounting fees	269,429	252,000	274,374	263,000	312,076	326,029
Insurance	715,247	653,062	641,078	569,777	648,215	675,564
Utilities	2,509,524	2,404,862	2,324,176	2,142,765	2,183,852	2,405,120
Director fees	311,033	302,283	294,585	345,373	329,452	356,780
Computer expense	20,787	64,158	109,459	67,192	105,162	66,439
Commission and fees	1,970,543	2,028,754	1,856,308	1,462,504	1,096,913	949,863
Management fees	-	-	479,670	909,340	909,340	1,661,935
Advertisement and sponsorship	787,960	374,298	312,855	460,091	549,949	355,642
Security	367,762	371,796	375,108	421,053	452,047	525,073
Postage and stationery	896,845	832,375	815,596	700,573	896,926	766,194
Loss on disposal of investment property	-	-	-	-	45,010	-
Other operating expenses	2,838,476	2,259,844	2,606,036	2,479,353	2,642,240	2,355,164
Total	**36,037,821**	**34,526,454**	**31,995,497**	**30,990,513**	**30,861,766**	**30,748,138**

OTHER EXPENSES	2019	2018	2017	2016	2015	2014
ATM Expenses	146,548	88,915	152,734	96,447	215,237	143,798
Cashiers shorts & Overs	(20,675)	(8,472)	8,407	(20,669)	(7,087)	(14,068)
Cleaning	172,672	161,254	164,982	174,960	178,018	172,485
Motor Vehicle	94,928	92,576	101,583	106,133	99,434	144,237
Scholarships	112,000	108,000	104,500	103,500	112,500	139,321
Travelling	178,781	170,956	174,747	187,397	226,320	178,329
Cash Carriage	529,880	571,574	490,199	618,708	619,991	629,853
Internal Audit	19,637	3,196	1,910	1,874	8,655	10,144
Debit Card Expenses	911,044	674,475	575,061	537,988	427,928	353,065
Laundry	180	180	210	180	180	180
Library	986	965	-	2,320	298	823
Office Toiletries & Expenses	223,587	221,937	202,069	192,174	150,460	123,573
Recoveries Expense	-	-	-	-	-	834
Sundry Gains & Losses	473,386	172,729	615,669	484,241	608,223	459,780
Transaction fees	(4,478)	1,559	13,965	(5,900)	2,083	12,810
Total	**2,838,476**	**2,259,844**	**2,606,036**	**2,479,353**	**2,642,240**	**2,355,164**

DERRY WILLIAMS | Managing Director

Staff Development

The Bank continues to place the development of its human resources at the forefront of its corporate strategy. As such, employees at varying levels of the organization participated in training in several areas. These included Credit Underwriting, Occupational Health and Safety, Anti- Money Laundering and Risk Management.

Additionally, two members of the leadership team attended high impact leadership training at the Columbia Business School. This initiative was consistent with the thrust to develop critical leadership competencies among the management. We continue to provide financial support to members of staff enrolled at tertiary level education during their tenure at the Bank. The Bank spent a total of $0.269 million for staff training and development during the period under review.

The Board of Directors and Management congratulate the following persons for completing their certificate, undergraduate and postgraduate programmes during the year:

NAMES	AWARD	SCHOOL	DATE OF EMPLOYMENT
La Fleur Durrant	Baccalaureate in Financial Administration	Cambridge International College	March 1, 1997
Wendie Wilson	Postgraduate Certificate in Global Human Resource Management	University of Liverpool, London	November 10, 2008
Ashanda Menica-Cruickshank	Bachelor of Science in Management Studies	University of the West Indies	February 16, 2009

Ashanda Menica-Cruickshank La Fleur Durrant Wendie Wilson

Building More TOGETHER

BOSVG cares about local business. They have tailored their services to meet our requirements so we can focus more on our customers. They are the big dig deal of banks in the country.

Paula Durant | D Big Deal Hardware

Community Investment

Over the last year, we have been working towards rebuilding our Corporate Social Responsibility programme to improve its impact on the various aspects of our Vincentian community.

Our programmes targeted areas such as youth development, education, sports, and culture. As we renewed our focus on the redevelopment process, we recognized the absolute need to foster a higher level of partnership in the execution of our programmes. Therefore, our goal is to build more meaningful and sustainable relationships with our stakeholders. As such, during the 2019 Financial Year we fostered relationships that went beyond the simple act of making donations, intending to impact our communities through a shared vision.

We provide the following list of projects supported in 2019:

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

Reflecting on the Bank's deep commitment to the development of the nation, for 2019, our total investment of $0.293 million was made in these community-based activities as part of the Banks Corporate Social Responsibility programme and its deep commitment to national development.

1. *Barrouallie Football League.*
2. *Social Club*
3. *National Theatre Arts Festival*
4. *Social Club in action*
5. *Barrouallie Football League - Ceremony*
6. *STEM Summer Programme*
7. *SVG Umpire Association*
8. *Rotary's George Phillips Excellence Awards*

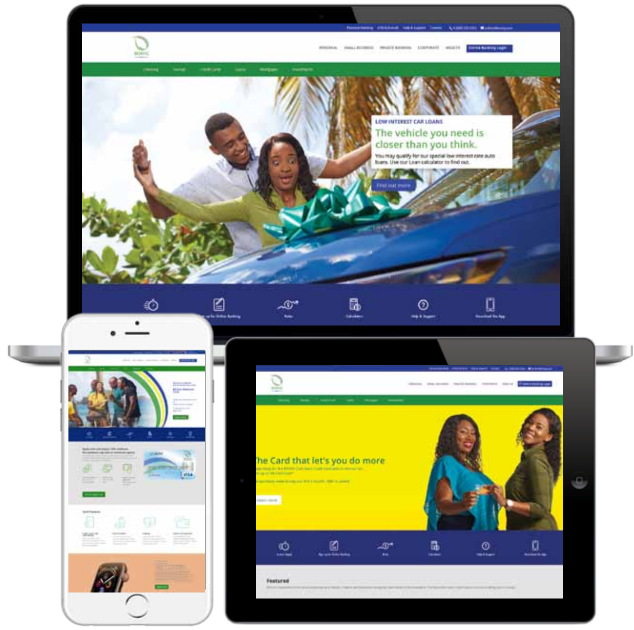
The Next Generation of An Evolving and Solid Brand

During the year under review, the Bank commenced a refresh of its Brand Identity. This involved the re-engineering of the Brand in addition to a companywide revamp of external signage and the development of a new set of marketing communication tools. This project also entails the reimaging of the company's website which should be completed in the 2020 financial year. This exercise coincides with the divestment of 31% of shares in the Bank of St. Vincent and the Grenadines Ltd. by the previous majority shareholders.

REFRESHED LOGO

BOSVG
Doing more Together

Reigate Headquarters with new signage



Revamped website

Corporate TV Ad

Staff Testimonials

SME Testimonial Series

Bank of St. Vincent and the Grenadines Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

(expressed in Eastern Caribbean dollars)

KPMG
First Floor
National Insurance Services Headquarters
Upper Bay Street
P.O. Box 587, Kingstown
St. Vincent and the Grenadines

Telephone: (784) 451-1300
Fax: (784) 451-2329
Email: kpmg@kpmg.vc

Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank of St. Vincent and the Grenadines Ltd. and its subsidiary (collectively, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

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

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 Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in St. Vincent and the Grenadines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

KPMG

Independent Auditor's Report (continued)

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

Key Audit Matters (continued)

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>IFRS 9 Expected Credit Losses</td><td></td></tr>
<tr><td> Refer to Notes 2, 9 and 10 of the consolidated financial statements
IFRS 9, Financial Instruments, was implemented by the Group on January 1, 2019. 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.
• 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. </td></tr>
</table>

Independent Auditor's Report (continued)

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

Key Audit Matters (continued)

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

Independent Auditor's Report (continued)

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

Key Audit Matters (continued)

Key Audit Matters	How our audit addressed the key audit matter
Fair Value of Investments	
Refer to Notes 2 and 3 to the consolidated financial statements. The Group invests in various investment securities for which no published prices in active markets are available and have been classified as Level 2 assets within the IFRS fair value hierarchy. Valuation techniques for these investments can be subjective in nature and involve various assumptions regarding pricing factors. Associated risk management disclosure is complex and dependent on high quality data. A specific area of audit focus includes the valuation of fair value Level 2 assets where valuation techniques are applied in which unobservable inputs are used. For Level 2 assets, these 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 the market risk free yield curve.	We reviewed the reasonableness of the methods and assumptions used in determining the fair value of investment securities. We considered whether the methodology remains appropriate given current market conditions. We independently assessed the fair value of investments by performing independent valuations on the investment portfolio as well as recalculating the unrealized gain (loss) recognized. We verified that the required IFRS disclosures have been included in the consolidated financial statements at year end. We also reviewed management's assessments of whether there are any indicators of impairment including those securities that are not actively traded.

Other Information

Management is responsible for the other information. The other information comprises the Group's 2019 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 auditor's 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.

KPMG

Independent Auditor's Report (continued)

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

Other Information (continued)

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 2019 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.

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Independent Auditor's Report (continued)

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Baldwin Alcindor.

KPMG

Kingstown,
St. Vincent and the Grenadines
March 26, 2020

Bank of St. Vincent and the Grenadines Ltd.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(expressed in Eastern Caribbean dollars)

	Notes	2019 $	2018 $
Assets			
Cash and balances with Eastern Caribbean Central Bank	5	**157,771,167**	105,753,066
Deposits with other banks	6	**203,656,459**	118,850,378
Treasury bills	7	**10,261,848**	10,290,846
Investment securities	8	**80,662,829**	79,013,983
Loans and advances to customers	9	**603,116,302**	616,595,632
Investment security at amortised cost	11	**4,177,759**	9,924,905
Investment properties	12	**2,232,000**	2,232,000
Property and equipment	13	**54,437,514**	53,020,306
Deferred tax asset	15	**2,886,326**	1,592,111
Other assets	16	**7,405,798**	4,009,612
Total assets		**1,126,608,002**	1,001,282,839
Liabilities			
Deposits due to banks	17	**19,274,459**	37,863,272
Due to customers	18	**910,319,763**	767,161,792
Corporation tax payable		**1,100,641**	664,662
Borrowings	19	**33,577,708**	38,284,024
Provisions and other liabilities	20	**36,962,244**	39,633,375
Total liabilities		**1,001,234,815**	883,607,125
Equity			
Share capital	21	**20,753,306**	20,753,306
Statutory reserves	22	**20,753,306**	20,753,306
General provision reserves	23	**4,542,702**	3,133,354
Unrealised loss on investments		**(41,461)**	(95,386)
Retained earnings		**79,365,334**	73,131,134
Total equity		**125,373,187**	117,675,714
Total liabilities and equity		**1,126,608,002**	1,001,282,839

Approved by the Board of Directors on March 26, 2020.

M. Edwards Director   Director

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

Bank of St. Vincent and the Grenadines Ltd.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(expressed in Eastern Caribbean dollars)

	Notes	Share Capital (Note 21)	Statutory Reserves (Note 22)	General Provision Reserves (Note 23)	Unrealised Loss on Investments	Retained Earnings	Total
		$	$	$	$	$	$
Balance at 1 January 2018		20,753,306	14,912,580	-	1,725,685	66,881,100	104,272,671
Net impact of adopting IFRS 9		-	-	-	(1,725,685)	4,859,039	3,133,354
Restated opening balance under IFRS 9		20,753,306	14,912,580	-	-	71,740,139	107,406,025
Balance at 1 January 2018 (restated)		20,753,306	14,912,580	-	-	71,740,139	107,406,025
Transfer to statutory reserves	22	-	5,840,726	-	-	(5,840,726)	-
Transfer to general provision reserves	23	-	-	3,133,354	-	(3,133,354)	-
Total comprehensive income		-	-	-	(95,386)	12,915,048	12,819,662
Dividend paid ($0.17 per share)		-	-	-	-	(2,549,973)	(2,549,973)
Balance at 31 December 2018		20,753,306	20,753,306	3,133,354	(95,386)	73,131,134	117,675,714
Balance at 1 January 2019		**20,753,306**	**20,753,306**	**3,133,354**	**(95,386)**	**73,131,134**	**117,675,714**
Total comprehensive income		**-**	**-**	**-**	**53,925**	**14,093,481**	**14,147,406**
Transfer to general provision reserves	23	**-**	**-**	**1,409,348**	**-**	**(1,409,348)**	**-**
Dividend paid ($0.43 per share)		**-**	**-**	**-**	**-**	**(6,449,933)**	**(6,449,933)**
Balance at 31 December 2019		**20,753,306**	**20,753,306**	**4,542,702**	**(41,461)**	**79,365,334**	**125,373,187**

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

Bank of St. Vincent and the Grenadines Ltd.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

(expressed in Eastern Caribbean dollars)

	Notes	2019 $	2018 $
Interest income	25	**52,799,229**	50,965,020
Interest expense	25	**(16,150,656)**	(15,777,317)
Net interest income		**36,648,573**	35,187,703
Fee, commission and other income	26, 28, 29	**18,480,853**	15,582,035
Dividend income	27	**365,582**	380,475
Impairment losses on property and equipment	13	**(214,506)**	-
Allowances for credit losses on financial assets	32	**(3,077,041)**	(2,559,163)
Operating expenses	30	**(36,037,821)**	(34,526,454)
Profit before income tax		**16,165,640**	14,064,596
Income tax expense	33	**(2,072,159)**	(1,149,548)
Profit for the year		**14,093,481**	12,915,048
Basic and diluted earnings per share	34	**0.94**	0.86

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

Bank of St. Vincent and the Grenadines Ltd.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(expressed in Eastern Caribbean dollars)

	2019 $	2018 $
Profit for the year	**14,093,481**	12,915,048
Other comprehensive income		
Other comprehensive income that will be reclassified to the income statement (net of tax):		
Net change in fair value of debt instruments measured at FVOCI	**53,925**	(95,386)
Other comprehensive loss for the year, net of tax	**53,925**	(95,386)
Total comprehensive income for the year, net of tax	**14,147,406**	12,819,662

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

Bank of St. Vincent and the Grenadines Ltd.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(expressed in Eastern Caribbean dollars)

	Notes	2019 $	2018 $
Cash flows from operating activities			
Profit for the year		**14,093,481**	12,915,048
Adjustments for:			
Interest income – investment securities and deposits	25	**(5,840,244)**	(4,220,495)
Interest expense – borrowings	25	**1,827,593**	1,925,368
Loan impairment losses	32	**3,924,735**	3,653,325
Changes in fair value investment securities		**(359,691)**	-
Impairment on property and equipment	13	**214,506**	-
Impairment on investment securities		**(240,883)**	1,200
Credit losses on other financial assets		**-**	(4,525)
Depreciation	13	**2,466,674**	2,466,021
Recovery of impairment losses on investments		**-**	(13,911)
Dividend income	27	**(365,582)**	(380,475)
Fair value loss on investment property		**-**	180,000
Gain on disposal of property and equipment	29	**(33,728)**	(60,232)
Income tax expense		**2,072,159**	1,149,548
		17,759,020	17,610,872
Changes in:			
Increase in mandatory deposits with Eastern Caribbean Central Bank		**(8,589,478)**	(1,282,769)
Decrease/(increase) in loans and advances to customers		**9,554,595**	(15,215,468)
(Increase)/decrease in other assets		**(3,396,186)**	282,894
Increase in due to customers		**143,157,971**	21,379,479
Decrease/(increase) in deposits due to banks		**(18,588,813)**	2,614,275
Decrease in other liabilities		**(2,671,131)**	(4,644,908)
		137,225,978	20,744,375
Dividends received		**365,582**	380,475
Interest received		**5,827,969**	4,220,495
Interest paid		**(1,852,771)**	(1,961,184)
Income tax paid		**(2,930,395)**	(2,123,932)
Net cash from operating activities		**138,636,363**	21,260,229
Cash flows from investing activities			
Decrease/(increase) in interest bearing deposits with financial institutions		**20,873,152**	(20,451,229)
Proceeds from disposal and redemption of investment securities		**41,516,094**	9,498,133
Purchase of investment securities		**(36,751,017)**	(33,132,204)
Purchase of property and equipment		**(4,109,660)**	(2,301,991)
Proceeds from disposal of property and equipment		**45,000**	66,000
Net cash from/(used in) investing activities		**21,573,569**	(46,321,291)

CONSOLIDATED STATEMENT OF CASH FLOWS...continued

For the year ended 31 December 2019

(expressed in Eastern Caribbean dollars)

	Notes	2019 $	2018 $
Cash flows from financing activities			
Dividends paid		**(6,449,933)**	(2,549,973)
Repayment of borrowings		**(4,681,141)**	(4,282,650)
Proceeds from borrowings		**-**	454,175
Net cash used in financing activities		**(11,131,074)**	(6,378,448)
Net increase/(decrease) in cash and cash equivalents		**149,078,858**	(31,439,510)
Cash and cash equivalents at beginning of year		**165,915,421**	197,354,931
Cash and cash equivalents at end of year	**35**	**314,994,279**	165,915,421

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

1 General information

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

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

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

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

2 Summary of significant accounting policies

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

Statement of compliance

Bank of St. Vincent and the Grenadines Ltd. consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) as at 31 December 2019 (the reporting date).

The consolidated financial statements for the year ended 31 December 2019 were approved by the Board of Directors for issue on March 26, 2020.

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 Consolidated Statement of Financial Position.

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

New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments were applied for the first time in 2019, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

IFRS 16 *Leases* (effective 1 January 2019)
IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset).

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

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

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The adoption of IFRS 16 did not impact the Group's income or expense from contracts with customers and the related assets and liabilities recognised by the Group.

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

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

2 Summary of significant accounting policies*…continued*

New and amended standards and interpretations*…continued*

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

IAS 19 *Employee benefits - Amendments to IAS 19* (effective 1 January 2019)
The amendments to IAS 19 *Employee Benefits* address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after the event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan assets after the event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendment clarify that an entity first determine any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity the determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

New and amended standards and interpretations issued but not yet effective

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

Amendments to IFRS 3 *Business Combination* (effective January 1, 2020)
The International Accounting Standards Board (IASB) issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

2 Summary of significant accounting policies*…continued*

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

Amendments to IFRS 3 *Business Combination* (effective January 1, 2020)*…continued*

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, most entities will likely not be affected by these amendments on transition. However, entities considering the acquisition of a set of activities and assets after first applying the amendments should update their accounting policies in a timely manner.

Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting* (effective January 1, 2020)
The new definition states that, the information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments clarify that materiality will depend on the nature and magnitude of information or both. An entity will need to assess whether the information, either individually or in combination with other information is material in the context of the financial statements.

The amendments must be applied prospectively. Early adoption is permitted and must be disclosed.

Although the amendments to the definition of material is not expected to have a significant impact on an entity's financial statements, the introduction of the term "*obscuring information"* in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the financial statements.

The Group is in the process of assessing the impact of the amendment to IAS 12 on the consolidated financial statements. The Group does not expect the impact of amendments to IFRS 3, IAS 1, IAS 8 and the Conceptual Framework to be material.

Improvements to International Financial Reporting Standards

The annual improvements process of the International Accounting Standards Board deals with non-urgent but necessary clarifications and amendments to IFRS. The following amendments are applicable to annual period beginning on or after January 1, 2019:

IFRS	**Subject of amendment**
IAS 12	Income Taxes, which is part of the annual improvement to IFRS 2015 -17 cycle, requires the income tax consequences of dividends to be recognised in profit or loss if the transactions that generated distributable profit are recognised in profit or loss, and thus not recognised directly in equity. The Group has implemented the clarification at 1 January 2019. There was no impact on earnings per share.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

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

Consolidation

The financial statements of the Subsidiary used to prepare the consolidated financial statements were prepared as of the parent entity's reporting date of 31 December 2019. The consolidation principles are unchanged as against the previous year.

The consolidated financial statements of the Group comprise the financial statements of the parent entity and its Subsidiary (collectively referred to as the "Group") as of 31 December 2019.

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

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

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

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; and
- The Group's voting rights and potential voting rights.

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

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

2 Summary of significant accounting policies*…continued*

Consolidation*…continued*

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.

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

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

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

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

2 Summary of significant accounting policies*…continued*

Transactions with non-controlling interests

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

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

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

Fair value measurement

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

- Disclosures for valuation methods, significant estimates and assumptions — Notes 2 and 4
- Quantitative disclosures of fair value measurement hierarchy — Note 3
- Investment properties — Note 12
- Financial instruments (including those carried at amortised cost) — Notes 3, 8 and 9

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

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

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

2 Summary of significant accounting policies*…continued*

Fair value measurement*…continued*

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

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

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

b) Statutory deposits with Eastern Caribbean Central Bank (ECCB)
Pursuant to the Banking Act of St. Vincent and the Grenadines 2016, the Group is required to maintain specified assets as a reserve requirement for its deposit liabilities. The minimum requirement is 6% of the average deposit liabilities over a four-week period.

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

Measurement categories of financial assets
The Group classifies all of its financial assets into one of the following categories:

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

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

2 Summary of significant accounting policies*…continued*

Fair value measurement*…continued*

Financial assets*…continued*

Classification of Financial Instruments
Financial instruments are classified into various categories and are accounted for as shown in the table below.

Classification Category	Instruments	Measurement Category	Recognition at FVTPL	Recognition at FVOCI
Amortised cost	**Assets** • Cash and cash equivalents • Loans and advances to customers • Investment securities held to collect **Liabilities** • Deposits from banks • Due to customers • Borrowings	Amortised cost	• Interest income • Interest expense • ECLs and reversals	
Fair value through other comprehensive income	Equity instruments	Fair value	• Dividend income	Unrealised gains/losses from fair value changes
Fair value through profit or loss	Held to collect and for sale	Fair value	• Interest income • Interest expense • Gains or losses from fair value changes • ECLs and reversals	

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

2 Summary of significant accounting policies*…continued*

Fair value measurement*…continued*

Financial assets*…continued*

Business model assessment*…continued*

The Bank assesses business model at a portfolio level reflective of how groups of assets are managed to achieve a particular business objective. For the assessment of a business model, the Bank takes into consideration the following factors:

- How the performance of assets in a portfolio is evaluated and reported to key decision makers within the Bank's business lines;
- How compensation is determined for the Bank's business lines' management that manages the assets;
- Whether the assets are held for trading purposes i.e., assets that the Bank acquires or originate principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking;
- The risks that affect the performance of assets held within a business model and how those risks are managed; and
- The frequency and volume of sales in prior periods and expectations about future sales activity.

Contractual cash flow characteristics assessment (SPPI Test)
The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount.

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If the Group identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

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

Debt instruments measured at amortised cost
Financial assets are classified as measured at amortised cost if two criteria are met and the assets are not designated as at FVTPL:

- The financial assets are held within a business model with the objective of holding the assets to collect the contractual cash flows and;
- The contractual terms for the financial assets give rise to cash flows that are solely payment of principal or interest.

2 Summary of significant accounting policies*…continued*

Fair value measurement*…continued*

Financial assets*…continued*

Financial assets are measured amortised cost using the effective interest rate method, with the carrying value adjusted by the expected credit loss (ECL) for each asset. Interest is included in the consolidated statement of income under interest revenue or interest expense on an accrual basis. The movement in ECL for these assets is recognised in the consolidated statement of income.

Debit instruments measured at Fair Value through Other Comprehensive Income (FVOCI)
Debit instruments are classified as FVOCI if two criteria are met and is not designated at FVTPL:

- The financial assets are held within a business model with the objective of collecting the contractual cash flows or potentially selling the assets, and;
- The contractual terms for the financial assets give rise to cash flows that are solely payment of principal or interest.

Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in non-interest income in the consolidated statement of income on an average cost basis. Foreign exchange gains and losses that relate to the amortised cost of the debt instrument are recognised in the consolidated statement of income.

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

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

Debt Instruments measured at Fair Value through Profit or Loss (FVTPL)

Debt instruments are measured at FVTPL for assets:

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

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Debt Instruments measured at Fair Value through Profit or Loss (FVTPL)*…continued*

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

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

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

Financial assets designated as at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognised in non-interest income in the consolidated statement of income.

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

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

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

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

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

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Fair value measurement*…continued*

Reclassification of financial assets and liabilities
The Group classifies its financial assets and liabilities in accordance with its existing business models. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. Changes in contractual cash flows are considered under the accounting policy on modification and de-recognition of financial assets described below.

Derecognition of financial assets and liabilities

Derecognition of financial assets

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

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

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

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the consolidated statement of income. Transfers of financial assets that do not qualify for derecognition are reported as secured financing in the consolidated statement of financial position.

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

2 Summary of significant accounting policies*…continued*

Fair value measurement*…continued*

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

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

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

Determining a significant increase in credit risk since initial recognition.

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

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

(i) over the following twelve months; or

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

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

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

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

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Impairment of financial assets*…continued*

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

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

ECLs are measured as follows:

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

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

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

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

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

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

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

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Measurement of expected credit loss*…continued*

Incorporation of forward –looking information

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

Macroeconomic factors

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

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

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

Assessment of significant increase in credit risk (SICR)

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

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

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Assessment of significant increase in credit risk (SICR) *…continued*

Some of the indicators which were incorporated included:

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

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

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

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

Credit impaired (or defaulted) exposures (Stage 3)
Financial assets that are credit impaired (or in default) are referred to as Stage 3 assets and represent those that are at least 90 days past due in respect of principal and/or interest. In contrast, the contractual terms that introduce a more than de minimis exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases the financial asset is required to be measured at FVTPL or FVOCI without recycling. Lifetime ECL is recognised for loans where there is objective evidence of impairment.

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

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Credit impaired (or defaulted) exposures (Stage 3)*…continued*

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

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

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

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

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

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

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

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Improvement in credit risk/curing*…continued*

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

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

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

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

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

Expected life

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

Presentation of allowance for credit losses in the consolidated statement of financial position

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

Modified financial assets

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

- Qualitative factors such as contractual cash flows after modification are no longer SPPI, change in currency or change in counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest rate.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Modified financial assets*…continued*

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

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

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

(i) Loans and advances

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

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

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

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

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

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

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

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

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

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

Property and equipment

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

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

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

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

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

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

Investment property
Properties that are held for long term rental or for capital appreciation or both, and that are not occupied by the Group, are classified as investment properties. Investment property comprises of land for capital appreciation.

Recognition of investment property takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to 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 has incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property.

Subsequent expenditure is included in the assets 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 year 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 based on active market prices, 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.

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

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Income tax

(i) Current tax

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

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

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

(ii) Deferred tax

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

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

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

Borrowings

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

Provisions

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

2 Summary of significant accounting policies*…continued*

Employee benefits

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

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

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

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

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

Share capital

(i) Share issue costs

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

(ii) Dividends on ordinary shares

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

Revenue recognition

Revenue from contracts with customers is recognised when control of the goods and services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for goods or services. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

The effective interest rate method

Interest income and expense is recorded using the Effective Interest Rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

2 Summary of significant accounting policies*…continued*

Revenue recognition*…continued*

The effective interest rate method*…continued*
The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

Interest income and expense

The Group calculates interest income and expense by applying the EIR to the gross carrying amount of financial assets and liabilities other than credit-impaired assets. For purchased or originated credit impaired financial assets a credit, adjusted effective interest rate is applied to the amortised cost of the financial asset.

Interest income on all trading assets and financial assets mandatorily required to be measured at FTVPL is recognised using the contractual interest rate in net trading income and net gains /(losses) on financial assets at fair value through profit or loss, respectively.

Fees and commission income

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

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

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

Foreign currency translation
(i) Functional and presentation currency
Items in the consolidated financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Eastern Caribbean dollars, which is the Group’s functional and presentation currency.

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

2 Summary of significant accounting policies*…continued*

Foreign currency translation*…continued*

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

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

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

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

Leases

The leases entered into by the Group are primarily operating leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to operating expenses in the consolidated statement of income on a straight-line basis over the life of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place. Renewal of operating leases is based on mutual agreement between parties prior to the expiration date.

Financial instruments

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

3 Financial risk management

(a) Strategy in using financial instruments

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

3 Financial risk management*…continued*

(a) Strategy in using financial instruments*…continued*

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

Risk management is carried out by the Management Committee under policies approved by the Board of Directors. The Group's Management Committee identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

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

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

(b) Credit risk

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

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

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

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

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

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

3 Financial risk management*…continued*

(b) Credit risk*…continued*

Loans and advances to customers

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

Debt securities and other bills

For debt securities and treasury bills, external rating such as Standard & Poor's or Caricris or their equivalents are used by the Asset and Liability Committee for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

Cash and balances with the ECCB

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

(i) Risk limit control and mitigation policies

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

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

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

Some other specific control and mitigation measures are outlined below.

3 Financial risk management*…continued*

(b) Credit risk*…continued*

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

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

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

Longer-term finance and lending to corporate customers and individuals are generally secured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

3 Financial risk management...*continued*

(b) Credit risk…*continued*

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

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

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

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

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

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

The framework used to determine a significant increase in credit risk is set out above (page 28).

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

3 Financial risk management*…continued*

(b) Credit risk*…continued*

Maximum exposure to credit risk

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

	Maximum exposure 2019 $	2018 $
Deposit with Central Bank	**133,109,009**	83,260,524
Deposits with other banks	**203,656,459**	118,850,378
Treasury bills	**10,261,848**	10,290,846
Investment securities	**80,662,829**	61,773,961
Loans and advances to customers:		
− Overdrafts	**44,672,722**	53,547,954
− Term loans	**85,707,903**	87,921,057
− Large corporate loans	**129,233,878**	136,133,033
− Mortgage loans	**340,733,704**	336,139,167
− Credit cards	**2,768,095**	2,854,421
Investments security at amortised cost	**4,177,759**	9,924,905
Other assets	**5,472,708**	2,656,474
	1,040,456,914	903,352,720
Credit risk exposures relating to the financial assets off the Statement of Financial Position		
Guarantees and letters of credit	**40,000**	40,000
Loan commitments	**8,456,350**	7,664,002
	8,496,350	7,704,002
	1,048,953,264	911,056,722

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2019 and December 2018, without taking account of any collateral held or other credit enhancements attached. For assets included “on” statement of financial position, the exposures set out above are based on net amounts.

3 Financial risk management*...continued*

(b) Credit risk*…continued*

Maximum exposure to credit risk*…continued*

As shown above 57% (2018 – 68%) of the total maximum exposure is derived from loans and advances to customers; 8% (2018 – 7%) represents investments in debt securities.

Loans and advances to customers are summarised as follows:

	Stage 1 12 months expected credit losses not credit impaired		Stage 2 Lifetime expected credit losses not credit impaired		Stage 3 Lifetime expected credit losses credit impaired	
	2019 $	2018 $	2019 $	2018 $	2019 $	2018 $
Gross exposure	**520,621,690**	530,836,042	**61,766,711**	63,176,296	**40,564,191**	39,589,589
Less allowance for impairment on loans and advances	**(3,312,146)**	(3,686,711)	**(1,446,934)**	(1,986,925)	**(15,077,210)**	(11,332,659)
Net exposure	**517,309,544**	527,149,331	**60,319,777**	61,189,371	**25,486,981**	28,256,930

The total credit impairment for loans and advances to customers is $19,836,290 (2018 - $17,006,295) of which $15,077,210(2018 - 11,332,659) represents the individually impaired loans (stage 3) and the remaining amount of $4,759,080 represents the credit impairment for stage 1 and stage 2 loans. The credit impaired for 2018 was $5,673,636. Further information on the allowance for impairment losses on loans and advances to customers is provided in Notes 9 and 10.

Loans and advances to customers 12 months expected credit losses not credit impaired
The credit quality of the portfolio of loans and advances that were 12 months expected credit losses not credit impaired can be assessed by reference to the business model adopted by the Group.

	Overdrafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
At 31 December 2019	**7,522,341**	**78,032,783**	**311,267,267**	**120,996,293**	**2,803,006**	**520,621,690**
At 31 December 2018	10,216,469	78,956,888	313,437,111	125,373,273	2,852,301	530,836,042

3 Financial risk management*...continued*

(b) Credit risk*…continued*

Loans and advances to customers lifetime expected credit losses not credit 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:

	Overdrafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
At 31 December 2019	**37,826,966**	**3,385,820**	**15,359,205**	**5,173,576**	**21,144**	**61,766,711**
At 31 December 2018	44,291,830	3,462,306	10,316,783	5,052,921	52,456	63,176,296

Loans and advances to customers lifetime expected credit losses credit impaired

	Overdrafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
At 31 December 2019	**1,344,476**	**6,999,171**	**18,232,814**	**13,830,202**	**157,528**	**40,564,191**
At 31 December 2018	1,215,671	8,223,305	15,283,735	14,793,380	73,498	39,589,589

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

(b) Credit risk...*continued*

Debt securities and other eligible bills

The table below presents an analysis of debt securities and treasury bills by rating agency designation at 31 December 2019 and 2018, based on Standard & Poor's and Caricris ratings:

	Treasury bills $	Debt securities at amortised cost $	Debt securities at FVOCI	Investment securities-bonds at amortised cost $	Total $
At 31 December 2019					
AA- to A+	**-**	**-**	**1,099,068**	**-**	**1,099,068**
Lower than A+	**10,261,848**	**40,403,553**	**4,757,566**	**4,177,759**	**59,600,726**
Unrated	**-**	**16,789,655**	**9,761,897**	**-**	**26,551,552**
	10,261,848	**57,193,208**	**15,618,531**	**4,177,759**	**87,251,346**

	Treasury bills $	Debt securities at amortised cost $	Debt securities at FVOCI	Investment securities-bonds at amortised cost $	Total $
At 31 December 2018					
AA- to A+	-	-	1,620,567	-	1,620,567
Lower than A+	10,290,846	46,358,981	4,369,386	9,924,905	70,944,118
Unrated	-	15,414,980	3,845,742	-	19,260,722
	10,290,846	61,773,961	9,835,695	9,924,905	91,825,407

Concentrations of risks of financial assets with credit exposure

Geographical sectors

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

Industry sectors

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

(b) Credit risk…*continued*

Industry and economic concentrations of assets

	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	Other Industries $	Total $
Cash and balances with ECCB	157,771,167	-	-	-	-	-	-	157,771,167
Deposits with other banks	203,656,459	-	-	-	-	-	-	203,656,459
Treasury bills	-	-	-	10,261,848	-	-	-	10,261,848
Investment securities:								
- At amortised cost	30,857,208	-	-	26,336,000	-	-	-	57,193,208
- At FVOCI	3,048,208	-	-	-	-	-	12,570,323	15,618,531
- At FVTPL	894,375	-	-	-	-	-	6,956,715	7,851,090
Loans and advances to customers:								
- Large corporate loans	-	4,169,168	7,685,474	57,570,750	10,552,478	13,850,250	35,405,758	129,233,878
- Term loans	-	-	232,615	-	15,456	84,675,786	784,046	85,707,903
- Mortgages loans	-	-	-	-	1,250,868	338,646,612	836,224	340,733,704
- Overdrafts	103,231	1,200,844	231,616	30,854,935	3,042,765	3,042,559	6,196,772	44,672,722
- Credit cards	-	-	9,507	-	6,507	2,746,566	5,515	2,768,095
Investment security at amortised cost	-	-	-	4,177,759	-	-	-	4,177,759
Other assets	-	-	-	-	-	-	5,470,035	5,470,035
At 31 December 2019	396,330,648	5,370,012	8,159,212	129,201,292	14,868,074	442,961,773	68,225,388	1,065,116,399
Guarantees, letters of credit and loan commitments	-	120,500	-	-	661,000	6,488,850	1,226,000	8,496,350

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

(b) Credit risk…*continued*

Industry and economic concentrations of assets

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

3 Financial risk management*...continued*

(c) Market risk

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

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

(d) Currency risk

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

The following table summarizes the Group exposure to foreign currency exchange risk as at 31 December.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

(d) Currency risk…*continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
As at 31 December 2019								
Financial assets								
Cash and balances with ECCB	152,845,030	2,920,185	367,992	651,015	300,564	677,845	8,536	157,771,167
Deposit with other banks	23,156,310	178,437,534	194,667	52,409	1,265,372	183,480	366,687	203,656,459
Treasury bills	10,261,848	-	-	-	-	-	-	10,261,848
Investment securities:								
– at amortised cost	56,411,275	781,933	-	-	-	-	-	57,193,208
– at FVOCI	3,047,833	12,570,323	-	375	-	-	-	15,618,531
– at FVTPL	-	6,956,715	894,375	-	-	-	-	7,851,090
Loans and advances to customers	603,116,302	-	-	-	-	-	-	603,116,302
Investment security at amortised cost	4,177,759	-	-	-	-	-	-	4,177,759
Other assets	5,470,035	-	-	-	-	-	-	5,470,035
Total financial assets	858,486,392	201,666,690	1,457,034	703,799	1,565,936	861,325	375,223	1,065,116,399

(expressed in Eastern Caribbean dollars)

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

(d) **Currency risk**...*continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
As at 31 December 2019								
Financial liabilities								
Deposits due to banks	19,137,409		-	137,050	-	-	-	19,274,459
Due to customers	834,991,951	74,181,411	-	913,764	229,919	2,718	-	910,319,763
Borrowings	14,724,300	18,853,408	-	-	-	-	-	33,577,708
Provisions and other liabilities	38,062,885	-	-	-	-	-	-	38,062,885
Total financial liabilities	906,916,545	93,034,819	-	1,050,814	229,919	2,718	-	1,001,234,815
Net (liabilities) assets	(48,430,153)	108,631,871	1,457,034	(347,015)	1,336,017	858,607	375,223	63,881,584
Guarantees, letters of credit and loan commitments	8,496,350	-	-	-	-	-	-	8,496,350

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

(d) Currency risk…*continued*

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

(d) Currency risk...*continued*

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

3 Financial risk management…*continued*

(e) Interest rate risk

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

	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Non-interest bearing $	Total $
As at 31 December 2019							
Financial assets							
Cash and balances with ECCB	-	-	-	-	-	157,771,167	157,771,167
Deposits with other banks	-	31,238,481	2,076,008	-	-	170,341,970	203,656,459
Treasury bills	-	10,261,848	-	-	-	-	10,261,848
Investment securities:							
– at amortised cost	-	5,903,921	25,806,117	-	25,483,170	-	57,193,208
– at FVTPL	-	-	-	-	-	7,851,090	7,851,090
– at FVOCI	-	-	-	-	-	15,618,531	15,618,531
Loans and advances to customers	15,036,938	33,582,512	14,585,084	80,715,607	459,196,161	-	603,116,302
Investment security at amortised cost	-	-	-	-	4,177,759	-	4,177,759
Other assets	-	-	-	-	-	5,470,035	5,470,035
Total financial assets	15,036,938	80,986,762	42,467,209	80,715,607	488,857,090	357,052,793	1,065,116,399
Financial liabilities							
Deposits due to banks	-	-	16,301,361	-	-	2,973,098	19,274,459
Due to customers	590,830,482	31,612,458	78,231,232	-	-	209,645,591	910,319,763
Borrowings	733,326	804,878	3,953,457	19,092,738	8,993,309	-	33,577,708
Provisions and other liabilities	6,484,393	-	-	-	-	31,578,492	38,062,885
Total financial liabilities	598,048,201	32,417,336	98,486,050	19,092,738	8,993,309	244,197,181	1,001,234,815
Net interest re-pricing gap	(583,011,263)	48,569,426	(56,018,841)	61,622,869	479,863,781	112,855,612	63,881,584

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

(e) Interest rate risk

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

3 Financial risk management*…continued*

(e) Interest rate risk*…continued*

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

	2019	2018
Loans and advances to customers:		
- Overdrafts	**8% -14%**	8%-14%
- Term loans	**4.5%-14%**	4.5% -14%
- Large corporate loans	**6%-14%**	5.5% - 14%
- Mortgage loans	**4.5%-14%**	4.5% -14%
- Credit cards	**19.5%**	19.50%
Investment security at amortised cost	**6.75%**	7.50%
Investment securities:		
Government treasury bills and bonds	**3%-7.5%**	1.1% -8.5%
Other securities	**2.25%-8%**	2.1% -8%
Deposits with banks	**0%-2.7%**	0%-2.69%
Deposits due to customers:		
Term deposits	**1.25%-3.25%**	1.25% -3%
Savings deposits	**2%-3.5%**	2%-3.5%
Demand deposits	**0%-3.5%**	2.25%-3.5%
Deposits due to banks	**0%-1.75%**	0%-2.75%
Borrowings	**2.5%-6.75%**	2.50%-6.75%

Cash flow interest rate risk arises from loans and advances to customers and borrowings at variable rates. At 31 December 2019, if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been $3,015,582 (2018 - $3,082,978) higher/lower on variable rate loans.

(f) Liquidity risk

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

3 Financial risk management…*continued*

(f) Liquidity risk…*continued*

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

(i) Liquidity risk management process

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

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

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

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

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

(f) Liquidity risk...*continued*

	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Total $
As at 31 December 2019						
Financial liabilities						
Deposits due to banks	3,079,060	-	16,456,735	-	-	19,535,795
Due to customers	803,761,824	31,725,803	95,813,622	-	-	931,301,249
Borrowings	733,326	1,027,509	5,117,990	22,580,394	10,015,840	39,475,059
Provisions and other liabilities	38,062,885	-	-	-	-	38,062,885
Total financial liabilities	845,637,095	32,753,312	117,388,347	22,580,394	10,015,840	1,028,374,988
Financial assets						
Cash and balances with ECCB	157,771,167	-	-	-	-	157,771,167
Deposits with other banks	185,275,285	16,325,613	2,066,047	-	-	203,666,945
Treasury bills	-	10,042,740	-	-	-	10,042,740
Investment securities:						
- at amortised cost	692,403	5,968,054	27,651,432	7,191,049	32,730,435	74,233,373
- at FVTPL	-	7,851,090	-	-	-	7,851,090
- at FVOCI	-	-	-	12,570,323	3,048,208	15,618,531
Loans and advances to customers	34,283,541	23,156,835	95,418,855	346,398,791	555,182,841	1,054,440,863
Investment security at amortised cost	-	-	-	-	4,750,883	4,750,883
Other assets	7,405,798	-	-	-	-	7,405,798
Total financial assets held for managing liquidity	385,428,194	63,344,332	125,136,334	366,160,163	595,712,367	1,535,781,390

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued,*

(f) Liquidity risk*…continued*

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

(f) Liquidity risk…*continued*

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

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

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

(g) Off-balance sheet items

(i) Loan commitments
The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 24), are summarised in the table below.

(ii) Financial guarantees and other financial facilities
Financial guarantees (Note 24) are also included below based on the earliest contractual maturity date.

	1 Year $	Total $
At 31 December 2019		
Loan commitments	**8,456,350**	**8,456,350**
Guarantees and letters of credit	**40,000**	**40,000**
Total	**8,496,350**	**8,496,350**
At 31 December 2018		
Loan commitments	7,664,002	7,664,002
Guarantees and letters of credit	40,000	40,000
Total	7,704,002	7,704,002

(h) Fair values of financial assets and liabilities

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. The following methods and assumptions used to estimate the fair value of financial instruments are described below:

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

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

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

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

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

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

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

	Carrying value		**Fair value**	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Financial assets				
Loans and advances to customers:				
− Term loans	**85,707,903**	87,921,056	**79,842,557**	81,140,982
− Large corporate loans	**129,233,878**	136,133,034	**115,281,208**	119,935,305
− Mortgage loans	**340,733,704**	336,139,168	**255,540,376**	251,074,758
− Overdrafts	**44,672,722**	53,547,954	**44,672,722**	53,547,954
− Credit cards	**2,768,095**	2,854,421	**2,768,095**	2,854,421
Investment security at amortised cost	**4,177,759**	9,924,905	**3,857,888**	9,924,905
Investment securities:				
− At amortised cost	**80,662,829**	61,773,961	**52,739,716**	52,007,860
Financial liabilities				
Borrowings	**33,577,708**	38,284,024	**36,169,884**	40,052,431

3 Financial risk management*…continued*

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

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

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

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

- The value of regional bonds classified as amortised cost with evidence of open market trades at par plus accrued interest is deemed to approximate fair value.

Fair value hierarchy

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

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

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

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

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

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

Fair value hierarchy

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

	2019				**2018**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
As at 31 December								
Financial assets								
Equity securities at FVTPL	**7,851,090**	**-**	**-**	**7,851,090**	7,404,327	-	-	7,404,327
Debt securities at FVOCI	**12,570,323**	**-**	**-**	**12,570,323**	6,799,573	-	-	6,799,573
Financial assets for which fair values are disclosed								
Investment securities at amortised cost	**-**	**56,597,604**	-	**56,597,604**	-	61,932,375	-	61,932,375
Loans and advances to customers	**-**	**-**	**498,104,958**	**498,104,958**	-	-	508,553,420	508,553,420
Total financial assets	**20,421,413**	**56,597,604**	**498,104,958**	**575,123,975**	14,203,900	61,932,375	508,553,420	584,689,695
Liabilities for which fair values are disclosed								
Borrowings	-	**36,169,884**	-	**36,169,884**	-	40,052,431	-	40,052,431

3 Financial risk management*…continued*

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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

(i) Capital management

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

- To comply with the capital requirements of the Banking Act 2015.
- To comply with the capital requirements set by the regulators of the banking markets where the Group operates;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

3 Financial risk management*…continued*

(i) Capital management*...continued*

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

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

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

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the Group for the year ended 31 December 2019 and 2018. During those two years, the Group complied with all of the externally imposed capital requirements to which it is subject.

3 Financial risk management*…continued*

(i) Capital management*…continued*

	2019 $	2018 $
Tier 1 capital		
Share capital	**20,753,306**	20,753,306
Statutory reserves	**20,753,306**	20,753,306
General provision reserves	**4,542,702**	3,133,354
Retained earnings	**79,365,334**	73,131,134
Total qualifying tier 1 capital	**125,414,648**	117,771,100
Tier 2 capital		
Unrealised loss on investments	**(41,461)**	(95,386)
Collective impairment allowance	**4,759,080**	6,278,346
Total qualifying tier 2 capital	**4,717,619**	6,182,960
Total regulatory capital	**130,132,267**	**123,954,060**
Risk-weighted assets:		
On-balance sheet	**460,900,074**	488,779,995
Off-balance sheet	**36,520,955**	30,736,894
Total risk-weighted assets	**497,421,029**	519,516,889
Basel capital adequacy ratio	**26.16%**	23.86%

4 Critical accounting estimates, and judgements in applying accounting policies

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

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

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

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

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

Impairment losses on loans and advances to customers
The Group reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated $558,262/$551,593 (2018 - $601,970/$562,522) lower/higher respectively.

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

Deferred taxes
In calculating the provision for deferred taxation, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise. The deferred tax assets recognised at 31 December 2019 have been based on future profitability assumptions over a five-year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

4 Critical accounting estimates, and judgements in applying accounting policies

Revaluation of investment property

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

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

Corporate income taxes

Significant estimates are required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

5 Cash and balances with Eastern Caribbean Central Bank

	2019	**2018**
	$	**$**
Cash in hand	**24,662,158**	22,492,542
Balances with ECCB other than mandatory reserve deposits	**78,489,823**	37,230,816
Included in cash and cash equivalents (Note 35)	**103,151,981**	59,723,358
Mandatory reserve deposits with ECCB	**54,619,186**	46,029,708
	157,771,167	105,753,066

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

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

6 Deposits with other banks

	2019	**2018**
	$	**$**
Items in the course of collection with other banks (Note 35)	**9,208,745**	12,934,994
Placements with other banks (Note 35)	**192,371,705**	82,966,223
Interest bearing deposits (more than 3 months)	**2,076,009**	22,949,161
	203,656,459	118,850,378

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2019 was 2.24% (2018 - 1.61%)

7 Treasury bills

	2019 $	2018 $
Treasury bills – Cash and cash equivalents	**10,358,356**	10,401,918
Less allowance for impairment losses	**(96,508)**	(111,072)
Treasury bills less than 90 days to maturity (Note 35)	**10,261,848**	10,290,846

Treasury bills are debt securities issued by the Government of Saint Lucia. The weighted average effective interest rate on treasury bills at 31 December 2019 was 4.0% (2018 - 4.5%)

8 Investment securities

	2019 $	2018 $
Securities measured at amortised cost		
Debt securities at amortised cost		
- Unlisted	**34,198,368**	16,679,359
- Listed	**24,123,055**	46,359,391
	58,321,423	63,038,750
Less allowance for impairment losses	**(1,128,215)**	(1,264,789)
	57,193,208	61,773,961
Securities measured at FVOCI		
Debt securities at fair value		
- Listed	**5,859,857**	6,799,573
Equity securities at fair value		
- Unlisted	**9,761,897**	3,048,217
Less allowance for impairment losses	**(3,223)**	(12,095)
	15,618,531	9,835,695
Securities measured at FVTPL		
Equity securities at fair value		
- Unlisted	**6,956,717**	-
- Listed	**894,373**	7,404,327
	7,851,090	7,404,327
Total securities	**80,662,829**	79,013,983

The weighted average effective interest rate on securities stated at amortised cost at 31 December 2019 was 5% (2018 - 5.45%).

(expressed in Eastern Caribbean dollars)

8 Investment securities*…continued*

	2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance - Investment securities at amortised cost				
Loss allowance as at 1 January 2019	385,767	206,850	905,127	1,497,744
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	105,806	13,842	-	119,648
– Decreases due to change in credit risk	(168,459)	(197,111)	-	(365,570)
Loss allowance as at 31 December 2019	323,114	23,581	905,127	1,251,822
Loss allowance - Investment securities at FVOCI				
Loss allowance as at 1 January 2019	12,095	-	-	12,095
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	-	-	-	-
– Decreases due to change in credit risk	(8,872)	-	-	(8,872)
Loss allowance as at 31 December 2019	3,223	-	-	3,223
Total loss allowance - Investment securities				
Loss allowance as at 1 January 2019	397,862	206,850	905,127	1,509,839
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	105,806	13,842	-	119,648
– Decreases due to change in credit risk	(177,331)	(197,111)	-	(374,442)
Total loss allowance as at 31 December 2019	326,337	23,581	905,127	1,255,045

8 Investment securities…*continued*

	2018 Stage 1 12-month ECL	2018 Stage 2 Lifetime ECL	2018 Stage 3 Lifetime ECL	2018 Total
Loss allowance - Investment securities at amortised cost				
At beginning of year, as previously stated	-	201,708	905,127	1,106,835
Effects of adopting IFRS 9	386,644	15,160	-	401,804
At 1 January 2018, as restated	386,644	216,868	905,127	1,508,639
Changes in the loss allowance as at 1 January 2018				
– Transfer to stage 1	111,072	-	-	111,072
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	38,955	-	-	38,955
– Decreases due to change in credit risk	(150,904)	(10,018)	-	(160,922)
Loss allowance as at 31 December 2018	**385,767**	**206,850**	**905,127**	**1,497,744**
Loss allowance - Investment securities at FVOCI				
At beginning of year as previously stated	-	-	-	-
Effects of adopting IFRS 9	-	-	-	-
At 1 January 2018, as restated	-	-	-	-
Changes in the loss allowance as at 1 January 2018	-	-	-	-
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	12,095	-	-	12,095
– Decreases due to change in credit risk	-	-	-	-
Loss allowance as at 31 December 2018	**12,095**	-	-	**12,095**
Total loss allowance - Investment securities				
At beginning of year, as previously stated	-	201,708	905,127	1,106,835
Effects of adopting IFRS 9	386,644	15,160	-	401,804
At 1 January 2018, as restated	386,644	216,868	905,127	1,508,639
Changes in the loss allowance as at 1 January 2018	-	-	-	-
– Transfer to stage 1	111,072	-	-	111,072
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	51,050	-	-	51,050
– Decreases due to change in credit risk	(150,904)	(10,018)	-	(160,922)
Total loss allowance as at 31 December 2018	**397,862**	**206,850**	**905,127**	**1,509,839**

8 Investment securities*…continued*

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

	Debt securities at amortised cost (Note 8) $	Debt securities at FVOCI (Note 8) $	Equity securities at FVTPL (Note 8) $	Treasury bills at amortised cost (Note 7) $	Investment security at amortised cost (Note 11) $	Total $
At 1 January 2019	**61,773,961**	**9,835,695**	**7,404,327**	**10,290,846**	**9,924,905**	**99,229,734**
Opening ECLs	**1,278,700**	**12,095**	**-**	**111,072**	**107,972**	**1,509,839**
Gross carrying amount 1 January 2019	**63,052,661**	**9,847,790**	**7,404,327**	**10,401,918**	**10,032,877**	**100,739,573**
Additions	**12,214,293**	**19,903,180**	**70,330**	**358,356**	**4,204,858**	**36,751,017**
Disposals (sales and redemptions)	**(16,945,531)**	**(14,087,936)**	**(47,832)**	**(401,918)**	**(10,032,877)**	**(41,516,094)**
(Loss)/gain from changes in fair value	**-**	**(41,280)**	**424,265**	**-**	**-**	**382,985**
Closing ECLs	**(1,128,215)**	**(3,223)**	**-**	**(96,508)**	**(27,099)**	**(1,255,045)**
At 31 December 2019	**57,193,208**	**15,618,531**	**7,851,090**	**10,261,848**	**4,177,759**	**95,102,436**

	Debt securities at amortised cost (Note 8) $	Debt securities at FVOCI (Note 8) $	Equity securities at FVTPL (Note 8) $	Treasury bills at amortised cost (Note 7) $	Investment security at amortised cost (Note 11) $	Total $
At 1 January 2018	45,611,927	3,048,235	7,472,275	10,401,918	10,032,877	76,567,232
Additions	26,892,079	6,895,148	113,676	-	32,877	33,933,780
Losses from changes in fair value	-	(95,593)	(181,624)	-	-	(277,217)
Disposals (sales and redemptions)	(9,465,256)	-	-	-	(32,877)	(9,498,133)
Investment impairment recoveries	13,911	-	-	-	-	13,911
ECLs	(1,278,700)	(12,095)	-	(111,072)	(107,972)	(1,509,839)
At 31 December 2018	61,773,961	9,835,695	7,404,327	10,290,846	9,924,905	99,229,734

(expressed in Eastern Caribbean dollars)

9 Loans and advances to customers

	2019 $	2018 $
Large corporate loans	**140,000,071**	145,219,574
Mortgage loans	**344,859,286**	339,037,629
Term loans	**88,417,774**	90,642,499
Credit cards	**2,981,678**	2,978,255
Overdrafts	**46,693,783**	55,723,970
Gross loans and advances to customers	**622,952,592**	633,601,927
Less allowance for impairment losses on loans and advances to customers (Note 10)	**(19,836,290)**	(17,006,295)
Total loans and advances to customers, net	**603,116,302**	616,595,632

The weighted average effective interest rate on loans and advances stated at amortised cost at 31 December 2019 was 8.4% (2018 - 8.5%).

(expressed in Eastern Caribbean dollars)

10 Allowance for impairment losses on loans and advances to customers

	2019				2018			
	Stage 1 12 month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $	Stage 1 12 month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Large corporate loans								
At beginning of year as previously stated	**2,365,272**	**329,046**	**6,392,222**	**9,086,540**	2,133,957	357,722	6,076,711	8,568,390
Effects of adopting IFRS 9	**-**	**-**	**-**	**-**	483,161	80,994	-	564,155
Loss allowance as at 1 January	**2,365,272**	**329,046**	**6,392,222**	**9,086,540**	2,617,118	438,716	6,076,711	9,132,545
Changes in the loss allowance								
- Transfer to stage 1	**70,182**	**(70,182)**	**-**	**-**	261,249	(261,249)	-	-
- Transfer to stage 2	**(35,366)**	**35,366**	**-**	**-**	(27,064)	27,064	-	-
- Transfer to stage 3	**(2,816)**	**(10,453)**	**13,269**	**-**	(10,589)	-	10,589	-
- Increases due to change in credit risk	**431,320**	**141,284**	**2,346,738**	**2,919,342**	230,934	177,163	2,072,204	2,480,301
- Decreases due to change in credit risk	**(856,310)**	**(152,379)**	**(9,968)**	**(1,018,657)**	(706,376)	(52,648)	(1,036)	(760,060)
- Write-offs	**-**	**-**	**(221,032)**	**(221,032)**	-	-	(1,766,246)	(1,766,246)
Specific provision for loan impairment	**-**	**-**	**-**	**-**	-	-	-	-
Collective provision for loan impairment	**-**	**-**	**-**	**-**	-	-	-	-
Written off during the year as uncollectible	**-**	**-**	**-**		-	-	-	-
Loss allowance as at 31 December	**1,972,282**	**272,682**	**8,521,229**	**10,766,193**	2,365,272	329,046	6,392,222	9,086,540
Mortgages								
At beginning of year as previously stated	**279,869**	**322,956**	**2,295,636**	**2,898,461**	2,346,296	2,338,491	2,733,194	7,417,981
Effects of adopting IFRS 9	-	-	-	-	(2,083,336)	(2,076,406)	-	(4,159,742)
Loss allowance as at 1 January	**279,869**	**322,956**	**2,295,636**	**2,898,461**	262,960	262,085	2,733,194	3,258,239
Changes in the loss allowance								
- Transfer to stage 1	**92,543**	**(92,543)**	**-**	**-**	65,238	(65,238)	-	-
- Transfer to stage 2	**(9,535)**	**9,535**	**-**	**-**	(5,726)	5,726	-	-
- Transfer to stage 3	**(2,550)**	**(65,403)**	**67,953**	**-**	(3,252)	(25,681)	28,933	-
- Increases due to change in credit risk	**298,005**	**118,650**	**1,234,867**	**1,651,522**	80,702	230,270	1,182,654	1,493,626
- Decreases due to change in credit risk	**(110,212)**	**(110,921)**	**(158,592)**	**(379,725)**	(120,053)	(84,206)	(458,373)	(662,632)
- Write-offs	**-**	**-**	**(44,676)**	**(44,676)**	-	-	(1,190,772)	(1,190,772)
Specific provision for loan impairment	-	-	-	-	**-**	**-**	**-**	**-**
Collective provision for loan impairment	-	-	-	-	**-**	**-**	**-**	**-**
Written off during the year as uncollectible	-	-	-	-	**-**	**-**	**-**	**-**
Loss allowance as at 31 December	**548,120**	**182,274**	**3,395,188**	**4,125,582**	**279,869**	**322,956**	**2,295,636**	**2,898,461**

(expressed in Eastern Caribbean dollars)

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

	2019				2018			
	Stage 1 - 12 month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $	Stage 1 - 12 month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Term loans								
At beginning of year as previously stated	697,337	209,638	1,814,468	2,721,443	1,022,885	250,822	1,753,721	3,027,428
Effects of adopting IFRS 9	-	-	-	-	(395,576)	(96,999)	-	(492,575)
Loss allowance as at 1 January	**697,337**	**209,638**	**1,814,468**	**2,721,443**	627,309	153,823	1,753,721	2,534,853
Changes in the loss								
- Transfer to stage 1	**(22,303)**	**22,303**	**-**	**-**	41,446	(41,446)	-	-
- Transfer to stage 2	**90,721**	**(90,721)**	**-**	**-**	(14,515)	14,515	-	-
- Transfer to stage 3	**(10,746)**	**(52,452)**	**63,198**	**-**	(4,863)	(29,164)	34,027	-
- Increases due to change in credit risk	**370,046**	**53,468**	**1,697,071**	**2,120,585**	501,473	169,916	570,806	1,242,195
- Decreases due to change in credit risk	**(554,556)**	**(61,549)**	**(757,956)**	**(1,374,061)**	(425,545)	(57,893)	(167,527)	(650,965)
- Write-offs	**(21,055)**	**(15,879)**	**(721,162)**	**(758,096)**	(27,968)	(113)	(376,559)	(404,640)
Specific provision for loan impairment	-	-	-	-	-	-	-	-
Collective provision for loan impairment	-	-	-	-	-	-	-	-
Written off during the year as uncollectible	-	-	-	-	-	-	-	-
Loss allowance as at 31 December	**549,444**	**64,808**	**2,095,619**	**2,709,871**	697,337	209,638	1,814,468	2,721,443
Overdrafts								
At beginning of year as previously stated	325,875	1,093,307	756,835	2,176,017	152,864	516,472	617,265	1,286,601
Effects of adopting IFRS 9	-	-	-	-	116,592	393,923	-	510,515
Loss allowance as at 1 January	**325,875**	**1,093,307**	**756,835**	**2,176,017**	269,456	910,395	617,265	1,797,116
Changes in the loss allowance								
- Transfer to stage 1	**17,662**	**(17,662)**	-	-	46,649	(46,649)	-	-
- Transfer to stage 2	**(81,571)**	**81,571**	-	-	(54,538)	54,538	-	-
- Transfer to stage 3	**-**	**(568)**	**568**	-	-	-	-	-
- Increases due to change in credit risk	**36,658**	**28,497**	**192,060**	**257,215**	119,409	190,692	244,098	554,199
- Decreases due to change in credit risk	**(97,094)**	**(273,262)**	**(21,925)**	**(392,281)**	(51,385)	(15,669)	(8,433)	(75,487)
- Write-offs	-	-	**(19,890)**	**(19,890)**	(3,716)	-	(96,095)	(99,811)
Specific provision for loan impairment	-	-	-	-	-	-	-	-
Collective provision for loan impairment	-	-	-	-	-	-	-	-
Written off during the year as uncollectible	-	-	-	-	-	-	-	-
Loss allowance as at 31 December 2019	**201,530**	**911,883**	**907,648**	**2,021,061**	325,875	1,093,307	756,835	2,176,017

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

	2019				2018			
	Stage 1 - 12 month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $	Stage 1 - 12 month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Credit cards								
At beginning of year as previously stated	18,358	31,978	73,498	123,834	11,366	32,187	326,627	370,180
Effects of adopting IFRS 9	-	-	-	-	5,129	14,524	-	19,653
Loss allowance as at 1 January	**18,358**	**31,978**	**73,498**	**123,834**	16,495	46,711	326,627	389,833
Changes in the loss allowance								
- Transfer to stage 1	**22,292**	**(19,591)**	**(2,701)**	**-**	161,527	(33,235)	(128,292)	-
- Transfer to stage 2	**(72)**	**72**	**-**	**-**	(143)	143	-	-
- Transfer to stage 3	**(359)**	**(1,729)**	**2,088**	**-**	(91)	(5,330)	5,421	-
- Increases due to change in credit risk	**28,734**	**15,217**	**192,013**	**235,964**	2,283	31,836	45,803	79,922
- Decreases due to change in credit risk	**(23,424)**	**(10,660)**	**(56,469)**	**(90,553)**	(161,713)	(8,147)	(112,566)	(282,426)
- Write-offs	**(4,759)**	**-**	**(50,903)**	**(55,662)**	-	-	(63,495)	(63,495)
Specific provision for loan impairment	-	-	-	-	-	-	-	-
Collective provision for loan impairment	-	-	-	-	-	-	-	-
Written off during the year as uncollectible	-	-	-	-	-	-	-	-
Loss allowance as at 31 December	**40,770**	**15,287**	**157,526**	**213,583**	18,358	31,978	73,498	123,834
Total credit provisioning								
At beginning of year as previously stated	3,686,711	1,986,925	11,332,659	17,006,295	5,667,368	3,495,694	11,507,518	20,670,580
Effects of adopting IFRS 9	-	-	-	-	(1,874,030)	(1,683,964)	-	(3,557,994)
Loss allowance as at 1 January	**3,686,711**	**1,986,925**	**11,332,659**	**17,006,295**	3,793,338	1,811,730	11,507,518	17,112,586
Changes in the loss allowance								
- Transfer to stage 1	**180,376**	**(177,675)**	**(2,701)**	**-**	576,109	(447,817)	(128,292)	-
- Transfer to stage 2	**(35,823)**	**35,823**	**-**	**-**	(101,986)	101,986	-	-
- Transfer to stage 3	**(16,471)**	**(130,605)**	**147,076**	**-**	(18,795)	(60,175)	78,970	-
- Increases due to change in credit risk	**1,164,763**	**357,116**	**5,662,749**	**7,184,628**	934,801	799,877	4,115,565	5,850,243
- Decreases due to change in credit risk	**(1,641,596)**	**(608,771)**	**(1,004,910)**	**(3,255,277)**	(1,465,072)	(218,563)	(747,935)	(2,431,570)
- Write-offs	**(25,814)**	**(15,879)**	**(1,057,663)**	**(1,099,356)**	(31,684)	(113)	(3,493,167)	(3,524,964)
Specific provision for loan impairment	-	-	-	-	-	-	-	-
Collective provision for loan impairment	-	-	-	-	-	-	-	-
Written off during the year as uncollectible	-	-	-	-	-	-	-	-
Loss allowance as at 31 December	**3,312,146**	**1,446,934**	**15,077,210**	**19,836,290**	3,686,711	1,986,925	11,332,659	17,006,295

(expressed in Eastern Caribbean dollars)

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

	2019 $	2018 $
Government bonds	**4,204,858**	10,032,877
Less allowance for impairment losses	**(27,099)**	(107,972)
	4,177,759	9,924,905

Government bonds are purchased from and issued directly by the Government of Saint Vincent and the Grenadines. The weighted average effective interest rate at 31 December 2019 on Government bonds at amortised cost was 6.75% (2018 – 7.53 %).

12 Investment properties

	2019 $	2018 $
Fair value at 1 January	**2,232,000**	2,412,000
Fair value loss	**-**	(180,000)
Fair value at 31 December	**2,232,000**	2,232,000

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

(expressed in Eastern Caribbean dollars)

13 Property and equipment

	Land and building $	Leasehold Improvements $	Office Furniture and Equipment $	Work in Progress $	Computer Equipment and Software $	Motor Vehicles $	Total $
Year ended 31 December 2018							
Opening net book amount	45,740,666	42,459	4,539,239	1,553,147	1,172,044	142,549	53,190,104
Additions	75,793	-	992,101	(394,484)	1,431,785	196,796	2,301,991
Impairment losses	-	-	-	-	-	-	-
Disposals	-	-	(5,747)	-	(19)	(2)	(5,768)
Depreciation charge (Note 30)	(611,718)	(9,780)	(1,216,619)	-	(529,623)	(98,281)	(2,466,021)
Closing net book amount	45,204,741	32,679	4,308,974	1,158,663	2,074,187	241,062	53,020,306
At 31 December 2018							
Cost	**50,082,738**	**48,900**	**17,638,096**	**1,158,663**	**11,872,185**	**563,705**	**81,364,287**
Accumulated depreciation	**(4,877,997)**	**(16,221)**	**(13,329,122)**	**-**	**(9,797,998)**	**(322,643)**	**(28,343,981)**
Net book amount	**45,204,741**	**32,679**	**4,308,974**	**1,158,663**	**2,074,187**	**241,062**	**53,020,306**
Year ended 31 December 2019							
Opening net book amount	45,204,741	32,679	4,308,974	1,158,663	2,074,187	241,062	53,020,306
Additions	751,906	-	2,047,148	547,566	763,040	-	4,109,660
Impairment losses	(214,506)	-	-	-	-	-	(214,506)
Disposals	-	-	(11,256)	-	(15)	(1)	(11,272)
Depreciation charge (Note 30)	(614,836)	(9,780)	(1,100,932)	-	(636,946)	(104,180)	(2,466,674)
Closing net book amount	45,127,305	22,899	5,243,934	1,706,229	2,200,266	136,881	54,437,514
At 31 December 2019							
Cost	**50,620,138**	**48,900**	**18,111,044**	**1,706,229**	**12,540,619**	**416,725**	**83,443,655**
Accumulated depreciation	**(5,492,833)**	**(26,001)**	**(12,867,110)**	**-**	**(10,340,353)**	**(279,844)**	**(29,006,141)**
Net book amount	**45,127,305**	**22,899**	**5,243,934**	**1,706,229**	**2,200,266**	**136,881**	**54,437,514**

(expressed in Eastern Caribbean dollars)

14 Related party balances and transactions

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

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

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

	2019 $	2018 $
Bank of Saint Lucia Limited		
Deposits with other bank	**2,053,054**	2,017,744
Deposits from banks	**(7,076,127)**	(6,954,425)
	(5,023,073)	(4,936,681)
Government of St. Vincent and the Grenadines		
Debt securities at amortised cost	**27,608,184**	34,615,000

Transactions carried out with related parties:

	2019 $	2018 $
Income		
Interest income	**2,382,947**	2,096,513
Expenses		
Interest expense	**122,318**	120,214
Professional fees	**438,150**	438,150

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

14 Related party balances and transactions*…continued*

Other related party balances with the Group:

	2019 Loans $	2019 Deposits $	2018 Loans $	2018 Deposits $
Government of St. Vincent and the Grenadines	**88,792,264**	**20,755,808**	107,340,829	18,056,943
Statutory bodies	**1,553,723**	**15,789,503**	1,720,509	14,951,968
National Insurance Services	**-**	**68,769,057**	-	69,581,061
Staff pension plan	**-**	**6,484,393**	-	7,722,990
	90,345,987	**111,798,761**	109,061,338	110,312,962
Directors and key management	**2,948,709**	**1,813,570**	2,776,137	1,416,834
	93,294,696	**113,612,331**	111,837,475	111,729,796

The loans issued to directors and other key management personnel are repayable monthly over an average of 11 years and have a weighted average effective interest rates of 4.52% (2018 - 4.42%).

Interest income and interest expense with other related parties:

	2019 Income $	2019 Expenses $	2018 Income $	2018 Expenses $
Government of St. Vincent and the Grenadines	**8,580,714**	**208,509**	8,602,580	575,669
Statutory bodies	**158,338**	**186,104**	179,547	344,340
National Insurance Services	**-**	**2,071,576**	-	1,991,613
Staff pension plan	**-**	**262,343**	-	275,502
Directors and key management	**134,297**	**34,211**	121,131	26,998
	8,873,349	**2,762,743**	8,903,258	3,214,122

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

	2019 $	2018 $
Salaries and other short-term benefits	**1,823,215**	1,514,768
Pension cost	**60,925**	52,947
	1,884,140	1,567,715

15 Deferred tax asset

The movement on the deferred tax asset is as follows:

	2019 $	2018 $
At beginning of year	**1,592,111**	(47,105)
Prior year release to deferred tax (Note 33)	**-**	1,812,536
Current year charge/(release) (Note 33)	**1,294,215**	(173,320)
At end of year	**2,886,326**	1,592,111

The deferred tax asset account is detailed below:

	2019 $	2018 $
Temporary differences on capital assets	**2,886,326**	1,592,111

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

16 Other assets

	2019 $	2018 $
Other receivables	**5,472,708**	2,656,474
Prepaid expenses	**1,933,090**	1,353,138
	7,405,798	4,009,612

17 Deposits due to banks

	2019 $	2018 $
Deposits due to banks	**19,274,459**	37,863,272

Interest rates range from 0% to 1.75% (2018 - 0% to 2.75%).

18 Due to customers

	2019 $	2018 $
Term deposits	**115,907,284**	113,072,006
Savings deposits	**458,801,999**	397,467,209
Demand deposits	**335,610,480**	256,622,577
	910,319,763	767,161,792

The weighted average effective interest rate of customers' deposits at 31 December 2019 was 1.59% (2018 - 1.77%).

19 Borrowings

	Due	Average Interest Rate	2019 $	Average Interest Rate	2018 $
Caribbean Development Bank	**2019 – 2029**	**3.27%**	**18,853,408**	3.95%	21,306,420
National Insurance Services	**2019 – 2025**	**5.92%**	**14,724,300**	6.38%	16,977,604
			33,577,708		38,284,024

Security

The borrowings from the Caribbean Development Bank are guaranteed by the Government of St. Vincent and the Grenadines. Borrowings from the National Insurance Services are secured by property valued at $29,763,045 (2018 - $29,763,045) owned by the Bank of St. Vincent and the Grenadines. The Group has not had any defaults of principal, interest or other breaches with respect to borrowings during the year.

As at 31 December 2019, the Group had no undrawn facilities with either of the above-mentioned institutions.

20 Provisions and other liabilities

	2019 $	2018 $
Managers' cheques outstanding	**5,035,879**	2,373,610
Other payables	**13,419,148**	14,145,815
ECL on undrawn commitments	**38,961**	18,311
Customers' security deposits	**18,468,256**	23,095,639
	36,962,244	39,633,375

21 Share capital

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

	2019 $	2018 $
Issued and fully paid – 14,999,844 (2018: 14,999,844)	**20,753,306**	20,753,306

22 Statutory reserves

	2019 $	2018 $
Balance at beginning of the year	**20,753,306**	14,912,580
Transfer from profit after taxation	**-**	5,840,726
Balance at end of the year	**20,753,306**	20,753,306

Pursuant to Section 45 (1) of the Banking Act of 2016, the Group shall, maintain a general reserve fund and shall, out of its net profits of each year transfer to that fund a sum equal to not less than twenty per cent of profits whenever the amount of the reserve fund is less than a hundred per cent of the issued share capital. The reserve is not available for distribution as dividends or any form of appropriation.

23 General provision reserves

	2019 $	2018 $
Balance at beginning of the year	**3,133,354**	-
Transfer from profit after taxation	**1,409,348**	3,133,354
Balance at end of the year	**4,542,702**	3,133,354

Following the adoption of IFRS 9, a general contingency reserve totalling $4,542,702 (2018 - $3,133,354) as a voluntary appropriation from retained earnings was created. This reserve will be funded on an annual basis at a rate to be decided by the Board of Directors.

24 Contingent liabilities and commitments

(i) Contingent liabilities

Provision of the Wages Regulations Order

The body representing Bargaining Unit staff claimed that in accordance with the provisions of the Wages Council Order 2008, its members worked overtime, for which they were not duly compensated. The current working hours for the employees at the Bank of St. Vincent and the Grenadines Ltd. is 44.5 hours, whereas as the Order sets the minimum hours at 40.0 hours per week.

The management of the Bank is however of the opinion that the order is not applicable to Banks and hence the workers are not entitled to overtime. Based on the Bank's review of the legal positions obtained, it was inconclusive whether the requirements of the respective orders are applicable to bank employees.

24 Contingent liabilities and commitments*…continued*

(ii) Commitments

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

	2019 $	2018 $
Loan commitments	**8,456,350**	7,664,002
Guarantees and letters of credit	**40,000**	40,000
	8,496,350	7,704,002

25 Net interest income

	2019 $	2018 $
Interest income		
Loans and advances	**46,958,985**	46,744,525
Treasury bills and investment securities	**5,825,160**	4,061,871
Deposits with banks	**15,084**	158,624
	52,799,229	50,965,020
Interest expense		
Savings deposits	**11,388,646**	10,734,566
Time deposits	**2,894,894**	3,064,334
Other borrowed funds	**1,827,593**	1,925,368
Correspondent banks	**39,523**	53,049
	16,150,656	15,777,317
Net interest income	**36,648,573**	35,187,703

26 Net fee and commission income

	2019 $	2018 $
Credit related fees and commissions	**12,559,498**	10,494,188

27 Dividend income

	2019 $	2018 $
Investments: equity securities	**365,582**	380,475

28 Net foreign exchange trading income

	2019 $	2018 $
Net realized gains	**5,660,007**	5,286,088
Net unrealized (losses)/gains	**(132,071)**	(78,473)
	5,527,936	5,207,615

29 Other gains/(losses)

	2019 $	2018 $
Gain from disposal of property and equipment	**33,728**	60,232
Gain on revaluation of investment securities	**359,691**	-
Fair value loss on investment properties	**-**	(180,000)
	393,419	(119,768)

30 Operating expenses

	2019 $	2018 $
Depreciation (Note 13)	**2,466,674**	2,466,021
Employee benefit expense (Note 31)	**10,867,702**	11,647,235
Interest levy expense	**5,050,699**	4,835,151
Rent	**280,193**	292,357
Audit and accounting fees	**269,429**	252,000
Directors' fees	**311,033**	302,283
Computer expense	**20,787**	64,158
Insurance	**715,247**	653,062
Repairs and maintenance	**573,940**	446,777
Subscription and donations	**198,281**	141,141
Commission and fees	**1,970,543**	2,028,754
Utilities	**2,509,524**	2,404,862
Credit card expenses	**2,336,018**	2,023,330
Advertisement and sponsorship	**787,960**	374,298
Legal and professional fees	**879,008**	850,973
Postage and stationery	**896,845**	832,375
Bank and other licences	**2,697,700**	2,280,037
Security	**367,762**	371,796
Other expenses	**2,838,476**	2,259,844
	36,037,821	34,526,454

31 Employee benefit expense

	2019 $	2018 $
Wages and salaries	**8,734,507**	9,613,709
Other staff costs	**1,756,966**	1,676,148
Pension cost	**376,229**	357,378
	10,867,702	11,647,235

32 Allowances for credit losses on financial assets

	2019 $	2018 $
Credit impairment against profit for the year on loans and advances to customers	**(3,924,735)**	(3,653,325)
Credit improvement/impairment against profit for the year relating to debt securities	**240,883**	(1,200)
Credit impairment relating to financial guarantees and loan commitments	**(20,650)**	4,525
Amounts written off during the year as uncollectible	**(13,690)**	(18,737)
Recoveries of amounts previously written off	**569,415**	1,095,663
Recovery of impairment on investment securities	**71,736**	13,911
	(3,077,041)	(2,559,163)

33 Income tax expense

	2019 $	2018 $
Current tax	**3,366,374**	2,788,764
Prior year release to deferred tax (Note 15)	**-**	(1,812,536)
Deferred tax charge/(credit) (Note 15)	**(1,294,215)**	173,320
	2,072,159	1,149,548

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

	2019 $	2018 $
Profit before income tax	**16,165,640**	14,064,596
Tax calculated at the applicable tax rate of 30%	**4,849,692**	4,219,379
Tax effect of exempt income	**(5,081,771)**	(4,926,546)
Tax effect of expenses not deductible for tax purposes	**3,985,059**	3,637,696
Prior year under statement of deferred tax	**(1,702,091)**	(1,812,536)
Other differences	**21,270**	31,555
	2,072,159	1,149,548

34 Earnings per share

Earnings per share (EPS) are calculated by dividing the profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year. The EPS calculated for 2019 was $0.94 (2018 - $0.86).

35 Cash and cash equivalents

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

	2019 $	2018 $
Cash in hand and balances with ECCB (Note 5)	**103,151,981**	59,723,358
Treasury bills (Note 7)	**10,261,848**	10,290,846
Items in the course of collection with banks (Note 6)	**9,208,745**	12,934,994
Placements with other banks (Note 6)	**192,371,705**	82,966,223
	314,994,279	165,915,421

36 Dividends

A final dividend of $0.47 per share was approved for the year ended 31 December 2019 (2018 - $0.43) subsequent to year end. These dividends have not been paid or recorded as at the date of approval of these financial statements and will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2019 once ratified.

37 Subsequent event

Certain impacts to public health conditions particular to the coronavirus disease 2019 (COVID-19) outbreak that occurred subsequent to year end may have a significant negative impact on the operations and profitability of the Bank. The extent of the impact to the financial performance of Bank will depend on future developments, including but not limited to (i) the duration and spread of the outbreak, (ii) the restrictions and advisories, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are highly uncertain and cannot be predicted. If the financial performance of the Bank is impacted because of these things for an extended period, the Bank's results may be materially adversely affected.

Notes

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