

**Bank of St. Vincent and the Grenadines Ltd.**

Consolidated Financial Statements

For the year ended 31 December 2020  
(Expressed in Eastern Caribbean Dollars)



# Bank of St. Vincent and the Grenadines Ltd.

Index to the Consolidated Financial Statements

**For the year ended 31 December 2020**

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## **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 2020 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 2020, 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.



**Independent Auditor’s Report (continued)**

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

**Key Audit Matters (continued)**

<p><b>Key Audit Matter 1: IFRS 9 Expected Credit Losses – Loans and advances to customers</b></p>	<p><b>How the matter was addressed in our audit</b></p>
<p><i>Refer to Notes 2, 9 and 10 of the consolidated financial statements.</i></p> <p>The Group reported gross loans and advances to customers amounting to \$672,301,072, representing 55% of total assets, and expected credit losses on loans and advances to customers of \$31,236,224.</p> <p>IFRS 9, <i>Financial Instruments</i>, requires the Group to recognise expected credit losses ('ECL') on financial assets, the determination of which is highly subjective and involves many significant judgements and estimates. In view of the level of judgment involved in determining the expected credit losses on loans and advances to customers and the significance of the amount, this is considered a key audit matter.</p> <p>The key areas requiring a greater level of judgement 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.</p>	<p><b>General</b></p> <p>We considered the Group’s process and assessed key activities around the determination of the expected credit loss allowance including:</p> <ul style="list-style-type: none"> <li>- Appropriateness of modelling methodology;</li> <li>- Model approvals;</li> <li>- The identification of credit impairment events; and</li> <li>- The Group’s review, challenge and approval of the expected credit loss allowance, including the impairment model outputs, key judgments and overlays applied. The Group has applied a heightened level of expert judgment in their assessment of the impact of COVID-19 on the ECL allowance.</li> </ul> <p><b>Stage 1 and Stage 2 Loans and advances</b></p> <p>With the support of our internal credit risk specialists, we tested the models focusing on the following aspects:</p> <ul style="list-style-type: none"> <li>• We inspected the impairment model used by the Group for the calculation of expected credit losses. In that respect, we considered whether the model is consistent with the model documentation and in line with industry practice.</li> <li>• We evaluated processes and tested the data on a sample basis that was used to determine expected credit loss including loan data, systems computational logic and computation of PDs and LGDs.</li> </ul>



**Independent Auditor’s Report (continued)**

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

**Key Audit Matters (continued)**

<b>Key Audit Matter 1: IFRS 9 Expected Credit Losses – Loans and advances to customers</b>	<b>How the matter was addressed in our audit</b>
<p>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 significant increase in credit risk but that do not have objective evidence of impairment), 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.</p> <p>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. 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.</p>	<ul style="list-style-type: none"> <li>• We evaluated the reasonableness of the Group’s ECL estimates based on the underlying ECL models produced by the Group. As part of this procedure, we used our own financial risk modelling specialists and economic specialists to assess the methodologies and assumptions employed within the models for reasonableness. This included an assessment of the SICR criteria for loans under the moratorium program and the evaluation of Group’s expert credit judgment in ensuring that amounts recorded were reflective of the credit quality, macroeconomic trends and other factors including the impact of COVID-19. The specialists also assisted us in evaluating the derivation and assumptions selected for probability of default, loss given default and the exposure at default. Additionally, the specialists assisted us in evaluating the appropriateness of the Group’s use of the overlay approach in lieu of a regression model based on the statistical credibility results provided.</li> <li>• We assessed the reasonableness of the overlays derived outside the specific model output including the COVID-19 overlay by developing our own expectation based on knowledge of the Group, experiences in the sector in which the Group operates and specific external data sources.</li> </ul>



**Independent Auditor’s Report (continued)**

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

**Key Audit Matters (continued)**

<b>Key Audit Matter 1: IFRS 9 Expected Credit Losses – Loans and advances to customers</b>	<b>How the matter was addressed in our audit</b>
<p>On the basis of the factors discussed in this key audit matter, we determined that the impairment of loans and advances has a high degree of estimation uncertainty.</p> <p>Disclosures regarding the Group’s application of IFRS 9 are key to understanding the model as well as the explanation of key judgements and material inputs to the IFRS 9 ECL results.</p>	<p><b>Stage 3 Loans and advances</b></p> <ul style="list-style-type: none"> <li>• We critically assessed the criteria for determining whether a credit impairment event had occurred. This involved testing a sample of loan facilities in Stage 1 and 2 for indicators of a credit impairment event based on determined risk characteristics by looking at principal and interest repayment and other Group internal data.</li> <li>• We involved our internal valuation specialists in the evaluation of third-party valuations of the underlying collateral security supporting a sample of loans and advances.</li> <li>• 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 to evaluate the adequacy of the impairment allowance</li> <li>• We re-performed the expected credit loss allowance calculation.</li> </ul> <p><b>Financial statement disclosures</b></p> <p>We assessed the adequacy of the disclosures of the key assumptions and judgements for compliance with the relevant accounting standards.</p>



**Independent Auditor’s Report (continued)**

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

**Key Audit Matters (continued)**

<b>Key Audit Matter 2: Fair Value of Unlisted Investments measured at FVOCI</b>	<b>How our audit addressed the key audit matter</b>
<p><i>Refer to Notes 2, 3 and 8 to the consolidated financial statements.</i></p> <p>At December 31, 2020, unlisted equities measured at FVOCI and classified as Level 3 was \$14,795,412.</p> <p>The Group invests in various investment securities for which no published prices in active markets are available and have been classified as Level 3 assets within the IFRS fair value hierarchy.</p> <p>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 3 assets where valuation techniques are applied in which unobservable inputs are used.</p> <p>These techniques include the use of dividend discount model, comparable company multiples, namely enterprise value to earnings before interest, taxes, depreciation and amortization, price-to-earnings and price-to-tangible book value multiples and adjusted net book value.</p> <p>In view of the complexity of the measurement models, we have determined that our considerations around these investments represent a key audit matter.</p>	<p>As part of our procedures, for those instruments where there are no published prices, we involved our internal valuation specialists in evaluating the appropriateness of the valuation methodologies used by the Group. In particular, we considered the requirements of IFRS, current market practice and the availability of suitable data inputs to determine whether a valuation model is appropriate or continues to be appropriate as at the reporting date.</p> <p>Our valuation experts also considered the appropriateness of the inputs used based our knowledge and experiences in the sector in which the Group operates, and where relevant, agreed these inputs to external data sources.</p> <p>We also involved our internal valuation specialists in performing an independent valuation of the investments to compare to the values derived by the Group; and to recalculate the unrealized gain/(loss) recognized.</p> <p>Using the knowledge from the abovementioned procedures, we also assessed the adequacy of the disclosures provided by the Group in accordance with the relevant accounting standards.</p>



## **Independent Auditor's Report (continued)**

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

### ***Other Information***

Management is responsible for the other information. The other information comprises the Group's 2020 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.

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 2020 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.





**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)***

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.



**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)***

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.

A handwritten signature of the KPMG firm, written in blue ink.

Chartered Accountants  
Kingstown, St. Vincent and the Grenadines  
May 28, 2021.

# Bank of St. Vincent and the Grenadines Ltd.

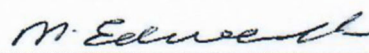
Consolidated Statement of Financial Position

As at 31 December 2020

(Expressed in Eastern Caribbean dollars)

	Notes	2020 \$	2019 \$
<b>Assets</b>			
Cash and balances with Eastern Caribbean Central Bank	5	149,711,324	157,771,167
Deposits with other banks	6	219,184,382	203,656,459
Treasury bills	7	9,998,875	10,261,848
Investment securities	8	120,657,229	80,662,829
Loans and advances to customers	9	641,064,848	603,116,302
Investment security at amortised cost	11	3,569,700	4,177,759
Investment properties	12	2,412,000	2,232,000
Property and equipment	13	55,351,332	54,437,514
Deferred tax asset	15	3,772,347	2,886,326
Other assets	16	8,861,265	7,405,798
<b>Total Assets</b>		<b>1,214,583,302</b>	<b>1,126,608,002</b>
<b>Liabilities</b>			
Deposits due to banks	17	21,196,247	19,274,459
Due to customers	18	990,312,696	910,319,763
Corporation tax payable		2,910,516	1,100,641
Borrowings	19	28,277,449	33,577,708
Provisions and other liabilities	20	38,107,806	36,962,244
<b>Total Liabilities</b>		<b>1,080,804,714</b>	<b>1,001,234,815</b>
<b>Equity</b>			
Share capital	21	20,753,306	20,753,306
Statutory reserves	22	20,753,306	20,753,306
General provision reserves	23	4,907,450	4,542,702
Unrealised gain/(loss) on investments		11,792,233	(41,461)
Retained earnings		75,572,293	79,365,334
<b>Total Equity</b>		<b>133,778,588</b>	<b>125,373,187</b>
<b>Total Liabilities and Equity</b>		<b>1,214,583,302</b>	<b>1,126,608,002</b>

Approved by the Board of Directors on May 28, 2021.

 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 2020

*(Expressed in Eastern Caribbean dollars)*

	Notes	Share Capital \$	Statutory Reserves \$	General Provision Reserves \$	Unrealised Gain/(loss) on Investments \$	Retained Earnings \$	Total \$
<b>Balance at 1 January 2019</b>		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		-	-	-	-	(6,449,933)	(6,449,933)
<b>Balance at 31 December 2019</b>		<b>20,753,306</b>	<b>20,753,306</b>	<b>4,542,702</b>	<b>(41,461)</b>	<b>79,365,334</b>	<b>125,373,187</b>
<b>Balance at 1 January 2020</b>		<b>20,753,306</b>	<b>20,753,306</b>	<b>4,542,702</b>	<b>(41,461)</b>	<b>79,365,334</b>	<b>125,373,187</b>
Total comprehensive income		-	-	-	11,833,694	3,621,634	15,455,328
Transfer to general provision reserves	23	-	-	364,748	-	(364,748)	-
Dividend paid		-	-	-	-	(7,049,927)	(7,049,927)
<b>Balance at 31 December 2020</b>		<b>20,753,306</b>	<b>20,753,306</b>	<b>4,907,450</b>	<b>11,792,233</b>	<b>75,572,293</b>	<b>133,778,588</b>

*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 2020

*(Expressed in Eastern Caribbean dollars)*

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	Notes	2020 \$	2019 \$
Interest income using the effective interest method	25	53,771,347	53,619,655
Interest expense	25	<u>(16,921,241)</u>	<u>(16,150,656)</u>
<b>Net interest income</b>		<b>36,850,106</b>	<b>37,468,999</b>
Fee, commission and other income	26	16,559,123	17,660,427
Dividend income		258,409	365,582
Impairment losses on property and equipment	13	-	(214,506)
Allowances for credit losses on financial assets	29	(11,513,269)	(3,077,041)
Operating expenses	27	<u>(35,788,241)</u>	<u>(36,037,821)</u>
<b>Profit before income tax</b>		<b>6,366,128</b>	<b>16,165,640</b>
Income tax expense	30	<u>(2,744,494)</u>	<u>(2,072,159)</u>
<b>Profit for the year</b>		<b><u>3,621,634</u></b>	<b><u>14,093,481</u></b>
<b>Basic and diluted earnings per share</b>	31	<b>0.24</b>	<b>0.94</b>

*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 2020

*(Expressed in Eastern Caribbean dollars)*

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	Notes	2020 \$	2019 \$
<b>Profit for the year</b>		<u>3,621,634</u>	<u>14,093,481</u>
<b>Other comprehensive income</b>			
<b><i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):</i></b>			
Net change in fair value of equity instruments measured at FVOCI	8	11,747,167	-
<b><i>Other comprehensive income that will be reclassified to profit or loss in subsequent periods (net of tax):</i></b>			
Net change in fair value of debt instruments measured at FVOCI	8	<u>86,527</u>	<u>53,925</u>
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<u>11,833,694</u>	<u>53,925</u>
<b>Total comprehensive income for the year, net of tax</b>		<u>15,455,328</u>	<u>14,147,406</u>

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 2020

(Expressed in Eastern Caribbean dollars)

	Notes	2020 \$	2019 \$
<b>Cash flows from operating activities</b>			
Profit for the year		3,621,634	14,093,481
Adjustments for:			
Interest income – investment securities and deposits		(4,697,693)	(5,840,244)
Interest expense – borrowings		1,480,953	1,827,593
Impairment losses – loans and advances		11,513,838	3,924,735
Changes in fair value investment securities		274,535	(359,691)
Impairment on property and equipment	13	-	214,506
Impairment on investment securities		605,087	(240,883)
Depreciation		2,698,656	2,466,674
Dividend income		(258,409)	(365,582)
Fair value gain on investment property		(180,000)	-
Unrealized gain on foreign exchange		(37)	-
Gain on disposal of property and equipment		-	(33,728)
Income tax expense		2,744,494	2,072,159
		<u>17,803,058</u>	<u>17,759,020</u>
Increase in mandatory deposits with Eastern Caribbean Central Bank		(4,799,576)	(8,589,478)
(Increase)/decrease in loans and advances to customers		(49,462,385)	9,554,595
Increase in other assets		(1,455,467)	(3,396,186)
Increase in due to customers		79,992,933	143,157,971
Increase/(decrease) in deposits due to banks		1,921,788	(18,588,813)
Increase/(decrease) in provisions and other liabilities		1,145,562	(2,671,131)
		<u>45,145,913</u>	<u>137,225,978</u>
Dividends received		258,409	365,582
Interest received		4,366,587	5,827,969
Interest paid		(1,480,953)	(1,852,771)
Income tax paid		(1,820,639)	(2,930,395)
<b>Net cash from operating activities</b>		<u>46,469,317</u>	<u>138,636,363</u>
<b>Cash flows from investing activities</b>			
(Increase)/decrease in interest bearing deposits with financial institutions		(8,173,687)	20,873,152
Proceeds from disposal and redemption of investment securities	8	44,239,682	41,516,094
Purchase of investment securities	8	(72,340,808)	(36,751,017)
Purchase of property and equipment	13	(3,612,474)	(4,109,660)
Proceeds from disposal of property and equipment		-	45,000
<b>Net cash (used in)/from investing activities</b>		<u>(39,887,287)</u>	<u>21,573,569</u>

## Bank of St. Vincent and the Grenadines Ltd.

Consolidated Statement of Cash Flows...continued

For the year ended 31 December 2020

(Expressed in Eastern Caribbean dollars)

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	Notes	2020 \$	2019 \$
<b>Cash flows from financing activities</b>			
Dividends paid		(7,049,927)	(6,449,933)
Repayment of borrowings		<u>(5,300,259)</u>	<u>(4,681,141)</u>
<b>Net cash used in financing activities</b>		<u>(12,350,186)</u>	<u>(11,131,074)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(5,768,156)	149,078,858
<b>Cash and cash equivalents at beginning of year</b>		<u>314,994,279</u>	<u>165,915,421</u>
<b>Cash and cash equivalents at end of year</b>	32	<u>309,226,123</u>	<u>314,994,279</u>

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



# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

*(Expressed in Eastern Caribbean dollars)*

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## 1. Reporting entity

Bank of St. Vincent and the Grenadines Ltd. (“the Bank”), (formerly the National Commercial Bank (SVG) Ltd.) a company listed on the Eastern Caribbean Securities Exchange, was incorporated in St. Vincent and the Grenadines on 1 June 1977. On 19 June 2009, the Bank and the St. Vincent and the Grenadines Development Bank Inc. were amalgamated and continued under the name of the National Commercial Bank (SVG) Ltd. The Bank’s name was changed to Bank of St. Vincent and the Grenadines Ltd. on 26 November 2012. In addition to the Company’s Act of 1994, the Bank is subject to the provisions of the Banking Act 2015, the Securities Act No. 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.

### 2.1 Basis of accounting

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) as at 31 December 2020 (the reporting date).

The consolidated financial statements for the year ended 31 December 2020 were approved by the Board of Directors for issue on May 28, 2021.

### 2.2 Basis of measurement

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
- Equity instruments designated at fair value through other comprehensive income
- Debt instruments measured at fair value through other comprehensive income

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.

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

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*(Expressed in Eastern Caribbean dollars)*

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

### 2.2 Basis of measurement...continued

#### **Application of the going concern principle considering the impact of COVID-19**

The Board (and its sub committees) has assessed the Group's budgets and cash flow forecasts in considering the Group's going concern assumption in respect to the existing and expected future economic impact of the COVID 19 pandemic. This included the impact that projected cashflows will have on the Group's liquidity risk, credit risk, interest rate risk, regulatory capital and market risks, as well as other related risks; all of which have remained within the risk parameters of the Group's risk appetite framework.

The assessment entailed the consideration of the adequacy of the Group's capital and liquidity to meet its operations and strategies during the pandemic and in the foreseeable future. This was done by analyzing the impact of the macro economic outlook on the Group's forecast growth in earnings and Balance Sheet management to determine the impact to the Group's financial outlook and operations. Multiple scenarios were completed, and tested for sensitivity. The assessment undertaken by the Group demonstrated a positive future outlook for the Group. The going concern assumptions continues to apply and is applicable.

### 2.3 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 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Management anticipates that all the relevant pronouncement will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not adopted or listed below are not expected to have a material impact on the Group's financial statements.

#### **Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**

In August 2020 the IASB published the second phase of its amendments to IFRS concerning the global initiative to replace or reform Interbank Offered Rates (LIBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. Phase 2 focuses on issues expected to affect financial reporting when an existing IBOR is replaced with an alternative risk free rate (RFR).

The phase 2 amendments contain a practical expedient which requires changes to the basis for determining contractual cash flows as a direct result of interest rate benchmark reform to be treated as a change in floating interest rate, provided that the transition from the IBOR benchmark to the alternative RFR takes place on an economically equivalent basis. This may include the addition of a fixed spread to compensate for a basis difference between the existing IBOR benchmark and the alternative RFR, changes to reset period, reset dates or number of dates between coupon payment dates that are necessary to effect reform of an IBOR benchmark and the addition of any fallback provision to the contractual terms of a financial instrument that allow any of the above changes to be made.

Any other change to contractual terms would be assessed under the Group's accounting policies for loan modifications, including an assessment of whether derecognition of the original instrument is required.

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

### 2.3 New and amended standards and interpretations...continued

#### **Interest Rate Benchmark Reform-Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16...continued**

The amendments also provide reliefs which allow change to hedge designations and corresponding documentation without the hedge relationship being discontinued. These include the ability to:

- Redefine the description of the hedged item and or hedging instrument
- Redefine the hedged risk to reference an alternative RFR
- Change the method for assessing hedge effectiveness due to modifications required by IBOR reform
- Elect, on a hedge by hedge basis, to reset the cumulative fair value changes in the assessment of retrospective hedge effectiveness to zero

A hedge designation may be modified more than once, each time a relationship is affected as a direct result of IBOR reform (for example, if the hedged item and hedging instrument are repapered into the alternative RFR at different times).

Where an alternative RFR designated as a non-contractually specified risk portion is not separately identifiable i.e. fair value hedge of a fixed rate debt instrument, the Group may assume that the alternative RFR is deemed to have met that requirement provided it reasonably expected the alternative RFR will be separately identifiable within 24 months.

The 24-month period begins individually for each benchmark, but if it is subsequently assessed that the alternative RFR is no longer expected to be separately identifiable within 24 months of the first hedge designation of a benchmark, then all hedges for that benchmark are discontinued prospectively.

The amendments are intended to support the provision of useful financial information during the period of uncertainty arising from the phasing out of IBORs.

The standard is effective for reporting periods beginning on or after January 1, 2020. This standard did not have any impact on the Group.

#### **Amendments to IAS 3 Definition of a *Business Combination* (Amendments to IFRS 3)**

The amendments to the definition of a Business aims at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.

The amendments are changes to Appendix A defined terms, the application guidance and the illustrative examples of IFRS 3 only and include:

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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

### 2.3 New and amended standards and interpretations...continued

#### **Amendments to IAS 3 Definition of a Business Combination (Amendments to IFRS3)...continued**

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisition that occur on or after the beginning of that period. Earlier adoption is permitted.

The amendments are effective for annual reporting periods beginning on or after 1 January, 2022 and are to be applied retrospectively. Earlier application is permitted.

#### **Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and errors**

The IASB issued "Definition of Material" (Amendments to IAS 1 and IAS 8) to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the accounting standards. The changes seek to ensure a consistent definition of materiality throughout the IFRS and the Conceptual Framework for financial reporting. The revised definition of "material" from the amendments is as follows:

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.

Three critical aspects of the amended definition must be noted:

1. Obscuring – the existing definition focused on omitting or misstating information however, the revised definition goes further by indication that obscuring material information with information that can be omitted has the same effect.
2. Could reasonably be expected to influence – the existing definition referred to 'could influence' which was seen as too broad as almost anything could influence the decisions of some users even if the possibility is remote.
3. Primary users – the existing definition referred to "users" which is seen as too broad as it suggests that all possible users of the financial statements must be considered when information is being disclosed in the financial statements.

The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

### 2.4 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 financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. The new and amended standards and interpretations are not expected have a significant impact on the Group's consolidated financial statements.

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

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

#### **Amendments to IAS 16 Property, Plant and Equipment**

Property, plant and equipment – Proceeds before intended use (Amendment to IAS 16) amends the standard to prohibit from deducting from the cost of an item of property, plant and equipment amounts received from selling items produced while preparing the item for its intended use. Instead the proceeds from selling such items and the cost of producing those items must be recognized in profit or loss.

The change is effective for annual periods beginning 1 January 2022.

#### **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets**

On 14 May 2020, the IASB published Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) amending the standard regarding costs a company should include as the costs of fulfilling a contract when assessing whether a contract is onerous. The amendments are effective for contracts for which all of the obligations have not yet been fulfilled.

The amendments are effective for annual periods beginning on or after 1 January 2022. Earlier adoption is permitted.

#### **Amendment to IFRS 3 Business Combinations**

On 14 May 2020, the IASB published Reference to the Conceptual Framework (Amendments to IFRS 3) updating a reference to the Conceptual Framework. IFRS 3 specifies how an entity should account for the assets and liabilities it acquires when it obtains control of a business. IFRS 3 requires an entity to refer to the Conceptual Framework for Financial Reporting to determine what constitutes an asset or a liability.

The amendments are effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted.

#### **IFRS 17 Insurance Contracts**

IFRS 17 *Insurance Contracts* establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. An entity shall apply IFRS 17 to:

- Insurance contracts including reinsurance contracts, it issues;
- Reinsurance contracts it holds; and
- Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

The standard is effective for reporting periods beginning on or after 1 January 2021. The standard is not expected to have a material impact on the financial statements of the Group.

#### **IFRS 9, Financial Instruments – Fees in the “10 per cent” test for derecognition of financial liabilities**

The amendment forms part of the annual improvement to IFRSs 2018-2020 cycle and clarifies which fees are to be included when the “10 per cent” test in assessing whether to derecognize a financial liability. The amendment provides that an entity includes only fees paid or received between the entity (borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

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

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

The amendment is effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

#### **Amendments to IAS 1 Presentation of Financial Statements**

On 23 January 2020, the IASB issued an amendment to IAS 1 providing clarification on how to classify liabilities as current or non-current. The classification depends on the right that exists at the end of the reporting period. The amendments are intended to merely clarify the existing requirements contained in paragraph 69 and 76 of IAS 1. The main changes to the classification requirements include:

- Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendment no longer refers to unconditional rights as the requirement for an 'unconditional' right has been deleted from paragraph 69(d)
- Classification is based on the right to defer settlement, and not intention (paragraph 73), and
- If a liability could be settled by an entity transferring its own equity instruments prior to maturity (e.g. a convertible bond), classification is determined without considering the possibility of earlier settlement by conversion to equity, but only if the conversion feature is classified as equity under IAS 32.

The amendments are effective for annual reporting periods beginning on or after 1 January, 2022 and are to be applied retrospectively. Earlier application is permitted.

#### **COVID-19 Related Rent Concessions - Amendment to IFRS 16**

Effective for annual periods beginning on or after 1 June 2020.

#### **Key requirements**

In May 2020, the IASB amended IFRS 16 *Leases* to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. The amendment does not apply to lessors.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2021 and increased lease payments that extend beyond 30 June 2021).
- There is no substantive change to other terms and conditions of the lease.

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

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

#### COVID-19 Related Rent Concessions - Amendment to IFRS 16...continued

##### Transition

Lessees will apply the practical expedient retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the amendment is first applied.

The information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is not required to be disclosed.

A lessee will apply the amendment for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020.

##### Impact

The amendment to IFRS 16 will provide relief to lessees for accounting for rent concessions from lessors specifically arising from the COVID-19 pandemic. While lessees that elect to apply the practical expedient do not need to assess whether a concession constitutes a modification, lessees still need to evaluate the appropriate accounting for each concession as the terms of the concession granted may vary.

#### Reference to the Conceptual Framework - Amendments to IFRS 3

Effective for annual periods beginning on or after 1 January 2022.

##### Key requirements

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations* - Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's *Conceptual Framework* (the 1989 Framework) with a reference to the current version issued in March 2018 (the *Conceptual Framework*) without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the *Conceptual Framework*, to determine whether a present obligation exists at the acquisition date.

At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

##### Transition

The amendments must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the *Amendments to References to the Conceptual Framework* in IFRS Standards (March 2018).

##### Impact

The amendments are intended to update a reference to the *Conceptual Framework* without significantly changing requirements of IFRS 3. The amendments will promote consistency in financial reporting and avoid potential confusion from having more than one version of the *Conceptual Framework* in use.

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

### 2.5 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 2020. 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 2020.

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.



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

### 2.5 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.

#### **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.

# Bank of St. Vincent and the Grenadines Ltd.

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

### 2.5 Consolidation...continued

#### Transactions with non-controlling interests...continued

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

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

### 2.6 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 of 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.

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

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

### **2.6 Fair value measurement...continued**

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.

### **2.7 Financial assets and liabilities**

#### **a) Recognition and initial measurement**

The Group initially recognises financial assets 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.

The Group classifies all of its financial assets into one of the following categories as explained in note 2.7(b):

- Amortised cost,
- FVTPL, or
- FVOCI.

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

#### **b) Classification of Financial Instruments**

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

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

### 2.7 Financial assets and liabilities...continued

#### b) Classification of Financial Instruments...continued

Classification Category	Instruments	Measurement Category	Recognition at FVTPL	Recognition at FVOCI
Amortised cost	<b>Assets</b> <ul style="list-style-type: none"> <li>• Cash and cash equivalents</li> <li>• Loans and advances to customers</li> <li>• Debt securities held to collect</li> <li>• Deposits with other banks</li> </ul> <b>Liabilities</b> <ul style="list-style-type: none"> <li>• Deposits due to banks</li> <li>• Due to customers</li> <li>• Borrowings</li> <li>• Other liabilities</li> </ul>	Amortised cost	<ul style="list-style-type: none"> <li>• Interest income</li> <li>• Interest expense</li> <li>• ECLs and reversals</li> </ul>	
Fair value through other comprehensive income	<ul style="list-style-type: none"> <li>• Equity instruments</li> <li>• Debt instruments</li> </ul>	Fair value	<ul style="list-style-type: none"> <li>• Dividend income</li> <li>• ECLs and reversals</li> </ul>	Unrealised gains/losses from fair value changes
Fair value through profit or loss	<ul style="list-style-type: none"> <li>• Equity instruments</li> <li>• Debt instruments</li> </ul>	Fair value	<ul style="list-style-type: none"> <li>• Gains or losses from fair value changes</li> <li>• ECLs and reversals</li> <li>• Dividend income</li> </ul>	

#### 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 these 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.

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

### 2.7 Financial assets and liabilities...continued

#### b) Classification of Financial Instruments...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.

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

### 2.7 Financial assets and liabilities...continued

#### b) Classification of Financial Instruments...continued

##### 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.

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.

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

### 2.7 Financial assets and liabilities...continued

#### b) Classification of Financial Instruments...continued

##### 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.

##### 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 designated 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 designated 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 held 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.

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

### 2.7 Financial assets and liabilities...continued

#### b) Classification of Financial Instruments...continued

##### **Financial liabilities**

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

##### **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.

#### c) 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.



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

### 2.7 Financial assets and liabilities...continued

#### c) Derecognition of financial assets and liabilities...continued

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.

#### d) 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;
- loans and advances to customers;
- 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.

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

### 2.7 Financial assets and liabilities...continued

#### d) Impairment of financial assets...continued

##### *Expected credit loss impairment model...continued*

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

- Stage 1 – 12 month ECL

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.

- Stage 2 – Lifetime ECL, not credit impaired

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

- Stage 3 – Credit impaired

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

##### *Measurement of expected credit loss*

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

# Bank of St. Vincent and the Grenadines Ltd.

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

### 2.7 Financial assets and liabilities...continued

#### d) Impairment of financial assets...continued

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.

#### **Incorporation of forward-looking information**

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

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

### 2.7 Financial assets and liabilities...continued

#### d) Impairment of financial assets...continued

##### **Macroeconomic factors**

The standard also requires incorporation of macroeconomic factors in models for ECLs. In its models, the Group conducted an assessment of a broad range of forward-looking economic information as possible inputs, such as: GDP growth, unemployment rates, and 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.

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

### 2.7 Financial assets and liabilities...continued

#### d) Impairment of 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.

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

### 2.7 Financial assets and liabilities...continued

#### d) Impairment of financial assets...continued

##### **Credit impaired (or defaulted) exposures (Stage 3)...continued**

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

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

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

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

##### **Definition of default**

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

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

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

### 2.7 Financial assets and liabilities...continued

#### d) Impairment of financial assets...continued

##### **Improvement in credit risk/curing**

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

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

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

A forbore 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 forbore 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.

# Bank of St. Vincent and the Grenadines Ltd.

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

### 2.7 Financial assets and liabilities...continued

#### d) Impairment of financial assets...continued

##### **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.

#### e) Modified financial assets

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

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

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

#### f) 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.



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

### 2.7 Financial assets and liabilities...continued

#### f) Write offs of credit impaired assets and reversal of impairment...continued

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets 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.

##### (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.

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

### 2.7 Financial assets and liabilities...continued

#### g) 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.

### 2.8 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).

### 2.9 Property and equipment

#### (a) Recognition and measurement

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.

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

#### (b) Subsequent costs

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.

#### (c) Depreciation

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%

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

### 2.9 Property and equipment...continued

#### (c) Depreciation...continued

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.

### 2.10 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.

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

### 2.11 Income tax

#### (a) 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.

#### (b) Deferred tax

Deferred income tax is provided in full on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the 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.

Deferred tax assets and liabilities are only offset if certain criteria are met.

### 2.12 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.

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

### 2.13 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.

### 2.14 Employee benefits

#### (a) Defined contribution pension plan

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 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.

#### (b) Short term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in other liabilities and accrued expenses, measured at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

### 2.15 Financial guarantees and loan commitments

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

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

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

### 2.16 Share capital

#### (a) 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.

#### (b) 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.

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

*(Expressed in Eastern Caribbean dollars)*

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

### 2.17 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.

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.

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

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*(Expressed in Eastern Caribbean dollars)*

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

### 2.18 Foreign currency translation

#### (a) 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.

#### (b) Transactions and balances

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

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

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

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as 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.

### 2.19 Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

#### **As a lessee**

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

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*(Expressed in Eastern Caribbean dollars)*

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

### 2.19 Leases...continued

#### *As a lessee...continued*

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets and lease liabilities separately in the statement of financial position.



# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

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

### 2.19 Leases...continued

#### **Short-term leases and leases of low-value assets**

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

## 3. Financial risk management

### **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.

#### **(a) Strategy in using financial instruments**

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

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

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

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

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

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

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## 3. Financial risk management...continued

### (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.

#### ***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.

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

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*(Expressed in Eastern Caribbean dollars)*

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## 3. Financial risk management...continued

### (b) Credit risk...continued

#### ***Cash and balances with banks and other financial institutions***

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.

#### ***Risk limit control and mitigation policies***

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

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

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

Some other specific control and mitigation measures are outlined below.

#### **Collateral**

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

- Mortgages over residential properties;
- Charges over business assets such as 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.

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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## 3. Financial risk management...continued

### (b) Credit risk...continued

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

#### ***Collateral...continued***

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.

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.

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

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## 3. Financial risk management...continued

### (b) Credit risk...continued

#### *Impairment and provisioning policies...continued*

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 33).

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

#### **COVID-19 Impact**

The COVID-19 pandemic's significant impact to the economy resulted in continued uncertainty on timing of recovery. This required additional considerations to determine the allowance for credit losses.

IFRS 9 requires the consideration of past events, current conditions and reasonable and supportable forward-looking information over the life of the exposure to measure expected credit losses. Furthermore, to assess significant increase in credit risk, the Standard requires that entities assess changes in the risk of a default occurring over the expected life of a financial instrument when determining staging. The IASB and global regulators issued guidance for entities, consistent with IFRS 9, to consider the exceptional circumstances of the COVID-19 pandemic. This includes consideration of significant government support and the high degree of uncertainty around historical long-term economic trends used in determining reasonable and supportable forward-looking information.

Expert credit judgement is applied to consider the exceptional circumstances this period, including consideration of government assistance programs, in the assessment of underlying credit deterioration and migration of balances to progressive stages.

Consistent with requirements of IFRS 9, the Group considered both quantitative and qualitative information in the assessment of significant increase in risk. First time utilization of a payment deferral program was not considered an immediate trigger, in keeping with IASB and regulatory guidance, for an account to migrate to a progressive stage, given the purpose of these programs is to provide temporary cashflow relief to the Bank's customers. Early observations of payment behaviour of expiries for this year were considered in the assessment of the longer-term probability of the customers' ability to pay, a key input in determining migration.

# Bank of St. Vincent and the Grenadines Ltd.

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## 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	
	2020	2019
	\$	\$
Deposit with Central Bank	130,326,268	133,109,009
Deposits with other banks	219,184,382	203,656,459
Treasury bills	9,998,875	10,261,848
Investment securities	120,657,229	80,662,829
Loans and advances to customers:		
– Overdrafts	65,319,618	44,672,723
– Term loans	77,182,173	85,707,903
– Large corporate loans	169,823,718	129,233,878
– Mortgage loans	326,241,506	340,733,704
– Credit cards	2,497,833	2,768,094
Investments security at amortised cost	3,569,700	4,177,759
Other assets	6,924,753	5,472,708
	<u>1,131,726,055</u>	<u>1,040,456,914</u>

#### **Credit risk exposures relating to the financial assets**

Guarantees and letters of credit	390,000	40,000
Loan commitments	8,313,500	8,456,350
	<u>8,703,500</u>	<u>8,496,350</u>
	<u>1,140,429,555</u>	<u>1,048,953,264</u>

The above table represents a worst-case scenario of credit risk exposure to the Group at 31 December 2020 and December 2019, without taking account of any collateral held or other credit enhancements attached. For assets included “on” statement of financial position, the exposures set out above are based on net amounts.

As shown above 57% (2019 – 57%) of the total maximum exposure is derived from loans and advances to customers; 11% (2019 – 8%) represents investments in debt securities.

# Bank of St. Vincent and the Grenadines Ltd.

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## 3. Financial risk management...continued

### (b) Credit risk...continued

#### Maximum exposure to credit risk...continued

##### Collateral

The value of identifiable collateral for credit impaired loans and advances was \$102,382,442 (2019 - \$98,271,456).

	Total \$	Over collateralised \$	Under collateralised \$	Cash collateral \$	No collateral \$
<b>31 December 2020</b>					
Loans and advances	44,352,646	36,424,612	3,881,899	1,299,758	2,746,377
Collateral (FV)	102,382,442	98,248,767	2,833,917	1,299,758	-
<b>31 December 2019</b>					
Loans and advances	40,564,191	34,168,813	3,361,546	2,006,105	1,027,727
Collateral (FV)	98,271,456	93,994,349	2,271,002	2,006,105	-

#### Analysis of credit quality

##### Loans and advances to customers

	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	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
Gross exposure	465,008,399	520,621,690	162,940,027	61,766,711	44,352,646	40,564,191
Less allowance for impairment on loans and advances	(2,701,142)	(3,312,146)	(10,329,380)	(1,446,934)	(18,205,702)	(15,077,210)
<b>Net exposure</b>	<b>462,307,257</b>	<b>517,309,544</b>	<b>152,610,647</b>	<b>60,319,777</b>	<b>26,146,944</b>	<b>25,486,981</b>

The total credit impairment for loans and advances to customers is \$31,236,224 (2019 - \$19,836,290) of which \$18,205,702 (2019 - \$15,077,210) represents the individually impaired loans (stage 3) and the remaining amount of \$13,030,522 (2019: \$4,759,080) represents the credit impairment for stage 1 and stage 2 loans. 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 (stage 1)

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

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(Expressed in Eastern Caribbean dollars)

## 3. Financial risk management...continued

### (b) Credit risk...continued

#### Analysis of credit quality...continued

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 \$
<b>At 31 December 2020</b>	<b>15,180,074</b>	<b>66,095,038</b>	<b>251,350,543</b>	<b>129,864,427</b>	<b>2,518,317</b>	<b>465,008,399</b>
<b>At 31 December 2019</b>	<b>7,522,341</b>	<b>78,032,783</b>	<b>311,267,267</b>	<b>120,996,293</b>	<b>2,803,006</b>	<b>520,621,690</b>

Loans and advances to customers lifetime expected credit losses not credit impaired (stage 2)

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

	Overdrafts \$	Term Loans \$	Mortgage Loans \$	Large Corporate Loans \$	Credit Cards \$	Total \$
<b>At 31 December 2020</b>	<b>51,237,646</b>	<b>11,378,641</b>	<b>63,797,438</b>	<b>36,486,948</b>	<b>39,354</b>	<b>162,940,027</b>
<b>At 31 December 2019</b>	<b>37,826,966</b>	<b>3,385,820</b>	<b>15,359,205</b>	<b>5,173,576</b>	<b>21,144</b>	<b>61,766,711</b>

Loans and advances to customers lifetime expected credit losses credit impaired (stage 3)

	Overdrafts \$	Term Loans \$	Mortgage Loans \$	Large Corporate Loans \$	Credit Cards \$	Total \$
<b>At 31 December 2020</b>	<b>1,579,700</b>	<b>7,012,231</b>	<b>17,229,565</b>	<b>18,401,457</b>	<b>129,693</b>	<b>44,352,646</b>
<b>At 31 December 2019</b>	<b>1,344,476</b>	<b>6,999,171</b>	<b>18,232,814</b>	<b>13,830,202</b>	<b>157,528</b>	<b>40,564,191</b>



# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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## 3. Financial risk management...continued

### (b) Credit risk...continued

#### *Analysis of credit quality...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 2020 and 2019, based on Standard & Poor's and Caricris ratings:

	Treasury bills \$	Investment securities at amortised cost \$	Investment securities at FVOCI	Investment securities- bonds at amortised cost \$	Total \$
<b>At 31 December 2020</b>					
AA- to A+	-	-	544,247	-	544,247
Lower than A+	9,998,875	54,022,172	4,256,937	3,569,700	71,847,684
Unrated	-	17,791,219	-	-	17,791,219
	<u>9,998,875</u>	<u>71,813,391</u>	<u>4,801,184</u>	<u>3,569,700</u>	<u>90,183,150</u>

	Treasury bills \$	Investment securities at amortised cost \$	Investment securities at FVOCI	Investment securities- bonds at amortised cost \$	Total \$
<b>At 31 December 2019</b>					
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
	<u>10,261,848</u>	<u>57,193,208</u>	<u>15,618,531</u>	<u>4,177,759</u>	<u>87,251,346</u>

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

##### *Geographical sectors*

The Group operates primarily in St. 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 considering any collateral held or other credit support by the industry sectors of the Group's counterparties.

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(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	130,326,268	-	-	-	-	-	-	130,326,268
Deposits with other banks	219,184,382	-	-	-	-	-	-	219,184,382
Treasury bills	-	-	-	9,998,875	-	-	-	9,998,875
Investment securities:								
- At amortised cost	24,828,271	-	-	39,560,050	-	-	7,425,070	71,813,391
- At FVOCI	18,506,181	-	-	544,247	-	-	546,168	19,596,596
- At FVTPL	8,446,299	-	-	-	-	-	20,800,943	29,247,242
Loans and advances to customers:								
- Large corporate loans	13,339	2,131,304	5,745,399	80,490,518	7,998,287	5,409,871	68,035,000	169,823,718
- Term loans	-	31,742	-	-	63,539	75,773,659	1,313,233	77,182,173
- Mortgages loans	-	-	-	-	553,131	23,377,131	302,311,244	326,241,506
- Overdrafts	148	536,050	907,120	47,399,820	973,155	3,263,477	12,239,848	65,319,618
- Credit cards	2,232	-	-	134	23,103	2,444,064	28,300	2,497,833
Investment security at amortised cost	-	-	-	3,569,700	-	-	-	3,569,700
Other assets	-	-	-	-	-	-	6,924,753	6,924,753
<b>At 31 December 2020</b>	<b>401,307,120</b>	<b>2,699,096</b>	<b>6,652,519</b>	<b>181,563,344</b>	<b>9,611,215</b>	<b>110,268,202</b>	<b>419,624,559</b>	<b>1,131,726,055</b>
Guarantees, letters of credit and loan commitments	-	-	-	-	1,545,000	6,120,500	1,038,000	8,703,500

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(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	133,109,009	-	-	-	-	-	-	133,109,009
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	-	-	-	-	-	5,856,634	8,904,842
- At FVTPL	894,375	-	-	-	-	-	13,670,404	14,564,779
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	6,196,773	44,672,723
- Credit cards	-	-	9,507	-	6,507	2,746,566	5,514	2,768,094
Investment security at amortised cost	-	-	-	4,177,759	-	-	-	4,177,759
Other assets	-	-	-	-	-	-	5,472,708	5,472,708
<b>At 31 December 2019</b>	<b>371,668,490</b>	<b>5,370,012</b>	<b>8,159,212</b>	<b>129,201,292</b>	<b>14,868,074</b>	<b>442,961,773</b>	<b>68,228,061</b>	<b>1,040,456,914</b>
Guarantees, letters of credit and loan commitments	-	120,500	-	-	661,000	6,488,850	1,226,000	8,496,350

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

*(Expressed in Eastern Caribbean dollars)*

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## 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.

### (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.

## Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

*(Expressed in Eastern Caribbean dollars)*

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

#### (d) Currency risk...continued

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
<b>As at 31 December 2020</b>								
<b>Financial assets</b>								
Cash and balances with ECCB	145,663,149	1,737,890	424,987	606,450	258,829	762,739	257,280	149,711,324
Deposit with other banks	9,000,739	206,072,954	106,013	1,682,017	1,012,162	412,393	898,104	219,184,382
Treasury bills	9,998,875	-	-	-	-	-	-	9,998,875
Investment securities:								
– at amortised cost	67,481,583	4,331,808	-	-	-	-	-	71,813,391
– at FVOCI	14,795,411	4,801,185	-	-	-	-	-	19,596,596
– at FVTPL	-	28,572,242	675,000	-	-	-	-	29,247,242
Loans and advances to customers	641,064,848	-	-	-	-	-	-	641,064,848
Investment security at amortised cost	3,569,700	-	-	-	-	-	-	3,569,700
Other assets	6,924,753	-	-	-	-	-	-	6,924,753
<b>Total financial assets</b>	<b>898,499,058</b>	<b>245,516,079</b>	<b>1,206,000</b>	<b>2,288,467</b>	<b>1,270,991</b>	<b>1,175,132</b>	<b>1,155,384</b>	<b>1,151,111,111</b>

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

*(Expressed in Eastern Caribbean dollars)*

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## 3. Financial risk management...continued

### (d) Currency risk...continued

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
<b>As at 31 December 2020</b>								
<b>Financial liabilities</b>								
Deposits due to banks	21,196,247	-	-	-	-	-	-	21,196,247
Due to customers	941,533,802	46,903,663	-	1,871,081	1,367	2,783	-	990,312,696
Borrowings	11,430,771	16,846,678	-	-	-	-	-	28,277,449
Provisions and other liabilities	38,107,806	-	-	-	-	-	-	38,107,806
<b>Total financial liabilities</b>	<b>1,012,268,626</b>	<b>63,750,341</b>	<b>-</b>	<b>1,871,081</b>	<b>1,367</b>	<b>2,783</b>	<b>-</b>	<b>1,077,894,198</b>
<b>Net (liabilities) assets</b>	<b>(113,769,568)</b>	<b>181,765,738</b>	<b>1,206,000</b>	<b>417,386</b>	<b>1,269,624</b>	<b>1,172,349</b>	<b>1,155,384</b>	<b>73,216,913</b>
<b>Guarantees, letters of credit and loan commitments</b>	<b>8,703,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,703,500</b>

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

*(Expressed in Eastern Caribbean dollars)*

## 3. Financial risk management...continued

### (d) Currency risk...continued

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
<b>As at 31 December 2019</b>								
<b>Financial assets</b>								
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	5,856,634	-	375	-	-	-	8,904,842
– at FVTPL	-	13,670,404	894,375	-	-	-	-	14,564,779
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
<b>Total financial assets</b>	<b>858,486,392</b>	<b>201,666,690</b>	<b>1,457,034</b>	<b>703,799</b>	<b>1,565,936</b>	<b>861,325</b>	<b>375,223</b>	<b>1,065,116,399</b>

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

*(Expressed in Eastern Caribbean dollars)*

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## 3. Financial risk management...continued

### (d) Currency risk...continued

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
<b>As at 31 December 2019</b>								
<b>Financial liabilities</b>								
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
<b>Total financial liabilities</b>	<b>906,916,545</b>	<b>93,034,819</b>	<b>-</b>	<b>1,050,814</b>	<b>229,919</b>	<b>2,718</b>	<b>-</b>	<b>1,001,234,815</b>
<b>Net (liabilities) assets</b>	<b>(48,430,153)</b>	<b>108,631,871</b>	<b>1,457,034</b>	<b>(347,015)</b>	<b>1,336,017</b>	<b>858,607</b>	<b>375,223</b>	<b>63,881,584</b>
<b>Guarantees, letters of credit and loan commitments</b>	<b>8,496,350</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,496,350</b>



# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in Eastern Caribbean dollars)

## 3. Financial risk management...continued

### (e) Interest rate risk

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

	Up to 1 month \$	1 – 3 months \$	3 – 12 months \$	1 – 5 years \$	Over 5 years \$	Non-interest bearing \$	Total \$
<b>As at 31 December 2020</b>							
<b>Financial assets</b>							
Cash and balances with ECCB	-	-	-	-	-	149,711,324	149,711,324
Deposits with other banks	13,506,469	2,753,614	10,249,696	-	-	192,674,603	219,184,382
Treasury bills	-	9,998,875	-	-	-	-	9,998,875
Investment securities:							
– at amortised cost	-	6,030,267	15,855,100	21,326,954	28,601,070	-	71,813,391
– at FVTPL	-	-	-	-	-	29,247,242	29,247,242
– at FVOCI	-	4,808,181	-	-	-	14,788,415	19,596,596
Loans and advances to customers	40,547,760	57,908,898	13,749,777	81,931,207	446,927,206	-	641,064,848
Investment security at amortised cost	-	-	-	-	3,569,700	-	3,569,700
Other assets	-	-	-	-	-	6,924,753	6,924,753
<b>Total financial assets</b>	<b>54,054,229</b>	<b>81,499,835</b>	<b>39,854,573</b>	<b>103,258,161</b>	<b>479,097,976</b>	<b>393,346,337</b>	<b>1,151,111,111</b>
<b>Financial liabilities</b>							
Deposits due to banks	-	-	16,443,608	-	-	4,752,639	21,196,247
Due to customers	696,060,440	25,398,356	74,590,194	-	-	194,263,706	990,312,696
Borrowings	679,260	855,697	4,110,698	15,592,160	7,039,634	-	28,277,449
Provisions and other liabilities	7,578,924	-	-	-	-	30,528,882	38,107,806
<b>Total financial liabilities</b>	<b>704,318,624</b>	<b>26,254,053</b>	<b>95,144,500</b>	<b>15,592,160</b>	<b>7,039,634</b>	<b>229,545,227</b>	<b>1,077,894,198</b>
<b>Net interest re-pricing gap</b>	<b>(650,264,395)</b>	<b>55,245,782</b>	<b>(55,289,927)</b>	<b>87,666,001</b>	<b>472,058,342</b>	<b>163,801,110</b>	<b>73,216,913</b>

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in Eastern Caribbean dollars)

## 3. Financial risk management...continued

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

	Up to 1 month \$	1 – 3 months \$	3 – 12 months \$	1 – 5 years \$	Over 5 years \$	Non-interest bearing \$	Total \$
<b>As at 31 December 2019</b>							
<b>Financial assets</b>							
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	-	-	-	-	-	14,564,779	14,564,779
– at FVOCI	-	-	-	-	-	8,904,842	8,904,842
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
<b>Total financial assets</b>	<b>15,036,938</b>	<b>80,986,762</b>	<b>42,467,209</b>	<b>80,715,607</b>	<b>488,857,090</b>	<b>357,052,793</b>	<b>1,065,116,399</b>
<b>Financial liabilities</b>							
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
<b>Total financial liabilities</b>	<b>598,048,201</b>	<b>32,417,336</b>	<b>98,486,050</b>	<b>19,092,738</b>	<b>8,993,309</b>	<b>244,197,181</b>	<b>1,001,234,815</b>
<b>Net interest re-pricing gap</b>	<b>(583,011,263)</b>	<b>48,569,426</b>	<b>(56,018,841)</b>	<b>61,622,869</b>	<b>479,863,781</b>	<b>112,855,612</b>	<b>63,881,584</b>

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in Eastern Caribbean dollars)

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## 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.

	2020	2019
<b>Loans and advances to customers:</b>		
- Overdrafts	7.5%-14%	8% -14%
- Term loans	4.5%-14%	4.5%-14%
- Large corporate loans	5.4% -14%	6%-14%
- Mortgage loans	4.5%-14%	4.5%-14%
- Credit cards	19.5%	19.5%
<b>Investment security at amortised cost</b>	<b>6.75%</b>	<b>6.75%</b>
<b>Investment securities:</b>		
Government treasury bills and bonds	3%-7%	3%-7.5%
Other securities	1.5%-7.9%	2.25%-8%
Deposits with banks	0%-2.75%	0%-2.7%
<b>Deposits due to customers:</b>		
Term deposits	1.5%-4.5%	1.25%-3.25%
Savings deposits	2%-3.5%	2%-3.5%
Demand deposits	0%-3.5%	0%-3.5%
Deposits due to banks	0%-1.75%	0%-1.75%
<b>Borrowings</b>	<b>2.5%-6.75%</b>	<b>2.5%-6.75%</b>

Cash flow interest rate risk arises from loans and advances to customers and borrowings at variable rates. At 31 December, 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 \$3,204,560 (2019 - \$3,015,582) 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.

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

*(Expressed in Eastern Caribbean dollars)*

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## 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.

#### **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.

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(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 \$
<b>As at 31 December 2020</b>						
<b>Financial liabilities</b>						
Deposits due to banks	4,752,639	-	16,599,863	-	-	21,352,502
Due to customers	890,571,260	25,470,909	75,512,808	-	-	991,554,977
Borrowings	679,260	1,027,509	5,056,090	18,143,993	7,700,470	32,607,322
Provisions and other liabilities	38,107,806	-	-	-	-	38,107,806
<b>Total financial liabilities</b>	<b>934,110,965</b>	<b>26,498,418</b>	<b>97,168,761</b>	<b>18,143,993</b>	<b>7,700,470</b>	<b>1,083,622,607</b>
<b>Financial assets</b>						
Cash and balances with ECCB	149,711,323	-	-	-	-	149,711,323
Deposits with other banks	206,208,353	2,760,364	10,431,482	-	-	219,400,199
Treasury bills	-	10,359,452	-	-	-	10,359,452
Investment securities:						
- at amortised cost	459,882	6,034,665	18,796,927	31,239,394	34,934,975	91,465,843
- at FVTPL	-	7,771,299	1,143,289	-	20,332,654	29,247,242
- at FVOCI	-	-	-	4,801,184	14,795,412	19,596,596
Loans and advances to customers	51,228,330	76,973,090	95,740,997	343,509,610	579,603,816	1,147,055,843
Investment security at amortised cost	-	-	-	-	3,603,500	3,603,500
Other assets	8,861,264	-	-	-	-	8,861,264
<b>Total financial assets held for managing liquidity</b>	<b>416,469,152</b>	<b>103,898,870</b>	<b>126,112,695</b>	<b>379,550,188</b>	<b>653,270,357</b>	<b>1,679,301,262</b>
<b>Guarantees, letters of credit and loan Commitments</b>	<b>8,703,500</b>	<b>-</b>	<b>390,000</b>	<b>-</b>	<b>-</b>	<b>8,703,500</b>

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(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 \$
<b>As at 31 December 2019</b>						
<b>Financial liabilities</b>						
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
<b>Total financial liabilities</b>	<b>845,637,095</b>	<b>32,753,312</b>	<b>117,388,347</b>	<b>22,580,394</b>	<b>10,015,840</b>	<b>1,028,374,988</b>
<b>Financial assets</b>						
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
<b>Total financial assets held for managing liquidity</b>	<b>385,428,194</b>	<b>63,344,332</b>	<b>125,136,334</b>	<b>366,160,163</b>	<b>595,712,367</b>	<b>1,535,781,390</b>
<b>Guarantees, letters of credit and loan Commitments</b>	<b>8,456,350</b>	<b>-</b>	<b>40,000</b>	<b>-</b>	<b>-</b>	<b>8,496,350</b>

# Bank of St. Vincent and the Grenadines Ltd.

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## 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 \$
<b>At 31 December 2020</b>		
Loan commitments	8,313,500	8,313,500
Guarantees and letters of credit	390,000	390,000
<b>Total</b>	<b>8,703,500</b>	<b>8,703,500</b>
<b>At 31 December 2019</b>		
Loan commitments	8,456,350	8,456,350
Guarantees and letters of credit	40,000	40,000
<b>Total</b>	<b>8,496,350</b>	<b>8,496,350</b>

### (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:

# Bank of St. Vincent and the Grenadines Ltd.

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## 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.

#### **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	
	2020	2019	2020	2019
	\$	\$	\$	\$
<b>Financial assets</b>				
Loans and advances to customers:				
- Term loans	77,182,173	85,707,903	80,208,037	79,842,557
- Large corporate loans	169,823,718	129,233,878	162,221,474	115,281,208
- Mortgage loans	326,241,506	340,733,704	318,490,264	255,540,376
- Overdrafts	65,319,618	44,672,722	65,319,618	44,672,722
- Credit cards	2,497,833	2,768,095	2,497,833	2,768,095
Investment security at amortised cost	3,569,700	4,177,759	3,319,610	3,857,888
Investment securities:				
- At amortised cost	71,813,391	57,193,208	69,782,442	52,739,716
<b>Financial liabilities</b>				
Deposits due to Banks	21,196,247	19,274,459	21,196,247	19,274,459
Due to customers	990,312,696	910,319,763	990,312,696	910,319,763
Borrowings	28,277,449	33,577,708	27,855,919	36,169,884
Provisions & other liabilities	38,107,806	36,962,244	38,107,806	36,962,244



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## 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.

# Bank of St. Vincent and the Grenadines Ltd.

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## 3. Financial risk management...continued

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

The following table sets out information about significant unobservable inputs used in measuring fair value at December 2020 and 2019 in measuring financial instruments at level 3 in the fair value hierarchy.

Type of financial instrument	Fair Value at December 2020	Fair Value at December 2019	Valuation techniques	Significant unobservable input	Range of estimates (weighted-average) for unobservable input	Fair value measurement sensitivity to unobservable input
Equity securities measured at FVOCI	14,795,412	5,856,634	Discounted cash flows	Expected cash flows derived from the entity historical performance	Investment based	A significant increase in in expected cash flows would result in a higher fair value
Loans and advances to customers	628,737,226	498,104,958	Discounted cash flows	Discounted at the market rate	4.5 – 14%	A significant increase in the discount rate would result in a lower fair value

# Bank of St. Vincent and the Grenadines Ltd.

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## 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.

	2020				2019			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
As at 31 December								
<b>Financial assets</b>								
Investment securities at FVTPL	29,247,242	-	-	29,247,242	14,564,779	-	-	14,564,779
Investment securities at FVOCI	4,801,184	-	14,795,412	19,596,596	5,856,634	-	3,048,208	8,904,842
<b>Financial assets for which fair values are disclosed</b>								
Investment securities at amortised cost	-	69,782,422	-	69,782,422	-	52,739,716	-	52,739,716
Loans and advances to customers	-	-	628,737,226	628,737,226	-	-	498,104,958	498,104,958
<b>Total financial assets</b>	<b>34,048,426</b>	<b>69,782,422</b>	<b>643,532,638</b>	<b>747,363,486</b>	<b>20,421,413</b>	<b>52,739,716</b>	<b>501,153,166</b>	<b>574,314,295</b>
<b>Liabilities for which fair values are disclosed</b>								
Deposits due to banks	-	-	21,196,247	21,196,247	-	-	19,274,459	19,274,459
Due to customers	-	-	990,312,696	990,312,696	-	-	910,319,763	910,319,763
Borrowings	-	27,855,919	-	27,855,919	-	36,169,884	-	36,169,884
Provisions and other liabilities	-	-	38,107,806	38,107,806	-	-	36,962,244	36,962,244
	-	27,855,919	1,049,616,749	1,077,472,668	-	36,169,884	966,556,466	1,002,726,350

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## 3. Financial risk management...continued

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

The fair value of financial instruments that are 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, dividend discount model, comparable company multiples, namely enterprise value to earnings before interest, taxes, depreciation and amortization, price-to-earnings and price-to-tangible book value multiples and adjusted net book value 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.

Level 3 investments

	2020	2019
	\$	\$
<b>As at 1 January</b>	<b>3,048,208</b>	3,048,208
Total gains and losses in profit and loss	-	-
Total gains and losses in OCI	<b>11,747,204</b>	-
Purchases	-	-
Settlements	-	-
<b>As at 31 December</b>	<b>14,795,412</b>	3,048,208

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

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## 3. Financial risk management...continued

### (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.

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 2020 and 2019. During those two years, the Group complied with all of the externally imposed capital requirements to which it is subject.

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## 3. Financial risk management...continued

### (i) Capital management...continued

	2020	2019
	\$	\$
<b>Tier 1 capital</b>		
Share capital	20,753,306	20,753,306
Statutory reserves	20,753,306	20,753,306
General provision reserves	4,907,450	4,542,702
Retained earnings	75,572,293	79,365,334
<b>Total qualifying tier 1 capital</b>	<b>121,986,355</b>	<b>125,414,648</b>
<b>Tier 2 capital</b>		
Unrealised gain/(loss) on investments	11,792,233	(41,461)
Collective impairment allowance	13,030,522	4,759,080
<b>Total qualifying tier 2 capital</b>	<b>24,822,755</b>	<b>4,717,619</b>
<b>Total regulatory capital</b>	<b>146,809,110</b>	<b>130,132,267</b>
<b>Risk-weighted assets:</b>		
On-balance sheet	570,053,517	460,900,074
Off-balance sheet	34,652,316	36,520,955
<b>Total risk-weighted assets</b>	<b>604,705,833</b>	<b>497,421,029</b>
<b>Basel capital adequacy ratio</b>	<b>24.28%</b>	<b>26.16%</b>

## 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.

### **Impact of COVID-19**

COVID-19, a global pandemic, has materially impacted and continues to materially impact the Group's operations. Governments around the world imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, quarantines and cancellations of gatherings and events. These measures have caused increased volatility and uncertainty in financial markets. This has given rise to heightened uncertainty as it relates to the key areas of estimation uncertainty.

### **Going concern**

The Group's management is satisfied that it has the resources to continue in business for the foreseeable future however, following our review there have been a volcanic eruption. The Group's management is in the process of assessing the impact of the volcanic eruption on the statement of financial position. Based on the Group's preliminary assessment no adjustment is required at this time to indicate that the Group will not continue to operate as a going concern.

# Bank of St. Vincent and the Grenadines Ltd.

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

### ***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 \$1,482,464/\$1,119,262 (2019 - \$558,262/\$551,593) 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 2020 have been based on future profitability assumptions over a five-year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

### ***Revaluation of 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.

# Bank of St. Vincent and the Grenadines Ltd.

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

### **Revaluation of investment property ...continued**

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

	2020 \$	2019 \$
Cash in hand	19,385,056	24,662,158
Balances with ECCB other than mandatory reserve deposits	70,907,506	78,489,823
Included in cash and cash equivalents (Note 32)	90,292,562	103,151,981
Mandatory reserve deposits with ECCB	59,418,762	54,619,186
	149,711,324	157,771,167

Pursuant to the Banking Act of 2015, Banking institutions are required to a reserve balances with ECCB 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. Pursuant to the Saint Vincent and the Grenadines Banking Act 2015, the Group is required to maintain specified assets as a reserve requirement for its deposit liabilities. The minimum requirement is 6% of the average deposit liabilities over a four-week period.

## 6. Deposits with other banks

	2020 \$	2019 \$
Items in the course of collection with other banks (Note 32)	2,809,476	9,208,745
Placements with other banks (Note 32)	206,125,210	192,371,705
Interest bearing deposits (more than 3 months)	10,249,696	2,076,009
	219,184,382	203,656,459

The weighted average effective interest rate in respect of interest-bearing deposits at 31 December 2020 was 1.04% (2019 – 2.24%)



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## 7. Treasury bills

	2020 \$	2019 \$
Treasury bills – Cash and cash equivalents	10,359,452	10,358,356
Less allowance for impairment losses	<u>(360,577)</u>	<u>(96,508)</u>
Treasury bills less than 90 days to maturity (Note 32)	<u>9,998,875</u>	<u>10,261,848</u>

Treasury bills are debt securities issued by the Government of Saint Lucia. The weighted average effective interest rate on treasury bills at 31 December 2020 was 4% (2019 - 4.0%)

## 8. Investment securities

	2020 \$	2019 \$
<b>Securities measured at amortised cost</b>		
Debt securities at amortised cost		
- Listed	54,594,599	34,198,368
- Unlisted	<u>18,703,398</u>	<u>24,123,055</u>
	73,297,997	58,321,423
Less allowance for impairment losses	<u>(1,484,606)</u>	<u>(1,128,215)</u>
	<u>71,813,391</u>	<u>57,193,208</u>
<b>Securities measured at FVOCI</b>		
Debt securities at fair value		
- Listed	4,808,181	5,859,857
Equity securities at fair value		
- Unlisted	14,795,412	3,048,208
Less allowance for impairment losses	<u>(6,997)</u>	<u>(3,223)</u>
	<u>19,596,596</u>	<u>8,904,842</u>
<b>Securities measured at FVTPL</b>		
Equity securities at fair value		
- Listed	675,000	894,375
- Unlisted	<u>28,572,242</u>	<u>13,670,404</u>
	<u>29,247,242</u>	<u>14,564,779</u>
Total securities	<u>120,657,229</u>	<u>80,662,829</u>

The weighted average effective interest rate on securities stated at amortised cost at 31 December 2020 was 4.6% (2019 – 5%).

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## 8. Investment securities...continued

	2020			Total \$
	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	
<b>Loss allowance - Investment securities at amortised cost</b>				
<b>Loss allowance as at 1 January 2020</b>	323,114	23,581	905,127	1,251,822
– Transfer to stage 1	23,581	(23,581)	-	-
– Transfer to stage 2	(100,261)	100,261	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	377,962	274,340	-	652,302
– Decreases due to change in credit risk	(25,141)	-	-	(25,141)
<b>Loss allowance as at 31 December 2020</b>	<b>599,255</b>	<b>374,601</b>	<b>905,127</b>	<b>1,878,983</b>
<b>Loss allowance - Investment securities at FVOCI</b>				
<b>Loss allowance as at 1 January 2020</b>	3,223	-	-	3,223
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	3,774	-	-	3,774
– Decreases due to change in credit risk	-	-	-	-
<b>Loss allowance as at 31 December 2020</b>	<b>6,997</b>	<b>-</b>	<b>-</b>	<b>6,997</b>
<b>Total loss allowance - Investment securities</b>				
<b>Loss allowance as at 1 January 2020</b>	326,337	23,581	905,127	1,255,045
– Transfer to stage 1	23,581	(23,581)	-	-
– Transfer to stage 2	(100,261)	100,261	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	381,736	274,340	-	656,076
– Decreases due to change in credit risk	(25,141)	-	-	(25,141)
<b>Total loss allowance as at 31 December 2020</b>	<b>606,252</b>	<b>374,601</b>	<b>905,127</b>	<b>1,885,980</b>

# Bank of St. Vincent and the Grenadines Ltd.

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## 8. Investment securities...continued

	2019			Total \$
	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Lifetime ECL \$	
<b>Loss allowance - Investment securities at amortised cost</b>				
<b>Changes in the loss allowance as at 1 January 2019</b>	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)
<b>Loss allowance as at 31 December 2019</b>	<b>323,114</b>	<b>23,581</b>	<b>905,127</b>	<b>1,251,822</b>
<b>Loss allowance - Investment securities at FVOCI</b>				
<b>Changes in the loss allowance as at 1 January 2019</b>	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)
<b>Loss allowance as at 31 December 2019</b>	<b>3,223</b>	<b>-</b>	<b>-</b>	<b>3,223</b>
<b>Total loss allowance - Investment securities</b>				
<b>Changes in the loss allowance as at 1 January 2019</b>	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)
<b>Total loss allowance as at 31 December 2019</b>	<b>326,337</b>	<b>23,581</b>	<b>905,127</b>	<b>1,255,045</b>

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

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(Expressed in Eastern Caribbean dollars)

## 8. Investment securities...continued

Movements of the Group's investments are summarised as follows:

	Debt securities at amortised cost \$	Debt securities at FVOCI \$	Equity securities at FVOCI \$	Equity securities at FVTPL \$	Treasury bills at amortised cost \$	Investment security at amortised cost \$	Total \$
<b>At 1 January 2020</b>	<b>57,193,208</b>	<b>5,856,634</b>	<b>3,048,208</b>	<b>14,564,779</b>	<b>10,261,848</b>	<b>4,177,759</b>	<b>95,102,436</b>
Opening ECLs	1,128,215	3,223	-	-	96,508	27,099	1,255,045
Gross carrying amount 1 January 2020	58,321,423	5,859,857	3,048,208	14,564,779	10,358,356	4,204,858	96,357,481
Additions	34,049,617	2,191,094	-	35,732,003	359,452	8,642	72,340,808
Disposals (sales and redemptions)	(19,073,043)	(3,329,297)	-	(20,868,986)	(358,356)	(610,000)	(44,239,682)
Unrealised gain on foreign exchange	-	-	37	-	-	-	37
(Loss)/gain from changes in fair value	-	86,527	11,747,167	(180,554)	-	-	11,653,140
Closing ECLs	(1,484,606)	(6,997)	-	-	(360,577)	(33,800)	(1,885,980)
<b>At 31 December 2020</b>	<b>71,813,391</b>	<b>4,801,184</b>	<b>14,795,412</b>	<b>29,247,242</b>	<b>9,998,875</b>	<b>3,569,700</b>	<b>134,225,804</b>
	Debt securities at amortised cost \$	Debt securities at FVOCI \$	Equity securities at FVOCI \$	Equity securities at FVTPL \$	Treasury bills at amortised cost \$	Investment security at amortised cost \$	Total \$
<b>At 1 January 2019</b>	61,773,961	6,680,369	3,048,217	7,674,655	10,290,846	9,924,905	99,392,953
Opening ECLs	1,278,700	12,095	-	-	111,072	107,972	1,509,839
Gross carrying amount 1 January 2019	63,052,661	6,692,464	3,048,217	7,674,655	10,401,918	10,032,877	100,902,792
Additions	12,214,293	6,717,153	-	13,256,546	358,356	4,204,858	36,751,206
Disposals (sales and redemptions)	(16,945,531)	(7,508,299)	-	(6,790,687)	(401,918)	(10,032,877)	(41,679,312)
Unrealised loss on foreign exchange	-	-	(9)	-	-	-	(9)
(Loss)/gain from changes in fair value	-	(41,461)	-	424,265	-	-	382,804
Closing ECLs	(1,128,215)	(3,223)	-	-	(96,508)	(27,099)	(1,255,045)
<b>At 31 December 2019</b>	<b>57,193,208</b>	<b>5,856,634</b>	<b>3,048,208</b>	<b>14,564,779</b>	<b>10,261,848</b>	<b>4,177,759</b>	<b>95,102,436</b>

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

*(Expressed in Eastern Caribbean dollars)*

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## 9. Loans and advances to customers

	2020	2019
	\$	\$
Large corporate loans	184,752,832	140,000,071
Mortgage loans	332,377,546	344,859,286
Term loans	84,485,910	88,417,774
Credit cards	2,687,364	2,981,678
Overdrafts	67,997,420	46,693,783
<b>Gross loans and advances to customers</b>	<b>672,301,072</b>	<b>622,952,592</b>
Less allowance for impairment losses on loans and advances to customers (Note 10)	<b>(31,236,224)</b>	<b>(19,836,290)</b>
<b>Total loans and advances to customers, net</b>	<b>641,064,848</b>	<b>603,116,302</b>

The weighted average effective interest rate on loans and advances stated at amortised cost at 31 December 2020 was 8.4% (2019 - 8.4%).

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

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

	2020				2019			
	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 \$
<b>Large corporate loans</b>								
<b>Loss allowance as at 1 January</b>	<b>1,972,282</b>	<b>272,682</b>	<b>8,521,229</b>	<b>10,766,193</b>	<b>2,365,272</b>	<b>329,046</b>	<b>6,392,222</b>	<b>9,086,540</b>
Changes in the loss allowance								
- Transfer to stage 1	45,491	(45,491)	-	-	70,182	(70,182)	-	-
- Transfer to stage 2	(357,477)	357,477	-	-	(35,366)	35,366	-	-
- Transfer to stage 3	(32,692)	(4,448)	37,140	-	(2,816)	(10,453)	13,269	-
- Increases due to change in credit risk	402,728	2,629,793	1,700,989	4,733,510	431,320	141,284	2,346,738	2,919,342
- Decreases due to change in credit risk	(568,027)	(2,562)	-	(570,589)	(856,310)	(152,379)	(9,968)	(1,018,657)
- Write-offs	-	-	-	-	-	-	(221,032)	(221,032)
Specific provision for loan impairment	-	-	-	-	-	-	-	-
Collective provision for loan impairment	-	-	-	-	-	-	-	-
Written off during the year as uncollectible	-	-	-	-	-	-	-	-
<b>Loss allowance as at 31 December</b>	<b>1,462,305</b>	<b>3,207,451</b>	<b>10,259,358</b>	<b>14,929,114</b>	<b>1,972,282</b>	<b>272,682</b>	<b>8,521,229</b>	<b>10,766,193</b>
<b>Mortgages</b>								
<b>Loss allowance as at 1 January</b>	<b>548,120</b>	<b>182,274</b>	<b>3,395,188</b>	<b>4,125,582</b>	<b>279,869</b>	<b>322,956</b>	<b>2,295,636</b>	<b>2,898,461</b>
Changes in the loss allowance								
- Transfer to stage 1	59,603	(40,570)	(19,033)	-	92,543	(92,543)	-	-
- Transfer to stage 2	(89,315)	89,315	-	-	(9,535)	9,535	-	-
- Transfer to stage 3	(1,509)	(23,025)	24,534	-	(2,550)	(65,403)	67,953	-
- Increases due to change in credit risk	70,778	2,004,804	726,336	2,801,918	298,005	118,650	1,234,867	1,651,522
- Decreases due to change in credit risk	(244,583)	(24,496)	(522,381)	(791,460)	(110,212)	(110,921)	(158,592)	(379,725)
- Write-offs	-	-	-	-	-	-	(44,676)	(44,676)
Specific provision for loan impairment	-	-	-	-	-	-	-	-
Collective provision for loan impairment	-	-	-	-	-	-	-	-
Written off during the year as uncollectible	-	-	-	-	-	-	-	-
<b>Loss allowance as at 31 December</b>	<b>343,094</b>	<b>2,188,302</b>	<b>3,604,644</b>	<b>6,136,040</b>	<b>548,120</b>	<b>182,274</b>	<b>3,395,188</b>	<b>4,125,582</b>

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in Eastern Caribbean dollars)

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

	2020				2019			
	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 \$
<b>Term loans</b>								
<b>Loss allowance as at 1 January</b>	<b>549,444</b>	<b>64,808</b>	<b>2,095,619</b>	<b>2,709,871</b>	697,337	209,638	1,814,468	2,721,443
Changes in the loss								
- Transfer to stage 1	11,443	(11,443)	-	-	(22,303)	22,303	-	-
- Transfer to stage 2	(72,431)	72,431	-	-	90,721	(90,721)	-	-
- Transfer to stage 3	(7,263)	(8,120)	15,383	-	(10,746)	(52,452)	63,198	-
- Increases due to change in credit risk	313,216	3,770,005	1,106,299	5,189,520	370,046	53,468	1,697,071	2,120,585
- Decreases due to change in credit risk	(322,079)	(24,699)	(159,700)	(506,478)	(554,556)	(61,549)	(757,956)	(1,374,061)
- Write-offs	(24,622)	(53,588)	(10,966)	(89,176)	(21,055)	(15,879)	(721,162)	(758,096)
Specific provision for loan impairment	-	-	-	-	-	-	-	-
Collective provision for loan impairment	-	-	-	-	-	-	-	-
Written off during the year as uncollectible	-	-	-	-	-	-	-	-
<b>Loss allowance as at 31 December</b>	<b>447,708</b>	<b>3,809,394</b>	<b>3,046,635</b>	<b>7,303,737</b>	549,444	64,808	2,095,619	2,709,871
<b>Overdrafts</b>								
<b>Loss allowance as at 1 January</b>	<b>201,530</b>	<b>911,883</b>	<b>907,648</b>	<b>2,021,061</b>	325,875	1,093,307	756,835	2,176,017
Changes in the loss allowance								
- Transfer to stage 1	85,180	(85,180)	-	-	17,662	(17,662)	-	-
- Transfer to stage 2	(5,509)	5,509	-	-	(81,571)	81,571	-	-
- Transfer to stage 3	-	(4,573)	4,573	-	-	(568)	568	-
- Increases due to change in credit risk	169,565	299,891	257,633	727,089	36,658	28,497	192,060	257,215
- Decreases due to change in credit risk	(35,002)	(12,160)	(4,480)	(51,642)	(97,094)	(273,262)	(21,925)	(392,281)
- Write-offs	-	(18,706)	-	(18,706)	-	-	(19,890)	(19,890)
Specific provision for loan impairment	-	-	-	-	-	-	-	-
Collective provision for loan impairment	-	-	-	-	-	-	-	-
Written off during the year as uncollectible	-	-	-	-	-	-	-	-
<b>Loss allowance as at 31 December</b>	<b>415,764</b>	<b>1,096,664</b>	<b>1,165,374</b>	<b>2,677,802</b>	201,530	911,883	907,648	2,021,061

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

	2020				2019			
	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 \$
<b>Credit cards</b>								
<b>Loss allowance as at 1 January</b>	<b>40,770</b>	<b>15,287</b>	<b>157,526</b>	<b>213,583</b>	<b>18,358</b>	<b>31,978</b>	<b>73,498</b>	<b>123,834</b>
Changes in the loss allowance								
- Transfer to stage 1	61,807	(2,190)	(59,617)	-	22,292	(19,591)	(2,701)	-
- Transfer to stage 2	(504)	5,303	(4,799)	-	(72)	72	-	-
- Transfer to stage 3	(505)	(6,347)	6,852	-	(359)	(1,729)	2,088	-
- Increases due to change in credit risk	2,599	19,425	87,631	109,655	28,734	15,217	192,013	235,964
- Decreases due to change in credit risk	(71,104)	(3,909)	(52,672)	(127,685)	(23,424)	(10,660)	(56,469)	(90,553)
- Write-offs	(792)	-	(5,230)	(6,022)	(4,759)	-	(50,903)	(55,662)
Specific provision for loan impairment	-	-	-	-	-	-	-	-
Collective provision for loan impairment	-	-	-	-	-	-	-	-
Written off during the year as uncollectible	-	-	-	-	-	-	-	-
<b>Loss allowance as at 31 December</b>	<b>32,271</b>	<b>27,569</b>	<b>129,691</b>	<b>189,531</b>	<b>40,770</b>	<b>15,287</b>	<b>157,526</b>	<b>213,583</b>
<b>Total credit provisioning</b>								
<b>Loss allowance as at 1 January</b>	<b>3,312,146</b>	<b>1,446,934</b>	<b>15,077,210</b>	<b>19,836,290</b>	<b>3,686,711</b>	<b>1,986,925</b>	<b>11,332,659</b>	<b>17,006,295</b>
Changes in the loss allowance								
- Transfer to stage 1	263,524	(184,874)	(78,650)	-	180,376	(177,675)	(2,701)	-
- Transfer to stage 2	(525,236)	530,035	(4,799)	-	(35,823)	35,823	-	-
- Transfer to stage 3	(41,969)	(46,513)	88,482	-	(16,471)	(130,605)	147,076	-
- Increases due to change in credit risk	958,886	8,723,918	3,878,888	13,561,692	1,164,763	357,116	5,662,749	7,184,628
- Decreases due to change in credit risk	(1,240,795)	(67,826)	(739,233)	(2,047,854)	(1,641,596)	(608,771)	(1,004,910)	(3,255,277)
- Write-offs	(25,414)	(72,294)	(16,196)	(113,904)	(25,814)	(15,879)	(1,057,663)	(1,099,356)
Specific provision for loan impairment	-	-	-	-	-	-	-	-
Collective provision for loan impairment	-	-	-	-	-	-	-	-
Written off during the year as uncollectible	-	-	-	-	-	-	-	-
<b>Loss allowance as at 31 December</b>	<b>2,701,142</b>	<b>10,329,380</b>	<b>18,205,702</b>	<b>31,236,224</b>	<b>3,312,146</b>	<b>1,446,934</b>	<b>15,077,210</b>	<b>19,836,290</b>



# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

*(Expressed in Eastern Caribbean dollars)*

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

	2020 \$	2019 \$
Government bonds	3,603,500	4,204,858
Less allowance for impairment losses	<u>(33,800)</u>	<u>(27,099)</u>
	<u>3,569,700</u>	<u>4,177,759</u>

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 2020 on Government bonds at amortised cost was 6.75% (2019 – 6.75 %).

## 12. Investment properties

	2020 \$	2019 \$
Fair value at 1 January	2,232,000	2,232,000
Fair value gain	<u>180,000</u>	<u>-</u>
<b>Fair value at 31 December</b>	<u>2,412,000</u>	<u>2,232,000</u>

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

# Bank of St. Vincent and the Grenadines Ltd.

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## 13. Property and equipment

	Land and building \$	Leasehold Improvements \$	Office Furniture and Equipment \$	Work in Progress \$	Computer Equipment and Software \$	Motor Vehicles \$	Total \$
<b>As at 31 December 2019</b>							
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 27)	(614,836)	(9,780)	(1,100,932)	-	(636,946)	(104,180)	(2,466,674)
Closing net book amount	<b>45,127,305</b>	<b>22,899</b>	<b>5,243,934</b>	<b>1,706,229</b>	<b>2,200,266</b>	<b>136,881</b>	<b>54,437,514</b>
<b>At 31 December 2019</b>							
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	<b>45,127,305</b>	<b>22,899</b>	<b>5,243,934</b>	<b>1,706,229</b>	<b>2,200,266</b>	<b>136,881</b>	<b>54,437,514</b>
<b>As at 31 December 2020</b>							
Opening net book amount	<b>45,127,305</b>	<b>22,899</b>	<b>5,243,934</b>	<b>1,706,229</b>	<b>2,200,266</b>	<b>136,881</b>	<b>54,437,514</b>
Additions	<b>45,600</b>	-	<b>996,152</b>	<b>2,158,889</b>	<b>250,423</b>	<b>161,410</b>	<b>3,612,474</b>
Depreciation charge (Note 27)	<b>(626,406)</b>	<b>(9,780)</b>	<b>(1,326,794)</b>	-	<b>(651,523)</b>	<b>(84,153)</b>	<b>(2,698,656)</b>
Closing net book amount	<b>44,546,499</b>	<b>13,119</b>	<b>4,913,292</b>	<b>3,865,118</b>	<b>1,799,166</b>	<b>214,138</b>	<b>55,351,332</b>
<b>At 31 December 2020</b>							
Cost	<b>50,665,738</b>	<b>48,900</b>	<b>19,107,196</b>	<b>3,865,118</b>	<b>12,791,042</b>	<b>578,135</b>	<b>87,056,129</b>
Accumulated depreciation	<b>(6,119,239)</b>	<b>(35,781)</b>	<b>(14,193,904)</b>	-	<b>(10,991,876)</b>	<b>(363,997)</b>	<b>(31,704,797)</b>
Net book amount	<b>44,546,499</b>	<b>13,119</b>	<b>4,913,292</b>	<b>3,865,118</b>	<b>1,799,166</b>	<b>214,138</b>	<b>55,351,332</b>

As at 31 December 2021, property with a carrying amount of \$24,893,055 (2019: \$25,223,122) was pledged as security for related party borrowings (Note 19).

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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## 14. Related party balances and transactions

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:

	2020 \$	2019 \$
<b>Bank of Saint Lucia Limited</b>		
Deposits with other bank	2,112,338	2,053,054
Deposits from banks	(7,199,959)	(7,076,127)
<b>Government of St. Vincent and the Grenadines</b>		
Debt securities at amortised cost	40,038,720	27,608,184
Less allowance for impairment losses	(342,759)	(152,757)
	<u>39,695,961</u>	<u>27,455,427</u>
<b>St. Vincent Electricity Services Limited</b>		
Debt securities at amortised cost	7,570,120	-
Less allowance for impairment losses	(145,067)	-
	<u>7,425,053</u>	<u>-</u>

### Transactions carried out with related parties:

	2020 \$	2019 \$
<b>Income</b>		
Interest income	2,288,575	2,382,947
<b>Expenses</b>		
Interest expense	124,458	122,318
Professional fees	240,788	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.

# Bank of St. Vincent and the Grenadines Ltd.

Notes to the Consolidated Financial Statements

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(Expressed in Eastern Caribbean dollars)

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

Other related party balances with the Group:

	2020		2019	
	Loans \$	Deposits \$	Loans \$	Deposits \$
Government of St. Vincent and the Grenadines	124,716,046	3,531,628	88,792,264	20,755,808
Statutory bodies	1,306,171	34,905,161	1,553,723	15,789,503
National Insurance Services	-	60,255,104	-	68,769,057
Staff pension plan	-	7,578,924	-	6,484,393
	<b>126,022,217</b>	<b>106,270,817</b>	90,345,987	111,798,761
Directors and key management	2,905,851	2,710,460	2,948,709	1,813,570
Less allowance for impairment losses	(1,067,408)		(1,810,349)	
	<b>127,860,660</b>	<b>108,981,277</b>	91,484,347	113,612,331

The loans issued to directors and other key management personnel are repayable monthly over an average of 11.8 years and have a weighted average effective interest rate of 4.52% (2019 - 4.52%).

Interest income and interest expense with other related parties:

	2020		2019	
	Income \$	Expenses \$	Income \$	Expenses \$
Government of St. Vincent and the Grenadines	8,855,592	26,576	8,580,714	208,509
Statutory bodies	142,772	255,477	158,338	186,104
National Insurance Services	-	1,615,826	-	2,071,576
Staff pension plan	-	257,626	-	262,343
Directors and key management	135,505	42,045	134,297	34,211
	<b>9,133,869</b>	<b>2,197,550</b>	8,873,349	2,762,743

### Key management compensation

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

	2020 \$	2019 \$
Salaries and other short-term benefits	2,155,700	1,823,215
Pension cost	73,096	60,925
	<b>2,228,796</b>	1,884,140

# Bank of St. Vincent and the Grenadines Ltd.

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## 15. Deferred tax asset

The movement on the deferred tax asset is as follows:

	2020 \$	2019 \$
At beginning of year	2,886,326	1,592,111
Current year charge (Note 30)	886,021	1,294,215
At end of year	<u>3,772,347</u>	<u>2,886,326</u>

The deferred tax asset account is detailed below:

	2020 \$	2019 \$
Deferred tax on capital assets	(136,809)	(243,491)
Deferred tax on taxed provisions	3,909,156	3,129,817
	<u>3,772,347</u>	<u>2,886,326</u>

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

	2020 \$	2019 \$
Other receivables	6,924,753	5,472,708
Prepaid expenses	1,936,512	1,933,090
	<u>8,861,265</u>	<u>7,405,798</u>

## 17. Deposits due to banks

	2020 \$	2019 \$
Deposits due to banks	<u>21,196,247</u>	<u>19,274,459</u>

Interest rates range from 0% to 1.75% (2019 - 0% to 1.75%).

# Bank of St. Vincent and the Grenadines Ltd.

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## 18. Due to customers

	2020 \$	2019 \$
Term deposits	106,097,083	115,907,284
Savings deposits	553,532,531	458,801,999
Demand deposits	330,683,082	335,610,480
	<u>990,312,696</u>	<u>910,319,763</u>

The weighted average effective interest rate of customers' deposits at 31 December 2020 was 1.59% (2019 - 1.59%).

## 19. Borrowings

	Due	Average Interest Rate	2020 \$	Average Interest Rate	2019 \$
Caribbean Development Bank	2024 – 2029	3.49%	16,846,678	3.27%	18,853,408
National Insurance Services	2022 – 2025	6.04%	11,430,771	5.92%	14,724,300
			<u>28,277,449</u>		<u>33,577,708</u>

### 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 \$24,893,055 (2019 - \$25,223,122) owned by the Bank of St. Vincent and the Grenadines Ltd. The Group has not had any defaults of principal, interest or other breaches with respect to borrowings during the year.

As at 31 December 2020, the Group had no undrawn facilities with either of the above-mentioned institutions.

## 20. Provisions and other liabilities

	2020 \$	2019 \$
Managers' cheques outstanding	2,519,179	5,035,879
Other payables	11,790,992	13,419,148
ECL on undrawn commitments	37,698	38,961
Customers' security deposits	23,759,937	18,468,256
	<u>38,107,806</u>	<u>36,962,244</u>

# Bank of St. Vincent and the Grenadines Ltd.

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## 21. Share capital

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

	2020 \$	2019 \$
Issued and fully paid – 14,999,844 (2019 - 14,999,844)	<u>20,753,306</u>	<u>20,753,306</u>

## 22. Statutory reserves

	2020 \$	2019 \$
<b>Balance at beginning and end of the year</b>	<u>20,753,306</u>	<u>20,753,306</u>

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

## 23. General provision reserves

	2020 \$	2019 \$
Balance at beginning of the year	4,542,702	3,133,354
Transfer from retained earnings	<u>364,748</u>	<u>1,409,348</u>
<b>Balance at end of the year</b>	<u>4,907,450</u>	<u>4,542,702</u>

A general contingency reserve totalling \$4,907,450 (2019 - \$4,542,702) was created as a voluntary appropriation from retained earnings. 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 the staff Bargaining Unit 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.

# Bank of St. Vincent and the Grenadines Ltd.

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## 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.

	2020	2019
	\$	\$
Loan commitments	8,313,500	8,456,350
Guarantees and letters of credit	390,000	40,000
	<u>8,703,500</u>	<u>8,496,350</u>

### (iii) Pending litigation

In the ordinary course of business, the Group is routinely a defendant in or party to a number of pending and threatened legal actions and proceedings.

In view of the inherent difficulty of predicting the outcome of such matters, the Group cannot state what the eventual outcome of such matters will be. However, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the financial position or results of operations of the Group.

## 25. Net interest income

	2020	2019
	\$	\$
<b>Interest income using the effective interest method</b>		
Loans and advances	48,094,401	46,958,985
Loan origination fees	979,253	820,426
Treasury bills and investment securities	4,347,728	5,825,160
Deposits with banks	349,965	15,084
	<u>53,771,347</u>	<u>53,619,655</u>
<b>Interest expense</b>		
Savings deposits	12,886,754	11,388,646
Time deposits	2,492,961	2,894,894
Other borrowed funds	1,480,953	1,827,593
Correspondent banks	60,573	39,523
	<u>16,921,241</u>	<u>16,150,656</u>
<b>Net interest income</b>	<u>36,850,106</u>	<u>37,468,999</u>



# Bank of St. Vincent and the Grenadines Ltd.

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## 26. Fees commission and other income

	2020 \$	2019 \$
Fee and commission income	11,197,708	11,739,072
<b>Foreign exchange trading income</b>		
-Net realized gains	5,589,379	5,660,007
-Net unrealized losses	(133,429)	(132,071)
Gain from disposal of fixed assets	-	33,728
(Loss)/Gain on revaluation of investment securities	(274,535)	359,691
Fair value gains on revaluation of investment properties	180,000	-
	<u>16,559,123</u>	<u>17,660,427</u>

## 27. Operating expenses

	2020 \$	2019 \$
Depreciation (Note 13)	2,698,656	2,466,674
Employee benefit expense (Note 28)	11,040,701	10,867,702
Interest levy expense	5,096,846	5,050,699
Rent	326,352	280,193
Audit and accounting fees	284,770	269,429
Directors' fees	408,605	311,033
Computer expense	288,824	20,787
Insurance	751,708	715,247
Repairs and maintenance	786,917	573,940
Subscription and donations	170,296	198,281
Commission and fees	1,884,686	1,970,543
Utilities	2,173,307	2,509,524
Credit card expenses	1,881,533	2,336,018
Advertisement and sponsorship	749,671	787,960
Legal and professional fees	814,018	879,008
Postage and stationery	582,778	896,845
Bank and other licences	2,917,388	2,697,700
Security	319,536	367,762
Other expenses	2,611,649	2,838,476
	<u>35,788,241</u>	<u>36,037,821</u>

# Bank of St. Vincent and the Grenadines Ltd.

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## 28. Employee benefit expense

	2020 \$	2019 \$
Wages and salaries	8,780,391	8,734,507
Other staff costs	1,868,777	1,756,966
Pension cost	391,533	376,229
	<u>11,040,701</u>	<u>10,867,702</u>

## 29. Allowances for credit losses on financial assets

	2020 \$	2019 \$
Credit impairment against profit for the year on loans and advances to customers	11,513,838	3,924,735
Credit impairment / (improvement) against profit for the year relating to debt securities	630,935	(240,883)
Credit (improvement) / impairment relating to financial guarantees and loan commitments	(1,263)	20,650
Amounts written off during the year as uncollectible	113,904	13,690
Recoveries of amounts previously written off	(744,145)	(569,415)
Recovery of impairment on investment securities	-	(71,736)
	<u>11,513,269</u>	<u>3,077,041</u>

## 30. Income tax expense

	2020 \$	2019 \$
Current tax	3,630,516	3,366,374
Deferred tax credit (Note 15)	(886,022)	(1,294,215)
	<u>2,744,494</u>	<u>2,072,159</u>

Tax on the Group's profit before taxation differs from the theoretical amount that would arise using the statutory tax rate of 30% (2019 - 30%) as follows:

	2020 \$	2019 \$
Profit before income tax	<u>6,366,128</u>	<u>16,165,640</u>
Tax calculated at the applicable tax rate of 30%	1,909,838	4,849,692
Tax effect of exempt income	(4,421,523)	(5,081,771)
Tax effect of expenses not deductible for tax purposes	3,546,334	3,985,059
Prior year under statement of deferred tax	1,702,091	(1,702,091)
Other differences	7,754	21,270
	<u>2,744,494</u>	<u>2,072,159</u>

# Bank of St. Vincent and the Grenadines Ltd.

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## 31. 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.

	2020 \$	2019 \$
Net profit attributable to shareholders	3,621,634	14,093,481
Weighted average number of ordinary shares in issue	14,999,844	14,999,844
<b>Basic and diluted earnings per share</b>	<b>0.24</b>	<b>0.94</b>

## 32. Cash and cash equivalents

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

	2020 \$	2019 \$
Cash in hand and balances with ECCB (Note 5)	90,292,562	103,151,981
Treasury bills (Note 7)	9,998,875	10,261,848
Items in the course of collection with banks (Note 6)	2,809,476	9,208,745
Placements with other banks (Note 6)	206,125,210	192,371,705
	<b>309,226,123</b>	<b>314,994,279</b>

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.

## 33. Leases

The Group mainly leases storage and ATM spaces used in its operations. Rental contracts for these leases are typically made for fixed periods but may have extension options. Extension options are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

These leases are short-term in nature. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases.

Commitments for minimum lease payment in relation to operating leases are payable as follows:

	2020 \$	2019 \$
Within one year	326,352	280,193

# Bank of St. Vincent and the Grenadines Ltd.

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## 34. Subsequent events

### (i) Dividends

Subsequent to year end a final dividend of \$0.12 per share was approved for the year ended 31 December 2020 (2019 - \$0.47). 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 2021 once ratified.

### (ii) Eruption of La Soufriere Volcano

St. Vincent and the Grenadines began experiencing explosive volcanic eruptions at La Soufrière Volcano on April 9, 2021. The Government of St. Vincent and the Grenadines declared a disaster on April 10, 2021. Preliminary analysis revealed that this disaster would negatively impact the economy as the catastrophic eruption has caused the displacement of over 20,000 inhabitants and destroyed crops, livestock, homes and infrastructure.

The University of the West Indies Seismic Research Centre presented a report dated April 18, 2021, to the Government of St. Vincent and the Grenadines advising of the volcanic activity and its associated hazards and risks. The report stated that the swarm of long period and hybrid earthquakes at a near constant rate continue at the La Soufrière Volcano and that explosions can occur with little or no warning, impacting St. Vincent and the Grenadines and neighboring islands.

The quantitative financial impact on the Group's operations has not been determined. The extent of the impact to the financial performance of the Group will depend on the impact of future volcanic activity including but not limited to (i) the duration of the explosive eruptions, (ii) the resulting restrictions and advisories throughout the island, and (iii) the effects on the economy overall, all of which are highly uncertain and cannot be determined. If the financial performance of the Group is impacted due to the volcanic eruption for an extended period, the Group results may be materially adversely affected.

## 35. COVID-19

### Impact of COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Governments and regulatory bodies in affected areas, including St. Vincent and the Grenadines, have imposed a number of measures designed to contain the outbreak, including government-mandated social distancing measures, travel restrictions, quarantines, and stay at home directives. The breadth and depth of the impact of COVID-19 on the global economy and financial markets continues to evolve with disruptive effects. While some of the Government and Regulatory measures have been eased across regions and the economy has started to recover, subsequent spikes in the virus have caused some measures to be reinstated and future economic activity to be uncertain. In St. Vincent and the Grenadines, the Government continues to monitor the number of active cases.

COVID-19 continues to impact the Group's employees, customers and community, impacting the Group's operations, financial results and present and future risks to the Group's business. The Group is closely monitoring the potential effects and impact of the pandemic, which is an evolving situation.

The St. Vincent and the Grenadines government and the Bank's regulator, the Eastern Caribbean Central Bank have taken, and are continuing to take, significant measures to provide economic assistance to individual households and businesses, stabilize the market, and support economic growth. The effectiveness of these programs will depend on the duration and scale of COVID-19.

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## 35. COVID-19...continued

### Customer Support Program...continued

The COVID-19 pandemic created significant economic distress which required revisions to origination and collection processes, and the establishment of payment deferral initiatives. An overview of the relief options that were made available to customers is provided below.

- The Group offered zero fees for offsite ATM usage;
- Customers were offered six months loan moratorium which can be extended for an additional twelve months.

Assessment of eligibility for relief followed a risk based approach and was assessed at an overall customer level based on sector vulnerabilities due to the pandemic, with relief provided to customers with loans classified as stage 1 and stage 2.

Stage 1	Stage 2	Stage 3
Up to date – no assistance required, no financial distress as a result of COVID-19.	Up to date - potential liquidity constraints arising from the impact of COVID-19 may lead to financial stress.  Also considered customers already experiencing some financial stress and cannot manage COVID-19 financial impact that may result in further shortfall on payments.	Already experiencing financial stress and more than three months in arrears and or legal action has commenced.

High Risk	Medium Risk	Low Risk
Aviation Tourism Leisure/Entertainment Transportation Self employed	Commercial Mortgages Professional Services Manufacturing Industries Retailers	Telecommunication Services Financial Services Agriculture

The table below shows the number of customers who applied for, received and utilised the customer support program.

Loan Category	Gross Loans & Advances for which relief was provided	Total portfolio of Loans & advances	% of portfolio
Large Corporate loans	109,488,979	184,752,832	16.3%
Mortgage loans	52,553,153	332,377,546	7.8%
Term loans	9,684,769	84,485,910	1.4%
Credit cards	-	2,687,364	0%
Overdrafts	-	67,997,420	0%
<b>Total</b>	<b>171,726,901</b>	<b>672,301,072</b>	<b>25.5%</b>

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## 35. COVID-19...continued

### Customer Support Program...continued

The relief measures were generally mandated or supported by our regulators and government and was available to all eligible customers who requested it. Relief provided to customers was assessed and granted at an individual level and followed the normal credit approval process. The total amount of relief granted, primarily in the form of short-term debt repayment moratoriums amounted to \$171,726,901, representing 25.5% of the credit portfolio of which \$25,881,231 resumed regular payment. The customers were primarily in sectors where operating cash flows were immediately adversely impacted by the COVID-19 pandemic such as hotels and leisure.

### Post Model adjustments

The unprecedented volatility in the macroeconomic forecasts seen during 2020 has meant that a number of the Group's IFRS 9 ECL models are now operating outside the parameters to which they were calibrated. Over the COVID-19 period the world economic forecast showed movement ranging from negative five percent (5%) to twenty percent (20%) with recoveries around the same level. As a result, as at 31 December 2020 the Group applied multiple scenarios to the modelled output to ensure that the resulting ECL remains unbiased and appropriately reflects the Group's credit risks in the current environment.

### Management Overlay - COVID-19

As at 31 December 2020, the Group held \$6,192,287 in expected credit losses (ECLs) relating to management overlay due to uncertainties as a result of the COVID-19 pandemic that are not captured by the models.

Consistent with our assessment of the significant increase in credit risk (SICR), all loans under the moratorium, with the exception of those relating to the Government of St. Vincent and the Grenadines, were transferred to stage two (stage 2). Two management overlays were applied:

1. Fifty percent (50%) provisioning on all consumer loans under moratorium.
2. Three percent (3%) provisioning on the total loan portfolio, excluding loans under the moratorium program and Government loans.

### Consumer Loans

The majority of consumer loans are unsecured and are normally fully provided for after ninety days (90) in arrears. Given that we are only nine months in the pandemic, and, based on the limited statistical data that is available, we are of the view that it will be premature at that this point to adjust the quantitative components of the model, i.e. Exposure at Default (EAD), Loss given Default (LGD) and Probability of Default (PD) to reasonably reflect the Expected Credit Loss due to the pandemic.

Based on the level of restructuring to date, the potential loss on this portfolio is expected to range from twenty five percent (25%) to fifty percent (50%). To be conservative, we opted for the higher range of the potential loss in our calculation of expected credit loss. The portfolio will be carefully monitored and the ECL adjusted accordingly as new information becomes available during the 2021 financial year.

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## **35. COVID-19...continued**

### **Customer Support Program...continued**

#### **Non – Consumer Loans (Excluding Government)**

The recommended approach to the overlay on this portfolio considers its long-term nature in addition to the fact that most of these loans are collateralised. We are of the view that applying a three percent (3%) provision to this portfolio adequately addresses the potential risk. This amount is consistent with the average provisions to total loans over the last five years.

#### **Government Loans**

No overlay was applied to loans granted to the Government under the moratorium. While the pandemic was projected to adversely impact the Government revenues, the impact as at 31 December 2020 was not as significant as in other countries in the currency union. St. Vincent & the Grenadines, unlike most Caribbean countries, did not opt for a total shut down, which allowed the Government to sustain its revenue streams and the country to weather the economic impact of the virus. The short to medium term forecast is also positive.

In accordance with regulatory pronouncements issued as part of the COVID-19 moratorium guidance, the restructuring of loans under this arrangement is not considered as restructured under previous pronouncements.