St. Kitts-Nevis-Anguilla National Bank Limited

Separate Financial Statements
June 30, 2023
(expressed in Eastern Caribbean dollars)

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

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the separate financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** (the "Bank"), which comprise the separate statement of financial position as of June 30, 2023, and the separate statement of income, separate statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as of June 30, 2023, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants ("IESBA Code")*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters *...continued*

Expected credit losses ("ECL") of financial assets

Description of the Matter

The ECL of financial assets is a key audit matter, as it requires the application of critical management judgement and the use of subjective estimates in determining the amount of ECL that are required to be recognised in the separate financial statements. As of June 30, 2023, the Bank's financial assets with credit risk that are subject to ECL assessment amounted to $2,210,271,413 which represents 59% of total assets.

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

The disclosures relating to the credit loss allowances for the financial assets, and the related credit risk are included in notes 3 to 10, 15 and 30 to the separate financial statements.

How the Matter was addressed in the Audit

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

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

Fair value measurement of investment securities

Description of the Matter

The Bank has investment securities measured at fair value amounting to $1,156,471,093. A significant portion of these investment securities, amounting to $59,724,454, do not trade in active markets with quoted prices. The valuation of these financial instruments have a higher estimation uncertainty due to the use of observable and unobservable data and various assumptions, using complex valuation models. The use of different valuation techniques and assumptions could result in significantly different estimates of fair value. Accordingly, we have assessed the valuation of the investment securities as a key audit matter.

How the Matter was addressed in the Audit

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate 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 Bank'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 Bank'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 separate 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 Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Grant Thornton

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

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

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

Grant Thornton

Chartered Accountants
November 22, 2023
Basseterre, St. Kitts

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Financial Position

For the year ended June 30, 2023

(expressed in Eastern Caribbean dollars)

	Notes	2023 $	2022 $
Assets			
Cash and balances with Central Bank	5	**225,869,583**	219,012,865
Treasury bills	6	**343,913,435**	55,099,779
Deposits with other financial institutions	7	**379,787,793**	556,979,790
Loans and advances to customers	8	**1,001,490,840**	975,494,601
Originated debts	9	**119,535,676**	154,211,330
Financial asset	30	**357,415,566**	360,794,213
Investment securities	10	**1,156,471,093**	1,145,955,305
Investment in subsidiaries	11	**23,633,438**	24,246,462
Acceptances, guarantees and letters of credit		**7,456,067**	6,541,015
Income tax recoverable	18	**34,391,873**	19,263,187
Property and equipment	12	**29,745,150**	30,104,284
Intangible assets	13	**1,003,862**	324,584
Right-of-use assets	14	**435,271**	612,852
Other assets	15	**20,715,012**	15,160,544
Deferred tax asset	18	**17,804,788**	5,387,185
Total assets		**3,719,669,447**	3,569,187,996
Liabilities			
Customers' deposits	16	**3,220,494,595**	3,067,114,900
Borrowings	10	**–**	21,163,983
Provisions, creditors and accruals	17	**63,216,741**	93,860,547
Acceptances, guarantees and letters of credit		**7,456,067**	6,541,015
Income tax payable	18	**1,046,722**	–
Lease liabilities	14	**443,880**	633,146
Total liabilities		**3,292,658,005**	3,189,313,591
Shareholders' equity			
Issued share capital	19	**141,750,000**	141,750,000
Share premium		**3,877,424**	3,877,424
Reserves	20	**406,362,601**	402,828,126
Accumulated deficit		**(124,978,583)**	(168,581,145)
Total shareholders' equity		**427,011,442**	379,874,405
Total liabilities and shareholders' equity		**3,719,669,447**	3,569,187,996

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

Approved for issue by the Board of Directors on November 21, 2023.

Carl Boddie

Chairman

Director

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Income

For the year ended June 30, 2023

(expressed in Eastern Caribbean dollars)

	Notes	2023 $	2022 $
Interest income	**21**	**77,144,030**	62,110,742
Interest expense	**21**	**(57,901,350)**	(56,724,123)
Net interest income		**19,242,680**	5,386,619
Fees and commission income	**22**	**27,546,316**	21,977,648
Fee expenses	**22**	**(19,223,835)**	(18,351,854)
Net fees and commission income		**8,322,481**	3,625,794
Net gains/(losses) on investments in debt and equity instruments	**23**	**37,951,336**	(250,027,125)
Dividend income		**9,954,583**	9,739,366
Gain on foreign exchange, net		**8,015,954**	5,746,124
Other operating income		**3,690,001**	140,699
Other income/(loss)		**59,611,874**	(234,400,936)
Total operating income/(loss)		**87,177,035**	(225,388,523)
Operating expenses			
Administrative and general expenses	**25**	**(52,127,430)**	(44,400,319)
Depreciation and amortisation	**12, 13, 14**	**(2,707,178)**	(2,466,340)
Credit and other impairment charges, net	**24**	**(2,850,242)**	(39,668,424)
Directors' fees and expenses	**28**	**(1,565,194)**	(1,007,310)
Professional fees and related expenses		**(503,100)**	(511,355)
Total operating expenses		**(59,753,144)**	(88,053,748)
Operating profit/(loss) before tax		**27,423,891**	(313,442,271)
Income tax credit	**18**	**18,459,381**	8,094,094
Net income/(loss) for the year		**45,883,272**	(305,348,177)
Basic earnings/(loss) per share (basic and diluted)	**26**	**0.32**	(2.21)

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

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Comprehensive Income

For the year ended June 30, 2023

(expressed in Eastern Caribbean dollars)

	Notes	2023 $	2022 $
Net income/(loss) for the year		**45,883,272**	(305,348,177)
Other comprehensive income/(loss), net of tax:			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Financial assets measured at FVOCI – debt instruments:			
Net unrealised losses on investment securities, net of tax	**20**	**(493,751)**	(2,647,904)
Reclassification adjustments for net gains/(losses) included in income, net of tax	**20**	**255,194**	(451,862)
Expected credit losses recognised on FVOCI – debt securities	**20**	**378,738**	5,144
		140,181	(3,094,622)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Financial assets measured at FVOCI – equity instruments:			
Unrealised gains on investment securities, net of tax	**20**	**3,854,605**	5,261,989
Utilisation of tax losses on prior year's realised losses on FVOCI equity instruments	**18**	**(2,280,710)**	–
Realised losses transferred to retained earnings, net of tax	**20**	**–**	(6,842,129)
Re-measurement loss on defined benefit asset, net of tax	**20**	**(460,311)**	(1,512,267)
		1,113,584	(3,092,407)
Total other comprehensive income/(loss) for the year, net of tax		**1,253,765**	(6,187,029)
Total comprehensive income/(loss) for the year		**47,137,037**	(311,535,206)

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

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Changes in Shareholders' Equity

For the year ended June 30, 2023

(expressed in Eastern Caribbean dollars)

	Notes	Issued share capital $	Share premium $	Reserves $	Retained earnings/ (Accumulated deficit) $	Total $
Balance as of June 30, 2021		**135,000,000**	**3,877,424**	**336,173,026**	**251,459,161**	**726,509,611**
Net loss for the year		–	–	–	(305,348,177)	(305,348,177)
Other comprehensive income/(loss), net		–	–	655,100	(6,842,129)	(6,187,029)
Total comprehensive income for the year		**–**	**–**	**655,100**	**(312,190,306)**	**(311,535,206)**
Transfer to reserve	**20**	–	–	66,000,000	(66,000,000)	–
Transaction with owners						
Dividends	**27**	6,750,000	–	–	(41,850,000)	(35,100,000)
Balance as of June 30, 2022		**141,750,000**	**3,877,424**	**402,828,126**	**(168,581,145)**	**379,874,405**
Net income for the year		–	–	–	45,883,272	45,883,272
Other comprehensive income/(loss), net		–	–	3,534,475	(2,280,710)	1,253,765
Total comprehensive income for the year		**–**	**–**	**3,534,475**	**43,602,562**	**47,137,037**
Balance as of June 30, 2023		**141,750,000**	**3,877,424**	**406,362,601**	**(124,978,583)**	**427,011,442**

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

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Cash Flows

For the year ended June 30, 2023

(expressed in Eastern Caribbean dollars)

	Notes	2023 $	2022 $
Cash flows from operating activities			
Operating profit/(loss) before tax		**27,423,891**	(313,442,271)
Adjustments for:			
Interest expense	**21**	**57,901,350**	56,724,123
Credit and other impairment charges, net	**24**	**2,850,242**	39,668,424
Depreciation and amortisation	**12, 13, 14**	**2,707,178**	2,466,340
Loss on disposal of property and equipment		**919,318**	392
Pension expense	**32**	**900,622**	736,565
Gain on sale of property and equipment		**(91,774)**	(19,999)
Dividend income		**(9,954,583)**	(9,739,366)
Fair value (gains)/losses, net on FVTPL investment securities		**(30,916,554)**	366,879,307
Interest income	**21**	**(77,144,030)**	(62,110,742)
Operating (loss)/income before changes in operating assets and liabilities		**(25,404,340)**	81,162,773
(Increase)/decrease in operating assets:			
Loans and advances to customers		**(27,909,300)**	(105,807,419)
Mandatory deposits with Central Bank		**(10,051,090)**	1,597,083
Other assets		**(5,377,071)**	7,681,311
Increase/(decrease) in operating liabilities:			
Customers' deposits		**153,115,049**	251,538,561
Provisions, creditors and accruals		**(30,643,806)**	27,363,291
Cash generated from operations		**53,729,442**	263,535,600
Interest received		**58,634,766**	53,117,176
Pension contributions paid	**32**	**(1,765,050)**	(1,567,738)
Income taxes paid	**18**	**(12,000,000)**	(21,000,000)
Interest paid		**(57,616,200)**	(56,655,157)
Net cash from operating activities		**40,982,958**	237,429,881
Cash flows from investing activities			
Proceeds from sale of investment securities and originated debts		**683,825,884**	659,556,203
Interest received from investment securities and originated debts		**16,686,475**	9,084,934
Dividends received		**9,954,583**	9,739,366
Proceeds from sale of property and equipment		**296,000**	19,999
Payments received from the financial asset		**–**	205,742,524
Purchase of equipment and intangible assets	**12, 13**	**(3,375,310)**	(1,924,891)
Increase in term deposits and treasury bills		**(282,362,516)**	(50,204,229)
Increase in investment securities and originated debts		**(621,381,387)**	(883,687,263)
Net cash used in investing activities		**(196,356,271)**	(51,673,357)
Balance carried forward		**(155,373,313)**	185,756,524

(expressed in Eastern Caribbean dollars)

	Notes	2023 $	2022 $
Balance brought forward		**(155,373,313)**	185,756,524
Cash flows from financing activities			
Dividends paid	**27**	**–**	(35,100,000)
Interest paid on lease liabilities	**14**	**(20,504)**	(27,954)
Repayments of lease liabilities	**14**	**(787,241)**	(653,131)
Net cash used in financing activities		**(807,745)**	(35,781,085)
Net (decrease)/increase in cash and cash equivalents		**(156,181,058)**	149,975,439
Cash and cash equivalents, beginning of year		**507,569,274**	357,593,835
Cash and cash equivalents, end of year	**31**	**351,388,216**	507,569,274

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

(expressed in Eastern Caribbean dollars)

1 Incorporation and principal activity

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

The principal activity of the Bank is the provision of financial services, being primarily commercial banking and investment activities. Its registered office is at Central Street, Basseterre, St. Kitts.

The Bank is regulated by the Eastern Caribbean Central Bank (the "Central Bank" or "ECCB").

2 Significant accounting policies

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

2.1 Basis of preparation

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

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

The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries. In the consolidated financial statements, its subsidiaries, National Caribbean Insurance Company Limited, St. Kitts and Nevis Mortgage and Investment Company Limited and National Bank Trust Company Limited have been fully consolidated.

Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended June 30, 2023 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

The Bank has prepared these separate financial statements to file with the ECCB and the Inland Revenue Department.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies

New standards and amendments effective for the financial year beginning July 1, 2022

Standards and amendments that are effective for the first time on July 1, 2022 are as follows:

- Reference to the conceptual Framework (Amendments to IFRS 3);
- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IFRS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendment to IAS 37); and
- Annual Improvement to IFRS Standards 2018-2022 (Amendments to IFRS 7, IFRS 9, IFRS 16, IAS 41)

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

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

At the date of authorisation of these separate financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective and have not been adopted early by the Bank.

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

2.3 Financial assets and liabilities

Classification and measurement

The Bank classifies its financial assets in the following measurement categories:

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

(a) Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

- the Bank's business model for managing the asset; and
- the cash flow characteristics of the asset.

Business model test:

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities *...continued*

Classification and measurement *...continued*

(a) Debt instruments *...continued*

Solely payments of principal and interest (SPPI) test:

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

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

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

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

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

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

(b) Equity instruments

Equity instruments are instruments that do not contain contractual obligations to pay the instrument holder and that evidence residual interests in the issuer's net assets. The Bank subsequently measures all equity investments at FVTPL, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities *...continued*

Classification and measurement *...continued*

(b) Equity instruments *...continued*

When the Bank purchases an option, an amount equal to fair value which is based on the premium paid is recorded as an asset. When the Bank writes an option, an amount equal to fair value which is based on the premium received by the Bank is recorded as a liability. When options are closed, the difference between the premium and the amount paid or received, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognized as a gain or loss and is presented in the statement of comprehensive income under fair value reserves – FVOCI.

Options are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period.

The Bank option acquired by the Bank has been designated as a hedge of the fair value of recognized as a fair value hedge of certain quoted equity instruments included in investment securities. The Bank documents its risk management objective and strategy for undertaking its hedge transaction(s). The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 10.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument and is disclosed in note 10.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.3 Financial assets and liabilities *…continued*

Credit risk measurement

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

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

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

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

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

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

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

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

Significant increase in credit risk (SICR)

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

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

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities *...continued*

Credit risk measurement *...continued*

Significant increase in credit risk (SICR) ...continued

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

Backstop

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

If an asset is in investment grade at reporting date, it will be in Stage 1 irrespective of its origination rating. With respect to loans and advances to customers, however, the Bank has not used the low credit risk exemption for any of those financial instruments for the years ended June 30, 2023 and June 30, 2022.

Default

For debt securities, default is defined as the failure to meet contractual payments of principal or interest. For loans and advances to customers and other receivables, the Bank defines default based on the following criteria:

Quantitative criteria

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

Qualitative criteria

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

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

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

Impairment measurement

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities *...continued*

Impairment measurement *...continued*

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

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

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

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

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

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

Forward-looking information

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

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities *...continued*

Derecognition of financial assets

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

Financial liabilities

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

Derecognition of financial liabilities

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

Offsetting financial instruments

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.4 Employee benefits

(i) Short-term employee benefits

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

(ii) Gratuity

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

(iii) Pension plan

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

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

2.5 Property and equipment

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

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Property and equipment *...continued*

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

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

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

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

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

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

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

2.6 Intangible assets

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

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.7 Impairment of non-financial assets

Non-financial assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Investment in subsidiaries

The investment in subsidiaries is accounted for using the cost method and therefore the assets, liabilities and results of operations of the entities have not been reflected in these accounts. A subsidiary is an entity in which the Bank holds controlling interest (50% plus 1 share or more) of the voting shares of that entity. Income from subsidiaries' operations is recognised only to the extent of dividends received.

2.9 Guarantees and letters of credit

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

2.10 Provisions

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

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.11 Leased assets

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

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

Measurement and recognition of leases as a lessee

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

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

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

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

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

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

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

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.12 Interest income and expense recognition

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

When calculating the effective interest rate, estimates of cash flows that consider all contractual terms of the financial instrument are included (for example, repayment options), except future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.13 Fees and commission income

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

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of business – are recognised on completion of the underlying transaction.

The Bank determines whether to recognise revenue based on a 5-step process:

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

2.14 Dividend income

Dividends are recognised in the separate statement of income when the right to receive payment is established.

2.15 Operating expenses and fees expenses

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.16 Foreign currency translation

(i) Functional and presentation currency

Items included in the separate financial statements are measured using the currency of the primary economic environment in which the Bank operates (the "functional currency"). The separate financial statements are presented in Eastern Caribbean dollars, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the separate statement of income.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the separate statement of income within 'Other income'.

2.17 Equity, reserves and dividend payments

(i) Issued share capital and share premium

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

(ii) Dividends on ordinary shares

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

(iii) Other components of equity

Other components of equity include the following:

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies*...continued*

2.18 Current and deferred income tax

Income tax payable on profits, based on applicable tax law is recognised as an expense in the period in which profits arise, except to the extent that it relates to items recognised directly in equity.

In such cases, the tax is recognised in a deferred tax liability account. The tax expense for the period comprises current and deferred tax.

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

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

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

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

2.19 Events after the financial reporting date

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management

The Bank'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 commercial banking business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

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

Risk management is carried out by the Credit Division and Comptroller Division under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the Bank's operating units. The Board provides principles for overall risk management, as well as approved policies covering specific areas, such as foreign exchange, interest rate and credit risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

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

3.1 Credit risk

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

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

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

(i) Loans and advances to customers

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

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

Bank rating	Description of the classifications
1	Pass
2	Special mention
3	Substandard
4	Doubtful
5	Loss

(ii) Debt securities and other bills

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

3.1.1 Risk limit control and mitigation policies

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

The exposure to any one borrower, including banks and other financial institutions, is further restricted by sub-limits covering on-statement of financial position and off-statement of financial position exposures. Actual exposures against limits are monitored. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

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

Other specific controls and mitigation measures are outlined below.

(i) Collateral

The Bank 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 Bank implements guidelines on the acceptability of specific classes of collateral or risk mitigation. The principal collateral types for loans and advances are:

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

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

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

(ii) Credit-related commitments

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

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning

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

	Deposits with other financial institutions (term deposits) $	Treasury bills $	Originated debts $	Financial asset $	Debt securities – FVOCI $	Other assets $	Acceptances, guarantees and letters of credit $	Total $
Credit grade:								
Investment grade	60,063,533	288,864,766	46,014,891	–	209,708,627	9,020,410	7,456,067	621,128,294
Non-investment grade	27,973,070	55,111,552	73,886,392	359,978,351	36,007,855	–	–	552,957,220
Default	–	–	–	–	–	1,111,449	–	1,111,449
Gross carrying amount	88,036,603	343,976,318	119,901,283	359,978,351	245,716,482	10,131,859	7,456,067	1,175,196,963
Loss allowance	(63,583)	(62,883)	(365,607)	(2,562,785)	–	(296,682)	–	(3,351,540)
Carrying amount as at June 30, 2023	**87,973,020**	**343,913,435**	**119,535,676**	**357,415,566**	**245,716,482**	**9,835,177**	**7,456,067**	**1,171,845,423**
Credit grade:								
Investment grade	44,871,790	–	80,720,540	–	43,365,115	3,548,182	6,541,015	179,046,642
Non-investment grade	236,112,193	55,111,552	73,578,827	363,192,696	2,007,406	–	–	730,002,674
Default	–	–	–	–	–	1,111,449	–	1,111,449
Gross carrying amount	280,983,983	55,111,552	154,299,367	363,192,696	45,372,521	4,659,631	6,541,015	910,160,765
Loss allowance	(639,270)	(11,773)	(88,037)	(2,398,483)	–	(296,682)	–	(3,434,245)
Carrying amount as at June 30, 2022	**280,344,713**	**55,099,779**	**154,211,330**	**360,794,213**	**45,372,521**	**4,362,949**	**6,541,015**	**906,726,520**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

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

	Loans to customers $	Overdrafts $	Credit cards $	Total $
Credit grade:				
Performing	592,779,641	23,448,901	10,339,956	626,568,498
Under-performing	4,353,501	–	359,871	4,713,372
Non-performing	347,401,629	55,561,785	829,166	403,792,580
Gross carrying amount	944,534,771	79,010,686	11,528,993	1,035,074,450
Loss allowance	(27,373,001)	(4,396,611)	(1,813,998)	(33,583,610)
Carrying amount as at June 30, 2023	**917,161,770**	**74,614,075**	**9,714,995**	**1,001,490,840**
Credit grade:				
Performing	566,230,176	28,335,633	9,233,191	603,799,000
Under-performing	7,777,284	–	455,213	8,232,497
Non-performing	368,119,231	74,425,543	772,896	443,317,670
Gross carrying amount	942,126,691	102,761,176	10,461,300	1,055,349,167
Loss allowance	(54,304,331)	(23,895,923)	(1,654,312)	(79,854,566)
Carrying amount as at June 30, 2022	**887,822,360**	**78,865,253**	**8,806,988**	**975,494,601**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

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

Debt securities and other financial assets at amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Total $**
Credit grade:				
Investment grade	621,128,294	–	–	621,128,294
Non-investment grade	522,248,066	30,709,154	–	552,957,220
Default	–	–	1,111,449	1,111,449
Gross carrying amount	1,143,376,360	30,709,154	1,111,449	1,175,196,963
Loss allowance	(736,466)	(2,318,392)	(296,682)	(3,351,540)
Carrying amount as at June 30, 2023	**1,142,639,894**	**28,390,762**	**814,767**	**1,171,845,423**
Credit grade:				
Investment grade	179,046,642	–	–	179,046,642
Non-investment grade	699,413,972	30,588,702	–	730,002,674
Default	–	–	1,111,449	1,111,449
Gross carrying amount	878,460,614	30,588,702	1,111,449	910,160,765
Loss allowance	(869,709)	(2,267,854)	(296,682)	(3,434,245)
Carrying amount as at June 30, 2022	**877,590,905**	**28,320,848**	**814,767**	**906,726,520**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Loans and advances to customers	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Total $**
Credit grade:				
Performing	626,568,498	–	–	626,568,498
Under-performing	–	4,713,372	–	4,713,372
Non-performing	–	–	403,792,580	403,792,580
Gross carrying amount	626,568,498	4,713,372	403,792,580	1,035,074,450
Loss allowance	(6,280,546)	(1,118,088)	(26,184,976)	(33,583,610)
Carrying amount as at June 30, 2023	**620,287,952**	**3,595,284**	**377,607,604**	**1,001,490,840**
Credit grade:				
Performing	603,799,000	–	–	603,799,000
Under-performing	–	8,232,497	–	8,232,497
Non-performing	–	–	443,317,670	443,317,670
Gross carrying amount	603,799,000	8,232,497	443,317,670	1,055,349,167
Loss allowance	(6,765,083)	(1,201,620)	(71,887,863)	(79,854,566)
Carrying amount as at June 30, 2022	**597,033,917**	**7,030,877**	**371,429,807**	**975,494,601**

Loss allowances

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

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Loss allowances *...continued*

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

	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Debt securities and other financial assets at amortised cost				
Loss allowance as at June 30, 2022	869,709	2,267,854	296,682	3,434,245
New financial assets originated or purchased	268,749	–	–	268,749
Financial assets fully derecognised during the year	(12,821)	–	–	(12,821)
Changes to inputs used in ECL calculation	(389,171)	50,538	–	(338,633)
Loss allowance as at June 30, 2023	**736,466**	**2,318,392**	**296,682**	**3,351,540**
Loss allowance as at June 30, 2021	934,294	2,686,941	5,157,662	8,778,897
New financial assets originated or purchased	581,121	–	–	581,121
Financial assets fully derecognised during the year	(26,261)	–	–	(26,261)
Changes to inputs used in ECL calculation	(619,445)	(419,087)	(4,860,980)	(5,899,512)
Loss allowance as at June 30, 2022	**869,709**	**2,267,854**	**296,682**	**3,434,245**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Loss allowances *...continued*

	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Loans and advances to customers	**6,765,083**	**1,201,620**	**71,887,863**	**79,854,566**
Loss allowance as at June 30, 2022				
Transfers:				
Transfer from stage 1 to stage 2	(31,560)	31,560	–	–
Transfer from stage 1 to stage 3	(25,637)	–	25,637	–
Transfer from stage 2 to stage 1	477,378	(477,378)	–	–
Transfer from stage 2 to stage 3	–	(804,923)	804,923	–
Transfer from stage 3 to stage 1	890,871	–	(890,871)	–
New financial assets originated or purchased	697,253	164,298	25,422	886,973
Financial assets fully derecognised during the year	(268,363)	(74,749)	(48,275,219)	(48,618,331)
Changes to inputs used in ECL calculation	(2,224,479)	1,077,660	2,607,221	1,460,402
Loss allowance as at June 30, 2023	**6,280,546**	**1,118,088**	**26,184,976**	**33,583,610**
Loss allowance as at June 30, 2021	4,626,831	876,475	66,112,458	71,615,764
Transfers:				
Transfer from stage 1 to stage 2	(60,124)	60,124	–	–
Transfer from stage 1 to stage 3	(183,269)	–	183,269	–
Transfer from stage 2 to stage 1	1,059,941	(1,059,941)	–	–
Transfer from stage 2 to stage 3	–	(689,921)	689,921	–
Transfer from stage 3 to stage 1	74,929	–	(74,929)	–
Transfer from stage 3 to stage 2	–	51,591	(51,591)	–
New financial assets originated or purchased	1,222,795	294,010	367,896	1,884,701
Financial assets fully derecognised during the year	(257,244)	(308,001)	(246,182)	(811,427)
Changes to inputs used in ECL calculation	281,224	1,977,283	4,907,021	7,165,528
Loss allowance as at June 30, 2022	**6,765,083**	**1,201,620**	**71,887,863**	**79,854,566**

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $196,556,970 (2022: $224,879,287). Where the ECCB loan loss provision is greater than the loan loss provision calculated, the difference is set aside as a non-distributable reserve through equity. As at June 30, 2023, the loan loss provision calculated under IFRS 9 was less than the ECCB provision. Therefore, a non-distributable reserve through equity was required at the reporting date and is included in the other reserves in equity (note 20). The gross carrying value of impaired loans at the year end was $403,792,580 (2022: $443,317,670). Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $73,786,983 (2022: $66,989,297) and is included in other reserves in equity (note 20).

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

IFRS 9 carrying values

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

	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Debt securities and other financial assets at amortised cost				
Gross carrying amount as at June 30, 2022	878,460,614	30,709,154	1,111,449	910,281,217
New financial assets originated or purchased	1,079,205,573	–	–	1,079,205,573
Financial assets fully derecognised during the year	(821,496,139)	–	–	(821,496,139)
Changes in principal and interest	7,206,312	–	–	7,206,312
Gross carrying amount at June 30, 2023	**1,143,376,360**	**30,709,154**	**1,111,449**	**1,175,196,963**
Gross carrying amount as at June 30, 2021	812,245,043	30,590,130	41,400,282	884,235,455
New financial assets originated or purchased	304,772,167	–	–	304,772,167
Financial assets fully derecognised during the year	(12,209,510)	–	(40,288,833)	(52,498,343)
Changes in principal and interest	(226,347,086)	(1,428)	–	(226,348,514)
Gross carrying amount at June 30, 2022	**878,460,614**	**30,588,702**	**1,111,449**	**910,160,765**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

IFRS 9 carrying values *...continued*

	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Total $
Loans and advances to customers				
Gross carrying amount as at June 30, 2022	603,799,000	8,232,497	443,317,670	1,055,349,167
Transfers:				
Transfer from stage 1 to stage 2	(3,372,218)	3,372,218	–	–
Transfer from stage 1 to stage 3	(2,816,840)	–	2,816,840	–
Transfer from stage 2 to stage 1	2,167,576	(2,167,576)	–	–
Transfer from stage 2 to stage 3	–	(3,654,824)	3,654,824	–
Transfer from stage 3 to stage 1	3,267,642	–	(3,267,642)	–
Transfer from stage 3 to stage 2	–	–	–	–
New financial assets originated or purchased	76,609,178	746,008	404,448	77,759,634
Financial assets fully derecognised during the year	(29,485,750)	(339,405)	(49,215,681)	(79,040,836)
Changes in principal and interest	(23,600,090)	(1,475,546)	6,082,121	(18,993,515)
Gross carrying amount as at June 30, 2023	**626,568,498**	**4,713,372**	**403,792,580**	**1,035,074,450**
Gross carrying amount as at June 30, 2021	508,163,005	11,171,967	430,114,035	949,449,007
Transfers:				
Transfer from stage 1 to stage 2	(5,661,388)	5,661,388	–	–
Transfer from stage 1 to stage 3	(17,257,004)	–	17,257,004	–
Transfer from stage 2 to stage 1	5,613,874	(5,613,874)	–	–
Transfer from stage 2 to stage 3	–	(3,654,103)	3,654,103	–
Transfer from stage 3 to stage 1	462,073	–	(462,073)	–
Transfer from stage 3 to stage 2	–	318,151	(318,151)	–
New financial assets originated or purchased	115,140,742	1,557,195	2,268,741	118,966,678
Financial assets fully derecognised during the year	(24,222,575)	(1,631,300)	(1,518,155)	(27,372,030)
Changes in principal and interest	21,560,273	423,073	(7,677,834)	14,305,512
Gross carrying amount as at June 30, 2022	**603,799,000**	**8,232,497**	**443,317,670**	**1,055,349,167**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at June 30, 2022 are set out below.

		2022	2023
World GDP growth rate	Base	4.40%	3.60%
	Upside	6.22%	5.50%
	Downside	2.58%	1.70%
US GDP growth rate	Base	4.95%	3.00%
	Upside	6.87%	5.10%
	Downside	3.03%	0.90%
St. Kitts and Nevis GDP growth rate	Base	6.90%	7.40%
	Upside	12.39%	12.10%
	Downside	1.41%	2.60%
St. Lucia GDP growth rate	Base	6.90%	7.90%
	Upside	12.39%	13.50%
	Downside	1.41%	2.20%

The most significant period-end assumptions used for the ECL estimate as at June 30, 2023 are set out below.

		2023	2024
World GDP growth rate	Base	3.60%	2.90%
	Upside	5.50%	4.70%
	Downside	1.70%	1.10%
US GDP growth rate	Base	3.00%	1.40%
	Upside	5.10%	3.30%
	Downside	0.90%	-0.60%
St. Kitts and Nevis GDP growth rate	Base	7.40%	4.20%
	Upside	12.10%	8.90%
	Downside	2.60%	-0.60%
St. Lucia GDP growth rate	Base	7.90%	2.60%
	Upside	13.50%	9.00%
	Downside	2.20%	-3.80%

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Economic variable assumptions *...continued*

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

Year	Base	Upside	Downside
June 30, 2023	**80%**	**4%**	**16%**
June 30, 2022	80%	10%	10%

Set out below are the changes to the ECL as at June 30, 2023 that would result from reasonably possible variations in the most significant assumptions affecting the ECL allowance for the financial assets in stages 1 to 2 with respect to the credit risk:

	ECL impact of:		
Loss Given Default	**Change in threshold**	**Increase in value $**	**Decrease in value $**
Debt securities – amortised cost	+/- 5%	146,298	(146,298)
Debt securities – FVOCI	+/- 5%	34,634	(34,634)
	ECL impact of:		
Collateral haircut	**Change in threshold**	**Increase in value $**	**Decrease in value $**
Loans	+/- 5%	(4,603,936)	4,207,756
Advances	+/- 5%	(32,067)	74,468

Purchased or originated credit-impaired (POCI) financial assets

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

Loans and advances to customers renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans during the reporting date amounted to $253,825 (2022: $779,946).

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.3 Geographical concentrations of on-statement of financial position and off-statement of financial position assets with credit risk exposure

The Bank operates only one business segment (commercial and retail banking) which is predominantly localised to St. Kitts and Nevis. Commercial banking activities, however, account for a significant portion of credit risk exposure.

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

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean Territories $	Total $
As of June 30, 2023					
Cash and balances with Central Bank	23,888,607	–	–	–	23,888,607
Treasury bills	55,074,069	288,839,366	–	–	343,913,435
Deposits with other financial institutions	32,508,110	308,378,045	31,279,653	7,621,985	379,787,793
Financial asset	357,415,566	–	–	–	357,415,566
Loans and advances to customers	903,511,035	66,537,797	1,734,577	29,707,431	1,001,490,840
Originated debts	24,774,427	46,003,759	–	48,757,490	119,535,676
Debt investment securities	–	248,341,247	–	–	248,341,247
Acceptances, guarantees and letters of credit	7,456,067	–	–	–	7,456,067
Other assets	9,553,882	281,295	–	–	9,835,177
	1,414,181,763	**958,381,509**	**33,014,230**	**86,086,906**	**2,491,664,408**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.3 Geographical concentrations of on-statement of financial position and off-statement of financial position assets with credit risk exposure *...continued*

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean Territories $	Total $
As of June 30, 2022					
Cash and balances with Central Bank	30,652,880	–	–	–	30,652,880
Treasury bills	55,099,779	–	–	–	55,099,779
Deposits with other financial institutions	37,476,977	293,976,107	220,715,756	4,810,950	556,979,790
Financial asset	360,794,213	–	–	–	360,794,213
Loans and advances to customers	871,339,633	65,699,073	1,742,774	36,713,121	975,494,601
Originated debts	23,757,364	80,705,932	–	49,748,034	154,211,330
Debt investment securities	–	48,793,376	393,527	–	49,186,903
Acceptances, guarantees and letters of credit	6,541,015	–	–	–	6,541,015
Other assets	4,211,700	151,249	–	–	4,362,949
	1,389,873,561	489,325,737	222,852,057	91,272,105	2,193,323,460

(expressed in Eastern Caribbean dollars)

3 Financial risk management *…continued*

3.1 Credit risk *…continued*

3.1.4 Economic concentration of risks of financial assets with credit exposure

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

	Public sector	Construction	Tourism	Financial institutions	Individuals	Other industries	Total
	$	$	$	$	$	$	$
As of June 30, 2023							
Cash and balances with Central Bank	–	–	–	23,888,607	–	–	23,888,607
Treasury bills	343,913,435	–	–	–	–	–	343,913,435
Deposits with other financial institutions	25,405,061	–	–	354,382,732	–	–	379,787,793
Financial asset	357,415,566	–	–	–	–	–	357,415,566
Loans and advances to customers	249,481,492	120,486,767	208,093,763	48,674,182	266,956,727	107,797,909	1,001,490,840
Originated debts	73,531,917	–	–	46,003,759	–	–	119,535,676
Debt investment securities	66,254,415	447,487	270,802	73,673,120	–	107,695,423	248,341,247
Acceptances, guarantees and letters of credit	3,380,717	–	–	–	–	4,075,350	7,456,067
Other assets	658,044	–	–	1,044,361	1,054,458	7,078,314	9,835,177
	1,120,040,647	**120,934,254**	**208,364,565**	**547,666,761**	**268,011,185**	**226,646,996**	**2,491,664,408**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.4 Economic concentration of risks of financial assets with credit exposure *...continued*

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2022							
Cash and balances with Central Bank	–	–	–	30,652,880	–	–	30,652,880
Treasury bills	55,099,779	–	–	–	–	–	55,099,779
Deposits with other financial institutions	30,397,664	–	–	526,582,126	–	–	556,979,790
Financial asset	360,794,213	–	–	–	–	–	360,794,213
Loans and advances to customers	257,499,911	105,643,825	196,768,644	53,375,659	256,285,145	105,921,417	975,494,601
Originated debts	73,772,405	–	–	80,438,925	–	–	154,211,330
Debt investment securities	4,891,159	483,219	–	23,772,699	–	20,039,826	49,186,903
Acceptances, guarantees and letters of credit	2,465,665	–	–	–	–	4,075,350	6,541,015
Other assets	335,829	–	–	1,708,601	777,272	1,541,247	4,362,949
	785,256,625	**106,127,044**	**196,768,644**	**716,530,890**	**257,062,417**	**131,577,840**	**2,193,323,460**

The Government of St. Kitts and Nevis accounts for $588,066,386 (2022: $595,291,553) or 24% (2022: 27%) of the total credit exposure, which represents a significant concentration of credit risk. The amounts due from the Government are included in the Public Sector category.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.2 Market risk

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

The Bank's exposures to market risks primarily arise from the interest rate management of the Bank retail and commercial banking assets and liabilities and equity risks arising from its FVOCI investments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in the Board of Directors. The Board of Directors is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

3.2.1 Price risk

The Bank is exposed to price risk in respect to its investment securities classified on the separate statement of financial position as FVTPL and FVOCI (note 10). If the quoted market prices for these securities increased or decreased by 10%, profit or loss and accumulated deficit would have changed by $89,042,671 (2022: $108,613,269).

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

3.2.2 Foreign exchange risk

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

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.2 Market risk *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk

As at June 30, 2023	XCD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	219,344,520	6,427,833	28,019	35,660	17,389	16,162	–	225,869,583
Treasury bills	55,074,069	288,839,366	–	–	–	–	–	343,913,435
Deposits with other financial institutions	36,023,492	334,845,774	1,756,092	1,837,182	2,067,493	3,231,741	26,019	379,787,793
Financial asset	357,415,566	–	–	–	–	–	–	357,415,566
Loans and advances to customers	582,212,998	419,277,842	–	–	–	–	–	1,001,490,840
Originated debts	34,260,430	85,275,246	–	–	–	–	–	119,535,676
Investment securities FVOCI	8,862,957	257,181,422	–	–	–	–	–	266,044,379
Investment securities FVTPL	862,500	889,564,214	–	–	–	–	–	890,426,714
Acceptances, guarantees and letters of credit	7,456,067	–	–	–	–	–	–	7,456,067
Other assets	9,291,704	543,473	–	–	–	–	–	9,835,177
Total financial assets	**1,310,804,303**	**2,281,955,170**	**1,784,111**	**1,872,842**	**2,084,882**	**3,247,903**	**26,019**	**3,601,775,230**
Liabilities								
Customers' deposits	2,846,853,713	372,881,995	147,651	376,786	234,450	–	–	3,220,494,595
Lease liabilities	443,880	–	–	–	–	–	–	443,880
Acceptances, guarantees and letters of credit	7,456,067	–	–	–	–	–	–	7,456,067
Provisions, creditors and accruals	60,423,984	2,413,207	993	202,587	75,992	97,753	2,225	63,216,741
Total financial liabilities	**2,915,177,644**	**375,295,202**	**148,644**	**579,373**	**310,442**	**97,753**	**2,225**	**3,291,611,283**
Net on-balance sheet position	**(1,604,373,341)**	**1,906,659,968**	**1,635,467**	**1,293,469**	**1,774,440**	**3,150,150**	**23,794**	**310,163,947**
Credit commitments	**29,295,723**	**25,092,210**	**–**	**–**	**–**	**–**	**–**	**54,387,933**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.2 Market risk *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk *...continued*

As at June 30, 2022	XCD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	213,861,215	5,095,720	16,058	8,550	23,593	7,729	–	219,012,865
Treasury bills	55,099,779	–	–	–	–	–	–	55,099,779
Deposits with other financial institutions	40,740,824	510,540,503	1,212,713	2,514,912	1,356,842	592,536	21,460	556,979,790
Financial asset	360,794,213	–	–	–	–	–	–	360,794,213
Loans and advances to customers	577,092,218	398,402,383	–	–	–	–	–	975,494,601
Originated debts	34,011,037	120,200,293	–	–	–	–	–	154,211,330
Investment securities FVOCI	9,116,311	50,706,301	–	–	–	–	–	59,822,612
Investment securities FVTPL	862,500	1,085,270,193	–	–	–	–	–	1,086,132,693
Acceptances, guarantees and letters of credit	6,541,015	–	–	–	–	–	–	6,541,015
Other assets	3,983,489	379,460	–	–	–	–	–	4,362,949
Total financial assets	**1,302,102,601**	**2,170,594,853**	**1,228,771**	**2,523,462**	**1,380,435**	**600,265**	**21,460**	**3,478,451,847**
Liabilities								
Customers' deposits	2,567,085,678	499,619,072	141,955	24,417	243,778	–	–	3,067,114,900
Borrowings	–	21,163,983	–	–	–	–	–	21,163,983
Lease liabilities	633,146	–	–	–	–	–	–	633,146
Acceptances, guarantees and letters of credit	6,541,015	–	–	–	–	–	–	6,541,015
Provisions, creditors and accruals	19,359,755	69,493,645	43,172	511,697	66,589	204,054	2,225	89,681,137
Total financial liabilities	**2,593,619,594**	**590,276,700**	**185,127**	**536,114**	**310,367**	**204,054**	**2,225**	**3,185,134,181**
Net on-balance sheet position	**(1,291,516,993)**	**1,580,318,153**	**1,043,644**	**1,987,348**	**1,070,068**	**396,211**	**19,235**	**293,317,666**
Credit commitments	**33,440,357**	**34,759,704**	**–**	**–**	**–**	**–**	**–**	**68,200,061**

(expressed in Eastern Caribbean dollars)

3 Financial risk management*...continued*

3.2 Market risk *...continued*

3.2.3 Interest rate risk

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management *…continued*

3.2 Market risk *…continued*

3.2.3 Interest rate risk *…continued*

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

As at June 30, 2023	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	225,869,583	225,869,583
Treasury bills	53,234,257	92,801,416	194,689,897	–	–	3,187,865	343,913,435
Deposits with other financial institutions	101,208,206	13,512,441	22,303,277	46,228,358	–	196,535,511	379,787,793
Financial asset	–	–	–	351,293,411	–	6,122,155	357,415,566
Loans and advances to customers	360,308,657	1,121,681	4,400,235	77,118,479	558,314,467	227,321	1,001,490,840
Originated debts	13,501,570	–	6,959,248	73,577,983	24,742,657	754,218	119,535,676
Investment securities – FVOCI	14,603,463	676,224	5,935,945	96,183,291	123,849,901	24,795,555	266,044,379
Investment securities – FVTPL	–	–	2,624,765	–	–	887,801,949	890,426,714
Acceptances, guarantees and letters of credit	–	–	–	–	–	7,456,067	7,456,067
Other assets	624,313	–	–	–	–	9,210,864	9,835,177
Total financial assets	**543,480,466**	**108,111,762**	**236,913,367**	**644,401,522**	**706,907,025**	**1,361,961,088**	**3,601,775,230**
Liabilities							
Customers' deposits	1,009,528,849	210,257,490	948,312,387	–	–	1,052,395,869	3,220,494,595
Lease liabilities	46,860	59,346	151,050	167,566	19,058	–	443,880
Acceptances, guarantees and letters of credit	–	–	–	–	–	7,456,067	7,456,067
Provisions, creditors and accruals	500	–	–	–	–	63,216,241	63,216,741
Total financial liabilities	**1,009,576,209**	**210,316,836**	**948,463,437**	**167,566**	**19,058**	**1,123,068,177**	**3,291,611,283**
Total interest repricing gap	**(466,095,743)**	**(102,205,074)**	**(711,550,070)**	**644,233,956**	**706,887,967**	**238,892,911**	**310,163,947**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.2 Market risk *...continued*

3.2.3 Interest rate risk *...continued*

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

As at June 30, 2022	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	219,012,865	219,012,865
Treasury bills	–	–	54,805,667	–	–	294,112	55,099,779
Deposits with other financial institutions	97,001,036	40,497,191	175,486,836	44,871,790	–	199,122,937	556,979,790
Financial asset	–	–	–	351,457,713	–	9,336,500	360,794,213
Loans and advances to customers	357,387,759	411,394	2,549,160	63,152,759	551,757,983	235,546	975,494,601
Originated debts	–	38,859,891	39,950,341	50,716,989	23,725,594	958,515	154,211,330
Investment securities – FVOCI	921	–	220,120	29,153,681	13,917,908	16,529,982	59,822,612
Investment securities – FVTPL	–	–	1,792,837	2,021,545	–	1,082,318,311	1,086,132,693
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,541,015	6,541,015
Other assets	567,095	–	–	–	–	3,795,854	4,362,949
Total financial assets	**454,956,811**	**79,768,476**	**274,804,961**	**541,374,477**	**589,401,485**	**1,538,145,637**	**3,478,451,847**
Liabilities							
Customers' deposits	1,019,236,020	213,730,271	921,850,939	–	–	912,297,670	3,067,114,900
Borrowings	–	–	–	21,163,983	–	–	21,163,983
Lease liabilities	48,474	69,046	288,409	189,665	37,552	–	633,146
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,541,015	6,541,015
Provisions, creditors and accruals	2,531	–	–	–	–	91,768,311	91,770,842
Total financial liabilities	**1,019,287,025**	**213,799,317**	**922,139,348**	**21,353,648**	**37,552**	**1,010,606,996**	**3,187,223,886**
Total interest repricing gap	**(564,330,214)**	**(134,030,841)**	**(647,334,387)**	**520,020,829**	**589,363,933**	**527,538,641**	**291,227,961**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *…continued*

3.2 Market risk *…continued*

3.2.3 Interest rate risk *…continued*

The Bank's fair value market rate risk arises from debt securities classified as FVOCI and FVTPL. Had market interest rates at the reporting date been 100 basis points higher/lower with all variables held constant, equity for the year would have been $2,457,165 (2022: $453,725) lower/higher as a result of the decrease/increase in revaluation reserve for FVOCI debt securities and profit or loss for the year would have been $180,580 (2022: $246,162) lower/higher due to the decrease/increase in fair value of debt securities measured at FVTPL.

Cash flow interest rate risk arises from loans and advances to customers at available rates. Had variable rates at the reporting date been 100 basis points higher/lower with all other variables held constant, profits for the year would have been $4,157,632 higher/lower (2022: losses for the year would have been $4,223,177 lower/higher) mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

3.3.1 Liquidity risk management

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

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

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

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

- Managing the concentration and profile of debt maturities; and

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management*...continued*

3.3.2 Funding approach

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

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.3.3 Cash flows

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

As at June 30, 2023	**Up to 1 month $**	**1 to 3 months $**	**3 to 12 months $**	**1 to 5 years $**	**Over 5 years $**	**Total $**
Liabilities						
Customers' deposits, including interest until maturity	2,048,823,906	214,846,316	973,281,176	8,632,482	–	3,245,583,880
Lease liabilities	46,860	59,346	159,096	177,757	19,320	462,379
Acceptances, guarantees and letters of credit	–	–	–	–	7,456,067	7,456,067
Provisions, creditors and accruals	46,701,259	16,515,482	–	–	–	63,216,741
Total financial liabilities	**2,095,572,025**	**231,421,144**	**973,440,272**	**8,810,239**	**7,475,387**	**3,316,719,067**
Assets held to manage liquidity risk	**1,883,821,424**	**109,839,040**	**255,724,858**	**645,482,883**	**706,907,025**	**3,601,775,230**
Net liquidity gap	**(211,750,601)**	**(121,582,104)**	**(717,715,414)**	**636,672,644**	**699,431,638**	**285,056,163**
As at June 30, 2022						
Liabilities						
Customers' deposits, including interest until maturity	1,918,791,957	218,259,034	954,797,495	–	–	3,091,848,486
Borrowings	21,163,983	–	–	–	–	21,163,983
Lease liabilities	49,932	71,704	296,299	200,823	38,640	657,398
Acceptances, guarantees and letters of credit	–	–	–	–	6,541,015	6,541,015
Provisions, creditors and accruals	78,471,615	13,299,227	–	–	–	91,770,842
Total financial liabilities	**2,018,477,487**	**231,629,965**	**955,093,794**	**200,823**	**6,579,655**	**3,211,981,724**
Assets held to manage liquidity risk	**1,930,641,987**	**91,228,522**	**290,788,030**	**576,277,380**	**589,527,701**	**3,478,463,620**
Net liquidity gap	**(87,835,500)**	**(140,401,443)**	**(664,305,764)**	**576,076,557**	**582,948,046**	**266,481,896**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.3.4 Off-balance sheet items

Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (note 29), are summarised in the table below:

As of June 30, 2023	**Up to 1 year $**	**1 to 3 years $**	**Over 3 years $**	**Total $**
Loan commitments	7,399,842	491,943	31,188,842	39,080,627
Credit card commitments	15,307,306	–	–	15,307,306
	22,707,148	**491,943**	**31,188,842**	**54,387,933**
As of June 30, 2022				
Loan commitments	8,824,087	87,578	45,286,778	54,198,443
Credit card commitments	14,001,618	–	–	14,001,618
	22,825,705	**87,578**	**45,286,778**	**68,200,061**

3.4 Fair values of financial assets and liabilities

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

The fair values of cash resources, other assets and liabilities, items in transit are assumed to approximate their carrying values due to their short-term nature. The fair values of off-balance sheet commitments are also assumed to approximate the amount disclosed in note 29. Fair values of financial assets and financial liabilities are also determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with pricing models based on discounted cash flow analysis using prices from observable current market transactions.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *…continued*

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

(i) Treasury bills

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

(ii) Deposits with other financial institutions

Deposits with other financial institutions include cash on operating accounts and interest and non-interest bearing fixed deposits both with original maturity periods under 90 days. These deposits are estimated to approximate their carrying values due to their short term nature.

(iii) Loans and advances to customers and originated debts

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

(iv) Customers' deposits

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

(v) Due to financial institutions

The estimated fair value of 'due to financial institutions' is the amount payable on demand.

(vi) Other borrowed funds

Other borrowed funds are short-term in nature therefore fair value in this category is estimated to approximate carrying value.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

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

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

	Carrying value		Fair value	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with Central Bank	**225,869,583**	219,012,865	**225,869,583**	219,012,865
Treasury bills	**343,913,435**	55,099,779	**343,913,435**	55,099,779
Deposits with other financial institutions	**379,787,793**	556,979,790	**379,787,793**	556,979,790
Financial asset	**357,415,566**	360,794,213	**357,415,566**	360,794,213
Loans and advances to customers	**1,001,490,840**	975,494,601	**894,413,301**	925,889,446
Originated debts	**119,535,676**	154,211,330	**119,535,676**	154,211,330
Acceptances, guarantees and letters of credit	**7,456,067**	6,541,015	**7,456,067**	6,541,015
Other assets	**9,835,177**	4,362,949	**9,835,177**	4,362,949
	2,445,304,137	2,332,496,542	**2,338,226,598**	2,282,891,387
Financial liabilities				
Customers' deposits	**3,220,494,595**	3,067,114,900	**3,220,494,595**	3,067,114,900
Borrowings	**–**	21,163,983	**–**	21,163,983
Lease liabilities	**443,880**	633,146	**443,880**	633,146
Acceptances, guarantees and letters of credit	**7,456,067**	6,541,015	**7,456,067**	6,541,015
Provisions, creditors and accruals	**63,216,241**	91,770,842	**63,216,241**	91,770,842
	3,291,610,783	3,187,223,886	**3,291,610,783**	3,187,223,886

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.4.1 Fair value measurements recognised in the separate statement of financial position

The following tables provide an analysis of financial and non-financial that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observed.

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

3.4.2 Fair value measurements of FVTPL and FVOCI investment securities

	Level 1 $	Level 2 $	Level 3 $	Total $
As at June 30, 2023				
Debt securities	243,993,994	–	4,347,253	248,341,247
Equities	852,752,645	2,015,098	53,362,103	908,129,846
	1,096,746,639	**2,015,098**	**57,709,356**	**1,156,471,093**
As at June 30, 2022				
Debt securities	43,690,736	–	5,496,167	49,186,903
Equities	1,035,662,817	16,770,804	44,334,781	1,096,768,402
	1,079,353,553	**16,770,804**	**49,830,948**	**1,145,955,305**

3.4.3 Fair value measurements of non-financial assets

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

	Level 1 $	Level 2 $	Level 3 $	Total $
As at June 30, 2023				
Land and property	**–**	**–**	**25,259,622**	**25,259,622**
As at June 30, 2022				
Land and property	–	–	25,823,089	25,823,089

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.4.3 Fair value measurement of non-financial assets *...continued*

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

3.5 Capital management

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

- To comply with the capital requirement set by the Central Bank;
- To safeguard the Bank'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 stipulated capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Central Bank for supervisory purposes. The required information is filed with the Central Bank on a quarterly basis.

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

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

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

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

The table on the following page summarises the composition of regulatory capital and the ratios of the Bank for the two-year presentation. During those two years, the Bank complied with all of the externally imposed capital requirements.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.5 Capital management *.... continued*

	2023 $	2022 $
Tier 1 capital		
Share capital	**141,750,000**	141,750,000
Share premium	**3,877,424**	3,877,424
Issued bonus shares from capitalisation of unrealised assets	**(4,500,000)**	(4,500,000)
Reserves	**406,362,601**	402,828,126
Add/(deduct) fair value reserves – FVOCI	**3,708,327**	7,703,113
Less property revaluation reserve	**(21,296,160)**	(21,296,160)
(Accumulated deficit)/retained earnings	**(124,978,583)**	(168,581,145)
Total qualifying Tier 1 capital	**404,923,609**	361,781,358

	2023 $	2022 $
Tier 2 capital		
Fair value reserves – FVOCI	**(3,708,327)**	(7,703,113)
Property revaluation reserve	**21,296,160**	21,296,160
Issued bonus shares from capitalisation of unrealised assets	**4,500,000**	4,500,000
Total qualifying Tier 2 capital	**22,087,833**	18,093,047
Investment in subsidiaries	**(23,633,438)**	(24,246,462)
Total regulatory capital	**403,378,004**	355,627,943

	2023 $	2022 $
Risk-weighted assets:		
On-separate statement of financial position	**1,926,677,599**	1,980,867,229
Off-separate statement of financial position	**54,802,837**	58,227,558
Total risk-weighted assets	**1,981,480,436**	2,039,094,787
Tier 1 capital ratio	**20%**	18%
Basel ratio	**20%**	18%

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements

The Bank's separate financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the separate financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below:

i) Fair value of financial instruments

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

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

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

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

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *…continued*

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

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

iii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g., the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is earlier detailed, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

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

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences in estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision for loans and advances to customers would be estimated as $2,955,117 lower or $5,405,278 higher (2022: $8,500,233 lower or $8,887,506 higher).

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *…continued*

(iv) Pension benefits

The present value of the defined benefit pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation. Additional information is disclosed in note 32.

(v) Estimation of current and deferred income taxes

Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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

5 Cash and balances with Central Bank

	Note	2023 $	2022 $
Cash on hand		**22,171,836**	18,601,935
Balances with Central Bank other than mandatory deposits		**23,888,607**	30,652,880
Included in cash and cash equivalents	**31**	**46,060,443**	49,254,815
Mandatory deposits with Central Bank		**179,809,140**	169,758,050
		225,869,583	219,012,865

The Bank is required to maintain an Automated Clearing Housing (ACH) collateral amount with the Central Bank. This amount can be in the form of cash and/or ECCU member government securities issued on the Regional Government Securities Market. The Bank’s collateral amount held with the Central Bank at June 30, 2023 amounted to $13,565,840 (2022: $10,022,133).

(expressed in Eastern Caribbean dollars)

5 Cash and balances with Central Bank *...continued*

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

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

6 Treasury bills

	2023 $	2022 $
United States Government Treasury bills	**285,971,013**	–
St. Kitts and Nevis Government Treasury bills	**54,817,440**	54,817,440
Interest receivable	**3,187,865**	294,112
Total treasury bills, gross	**343,976,318**	55,111,552
Less: provision for expected losses	**(62,883)**	(11,773)
Total treasury bills, net	**343,913,435**	55,099,779

Treasury bills are held with the Government of St. Kitts and Nevis and the Federal Government of the United States of America with original terms to maturity of one year. As such all treasury bills are current. Interest on St. Kitts and Nevis treasury bills is earned at a rate of 4.00% per annum (2022: 4.00%). Interest on United States Government Treasury bills is earned at rates ranging from 2.75% to 5.15% per annum.

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

	2023 $	2022 $
Balance at beginning of year	**55,099,779**	55,072,234
Additions	**676,397,299**	54,817,440
Disposals (sales/redemptions)	**(390,426,286)**	(54,817,440)
Movement in interest receivable	**2,893,753**	–
Impairment (charge)/recovery during the year	**(51,110)**	27,545
Balance at end of year	**343,913,435**	55,099,779

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

	2023 $	2022 $
Opening provision for expected credit losses	**11,773**	39,318
Expected credit losses/(recoveries) during the year, net	**51,110**	(27,545)
Ending provision for expected credit losses	**62,883**	11,773

(expressed in Eastern Caribbean dollars)

7 Deposits with other financial institutions

	Note	2023 $	2022 $
Operating cash balances		**286,039,121**	268,146,870
Interest bearing term deposits		**13,513,000**	202,843,365
Items in the course of collection		**5,775,652**	8,488,207
Included in cash and cash equivalents	**31**	**305,327,773**	479,478,442
Interest bearing term deposits		**27,363,941**	32,329,006
Restricted term deposits		**46,228,358**	44,871,790
		378,920,072	556,679,238
Interest receivable		**931,304**	939,822
Total deposits with other financial institutions, gross		**379,851,376**	557,619,060
Less: provision for expected credit losses		**(63,583)**	(639,270)
Total deposits with other financial institutions, net		**379,787,793**	556,979,790
Current		**333,559,435**	512,108,000
Non-current		**46,228,358**	44,871,790
		379,787,793	556,979,790

The operating cash balances are zero-interest bearing (2022: 0%). The amounts held in these accounts are to facilitate the short-term commitments and day-to-day operations of the Bank.

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

Interest earned on 'Restricted term deposits' is credited to the separate statement of income. The effective interest rate on 'Deposits with other financial institutions' at June 30, 2023 is 1.19% (2022: 2.45%).

Interest bearing term deposits earn interest at a rate of 1.5% to 4.85% per annum (2022: 1.05% to 3.35%) and have original terms of maturity of 180 days to one year ending within the period July 7, 2023 to February 24, 2024 (2022: July 11, 2022 to June 29, 2023).

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

	2023 $	2022 $
Opening provision for expected credit losses	**639,270**	139,886
Expected credit (recoveries)/losses during the year, net	**(575,687)**	499,384
Ending provision for expected credit losses	**63,583**	639,270

(expressed in Eastern Caribbean dollars)

8 Loans and advances to customers

	2023 $	2022 $
Performing		
Demand	**425,233,856**	401,040,798
Mortgages	**135,076,076**	134,186,775
Other secured	**23,233,702**	23,743,476
Overdrafts	**23,448,901**	28,335,633
Credit cards	**10,339,956**	9,233,191
Consumer	**7,692,739**	5,743,983
Under-performing		
Demand	**1,568,258**	5,257,242
Mortgages	**2,614,666**	2,350,809
Other secured	**18,528**	11,668
Credit cards	**359,871**	455,213
Consumer	**152,049**	157,565
Non-performing	**403,792,580**	443,317,670
Interest receivable	**1,543,268**	1,515,144
Total loans and advances to customers, gross	**1,035,074,450**	1,055,349,167
Less: Provision for expected credit losses	**(33,583,610)**	(79,854,566)
Total loans and advances to customers, net	**1,001,490,840**	975,494,601
Current	**366,057,894**	360,416,964
Non-current	**635,432,946**	615,077,637
	1,001,490,840	975,494,601

The weighted average effective interest rate on performing loans and advances excluding overdrafts at June 30, 2023 was 5.85% (2022: 5.78%) and overdrafts were 6.51% (2022: 5.80%).

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

	Note	2023 $	2022 $
Opening provision for expected credit losses		**79,854,566**	71,615,764
Expected credit losses during the year, net	**24**	**1,941,185**	8,238,802
Write offs during the year		**(48,212,141)**	–
Ending provision for expected credit losses		**33,583,610**	79,854,566

(expressed in Eastern Caribbean dollars)

9 Originated debts

	2023 $	2022 $
Local sovereign bonds	**24,760,926**	23,731,094
International corporate bond	**45,944,200**	80,453,533
Regional sovereign bonds	**48,441,939**	49,156,225
	119,147,065	153,340,852
Interest receivable	**754,218**	958,515
Total originated debts, gross	**119,901,283**	154,299,367
Less: provision for expected credit losses	**(365,607)**	(88,037)
Total originated debts, net	**119,535,676**	154,211,330
Current	**21,215,036**	79,743,381
Non-current	**98,320,640**	74,467,949
	119,535,676	154,211,330

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

a) Local and regional sovereign bonds

The Bank has certain investment securities which comprise of fixed rate bonds held with sovereigns in the ECCU. Bonds yield interest at rates of 1.50% – 6.75% (2022: 1.50% – 6.75%). Bonds have remaining terms to maturity ranging from within one month – 34 years (2022: within three months – 35 years) and will mature between July 18, 2023 and April 18, 2057 (2022: September 10, 2022 and April 18, 2057) and pay semi-annual coupon interest payments until maturity.

b) International corporate bond

The Bank holds various bonds with Wells Fargo which are denominated in United States Dollars and which yield interest rates ranging from 3.0% to 5.75% (2022: 1.9%). The bonds have maturity dates ranging from December 23, 2024 – June 15, 2026 (2022: September 29, 2022 – June 9, 2025).

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

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

(expressed in Eastern Caribbean dollars)

9 Originated debts*...continued*

c) Certificates of participation in the Government of Antigua and Barbuda 7-Year Long Term Note *...continued*

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

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

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

As at June 30, 2021, the Bank's interest under the COP amounted to $36,242,620. All of the COP have matured and are past due. A decision was made and approved by the Board of Directors to have the COP which amounted to $36,242,620 written-off at the end of the financial year ended June 2022. As at June 30, 2023, the Bank's financial statements no longer show an interest under COP.

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

The Bank continues to rely on the expert legal advice received thus far as pertains to the prospects of enforcing recovery and anticipate an eventual settlement.

(expressed in Eastern Caribbean dollars)

9 Originated debts*...continued*

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

	2023 $	2022 $
Balance at beginning of year	**154,211,330**	110,311,503
Additions	**45,352,472**	121,902,232
Disposals (sales/redemptions)	**(79,546,259)**	(42,214,436)
Direct write off during the year	**–**	(36,242,620)
Impairment (charges)/recoveries during the year	**(277,570)**	194,194
Movement in interest receivable	**(204,297)**	260,457
Balance at end of year	**119,535,676**	154,211,330

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

	2023 $	2022 $
Opening provision for expected credit losses	**88,037**	282,231
Expected credit losses/(recoveries) during the year	**277,570**	(194,194)
Ending provision for expected credit losses	**365,607**	88,037

(expressed in Eastern Caribbean dollars)

10 Investment securities

	2023 $	2022 $
FVTPL		
Equity investments	**887,801,949**	1,082,318,311
Debt investments	**2,624,765**	3,814,382
Total FVTPL securities	**890,426,714**	1,086,132,693
FVOCI – equity securities		
Quoted equity investments	**11,459,792**	5,328,632
Unquoted equity investments	**8,868,105**	9,121,459
Total FVOCI – equity securities	**20,327,897**	14,450,091
FVOCI – debt securities		
Quoted corporate bonds	**168,621,529**	40,084,297
Quoted sovereign bonds	**50,570,179**	4,871,126
Government Sponsored Enterprise Debentures	**15,332,634**	–
Certificate of deposits	**8,446,970**	–
Interest receivable	**2,745,170**	417,098
Total – FVOCI – debt securities	**245,716,482**	45,372,521
Total investment securities	**1,156,471,093**	1,145,955,305
Current	**936,437,901**	1,100,862,171
Non-current	**220,033,192**	45,093,134
Total investment securities	**1,156,471,093**	1,145,955,305

Borrowings – line of credit

The Bank has an operating line of credit with one of its investment custodians, Raymond James, to facilitate investment transactions. As at the reporting date, the line of credit was not used and as such had a zero balance as the outstanding balance held at June 2022 was repaid during the financial year (2022: $21,163,983). The line of credit has a limit of US$50 million or EC$135,130,000 and bears interest at a rate of 6% (2022: 1.5%).

a) FVTPL – quoted debt and equity instruments

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

(expressed in Eastern Caribbean dollars)

10 Investment securities *…continued*

b) FVOCI – equity instruments

Quoted equity instruments

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

Unquoted equity instruments

For unquoted securities, the Bank undertakes a fair value assessment at each reporting date to assess the gains or losses attributable to such assets. During the financial year, net fair value losses related to financial assets in equity securities which are not trading in an active market amounted to $253,354 (2022: $ nil).

Fair value hedge

During the year, the Bank purchased a fair value hedge instrument to minimise price risk exposures with respect to the fair value of certain equity instruments which were quoted.

The hedge instrument held by the Bank was exchange-traded and was acquired on February 9, 2023 and will expire on July 21, 2023. The Bank is exposed to credit risk on the hedge instrument only to the extent of its carrying amount, which is the fair value.

Carrying amount of hedge instrument was allocated as follows:

	As at June 30, 2023 $	**Change in fair value $**
FVTPL – equity instruments	**235,349**	(10,486,806)
FVOCI – equity instruments	**2,696**	(108,668)
Total	**238,045**	**(10,595,474)**

Carrying amount of hedged items:

	As at June 30, 2023 $	**Change in fair value $**
FVTPL – equity instruments	**802,544,633**	(864,169)
FVOCI – equity instruments	**9,193,502**	2,458,017
Total	**811,738,135**	**1,593,848**

(expressed in Eastern Caribbean dollars)

10 Investment securities *…continued*

b) FVOCI – equity instruments *…continued*

The Bank assessed the hedge effectiveness as at June 30, 2023 to be 29%. The strike price of the hedge is $9,918.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market prices. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

c) FVOCI – debt securities – Quoted corporate and sovereign bonds

The Bank has certain investment securities which comprise of quoted corporate and sovereign fixed rate bonds trading. Bonds have coupon rates of 0.125% to 9.375% (2022: 0.125% to 7.375%); whilst the effective interest rate for these bonds ranges from 0.5% to 11.25% (2022: 0.5% to 11.85%). Bonds have an average term of ten (10) years and will mature between July 2023 and March and pay semi-annual coupon interest payments until maturity. As at June 30, 2023, the fair values of these amounted to $219,191,708 (2022: $45,372,521).

d) Government sponsored enterprise debentures

The Bank has certain debt instruments in government sponsored enterprises of the Federal Government of the United Statements of America. The bonds have maturity dates ranging from October 2023 to December 2037. The bonds have coupon rates of 4.87% to 6.23%.

e) Certificate of deposits

The Bank has certificate of deposits with various financial institutions based in United States and Canada. The certificates of deposits have maturity dates ranging from May 2025 – July 2027. The certificate of deposits have coupon rates of 1.734% to 3.5%.

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

	FVTPL **$**	**Equity securities – FVOCI** **$**	**Debt securities – FVOCI** **$**	**Total** **$**
Balance as at June 30, 2022	1,086,132,693	14,450,091	45,372,521	1,145,955,305
Additions	269,130,385	3,869,090	303,029,440	576,028,915
Disposals (sales/redemptions)	(542,121,245)	(3,869,317)	(104,657,495)	(650,648,057)
Fair value gains on disposal of investment securities, net	46,368,327	105	380,886	46,749,318
Fair value gains/(losses) on existing securities, net	30,916,554	5,877,928	(736,942)	36,057,540
Movement of interest receivable	–	–	2,328,072	2,328,072
Balance as at June 30, 2023	**890,426,714**	**20,327,897**	**245,716,482**	**1,156,471,093**

(expressed in Eastern Caribbean dollars)

10 Investment securities *…continued*

	FVTPL $	Equity securities – FVOCI $	Debt securities – FVOCI $	Total $
Balance as at June 30, 2021	1,249,045,144	36,436,745	41,112,049	1,326,593,938
Additions	714,866,602	–	21,309,483	736,176,085
Disposals (sales/redemptions)	(562,307,719)	(29,840,370)	(12,209,510)	(604,357,599)
Fair value gains/(losses) on disposal of investment securities, net	51,407,973	(9,122,839)	(451,862)	41,833,272
Fair value (losses)/gains on existing securities, net	(366,879,307)	16,976,555	(4,174,654)	(354,077,406)
Movement of interest receivable	–	–	(212,985)	(212,985)
Balance as at June 30, 2022	**1,086,132,693**	**14,450,091**	**45,372,521**	**1,145,955,305**

11 Investment in subsidiaries

	2023 $	2022 $
St. Kitts and Nevis Mortgage and Investment Company Limited	**12,000,000**	12,000,000
National Caribbean Insurance Company Limited	**9,000,000**	9,000,000
National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited	**5,750,000**	5,750,000
Investment in subsidiaries, gross	**26,750,000**	26,750,000
Less: provision for impairment	**(3,116,562)**	(2,503,538)
Investment in subsidiaries, net	**23,633,438**	24,246,462

All subsidiaries are wholly owned by the Bank. National Caribbean Insurance Company Limited (NCIC) is 90 percent owned directly by the Bank and National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited, which is a wholly owned subsidiary of the Bank, owns the remaining 10 percent.

The provision for impairment relates to the Bank's investment in St. Kitts and Nevis Mortgage and Investment Company Limited.

The movement in the provision for impairment is as follows:

	Note	2023 $	2022 $
Balance at beginning of year		**2,503,538**	2,024,842
Impairment loss during the year	24	**613,024**	478,696
Balance at end of year		**3,116,562**	2,503,538

(expressed in Eastern Caribbean dollars)

12 Property and equipment

	Land and property	Equipment	Furniture & fittings	Motor vehicles	Reference books	Projects ongoing	Total
At June 30, 2021	$	$	$	$	$	$	$
Cost or valuation	27,277,225	15,771,960	3,530,240	1,055,460	140,368	1,377,645	49,152,898
Accumulated depreciation	(1,755,219)	(13,737,820)	(3,099,051)	(452,690)	(140,283)	–	(19,185,063)
Net book value	**25,522,006**	**2,034,140**	**431,189**	**602,770**	**85**	**1,377,645**	**29,967,835**
Year ended June 30, 2022							
Opening net book value	25,522,006	2,034,140	431,189	602,770	85	1,377,645	29,967,835
Additions	864,832	592,231	50,771	127,000	–	31,553	1,666,387
Disposals	–	(956,234)	(169,852)	(112,000)	–	–	(1,238,086)
Write back of depreciation on disposals	–	956,024	169,671	111,999	–	–	1,237,694
Depreciation charge	(563,749)	(658,276)	(124,605)	(182,916)	–	–	(1,529,546)
Closing net book value	**25,823,089**	**1,967,885**	**357,174**	**546,853**	**85**	**1,409,198**	**30,104,284**
At June 30, 2022							
Cost or valuation	28,142,057	15,407,957	3,411,159	1,070,460	140,368	1,409,198	49,581,199
Accumulated depreciation	(2,318,968)	(13,440,072)	(3,053,985)	(523,607)	(140,283)	–	(19,476,915)
Net book value	**25,823,089**	**1,967,885**	**357,174**	**546,853**	**85**	**1,409,198**	**30,104,284**

(expressed in Eastern Caribbean dollars)

12 Property and equipment ...*continued*

	Land and property $	Equipment $	Furniture & fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2023							
Opening net book value	25,823,089	1,967,885	357,174	546,853	85	1,409,198	30,104,284
Additions	–	1,821,523	170,179	499,167	–	–	2,490,869
Disposals	–	–	–	(402,500)	–	(919,318)	(1,321,818)
Write back of depreciation on disposals	–	–	–	198,274	–	–	198,274
Depreciation charge	(563,467)	(836,337)	(130,526)	(196,129)	–	–	(1,726,459)
Closing net book value	**25,259,622**	**2,953,071**	**396,827**	**645,665**	**85**	**489,880**	**29,745,150**
At June 30, 2023							
Cost or valuation	28,142,057	17,229,480	3,581,338	1,167,127	140,368	489,880	50,750,250
Accumulated depreciation	(2,882,435)	(14,276,409)	(3,184,511)	(521,462)	(140,283)	–	(21,005,100)
Net book value	**25,259,622**	**2,953,071**	**396,827**	**645,665**	**85**	**489,880**	**29,745,150**

(expressed in Eastern Caribbean dollars)

12 Property and equipment *…continued*

Included in Property is land at a carrying value of $6,101,132. This is made up as follows:

	2023 $	2022 $
Headquarters (Basseterre)	**2,206,000**	2,206,000
Nevis	**1,120,000**	1,120,000
West Independence Square	**900,000**	900,000
Saddlers – Lavington	**864,832**	864,832
Rosemary Lane (#1)	**500,000**	500,000
Rosemary Lane (#2)	**412,000**	412,000
Sandy Point (#1)	**44,000**	44,000
Saddlers	**30,000**	30,000
Sandy Point (#2)	**24,300**	24,300
Total	**6,101,132**	6,101,132

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

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

	Land $	Buildings $	Total $
At June 30, 2023			
Cost	3,793,203	13,722,199	17,515,402
Accumulated depreciation	–	(5,479,319)	(5,479,319)
Net book value	**3,793,203**	**8,242,880**	**12,036,083**

	Land $	Buildings $	Total $
At June 30, 2022			
Cost	3,793,203	13,722,199	17,515,402
Accumulated depreciation	–	(5,064,286)	(5,064,286)
Net book value	**3,793,203**	**8,657,913**	**12,451,116**

(expressed in Eastern Caribbean dollars)

13 Intangible assets

	Computer software $
At June 30, 2021	
Cost	7,342,511
Accumulated amortisation	(6,987,085)
Net book value	**355,426**
Year ended June 30, 2022	
Opening balance	355,426
Additions	258,504
Amortisation charge	(289,346)
Closing net book value	**324,584**
At June 30, 2022	
Cost	7,601,015
Accumulated amortisation	(7,276,431)
Net book value	**324,584**
Year ended June 30, 2023	
Opening balance	324,584
Additions	884,441
Amortisation charge	(205,163)
Closing net book value	**1,003,862**
At June 30, 2023	
Cost	8,485,455
Accumulated amortisation	(7,481,593)
Net book value	**1,003,862**

(expressed in Eastern Caribbean dollars)

14 Leases

The Bank leases properties and equipment for its operations with lease terms ranging from 3 to 8 years. The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets.

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

(a) Amounts recognised in the separate statement of financial position:

Right-of-use assets	**$**
Cost	2,233,684
Accumulated depreciation	(973,384)
Balance as at June 30, 2021	**1,260,300**
Year ended June 30, 2022	
Opening net book value	1,260,300
Depreciation charge	(647,448)
Closing net book value	**612,852**
Cost	2,233,684
Accumulated depreciation	(1,620,832)
Balance as at June 30, 2022	**612,852**
Year ended June 30, 2023	
Opening net book value	612,852
Additions	597,975
Depreciation charge	(775,556)
Closing net book value	**435,271**
Cost	2,831,659
Accumulated depreciation	(2,396,388)
Balance as at June 30, 2023	**435,271**

(expressed in Eastern Caribbean dollars)

14 Leases *...continued*

(a) Amounts recognised in the separate statement of financial position: *…continued*

Lease liabilities	**2023 $**	**2022 $**
Opening balance	**633,146**	1,286,277
Additions	**597,975**	–
Interest expense	**20,504**	27,954
Lease payments	**(807,745)**	(681,085)
Total lease liabilities	**443,880**	633,146
Current	**257,256**	405,929
Non-current	**186,624**	227,217
	443,880	633,146

(b) Amounts recognised in the separate statement of income:

	Note	**2023 $**	**2022 $**
Depreciation charge on right-of-use assets		**775,556**	647,448
Interest expense on lease liabilities	**21**	**20,504**	27,954
		796,060	675,402

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

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

June 30, 2023

Right-of-use asset	**No. of right-of-use assets leased**	**Range of remaining term**	**Average remaining lease term**	**No. of leases with extension option**	**No. of leases with termination options**
Office buildings	9	Up to 6 years	1.6 years	8	7
Storage facilities	2	<1 year	< 1 year	2	1
IT Equipment	8	0.5 years	0.5 years	8	–

(expressed in Eastern Caribbean dollars)

14 Leases *...continued*

(b) Amounts recognised in the separate statement of income: *…continued*

June 30, 2022

Right-of-use asset	No. of right-of-use assets leased	Range of remaining term	Average remaining lease term	No. of leases with extension option	No. of leases with termination options
Office buildings	6	Up to 7 years	5.5 years	5	4
Storage facilities	2	1 year	1 year	2	1
IT Equipment	8	Up to 1.5 years	1.5 years	8	–

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

June 30, 2023	Within 1 year $	1 – 2 years $	3 years $	3 – 4 years $	4 – 5 years $	After 5 years $	Total $
Lease payments	265,302	66,526	46,106	42,022	23,103	19,320	462,379
Finance charges	(8,046)	(4,585)	(2,984)	(1,792)	(830)	(262)	(18,499)
Net present values	**257,256**	**61,941**	**43,122**	**40,230**	**22,273**	**19,058**	**443,880**
June 30, 2022							
Lease payments	417,935	114,274	43,825	23,404	19,320	38,640	657,398
Finance charges	(12,006)	(5,012)	(2,869)	(1,906)	(1,371)	(1,088)	(24,252)
Net present values	**405,929**	**109,262**	**40,956**	**21,498**	**17,949**	**37,552**	**633,146**

Lease payments not recognised as a liability

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

(expressed in Eastern Caribbean dollars)

15 Other assets

	Note	2023 $	2022 $
Other receivables, gross		**3,526,920**	3,396,565
Less: provision for expected credit losses		**(296,682)**	(296,682)
Other receivables, net		**3,230,238**	3,099,883
Net defined benefit asset	32	**10,000,146**	9,822,749
Suspense assets and prepayments		**6,641,356**	1,285,382
Stationery		**843,272**	952,530
		20,715,012	15,160,544
Current		**10,714,866**	5,337,795
Non-current		**10,000,146**	9,822,749
		20,715,012	15,160,544

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

	Note	2023 $	2022 $
Opening provision for expected credit losses		**296,682**	5,157,662
Expected credit recoveries, net	24	–	(4,860,980)
Ending provision for expected credit losses		**296,682**	296,682

16 Customers' deposits

	2023 $	2022 $
Fixed deposit accounts	**1,432,745,736**	1,416,867,929
Direct demand accounts	**1,037,079,120**	897,245,568
Savings accounts	**674,145,223**	621,727,237
Call accounts	**61,207,767**	116,222,063
	3,205,177,846	3,052,062,797
Interest payable	**15,316,749**	15,052,103
	3,220,494,595	3,067,114,900

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

The Bank pays interest on all categories of customers' deposits except demand deposits. At the reporting date, total interest expense on interest bearing deposit accounts for the year amounted to $57,272,389 (2022: $56,261,699). The average effective rate of interest paid on customers' deposits was 1.83% (2022: 1.85%).

(expressed in Eastern Caribbean dollars)

17 Provisions, creditors and accruals

	2023 $	2022 $
Suspense liabilities	**35,868,969**	66,806,560
Employee related payables	**11,307,891**	10,638,626
Other payables	**11,023,317**	11,278,195
Unpaid drafts on other banks	**2,697,453**	3,338,097
Managers' cheques and bankers' payments	**2,319,111**	1,799,069
	63,216,741	93,860,547

18 Taxation

18.1 Change in income tax rate

In 2020, as part of the COVID-19 stimulus package, the Government of St. Kitts and Nevis granted a reduction in the corporate income tax rate from 33% to 25% on the assessable income for businesses that retain at least 75% of their employees. This temporary reduction resulted in an effective tax rate of 25% from June 2022. The exemption period has been extended to December 31, 2023.

18.2 Tax expense

	2023 $	2022 $
Operating profit/(loss) before tax	**27,423,891**	(313,442,271)
Income tax expense/(credit) at effective tax rate of 25% (2022: 25%)	**6,855,973**	(78,360,568)
Tax credit from discounted interest on government loans	**(7,315,572)**	(8,843,684)
Non-deductible expenses and other permanent differences	**6,217,908**	7,808,530
Income not subject to tax	**(1,659,082)**	(1,639,334)
Carried forward tax losses utilised during the year	**(5,233,608)**	–
Movement in deferred tax not recognised during the year	–	72,940,962
Movement in deferred tax recognised during the year	**(17,325,000)**	–
Income tax credit	**(18,459,381)**	(8,094,094)
Represented as follows:		
Current income tax credit		
Current year's income tax expense	**5,233,608**	–
Prior year income tax expense overstated	–	(1,537)
Tax credit from discounted interest on government loans	**(7,315,572)**	(8,843,684)
	(2,081,964)	(8,845,221)
Deferred tax credit	**(16,377,417)**	751,127
	(18,459,381)	(8,094,094)

(expressed in Eastern Caribbean dollars)

18 Taxation *...continued*

18.2 Tax expense *...continued*

During the year, the Bank incurred realised losses in the amount of $nil (2022: $9,122,839) on FVOCI equity securities. In 2023, the Bank was in a taxable position which resulted in the utilisation of tax losses on FVOCI equity securities. In 2022 however, the Bank was in a tax loss position. Therefore the tax benefit recognised directly in retained earnings in 2022 of $2,280,710 represented a deferred tax benefit.

18.3 Deferred tax asset

	2023 $	2022 $
Items recognised in profit or loss:		
Decelerated depreciation	**539,801**	745,889
Tax losses carried forward	**17,325,000**	–
Unutilised capital cost allowances	–	456,234
Net defined benefit asset	**(1,471,759)**	(1,186,505)
	16,393,042	15,618
Items recognised directly in other comprehensive income		
Unrealised loss on FVOCI securities	**3,240,042**	5,145,866
Unutilised tax loss on realised losses on FVOCI equity securities	–	2,280,710
Net defined benefit asset	**(1,828,296)**	(2,055,009)
	1,411,746	5,371,567
Total deferred tax asset	**17,804,788**	5,387,185

The movements on the deferred tax asset are as follows:

	2023 $	2022 $
Balance at beginning of year	**5,387,185**	4,177,730
Movement in decelerated depreciation	**(206,088)**	(33,179)
Unutilised capital cost allowances	**(456,234)**	456,234
Movement in net unrealised losses on investment securities	**(1,905,824)**	(1,064,969)
Utilisation of tax losses on prior year's realised losses on FVOCI equity securities	**(2,280,710)**	–
Unutilised tax losses	**17,325,000**	2,280,710
Movement in re-measurement of defined benefit asset	**(58,541)**	(429,341)
Balance at end of year	**17,804,788**	5,387,185

(expressed in Eastern Caribbean dollars)

18 Taxation *…continued*

18.3 Deferred tax asset *…continued*

Tax losses

In 2022, the Bank incurred a tax loss amounting to $301,329,097 that may be carried forward and applied to reduce taxable income by an amount not exceeding one half of taxable income in any one year of assessment within five (5) years following the year in which the losses were incurred. In 2023, the Bank utilised $20,934,431 of those losses with a balance remaining of $280,394,666 as at June 30 2023, The losses have not yet been agreed with the IRD. A deferred tax asset of $17,325,000 has been recognised in this financial year based on management's estimates of its ability to earn future taxable profits to utilize the tax loss.

18.4 Income tax recoverable

Included in the separate statement of financial position is an amount of $33,036,895 (2022: $19,263,187) that relates to income tax credits/advance tax payments due from the Inland Revenue Department in respect of tax assessments that were finalised up to the year ended June 30, 2020, and the change in the Bank's estimate of the current income tax expense based on a settlement agreement with the IRD. The amount may be applied against any future taxes payable by the Bank, with certain agreed restrictions.

The movement in the income tax recoverable is as follows during the year:

	2023 $	2022 $
Balance, beginning of year	**19,263,187**	1,030,303
Current year's income tax credit	**7,315,572**	8,843,684
Advance taxes paid during the year	**12,000,000**	8,500,000
Transfer of overpayment on advance corporation tax	–	1,836,279
Payment previously applied to tax liability reclassified	–	(948,309)
Prior year over-provision in tax liability offset amount	–	1,230
Current year's tax liability offset (limited to 80%)	**(4,186,886)**	–
Balance, end of year	**34,391,873**	19,263,187

18.5 Income tax payable

	2023 $	2022 $
Balance, beginning of year	–	11,612,337
Income tax payments made during year	–	(12,500,000)
Payment previously applied to tax recoverable reclassified	–	(948,309)
Prior year over-provision in tax payable	–	(307)
Current year's tax liability (limited to 20%)	**1,046,722**	–
Transfer of advance tax overpayment to tax recoverable	–	1,836,279
Balance, end of year	**1,046,722**	–

(expressed in Eastern Caribbean dollars)

19 Share capital

	2023 $	2022 $
Authorised		
270,000,000 Ordinary shares of $1 each	**270,000,000**	270,000,000
Issued and fully paid		
141,750,000 (2022: 141,750,000) Ordinary shares of $1 each	**141,750,000**	141,750,000

20 Reserves

	Note	2023 $	2022 $
Statutory reserve		**144,456,807**	144,456,807
Property revaluation reserve	**12**	**21,296,160**	21,296,160
Fair value reserves – FVOCI		**(3,708,327)**	(7,703,113)
Other reserves		**244,317,961**	244,778,272
		406,362,601	402,828,126

a) Statutory reserve

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

The reserve requirement was met as at year ended June 30, 2020. Accordingly, no additional transfers were made subsequently.

b) Fair value reserves – FVOCI reserves

	2023 $	2022 $
Balance at beginning of year	**(7,703,113)**	(9,870,480)
Movement in market value of securities, net	**1,335,338**	(4,679,906)
Expected credit losses recognised on investment securities	**378,738**	5,144
Realised losses transferred to retained earnings, net of tax	**2,280,710**	6,842,129
Balance at end of year	**(3,708,327)**	(7,703,113)

(expressed in Eastern Caribbean dollars)

20 Reserves *...continued*

b) Fair value reserves – FVOCI reserves *...continued*

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

	2023 $	2022 $
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		
Net unrealised (losses)/gains on investment securities, net of tax	**(493,751)**	(2,647,904)
Net realised gains/(losses) on investment securities, net of tax	**255,194**	(451,862)
	(238,557)	(3,099,766)
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods		
Net unrealised gains on investment securities, net of tax	**3,854,605**	5,261,989
Net realised losses on investment securities, net of tax	**(2,280,710)**	(6,842,129)
	1,573,895	(1,580,140)
	1,335,338	(4,679,906)

c) Other reserves

	2023 $	2022 $
Balance at beginning of year	**244,778,272**	180,290,539
Transfer to/(from) general reserve to the regulatory reserves	**17,948,639**	(76,734,448)
Transfer to regulatory reserve for interest accrued on non-performing loans	**6,797,686**	7,314,481
Transfer from retained earnings to general reserves	**–**	66,000,000
Remeasurement loss on defined benefit asset, net of tax	**(460,311)**	(1,512,267)
Transfer (from)/to regulatory reserve for loan impairment	**(24,746,325)**	69,419,967
Balance at end of year	**244,317,961**	244,778,272

(expressed in Eastern Caribbean dollars)

20 Reserves *...continued*

c) Other reserves *...continued*

	Notes	2023 $	2022 $
Other reserves is represented by:			
Regulatory reserve for interest accrued on non-performing loans	**3.1.2**	**73,786,983**	66,989,297
Regulatory reserve for loan impairment	**3.1.2**	**162,973,360**	145,024,721
Defined benefit pension plan reserve		**3,664,375**	4,124,686
General reserve		**3,893,243**	28,639,568
		244,317,961	244,778,272

Included in these reserves are the following individual reserves:

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

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

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

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

The details of the movement in the general reserve is as follows:

	2023 $	2022 $
Balance at beginning of year	**28,639,568**	39,374,016
Transfer to regulatory reserve for interest accrued on non-performing loans	**(6,797,686)**	(7,314,481)
Transfer from retained earnings to general reserve	–	66,000,000
Transfer to regulatory reserve for loan impairment	**(17,948,639)**	(69,419,967)
Balance at end of year	**3,893,243**	28,639,568

(expressed in Eastern Caribbean dollars)

21 Net interest income

	Note	2023 $	2022 $
Interest income			
Loans and advances to customers		**44,202,107**	42,765,681
Investment securities at FVTPL & FVOCI – debt securities		**7,794,598**	2,300,980
Treasury bills		**7,596,803**	2,284,060
Originated debts		**6,312,602**	4,547,366
Financial asset	**30**	**5,657,181**	8,575,595
Deposits with other financial institutions		**5,580,739**	1,637,060
Interest income for the year		**77,144,030**	62,110,742

	Note	2023 $	2022 $
Interest expense			
Fixed deposits		**44,709,171**	44,360,944
Savings accounts		**12,300,400**	11,612,392
Line of credit		**608,457**	434,530
Call accounts		**262,818**	288,363
Lease liabilities	**14**	**20,504**	27,954
Interest expense for the year		**57,901,350**	56,724,123
Net interest income		**19,242,680**	5,386,619

22 Net fees and commission income

	2023 $	2022 $
Fees and commission income		
International business and foreign exchange	**20,558,723**	15,625,819
Credit related fees and commission	**3,797,036**	3,266,276
Brokerage and other fees and commission	**3,190,557**	3,085,553
Fees and commission income for year	**27,546,316**	21,977,648
Fee expenses		
International business and foreign exchange	**16,891,695**	17,090,840
Other fee expenses	**2,221,834**	1,176,074
Brokerage and other related fee expenses	**110,306**	84,940
Fee expenses for year	**19,223,835**	18,351,854
Net fees and commission income	**8,322,481**	3,625,794

(expressed in Eastern Caribbean dollars)

23 Net gains/(losses) from investments in debt and equity instruments

	2023 $	2022 $
Net gains/(losses) on FVTPL investment securities	**37,696,143**	(249,575,263)
Net gains/(losses) on financial assets measured at FVOCI reclassified to profit or loss	**255,193**	(451,862)
Net gains/(losses) from investment securities	**37,951,336**	(250,027,125)

24 Credit and other impairment charges, net

	Notes	2023 $	2022 $
Loans and advances to customers	**8**	**1,941,185**	8,238,802
Investment in subsidiaries	**11**	**613,024**	478,696
Investments and other financial assets at amortised cost		**296,033**	35,811,906
Other assets	**15**	**–**	(4,860,980)
Total credit and other impairment charges		**2,850,242**	39,668,424

25 Administrative and general expenses

	Note	2023 $	2022 $
Employee costs	**25.1**	**28,341,819**	21,547,228
Management fees on investments		**9,555,692**	10,512,536
Repairs and maintenance		**6,862,289**	4,765,461
Advertisement and marketing		**1,322,452**	828,221
Communication		**900,873**	954,396
Insurance		**816,924**	860,773
Other general		**811,905**	1,567,673
Utilities		**742,170**	695,556
Stationery and supplies		**736,524**	658,717
Security services		**695,204**	653,236
Legal fees and expenses		**482,846**	505,173
Taxes and licences		**412,231**	356,102
Shareholders’ expenses		**314,756**	334,827
Premises upkeep		**79,821**	73,447
Rent and occupancy		**35,642**	67,466
Sundry losses		**16,282**	19,507
		52,127,430	44,400,319

(expressed in Eastern Caribbean dollars)

25 Administrative and general expenses ... *continued*

25.1 Employee costs

The details of the employee costs are shown below.

	Note	2023 $	2022 $
Salaries and wages		**18,378,832**	17,617,363
Other staff cost		**6,868,928**	1,283,378
Insurance and other benefits		**2,193,437**	1,909,922
Pension expense	32	**900,622**	736,565
		28,341,819	21,547,228

26 Earnings/(loss) per share

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

	2023 $	2022 $
Net income/(loss) attributable to shareholders	**45,883,272**	(305,348,177)
Weighted average number of ordinary shares in issue	**141,750,000**	138,375,000
Basic and diluted earnings/(loss) per share	**0.32**	(2.21)

The Bank has no dilutive potential ordinary shares as of June 30, 2023 and 2022.

27 Dividends

The separate financial statements for June 2023 do not reflect any dividends as no dividend payments for the financial year ended June 30, 2022 were made to the shareholders during the year. In the financial year ended June 2022, total dividends of $41,850,000 was paid during the year. This amount represented a cash dividend payment of $0.05 per share ($6,750,000) and a 5% stock dividend ($6,750,000) as well as a subsequent $0.20 cash dividend payment per share ($28,350,000).

28 Related parties, balances and transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making operational or financial decisions. A number of banking transactions are entered into with subsidiaries and directors in the normal course of business. These transactions, which include deposits, loans and other transactions, are carried out on commercial terms and conditions, at market rates.

(expressed in Eastern Caribbean dollars)

28 Related parties, balances and transactions *...continued*

Government of St. Kitts and Nevis

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

	2023 $	2022 $
Central Government and statutory bodies (public sector)		
Deposits	**1,548,012,550**	1,342,753,004
Financial asset	**357,415,566**	360,794,213
Loans and advances	**362,337,845**	375,078,453
Interest on deposits	**32,215,475**	31,699,278
Interest on financial asset	**5,657,151**	8,575,595
Interest on loans and advances	**12,018,951**	11,953,995
Subsidiaries		
Deposits	**263,644,810**	251,791,991
Loans and advances	**11,463,647**	11,079,018
Interest on deposits	**9,587,736**	9,386,670
Interest from loans and advances	**599,139**	553,786
Associated companies		
Loans and advances	**51,251,703**	69,881,615
Deposits	**6,831,754**	7,378,324
Interest on deposits	**85,712**	59,913
Interest from loans and advances	**–**	–
Directors and associates		
Loans and advances	**826,147**	204,183
Directors' fees and expenses	**1,565,194**	1,007,310
Deposits	**1,869,665**	1,647,406
Interest from loans and advances	**58,270**	50,334
Interest on deposits	**36,152**	27,196
Key management		
Loans and advances	**1,377,918**	3,018,422
Total remuneration	**5,218,863**	3,349,798
Deposits	**2,214,462**	2,106,442
Interest from loans and advances	**144,494**	170,530
Interest on deposits	**30,551**	36,495

(expressed in Eastern Caribbean dollars)

28 Related parties, balances and transactions *...continued*

As at June 30, 2023, directors held total shares in the Bank of 78,535 (2022: 147,657) and other key management held total shares in the Bank of 20,985 (2022: 15,577).

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.22% (2022: 6.09%). Secured loans are collaterised by cash and mortgages over properties.

No provision (2022: $18,629,886) has been recognised as at June 30, 2023 in respect of advances made to a related party (associated company).

29 Commitments and contingencies

Commitments
At the reporting date, the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	2023 $	2022 $
Loan commitments	**39,080,627**	54,198,443
Credit card commitments	**15,307,306**	14,001,618
	54,387,933	68,200,061

30 Financial asset

	2023 $	2022 $
Financial asset	**352,284,125**	352,284,125
Interest receivable	**7,694,226**	10,908,571
Total financial asset, gross	**359,978,351**	363,192,696
Less provision for expected credit losses	**(2,562,785)**	(2,398,483)
Financial asset, net	**357,415,566**	360,794,213

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

	2023 $	2022 $
Opening provision for expected credit losses	**2,398,483**	3,111,986
Expected credit losses/(recoveries) for the year	**164,302**	(713,503)
Ending provision for expected credit losses	**2,562,785**	2,398,483

(expressed in Eastern Caribbean dollars)

30 Financial asset *…continued*

The financial asset of $357,415,566 (2022: $360,794,213) along with the provision for expected credit losses of $2,562,785 (2022: $2,398,483) represents the Bank's right to that amount of cash flows from the sale of certain lands pursuant to a Shareholder's Agreement (Agreement) dated April 18, 2012 and September 4, 2014 between the Bank and its majority shareholder, the Government of St. Kitts & Nevis ("GOSKN"), and the Nevis Island Administration ("NIA"), respectively. Under the terms of the Agreement, the secured debt obligations owed to the Bank by the GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain land assets to the Bank. Further, the unsecured debt obligations owed to the Bank by GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain unencumbered land assets to a specially created entity, Special Land Sales Company (St. Kitts) Limited ("SLSC") and the allocation of certain shares in SLSC to the Bank. SLSC was incorporated for the purpose of selling land assets in order to fulfill the terms of the Agreement of the contracting parties. Other lands would be transferred to the SLSC for sale, if necessary, in order to satisfy the agreement of the contracting parties.

By way of supplemental agreements, the effective date of the Agreement was amended to July 1, 2013. Accordingly, the first step in the 'Land for Debt' swap took place on July 1, 2013 in the amount of $565,069,905, which is the value of the 1,200 acres of land in the first tranche based on an independent valuation. The second and third tranches were completed during 2015 and the amounts swapped amounted to $230,950,666 which is the value of 735 acres of land.

Based on the terms of the Agreement:

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

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

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

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

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

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

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

For the year ended June 30, 2023, the Bank's separate statement of income includes interest income amounting to $5,657,151 (2022: $8,575,595) (see note 21). Further, as of June 30, 2023, net interest receivable of $7,694,226 (2022: $10,908,571) was pending from the GOSKN. During the year, $8,871,496 (2022: $9,257,675) of cumulative interest payments were received from the GOSKN.

(expressed in Eastern Caribbean dollars)

30 Financial asset *...continued*

The increase in the provision for expected credit losses amounted to $164,302 (2022: decrease of $713,503) during the year.

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

The Bank has not included in these separate financial statements any investment in SLSC and the Bank has not invested any funds in SLSC.

31 Cash and cash equivalents

	2023 **$**	**2022** **$**
Deposits with other financial institutions (note 7)	**305,327,773**	479,478,442
Cash and balances with Central Bank (note 5)	**46,060,443**	49,254,815
	351,388,216	528,733,257
Operating line of credit (note 10)	**–**	(21,163,983)
	351,388,216	507,569,274

32 Defined benefit asset

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as at June 30, 2023 by independent actuaries. The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2023 **Per annum** **%**	**2022** **Per annum** %
Actuarial assumptions		
Discount rate	**3.50**	3.50
Expected return on plan assets	**5.00**	5.00
Future salary increases	**3.00**	3.00

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

(expressed in Eastern Caribbean dollars)

32 Defined benefit asset … *continued*

The present value of the defined benefit obligation amounts to $42,557,440 (2022: $40,357,576) which is funded by investments in fixed deposits, treasury bills and equity securities. The fair value of these investments amounts to $52,557,586 (2022: $50,180,422).

	2023	2022
Plan asset allocation		
Certificates of deposit	**99.6%**	99.6%
Shares and treasury bills	**0.4%**	0.4%
	100%	100%

	Note	2023 $	2022 $
Changes in the present value of defined benefit obligation			
Opening defined benefit obligation		**40,357,673**	36,902,432
Current service cost		**1,839,440**	1,707,162
Interest cost		**1,412,515**	1,291,582
Actuarial gains		**315,777**	1,696,019
Benefits paid		**(1,367,965)**	(1,239,522)
Closing defined benefit obligation		**42,557,440**	40,357,673
Changes in the fair value of plan assets			
Opening fair value of plan assets		**50,180,422**	48,151,124
Interest income		**2,509,016**	2,407,551
Employer contributions		**1,765,050**	1,567,738
Management expenses		**(157,683)**	(145,372)
Return on plan assets (other than net interest)		**(371,254)**	(561,097)
Benefits paid		**(1,367,965)**	(1,239,522)
Closing fair value of plan assets		**52,557,586**	50,180,422
Benefit cost			
Current service cost		**1,839,440**	1,707,162
Interest cost on net benefit asset		**1,412,515**	1,291,582
Return on plan assets		**(2,351,333)**	(2,262,179)
Pension expense	**25.1**	**900,622**	736,565

(expressed in Eastern Caribbean dollars)

32 Defined benefit asset … *continued*

Amount recognised in other comprehensive income	**Note**	**2023 $**	**2022 $**
Actuarial gains		**315,777**	1,696,019
Interest income on plan assets		**2,509,016**	2,407,551
Actual return on plan assets		**(2,137,762)**	(1,846,454)
Re-measurement loss on net defined benefit asset		**687,031**	2,257,116
Separate statement of financial position			
Fair value of plan assets		**52,557,586**	50,180,422
Present value of defined benefit obligation		**(42,557,440)**	(40,357,673)
Net defined benefit asset	**15**	**10,000,146**	9,822,749

Reconciliation: Net defined benefit asset	**2023 $**	**2022 $**
Opening balance	**9,822,749**	11,248,692
Employer contribution	**1,765,050**	1,567,738
Other effects recognised in other comprehensive income	**(687,031)**	(2,257,116)
Pension expense	**(900,622)**	(736,565)
Closing balance	**10,000,146**	9,822,749

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

	Discount rate plus 50 basis points $	**Discount rate minus 50 basis points $**
(Decrease)/increase in obligation	**(2,206,000)**	2,416,000

	Mortality plus 10%	**Mortality minus 10%**
(Decrease)/increase in obligation	**(967,000)**	1,059,000