St. Kitts-Nevis-Anguilla National Bank Limited

Separate Financial Statements

June 30, 2019

(expressed in Eastern Caribbean dollars)

Grant Thornton
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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, 2019, 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, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as of June 30, 2019, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Originated debts on the Bank's separate statement of financial position includes certain long term notes issued by a third party, ABI Bank Limited (in receivership) ("ABIB"), amounting to $36,242,620, which have matured and remain outstanding. The loans were to be fully repaid by cash flows from loans ABIB made to the Government of Antigua and Barbuda. However, on November 27, 2015, ABIB was placed in receivership. No provision for potential losses has been made in the separate financial statements in respect of these notes.

We were unable to obtain sufficient appropriate audit evidence or satisfy ourselves by alternative methods, as to the recoverability of the $36,242,620 due to the Bank. Consequently, we were unable to determine whether any adjustment to this amount was necessary in the separate financial statements.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 qualified opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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 statement as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of financial assets

Description of the Matter

The impairment of financial assets is a key audit matter, as it requires the application of critical management judgement and use of subjective estimates in determining the amount of impairment losses that are required to be recognised in the separate financial statements. As of June 30, 2019, the Bank's financial assets with credit risk that are subject to impairment amounted to $2,580,759,418, which represents 71% of total assets.

On July 1, 2018, the Bank adopted IFRS 9, which introduced the expected credit losses ("ECL") model in determining the impairment of financial assets. Accordingly, the Bank used the ECL model in determining the impairment allowance for its financial assets. Under IFRS 9, 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 incorporated forward-looking information into the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition to the measurement 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 impairment allowances on the financial assets, and the related credit risk are included in notes 3 to 10 and 14 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 impairment allowance on the financial assets, which was considered to be a significant risk, included the following:

- Obtained an understanding and critically assessed the Bank's updated accounting policies relating to the classification, measurement and impairment 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 impairment allowance;
- Evaluated the inputs and assumptions, as well as the formulas 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 formula used in determining the ECL;
- Evaluated the classification of credit-impaired loans and advances to customers to stage 3 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;

How the Matter was addressed in the Audit...continued

- 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.

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 IFRSs, 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

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

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

- 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.

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 Jefferson E. Hunte.

Grant Thornton

Chartered Accountants
October 17, 2019
Basseterre, St. Kitts

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Financial Position

As at June 30, 2019

(expressed in Eastern Caribbean dollars)

	Notes	2019 $	2018 $
Assets			
Cash and balances with Central Bank	5	**213,144,357**	222,110,317
Treasury bills	6	**55,001,900**	88,881,733
Deposits with other financial institutions	7	**590,561,782**	432,946,064
Loans and advances to customers	8	**835,944,866**	774,871,530
Originated debts	9	**224,214,629**	257,049,535
Financial asset	29	**682,074,899**	783,036,376
Investment securities			
Available-for-sale	10	**–**	993,165,765
Investment securities – FVTPL	10	**733,230,408**	–
Equity investment securities – FVOCI	10	**108,285,907**	–
Debt investment securities – FVOCI	10	**83,531,528**	–
Investment in subsidiaries	11	**26,750,000**	26,750,000
Acceptances, guarantees and letters of credit		**6,374,705**	7,551,552
Income tax recoverable	17	**16,567,010**	16,748,669
Property and equipment	12	**25,853,099**	26,937,490
Intangible assets	13	**590,741**	279,145
Other assets	14	**27,331,063**	21,941,501
Deferred tax asset	17	**18,302,402**	–
Total assets		**3,647,759,296**	3,652,269,677
Liabilities			
Customers' deposits	15	**3,038,721,022**	3,036,917,374
Due to other financial institutions		**124,223**	–
Accumulated provisions, creditors and accruals	16	**53,511,226**	49,853,301
Acceptances, guarantees and letters of credit		**6,374,705**	7,551,552
Income tax payable	17	**6,797,243**	17,576,399
Deferred tax liability	17	**–**	6,280,708
Total liabilities		**3,105,528,419**	3,118,179,334
Shareholders' equity			
Issued share capital	18	**135,000,000**	135,000,000
Share premium		**3,877,424**	3,877,424
Reserves	19	**298,355,520**	338,866,584
Retained earnings		**104,997,933**	56,346,335
Total shareholders' equity		**542,230,877**	534,090,343
Total liabilities and shareholders' equity		**3,647,759,296**	3,652,269,677

The notes on pages 1 to 100 are an integral part of these separate financial statements.

Approved for issue by the Board of Directors on October 17, 2019

Chairman **Director**

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Income

For the year ended June 30, 2019

(expressed in Eastern Caribbean dollars)

	Notes	2019 $	2018 $
Interest income		**88,702,725**	82,412,535
Interest expense		**(49,711,997)**	(51,852,682)
Net interest income	20	**38,990,728**	30,559,853
Fees and commission income		**15,599,931**	13,740,802
Fees expense		**(14,831,273)**	(13,673,498)
Net fees and commission income	21	**768,658**	67,304
Net gains on investments in debt and equity instruments	22	**49,485,361**	74,652,648
Dividend income		**10,774,252**	10,348,983
Gain on foreign exchange (net)		**7,596,838**	5,447,318
Other operating income		**195,432**	953,761
Other income		**68,051,883**	91,402,710
Total operating income		**107,811,269**	122,029,867
Operating expenses			
Administrative and general expenses	24	**34,593,931**	30,966,612
Credit and other impairment charges	23	**10,420,590**	8,129,411
Depreciation and amortisation	12, 13	**2,085,061**	2,239,325
Directors' fees and expenses		**879,173**	789,714
Professional fees and related expenses		**504,167**	477,068
Total operating expenses		**48,482,922**	42,602,130
Operating profit before tax		**59,328,347**	79,427,737
Income tax expense	17	**(11,765,238)**	(29,298,765)
Net income for the year		**47,563,109**	50,128,972
Basic earnings per share (basic and diluted)	25	**0.35**	0.37

The notes on pages 1 to 100 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, 2019

(expressed in Eastern Caribbean dollars)

	Note	2019 $	2018 $
Net income for the year		**47,563,109**	50,128,972
Other comprehensive (loss)/income, net of tax:			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Financial assets measures at FVOCI – debt instruments:			
Net unrealised net gains on investment securities, net of tax		**1,209,807**	–
Reclassification adjustments for net losses included in income, net of tax		**(25,567)**	–
Available-for-sale financial assets:			
Net unrealised gains on investment securities, net of tax		–	42,635,734
Reclassification adjustments for gains included in income		–	(35,001,961)
		1,184,240	7,633,773
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Financial assets measured at FVOCI – equity instruments:			
Net unrealised losses due to changes in fair value, net of tax		**(25,739,142)**	–
Re-measurement loss on defined benefit asset, net of tax	19	**(1,339,969)**	(338,211)
		(27,079,111)	(338,211)
Total other comprehensive (loss)/income for the year, net of tax		**(25,894,871)**	7,295,562
Total comprehensive income for the year		**21,668,238**	57,424,534

The notes on pages 1 to 100 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, 2019

(expressed in Eastern Caribbean dollars)

	Notes	Issued share capital $	Share premium $	Statutory reserve $	Other reserves $	Revaluation reserves $	FVOCI reserves $	Property revaluation reserve $	Retained earnings $	Total $
Balance as of June 30, 2017		**135,000,000**	**3,877,424**	**123,765,725**	**183,083,732**	**(1,217,042)**	–	**15,912,813**	**29,743,157**	**490,165,809**
Net income for the year		–	–	–	–	–	–	–	50,128,972	50,128,972
Other comprehensive income		–	–	–	(338,211)	7,633,773	–	–	–	7,295,562
Total comprehensive income for the year		**–**	**–**	**–**	**(338,211)**	**7,633,773**	–	**–**	**50,128,972**	**57,424,534**
Transfer to reserve	19	–	–	10,025,794	–	–	–	–	(10,025,794)	–
Transaction with owners										
Dividends	26	–	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2018		**135,000,000**	**3,877,424**	**133,791,519**	**182,745,521**	**6,416,731**	–	**15,912,813**	**56,346,335**	**534,090,343**
Changes on initial application of IFRS 9 (note 2)		**–**	**–**	**–**	**–**	**(6,416,731)**	**(15,053,576)**	**–**	**21,442,603**	**(27,704)**
Balance as of July 1, 2018, restated		**135,000,000**	**3,877,424**	**133,791,519**	**182,745,521**	**–**	**(15,053,576)**	**15,912,813**	**77,788,938**	**534,062,639**
Net income for the year		–	–	–	–	–	–	–	47,563,109	47,563,109
Other comprehensive loss		–	–	–	(1,339,969)	–	(24,554,902)	–	–	(25,894,871)
Total comprehensive income for the year		**–**	**–**	**–**	**(1,339,969)**	**–**	**(24,554,902)**	**–**	**47,563,109**	**21,668,238**
Transfer to reserve	19	–	–	6,854,114	–	–	–	–	(6,854,114)	–
Transaction with owners										
Dividends	26	–	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2019		**135,000,000**	**3,877,424**	**140,645,633**	**181,405,552**	**–**	**(39,608,478)**	**15,912,813**	**104,997,933**	**542,230,877**

The notes on pages 1 to 100 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, 2019

(expressed in Eastern Caribbean dollars)

	Notes	2019 $	2018 $
Cash flows from operating activities			
Operating profit before tax		**59,328,347**	79,427,737
Adjustments for:			
Interest expense	20	**49,711,997**	51,852,682
Credit and other impairment charges	23	**10,420,590**	8,129,411
Unrealised losses on FVTPL investment securities	22	**2,886,496**	–
Depreciation and amortisation	12,13	**2,085,061**	2,239,325
Retirement benefit expense	31	**532,931**	539,460
Gain on disposal of equipment		**(23,249)**	(14,999)
Dividend income		**(10,774,252)**	(10,348,983)
Interest income	20	**(88,702,725)**	(82,412,535)
Operating income before changes in operating assets and liabilities		**25,465,196**	49,412,098
(Increase)/decrease in operating assets:			
Loans and advances to customers		**(73,344,096)**	(62,112,702)
Mandatory deposits with Central Bank		**(133,790)**	2,749,420
Other assets		**(6,690,631)**	(4,843,756)
Increase/(decrease) in operating liabilities:			
Customers' deposits		**1,631,718**	(183,259,977)
Due to other financial institutions		**124,223**	–
Accumulated provisions, creditors and accruals		**3,657,925**	23,234,386
Cash used in operations		**(49,289,455)**	(174,820,531)
Interest received		**75,774,242**	78,199,998
Pension contributions paid	31	**(1,231,815)**	(1,145,008)
Income taxes paid	17	**(23,137,901)**	(2,601,710)
Interest paid		**(49,540,067)**	(54,382,051)
Net cash used in operating activities		**(47,424,996)**	(154,749,302)
Cash flows from investing activities			
Proceeds from sale of investment securities and originated debts		**1,787,326,867**	1,163,705,272
Payments received from the financial asset		**100,341,552**	34,403,322
Decrease in restricted term deposits and treasury bills		**33,600,000**	18,168,519
Dividends received		**10,774,252**	10,348,983
Interest received from investment securities and originated debts		**12,565,441**	13,131,861
Proceeds from sale of equipment		**479,540**	15,000
Purchase of equipment and intangible assets	12, 13	**(1,768,557)**	(750,605)
Decrease in special term deposit		**(30,526,555)**	20,269,500
Increase in investment securities and originated debts		**(1,700,257,751)**	(1,305,469,483)
Net cash from/(used) in investing activities		**212,534,789**	(46,177,631)
Cash flows from financing activities			
Dividends paid	26	**(13,500,000)**	(13,500,000)
Net increase/(decrease) in cash and cash equivalents		**151,609,793**	(214,426,933)
Cash and cash equivalents, beginning of year		**537,892,596**	752,319,529
Cash and cash equivalents, end of year	30	**689,502,389**	537,892,596

The notes on pages 1 to 100 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 a public company listed on the Eastern Caribbean Securities Exchange.

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 (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 (IFRSs) 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 IFRSs 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.

2.2 Changes in accounting policies

New and revised standards that are effective for annual periods beginning on or after July 1, 2018

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Bank has assessed the relevance of all such new interpretations and amendments, and has adopted the following which are relevant to its operations.

- ***New standards adopted during the accounting year***

  IFRS 9, Financial Instruments

  The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of July 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.2 Changes in accounting policies *…continued*

New and revised standards that are effective for annual periods beginning on or after July 1, 2018 *…continued*

- ***New standards adopted during the accounting year*** *…continued*

IFRS 9, Financial Instruments …continued

When adopting IFRS 9, the Bank has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings. Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has impacted the following areas:

- **Financial assets reclassified from available-for-sale (AFS) financial assets to fair value through other comprehensive income (FVOCI)**

AFS financial assets included quoted and unquoted equity investments. Under IAS 39, the equity investments which were not traded were previously carried at cost less impairment. This treatment is no longer permitted under IFRS 9, and accordingly the investments have been restated as at July 1, 2018. All other equity instruments were classified as available-for-sale with unrealised net gains or losses initially recognised in other comprehensive which were then subsequently recycled to profit or loss on disposal of the financial assets.

The Bank elected to irrevocably designate certain equity investment securities at FVOCI, as the assets are held by the Bank with the objective of selling in the future for liquidity purposes and are not actively traded for the purposes of profit making through speculative trading. There were no accumulated fair value gains for those equity securities which were previously measured at cost, however, for those equity instruments which were measured at fair value, there were net gains or losses presented under AFS investment revaluation reserves as included in the statement of changes in shareholders’ equity. As such there was a transfer from AFS investment revaluation reserves account of $15,123,700, net of tax to a FVOCI reserves account.

Management has undertaken an assessment of the fair value of the equity investments which were carried at cost less impairment and has recorded a net fair value gain of $1,801,658 to the opening revaluation reserves for equity FVOCI instruments.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.2 Changes in accounting policies *…continued*

New and revised standards that are effective for annual periods beginning on or after July 1, 2018 *…continued*

- ***New standards adopted during the accounting year*** *…continued*

  IFRS 9, Financial Instruments …continued

- **Financial assets reclassified from available-for-sale (AFS) financial assets to fair value through profit or loss (FVTPL)**

  AFS financial assets included certain quoted investments which were actively traded or acquired by management for the purposes of profit making through speculation. Under IAS 39, the equity investments were measured at fair value. Unrealised net gains or losses on changes in fair value were initially recognised in other comprehensive income which were then subsequently recycled to profit or loss on disposal of the financial assets.

  As these equity investments were measured at fair value under IAS 39, there was no further remeasurement to their carrying value on transition to IFRS 9. The net gains or losses presented under AFS investment revaluation reserves as included in the separate statement of changes in shareholders' equity that were transferred to the retained earnings amounted to $23,271,965 net of tax.

- **Credit losses on financial assets measured at amortised cost and debt securities measured at amortised cost and FVOCI**

  The impairment of financial assets applying the expected credit loss model affects the Bank's debt securities classified at amortised cost and FVOCI as presented under cash and balances with Central Bank, treasury bills, deposits with other financial institutions, financial asset, acceptances, guarantees and letters of credit and certain financial assets as included under "other assets" in the statement of financial position. These assets are measured at amortised cost or FVOCI.

  For debt securities, the Bank applies the lifetime expected credit losses based on the stages as identified in the impairment assessment. For other financial assets at amortised cost, the Bank applies the 12-month loss model of recognising lifetime expected credit losses as these items do not have a significant financing component. This is outlined in more detail under "Significant accounting policies – Policies under IFRS 9 – Credit risk measurement" and "Significant accounting policies – Policies under IFRS 9 – Impairment measurement".

  The application of the expected credit loss methodology based on the stages of impairment assessment for financial assets measured at amortised cost and debt securities measured at amortised cost and FVOCI resulted in the recognition of additional allowance for credit losses for treasury bills amounting to $162,517, financial asset amounting to $1,125, loans and advances to customers amounting to $1,903,713, originated debts amounting to $408,935, deposits with other financial institutions amounting to $45,901 and investment in debt securities amounting to $208,200. Such amount totalling $2,730,391 was charged against the opening balance of the retained earnings account.

  The quantitative impact of applying IFRS 9 as at July 1, 2018 is disclosed in the transition disclosures in note 2.3.1.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

New and revised standards that are effective for annual periods beginning on or after July 1, 2018 *...continued*

- ***New standards adopted during the accounting year*** *...continued*

IFRS 7, Financial Instruments: Disclosures Revised

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 – *Financial Instruments: Disclosures Revised*, was updated and the Bank has adopted it, together with IFRS 9, for the year beginning July 1, 2018. Changes include transition disclosures as shown in this Note under "Significant accounting policies – Policies under IFRS 9 – Reconciliation of separate statement of financial position balances from IAS 39 to IFRS 9".

IFRS 15, Revenue from Contracts with Customers

IFRS 15 and the related Clarifications to IFRS 15 replace International Accounting Standard (IAS) 18, *Revenue*, IAS 11, *Construction Contracts*, and several revenue-related interpretations. The new standard has been applied retrospectively, without restatement or an adjustment to the opening balance of retained earnings at July 1, 2018.

The Bank adopted the new guidance for the recognition of revenue from contracts with customers under IFRS 15 and these did not have any impact on the amounts recognised in prior periods and did not significantly affect the current period.

Other amendments to standards

Other standards and amendments that are effective for the first time in 2019 are as follows:

- Annual Improvements 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28);
- Applying IFRS 9, *Financial Instruments*, with IFRS 4, *Insurance Contracts*, (Amendments to IFRS 4);
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);
- IFRIC 22, *Foreign Currency Transactions and Advance Consideration;* and
- Transfer to Investment Property (Amendments to IAS 40).

These amendments do not have significant 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. Information on those expected to be relevant to the Bank's separate financial statements is provided below.

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. New standards, interpretations and amendments either not adopted or listed below are not expected to have a material impact on the Bank's separate financial statements.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

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

IFRS 16, Leases (effective from January 1, 2019)

IFRS 16 eventually replaces IAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires that entities account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortisation. The lease liability is accounted for similar to a financial liability which is amortised using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under IAS 17 where lease payments are recognised as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to IAS 17. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as IAS 17. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management plans to adopt the modified retrospective application of IFRS 16 where the cumulative effect of initially applying the standard will be recognised as an adjustment to the opening balance of the retained earnings account at the date of initial application. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Management is currently assessing the financial impact of this new standard on the Bank's separate financial statements.

Annual Improvements to IFRS 2015-2017 Cycle (effective from January 1, 2019)

Among the improvements, IAS 12 (Amendments), Income Taxes – Consequences of Dividends, is relevant to the Bank but had no material impact on the Bank's separate financial statements. The amendments clarify that all income tax consequence of dividend payments should be recognised in profit or loss.

There are no other new or amended standards and interpretations that are issued but not yet effective, that are expected to have a significant impact on the accounting policies or financial disclosures of the Bank.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities

2.3.1 Policies under IFRS 9

The Bank has adopted IFRS 9 with a date of transition of July 1, 2018. The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification, measurement and impairment of financial assets. As permitted by IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets at the date of transition were recognized in the opening retained earnings and other reserves of the current period.

Classification and measurement

From July 1, 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- FVTPL;
- 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.

Solely payments of principal and interest test (SPPI):

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.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities *...continued*

2.3.1 Policies under IFRS 9 *...continued*

(a) Debt instruments *...continued*

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 recognized 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 recognized 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*

2.3.1 Policies under IFRS 9 *...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 Stages 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 Stages 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 rating 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 utilized 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.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities *...continued*

2.3.1 Policies under IFRS 9 *...continued*

Credit risk measurement *...continued*

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.

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, forward-looking or 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.

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 in the year ended June 30, 2019.

Default

For debt securities, default is defined as the failure to meet contractual payment 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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.3 Financial assets and liabilities *…continued*

2.3.1 Policies under IFRS 9 *…continued*

Credit risk measurement *…continued*

Default …continued

Qualitative criteria *…continued*

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 instrument 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:

- 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.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities *...continued*

2.3.1 Policies under IFRS 9 *...continued*

Impairment measurement *...continued*

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. 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 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 incorporated 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.

Reconciliation of separate statement of financial position balances from IAS 39 to IFRS 9

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at July 1, 2018 are compared as follows:

	IAS 39		IFRS 9	
Financial assets	**Measurement category**	**Carrying value June 30, 2018 $**	**Measurement category**	**Carrying value July 1, 2018 $**
Cash and balances with Central Bank	Loans and receivables	222,110,317	Amortised cost	222,110,317
Treasury bills	Loans and receivables	88,881,733	Amortised cost	88,719,216
Deposits with other financial institutions	Loans and receivables	432,946,064	Amortised cost	432,900,163
Financial asset	Loans and receivables	783,036,376	Amortised cost	783,035,251
Balance carried forward		1,526,974,490		1,526,764,947

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities *...continued*

2.3.1 Policies under IFRS 9 *...continued*

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 *...continued*

	IAS 39		IFRS 9	
Financial assets	**Measurement category**	**Carrying value June 30, 2018 $**	**Measurement category**	**Carrying value July 1, 2018 $**
Balance brought forward		**1,526,974,490**		**1,526,764,947**
Loans and advances to customers	Loans and receivables	774,871,530	Amortised cost	772,967,817
Originated debts	Loans and receivables	257,049,535	Amortised cost	256,640,600
Acceptances, guarantees and letters of credit	Loans and receivables	7,551,552	Amortised cost	7,551,552
Other assets	Loans and receivables	8,028,488	Amortised cost	8,028,488
Available-for-sale Investment securities	Available-for-sale	993,165,765	FVOCI	–
Equity investments – FVOCI	Available-for-sale	–	FVOCI	96,778,330
Equity investments – FVTPL	Available-for-sale	–	FVTPL	862,136,064
Debt securities – FVOCI	Available-for-sale	–	FVOCI	35,844,829
Total financial assets		**3,567,641,360**		**3,566,712,627**

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities *...continued*

2.3.1 Policies under IFRS 9 *...continued*

Reconciliation of separate statement of financial position balances from IAS 39 to IFRS 9 *...continued*

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on July 1, 2018:

Financial assets	IAS 39 carrying amount June 30, 2018 $	Reclassi-fications $	Remea-surements $	IFRS 9 carrying amount July 1, 2018 $
Cash and balances with Central Bank	222,110,317	–	–	222,110,317
Treasury bills	88,881,733	–	(162,517)	88,719,216
Deposits with financial institutions	432,946,064	–	(45,901)	432,900,163
Financial asset	783,036,376	–	(1,125)	783,035,251
Loans and advances to customers	774,871,530	–	(1,903,713)	772,967,817
Originated debts	257,049,535	–	(408,935)	256,640,600
Acceptances, guarantees and letters of credit	7,551,552	–	–	7,551,552
Other assets	8,028,488	–	–	8,028,488
Investment securities:				
Available-for sale	993,165,765	(993,165,765)	–	–
Equity investments – FVTPL	–	862,136,064	–	862,136,064
Equity investments – FVOCI	–	94,976,672	1,801,658	96,778,330
Debt securities – FVOCI	–	36,053,029	(208,200)	35,844,829
Total financial assets	**3,567,641,360**	**–**	**(928,733)**	**3,566,712,627**

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.3 Financial assets and liabilities *…continued*

2.3.1 Policies under IFRS 9 *…continued*

Reconciliation of separate statement of financial position balances from IAS 39 to IFRS 9 *…continued*

On the date of initial application of IFRS 9, July 1, 2018, the impact to retained earnings of the Bank is as follows:

	Retained earnings effect $
Balance as at June 30, 2018	56,346,335
Accumulated fair value gains of investment securities – equity investments – FVTPL previously classified as investment securities – available-for-sale, net of tax	23,271,965
Expected credit losses on financial assets at amortised cost, net of tax	(1,829,362)
Balance at July 1, 2018, as restated	**77,788,938**

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, due to other financial institutions, acceptances, guarantees and letters of credit and accumulated provisions, creditors and accruals.

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

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities *...continued*

2.3.1 Policies under IFRS 9 *...continued*

Derecognition of financial liabilities*...continued*

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.

2.3.2 Policies under IAS 39

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – are recognised in the separate statement of financial position and measured in accordance with their assigned category.

Financial assets

The Bank allocates its financial assets to the IAS 39 category of: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

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

Loans and receivable are recognised when cash or the right to cash is advanced to a borrower and are carried at amortised cost using the effective interest method. The Bank's loans and receivables include cash and cash equivalents held with banks and deposits with other financial institution, treasury bills, financial asset, loans and advances to customers, originated debts and other receivables.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Financial assets and liabilities *...continued*

2.3.2 Policies under IAS 39 *...continued*

Financial assets *...continued*

(ii) Available-for-sale financial assets ...continued

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale are recognised on settlement date – the date that an asset is delivered to or by the Bank.

Available-for-sale financial assets are initially recognised at fair value being the transaction price less transaction costs. Available-for-sale financial assets subsequently measured at fair value based on the current bid prices of quoted investments in an active market. If the market for available-for-sale

financial assets is not active (such as investments in unlisted entities) and the fair value cannot be reliably measured, they are measured at cost. Gains and losses arising from the fair value of available-for-sale financial assets are recognised though other comprehensive income until the financial assets are derecognised or impaired, at which time, the cumulative gain or loss previously recognised through other comprehensive income is removed and recognised in the separate statement of income.

Reclassification of financial assets

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.3 Financial assets and liabilities *…continued*

2.3.2 Policies under IAS 39 *…continued*

Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information disclosed and take into account the characteristics of those financial instruments. The classification hierarchy can be seen in the table below:

<table>
<tr><td rowspan="5">Financial assets</td><td rowspan="4">Loans and receivables</td><td>Cash and cash equivalents and deposits with other financial institutions</td><td>Bank accounts</td></tr>
<tr><td>Treasury bills and originated debts</td><td>Government fixed rated bonds and long term note</td></tr>
<tr><td>Loans and advances to customers</td><td>Loans to individuals, corporate, Government and statutory entities</td></tr>
<tr><td colspan="2">Financial asset</td></tr>
<tr><td>Available-for-sale financial assets</td><td>Investment securities</td><td>Equity and debt securities</td></tr>
</table>

Impairment of financial assets

(i) Assets carried at amortised cost

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

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

- Cash flow difficulties experienced by the borrower;
- Delinquency in contractual payments of principal and interest;
- Breach of loan covenants or conditions;
- Deterioration in the value of collateral;
- Deterioration of the borrower’s competitive position; and
- Initiation of bankruptcy proceedings.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.3 Financial assets and liabilities *…continued*

2.3.2 Policies under IAS 39 *…continued*

Impairment of financial assets*…continued*

(i) Assets carried at amortised cost…continued

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the separate statement of income. If a loan has a variable interest rate, the discounted rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the "Bad Debts Recovered" income account which is then used to decrease the amount of the provision for the loan impairment in the separate statement of income.

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

(ii) Assets classified as available-for-sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.3 Financial assets and liabilities *…continued*

2.3.2 Policies under IAS 39 *…continued*

Impairment of financial assets*…continued*

(ii) Assets classified as available-for-sale…continued

removed from equity and recognised in the separate statement of income. Impairment losses recognised in the separate statement of income on equity instruments are not reversed through the separate statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate statement of income.

(iii) Renegotiated loans

Loans and advances that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Management continuously reviews these accounts to ensure that all criteria are met and that future payments are likely to occur.

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 and accumulated provisions, creditors and accruals.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Financial liabilities	Financial liabilities at amortised cost	Customers' deposits
		Accumulated provisions, creditors and accruals

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. That is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.4 Employee benefits

(i) 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.

(ii) 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

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 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 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*

2.6 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.

2.7 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.

The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries. Users of these separate financial statements should read them together with the Bank's consolidated financial statements as of and for the year ended June 30, 2019 in order to obtain full information on the financial position, results of operations and changes in financial position of the Bank and its subsidiaries as a whole.

2.8 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 Leases – Bank as a Lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Bank are primarily operating leases. The total payments made under the operating leases are charged to income on a straight-line basis over the period of the lease.

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

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.

For the financial year ended June 30, 2019, the Company determined whether to recognize 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.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

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.

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 nominal (par) value 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* – gains and losses from the revaluation of land and property;

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies*…continued*

2.17 Equity, reserves and dividend payments*…continued*

(iii) Other components of equity…continued

- *FVOCI debt and equity investments revaluation reserves* – unrealised gains and losses relating to FVOCI debt investments as well as realised and unrealised gains and losses related to FVOCI equity investments;
- *AFS investment revaluation reserves* – unrealised gains and losses relating to these types of financial instruments; 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.

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-statement of financial position 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.

(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 IAS 39, which are based on losses that have been incurred at the reporting date (the 'incurred loss model').

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

(i) Loans and advances to customers ...continued

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 term 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 following table contains 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.

	June 30, 2019 ECL Staging					
Debt securities – amortised cost	**Stage 1 12-month ECL**	**Stage 2 lifetime ECL**	**Stage 3 lifetime ECL**	**Purchased credit-impaired**	**Total**	**June 30, 2018 Total**
	$	**$**	**$**	**$**	**$**	**$**
Credit grade:						
Investment grade	327,004,852	–	–	–	327,004,852	242,946,011
Non-investment grade	130,721,905	–	–	–	130,721,905	186,228,473
Watch	–	–	–	–	–	–
Default	–	–	36,242,620	–	36,242,620	36,242,620
Gross carrying amount	457,726,757	–	36,242,620	–	493,969,377	465,417,104
Loss allowance	(675,373)	–	–	–	(675,373)	–
Carrying amount	**457,051,384**	**–**	**36,242,620**	**–**	**493,294,004**	**465,417,104**

The debt securities – amortised cost in the table noted above are summarised as follows in the separate financial statements:

	Deposits with other financial institutions (Term deposits)	**Treasury bills**	**Originated debts**	**Total**
	$	**$**	**$**	**$**
Credit grade:				
Investment grade	83,533,013	55,105,294	188,366,545	327,004,852
Non-investment grade	130,721,905	–	–	130,721,905
Watch	–	–	–	–
Default	–	–	36,242,620	36,242,620
Gross carrying amount	214,254,918	55,105,294	224,609,165	493,969,377
Loss allowance	(177,443)	(103,394)	(394,536)	(675,373)
Carrying amount June 30, 2019	**214,077,475**	**55,001,900**	**224,214,629**	**493,294,004**
Carrying amount June 30, 2018	**119,485,836**	**88,881,733**	**257,049,535**	**465,417,104**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Debt securities – FVOCI	June 30, 2019 ECL Staging Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $	June 30, 2018 Total $
Investment grade	80,381,456	–	–	–	80,381,456	12,408,129
Non-investment grade	2,585,165	768,592	–	–	3,353,757	1,255,275
Watch	–	–	–	–	–	–
Default	–	–	–	–	–	–
Gross carrying amount	82,966,621	768,592	–	–	83,735,213	13,663,404
Loss allowance	(56,065)	(147,620)	–	–	(203,685)	–
Carrying amount	**82,910,556**	**620,972**	**–**	**–**	**83,531,528**	**13,663,404**

Overdrafts – amortised cost	June 30, 2019 ECL Staging Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $	June 30, 2018 Total $
Performing	21,528,106	–	–	–	21,528,106	19,055,714
Underperforming	–	3,759	–	–	3,759	13,900
Non-performing	–	–	125,908,914	–	125,908,914	217,200,431
Gross carrying amount	21,528,106	3,759	125,908,914	–	147,440,779	236,270,045
Loss allowance	(578,109)	(344)	(33,344,269)	–	(33,922,722)	(24,573,303)
Carrying amount	**20,949,997**	**3,415**	**92,564,645**	–	**113,518,057**	**211,696,742**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Loans to customers – amortised cost	June 30, 2019 ECL Staging Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $	June 30, 2018 Total $
Performing	392,910,413	–	–	–	392,910,413	235,122,226
Underperforming	–	4,855,292	–	–	4,855,292	73,455,598
Non-performing	–	–	359,387,126	–	359,387,126	287,240,554
Gross carrying amount	392,910,413	4,855,292	359,387,126	–	757,152,831	595,818,378
Loss allowance	(1,293,367)	(262,283)	(40,473,374)	–	(42,029,024)	(39,423,075)
Carrying amount	**391,617,046**	**4,593,009**	**318,913,752**	–	**715,123,807**	**556,395,303**

Credit cards – amortised cost	June 30, 2019 ECL Staging Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $	June 30, 2018 Total $
Performing	7,154,045	–	–	–	7,154,045	6,708,302
Underperforming	–	494,170	–	–	494,170	169,624
Non-performing	–	–	582,692	–	582,692	514,072
Gross carrying amount	7,154,045	494,170	582,692	–	8,230,907	7,391,998
Loss allowance	–	(345,213)	(582,692)	–	(927,905)	(612,513)
Carrying amount	**7,154,045**	**148,957**	**–**	–	**7,303,002**	**6,779,485**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

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.

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

Debt securities – amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Purchased credit-impaired $**	**Total $**
Loss allowance as at July 1, 2018	617,353	–	–	–	617,353
Transfers:					
Transfer from Stage 1 to Stage 2	–	–	–	–	–
Transfer from Stage 1 to Stage 3	–	–	–	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–	–
New financial assets originated or purchased	377,624	–	–	–	377,624
Financial assets fully derecognised during the year	(96,579)	–	–	–	(96,579)
Changes to inputs used in ECL calculation	(223,025)	–	–	–	(223,025)
Foreign exchange adjustments	–	–	–	–	–
Loss allowance as at June 30, 2019	**675,373**	**–**	**–**	**–**	**675,373**

(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*

Debt securities – FVOCI	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $
Loss allowance as at July 1, 2018	52,056	156,144	–	–	208,200
Transfers:					
Transfer from Stage 1 to Stage 2	(544)	544	–	–	–
Transfer from Stage 1 to Stage 3	–	–	–	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–	–
New financial assets originated or purchased	30,032	632	–	–	30,664
Financial assets fully derecognised during the year	(27,399)	–	–	–	(27,399)
Changes to inputs used in ECL calculation	1,920	(9,700)	–	–	(7,780)
Foreign exchange adjustments	–	–	–	–	–
Loss allowance as at June 30, 2019	**56,065**	**147,620**	**–**	**–**	**203,685**

Overdrafts – amortised cost	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $
Loss allowance as at July 1, 2018	128,468	323	24,573,303	–	24,702,094
Transfers:					
Transfer from Stage 1 to Stage 2	(27)	27	–	–	–
Transfer from Stage 1 to Stage 3	(344)	–	344	–	–
Transfer from Stage 2 to Stage 1	323	(323)	–	–	–
Transfer from Stage 3 to Stage 1	282,526	–	(282,526)	–	–
New financial assets originated or purchased	107,421	–	487	–	107,908
Financial assets fully derecognised during the year	(5,787)	–	(13,727,835)	–	(13,733,622)
Changes to inputs used in ECL calculation	65,529	317	22,780,496	–	22,846,342
Foreign exchange adjustments	–	–	–	–	–
Loss allowance as at June 30, 2019	**578,109**	**344**	**33,344,269**	–	**33,922,722**

(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*

Overdrafts – amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Purchased credit-impaired $**	**Total $**
Loss allowance as at July 1, 2018	128,468	323	24,573,303	–	24,702,094
Transfers:					
Transfer from Stage 1 to Stage 2	(27)	27	–	–	–
Transfer from Stage 1 to Stage 3	(344)	–	344	–	–
Transfer from Stage 2 to Stage 1	323	(323)	–	–	–
Transfer from Stage 3 to Stage 1	282,526	–	(282,526)	–	–
New financial assets originated or purchased	107,421	–	487	–	107,908
Financial assets fully derecognised during the year	(5,787)	–	(13,727,835)	–	(13,733,622)
Changes to inputs used in ECL calculation	65,529	317	22,780,496	–	22,846,342
Foreign exchange adjustments	–	–	–	–	–
Loss allowance as at June 30, 2019	**578,109**	**344**	**33,344,269**	–	**33,922,722**

Loans to customers – amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Purchased credit-impaired $**	**Total $**
Loss allowance as at July 1, 2018	926,914	235,761	39,423,075	–	40,585,750
Transfers:					
Transfer from Stage 1 to Stage 2	(10,226)	10,226	–	–	–
Transfer from Stage 1 to Stage 3	(135,383)	–	135,383	–	–
Transfer from Stage 2 to Stage 1	5,593	(5,593)	–	–	–
Transfer from Stage 2 to Stage 3	–	(226,438)	226,438	–	–
Transfer from Stage 3 to Stage 1	101,206	–	(101,206)	–	–
Transfer from Stage 3 to Stage 2	–	73,092	(73,092)	–	–
New financial assets originated or purchased	580,454	23,273	1,753,823	–	2,357,550
Financial assets fully derecognised during the year	(46,828)	(557)	(7,778,470)	–	(7,825,855)
Changes to inputs used in ECL calculation	(128,363)	152,519	6,887,423	–	6,911,579
Foreign exchange adjustments	–	–	–	–	–
Loss allowance as at June 30, 2019	**1,293,367**	**262,283**	**40,473,374**	**–**	**42,029,024**

(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*

Credit cards – amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Purchased credit-impaired $**	**Total $**
Loss allowance as at July 1, 2018	491,645	120,602	612,513	–	1,224,760
Transfers:					
Transfer from Stage 1 to Stage 2	(24,262)	24,262	–	–	–
Transfer from Stage 1 to Stage 3	(11,576)	–	11,576	–	–
Transfer from Stage 2 to Stage 1	92,779	(92,779)	–	–	–
Transfer from Stage 2 to Stage 3	–	(5,857)	5,857	–	–
Transfer from Stage 3 to Stage 1	188,596	–	(188,596)	–	–
Transfer from Stage 3 to Stage 2	–	13,731	(13,731)	–	–
New financial assets originated or purchased	19,864	1,344	–	–	21,208
Financial assets fully derecognised during the year	(6,938)	(14,110)	(13,772)	–	(34,820)
Changes to inputs used in ECL calculation	(750,108)	298,020	168,845		(283,243)
Foreign exchange adjustments	–	–	–	–	–
Loss allowance as at June 30, 2019	–	**345,213**	**582,692**	**–**	**927,905**

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $83,352,449 (2018: $69,860,963). Where the ECCB loan loss provision is greater than the loan loss provision calculated under IFRS 9 (2018: IAS 39), the difference is set aside as a non-distributable reserve through equity. As at June 30, 2019, 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 19). The gross carrying value of impaired loans at the year end was $485,878,732 (2018: $504,955,057). Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $68,848,679 (2018: $56,055,340) and is included in other reserves in equity (note 19).

(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.

Debt securities – amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Purchased credit-impaired $**	**Total $**
Gross carrying amount as at July 1, 2018	429,174,484	–	36,242,620	–	465,417,104
Transfers:					
Transfer from Stage 1 to Stage 2	–	–	–	–	–
Transfer from Stage 1 to Stage 3	–	–	–	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–	–
New financial assets originated or purchased	256,186,765	–	–	–	256,186,765
Financial assets fully derecognised during the year	(198,214,201)	–	–	–	(198,214,201)
Changes in principal and interest	(29,420,291)	–	–	–	(29,420,291)
Foreign exchange adjustments	–	–	–	–	–
Gross carrying amount as at June 30, 2019	**457,726,757**	**–**	36,242,620	–	**493,969,377**

Debt securities – FVOCI	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Purchased credit-impaired $**	**Total $**
Gross carrying amount as at July 1, 2018	13,413,404	250,000	–	–	13,663,404
Transfers:					
Transfer from Stage 1 to Stage 2	(54,649)	54,649	–	–	–
Transfer from Stage 1 to Stage 3	–	–	–	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–	–
New financial assets originated or purchased	51,610,646	26,217	–	–	51,636,863
Financial assets fully derecognized during the year	(6,959,680)	–	–	–	(6,959,680)
Changes in principal and interest	24,956,900	437,726	–	–	25,394,626
Foreign exchange adjustment	–	–	–	–	–
Gross carrying amount as at June 30, 2019	**82,966,621**	**768,592**	–	–	**83,735,213**

(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*

Overdrafts – amortised cost	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $
Gross carrying amount as at July 1, 2018	19,055,714	13,900	217,200,431	–	236,270,045
Transfers:					
Transfer from Stage 1 to Stage 2	(3,529)	3,529	–	–	–
Transfer from Stage 1 to Stage 3	(44,207)	–	44,207	–	–
Transfer from Stage 2 to Stage 1	13,900	(13,900)	–	–	–
Transfer from Stage 3 to Stage 1	2,044,895		(2,044,895)	–	
New financial assets originated or purchased	3,298,773	6,479	32,407	–	3,337,659
Financial assets fully derecognised during the year	(2,873,670)	(6,479)	(89,082,707)	–	(91,962,856)
Changes in principal and interest	36,230	230	(240,529)	–	(204,069)
Foreign exchange adjustments	–	–	–	–	–
Gross carrying amount as at June 30, 2019	**21,528,106**	**3,759**	**125,908,914**	**–**	**147,440,779**

(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*

Loans to customers – amortised cost	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 Lifetime ECL $	Purchased credit-impaired $	Total $
Gross carrying amount as at July 1, 2018	235,122,226	73,455,598	287,240,554	–	595,818,378
Transfers:					
Transfer from Stage 1 to Stage 2	(2,593,881)	2,593,881	–	–	–
Transfer from Stage 1 to Stage 3	(34,341,525)	–	34,341,525	–	–
Transfer from Stage 2 to Stage 1	1,689,206	(1,689,206)	–	–	–
Transfer from Stage 2 to Stage 3	–	(68,385,751)	68,385,751	–	–
Transfer from Stage 3 to Stage 1	689,349	–	(689,349)	–	–
Transfer from Stage 3 to Stage 2	–	497,858	(497,858)	–	–
New financial assets originated or purchased	176,335,391	357,082	13,911,268	–	190,603,741
Financial assets fully derecognised during the year	(11,878,377)	(1,591,598)	(41,695,887)	–	(55,165,862)
Changes in principal and interest	27,888,024	(382,572)	(1,608,878)	–	25,896,574
Foreign exchange adjustments	–	–	–	–	–
Gross carrying amount as at June 30, 2019	**392,910,413**	**4,855,292**	**359,387,126**	–	**757,152,831**

(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*

Credit cards – amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Purchased Credit -impaired $**	**Total $**
Gross carrying amount as at July 1, 2018	6,708,302	169,624	514,072	–	7,391,998
Transfers:					
Transfer from Stage 1 to Stage 2	(338,831)	338,831	–	–	–
Transfer from Stage 1 to Stage 3	(161,660)	–	161,660	–	–
Transfer from Stage 2 to Stage 1	130,492	(130,492)	–	–	–
Transfer from Stage 2 to Stage 3	–	(8,237)	8,237	–	–
Transfer from Stage 3 to Stage 1	188,596	–	(188,596)	–	–
Transfer from Stage 3 to Stage 2	–	13,731	(13,731)	–	–
New financial assets originated or purchased	260,397	15,871	–	–	276,268
Financial assets fully derecognised during the year	(318,666)	(19,846)	(13,771)	–	(352,283)
Changes in principal and interest	685,415	114,688	114,821	–	914,924
Foreign exchange adjustments	–	–	–	–	–
Gross carrying amount as at June 30, 2019	**7,154,045**	**494,170**	**582,692**	**–**	**8,230,907**

(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 July 1, 2018 are set out below.

		2019	2020
World GDP growth rate	Base	3.9%	3.8%
	Upside	5.1%	5.1%
	Downside	2.7%	2.6%
US unemployment rate	Base	3.8%	3.7%
	Upside	3.7%	3.6%
	Downside	5.4%	5.3%
US inflation rate	Base	2.4%	2.2%
	Upside	3.4%	3.2%
	Downside	1.4%	1.3%
St. Kitts and Nevis GDP growth rate	Base	3.4%	3.7%
	Upside	7.2%	7.4%
	Downside	(0.3)%	(0.1)%
St. Lucia GDP growth rate	Base	2.3%	2.7%
	Upside	6.5%	6.9%
	Downside	(1.9)%	(1.5)%

The most significant period-end assumptions used for the ECL estimate as at June 30, 2019 are set out below.

		2020	2021
World GDP growth rate	Base	3.5%	3.6%
	Upside	4.7%	4.8%
	Downside	2.2%	2.4%
US GDP growth rate	Base	2.2%	1.8%
	Upside	3.8%	3.5%
	Downside	0.5%	0.2%
US inflation rate	Base	2.0%	2.1%
	Upside	2.9%	3.1%
	Downside	1.0%	1.1%
St. Kitts and Nevis GDP growth rate	Base	2.8%	2.8%
	Upside	6.7%	6.7%
	Downside	(1.1)%	(1.1)%
St. Lucia GDP growth rate	Base	2.8%	2.8%
	Upside	7.0%	7.0%
	Downside	(1.5)%	(1.5)%

(expressed in Eastern Caribbean dollars)

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:

	Base	Upside	Downside
July 1, 2018	80%	10%	10%
June 30, 2019	80%	10%	10%

Set out below are the changes to the ECL as at June 30, 2019 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%	72,316	(72,316)
Debt securities – FVOCI	+/- 5%	19,586	(19,586)
	ECL impact of:		
Collateral haircut	Change in threshold	Increase in value	Decrease in value
Loans	+/- 5%	228,878	(217,555)
Advances	+/- 5%	21,580	(21,580)

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 at the reporting date stood at $nil (2018: $931,552).

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Credit risk management policies applied until June 30, 2018

The impairment provision shown in the separate statement of financial position at year-end is derived from each of the five internal rating grades. The table below shows the percentage of the Bank's on-statement of financial position and off-statement of financial position items relating to loans and advances and associated impairment provision for each of the Bank's internal categories:

		2018	
		Loans and advances (%)	**Impairment provision (%)**
	Bank rating		
1	Pass	31.90	2.96
2	Special mention	12.54	0.64
3	Substandard	48.51	33.03
4	Doubtful	5.25	42.63
5	Loss	1.80	20.74
		100.00	100.00

The rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria:

(i) Loans

- Cash flow difficulties experienced by the borrower;
- Delinquency in contractual payments of principal and interest;
- Breach of loan covenants or conditions; and
- Deterioration in the value of collateral.

(ii) Advances (overdrafts)

- Approval limit has been exceeded for three months;
- Interest charges for three months or more have not been covered by deposits; and
- Account has developed a hard core which was not converted.

The Bank requires the review of individual financial assets that are above materiality thresholds on an annual basis or more regularly when individual circumstances require.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposure relating to on/off statement of financial position assets is as follows:

	Maximum exposure 2018 $
Cash and balances with Central Bank*	35,828,689
Treasury bills	88,881,733
Deposits with other financial institutions	432,946,064
Financial asset	783,036,376
Loans and receivables:	
Overdrafts	188,273,395
Corporate customers	290,241,057
Term loans	136,712,190
Mortgages (personal)	159,644,888
Originated debts	257,049,535
Investment securities – available-for-sale (debt)	125,129,315
Acceptances, guarantees and letters of credit	7,551,552
Other assets	8,028,488
	2,513,323,282
Credit risk exposure relating to off-balance sheet items:	
Loan commitments and financial guarantees	80,162,682
	2,593,485,964

**Excluding cash on hand and mandatory deposits with Central Bank.*

The preceding table represents a worst-case scenario of credit risk exposure at the reporting dates, without taking account any collateral held or other credit enhancements attached. For on-statement of financial position assets, the exposures set out above are based on net carrying amounts as reported in the separate statement of financial position. As shown, 31% of the total maximum exposure is derived from loans and advances to customers.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements *...continued*

Credit risk exposure relating to on/off statement of financial position assets is as follows: *...continued*

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- Loans to corporate customers are backed by security – cash and real estate collateral and/or guarantees;
- 27% of the loans and advances portfolio are considered to be neither past due nor impaired;
- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines; and
- A number of issuers and debt instruments in the region are not rated; consequently 73% of these investments are not rated (Government securities – treasury bills, etc.).

3.1.4 Loans and advances

Loans and advances are summarized as follows:

	2018 $
Loans and advances to customers	
Neither past due nor impaired	205,369,299
Past due not impaired	128,811,341
Impaired	504,955,057
	839,135,697
Interest receivable	344,724
Less allowance for impairment loss	(64,608,891)
Net	774,871,530

The total allowance for impairment losses on loans and advances is $64,608,891. Further information of the allowance for impairment losses on loans and advances to customers is provided in note 8.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.4 Loans and advances *...continued*

(i) Loans and advances to customers neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the rating system utilised by the Bank.

As at June 30, 2018

	Overdrafts $	**Term loans** $	**Mortgages** $	**Corporate customers** $	**Total** $
Classifications:					
1. Pass	25,657,203	60,382,700	108,245,135	7,297,525	201,582,563
2. Special mention	692,104	366,057	1,310,428	–	2,368,589
3. Substandard	112,306	134,484	1,171,357	–	1,418,147
Gross	**26,461,613**	**60,883,241**	**110,726,920**	**7,297,525**	**205,369,299**

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

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Loans and advances 90 days past due but not impaired are those with special arrangements.

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term loans $	**Mortgages** $	**Corporate customers** $	**Total** $
As at June 30, 2018				
Past due up to 30 days	1,990,402	15,225,052	38,736,986	55,952,440
Past due 31 – 60 days	380,387	1,043,046	–	1,423,433
Past due 61 – 90 days	156,222	2,074,761	67,239,720	69,470,703
Over 90 days	238,924	1,698,594	27,247	1,964,765
Gross	**2,765,935**	**20,041,453**	**106,003,953**	**128,811,341**
Fair value of collateral	**13,878,258**	**36,651,940**	**109,020,536**	**159,550,734**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.4 Loans and advances *...continued*

(ii) Loans and advances to customers past due but not impaired *...continued*

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets sales in the same geographical area.

(iii) Loans and advances to customers individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $504,955,057.

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

	Overdrafts $	**Term loans** $	**Mortgages** $	**Corporate customers** $	**Total** $
As of June 30, 2018					
Individually impaired	179,266,596	76,064,164	23,502,075	145,362,228	424,195,063
Interest receivable	13,416,387	3,753,101	17,459,249	46,131,257	80,759,994
Gross	**192,682,983**	**79,817,265**	**40,961,324**	**191,493,485**	**504,955,057**
Fair value of collateral	**212,140,436**	**38,079,451**	**39,695,424**	**376,864,250**	**666,779,561**

3.1.5 Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at the reporting date and based on Standard & Poor’s ratings or equivalent:

As of June 30, 2018	**Treasury bills** $	**Investment securities (AFS)** $	**Loans and receivables – originated debts** $	**Total** $
AAA	–	285,282	–	285,282
AA- to AA+	–	3,689,442	–	3,689,442
A- to A+	–	7,141,262	–	7,141,262
Lower than A-	–	18,902,319	–	18,902,319
Unrated/internally rated	88,881,733	95,111,010	257,049,535	441,042,278
	88,881,733	**125,129,315**	**257,049,535**	**471,060,583**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.5 Debt securities, treasury bills and other eligible bills *...continued*

As at June 30, 2018, the loans and receivables – originated debts includes long term notes, which were past due amounting to $36,242,620. Refer to note 9.

3.1.6 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, 2019					
Cash and balances with Central Bank	23,684,966	–	–	–	23,684,966
Treasury bills	55,001,900	–	–	–	55,001,900
Deposits with other financial institutions	36,479,842	432,831,768	116,669,981	4,580,191	590,561,782
Financial asset	682,074,899	–	–	–	682,074,899
Loans and advances to customers	729,444,720	99,662,748	1,927,722	4,909,676	835,944,866
Originated debts	22,136,353	101,665,239	–	100,413,037	224,214,629
Debt investment securities	–	146,295,272	1,805,978	–	148,101,250
Acceptances, guarantees and letters of credit	6,374,705	–	–	–	6,374,705
Other assets	6,118,511	8,681,910	–	–	14,800,421
	1,561,315,896	**789,136,937**	**120,403,681**	**109,902,904**	**2,580,759,418**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.6 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, 2018					
Cash and balances with Central Bank	35,828,689	–	–	–	35,828,689
Treasury bills	88,881,733	–	–	–	88,881,733
Deposits with other financial institutions	39,262,794	349,487,358	39,460,646	4,735,266	432,946,064
Financial asset	783,036,376	–	–	–	783,036,376
Loans and advances to customers	673,291,674	94,161,134	2,030,308	5,388,414	774,871,530
Originated debts	20,362,933	135,435,196	–	101,251,406	257,049,535
Investments – available-for-sale securities (debt)	–	125,129,315	–	–	125,129,315
Acceptances, guarantees and letters of credit	7,551,552	–	–	–	7,551,552
Other assets	7,563,086	465,402	–	–	8,028,488
	1,655,778,837	704,678,405	41,490,954	111,375,086	2,513,323,282

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

3.1.7 Concentration of risks of financial assets with credit exposure

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

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2019							
Cash and balances with Central Bank	–	–	–	23,684,966	–	–	23,684,966
Treasury bills	55,001,900	–	–	–	–	–	55,001,900
Deposits with other financial institutions	30,360,960	–	–	560,200,822	–	–	590,561,782
Financial asset	682,074,899	–	–	–	–	–	682,074,899
Loans and advances to customers	242,983,477	103,810,966	183,407,162	19,283,711	188,045,554	98,413,996	835,944,866
Originated debts	120,251,659	–	–	103,962,970	–	–	224,214,629
Debt investment securities	40,572,124	78,662	80,054	72,301,716	–	35,068,694	148,101,250
Acceptances, guarantees and letters of credit	2,299,355	–	–	–	–	4,075,350	6,374,705
Other assets	–	–	–	410,754	539,679	13,849,988	14,800,421
	1,173,544,374	**103,889,628**	**183,487,216**	**779,844,939**	**188,585,233**	**151,408,028**	**2,580,759,418**

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.1 Credit risk *...continued*

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

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2018							
Cash and balances with Central Bank	–	–	–	35,828,689	–	–	35,828,689
Treasury bills	88,881,733	–	–	–	–	–	88,881,733
Deposits with other financial institutions	30,468,801	–	–	402,393,806	83,457	–	432,946,064
Financial asset	783,036,376	–	–	–	–	–	783,036,376
Loans and advances to customers	204,193,890	107,649,135	170,921,946	16,333,823	179,672,464	96,100,272	774,871,530
Originated debts	120,295,287	–	–	136,754,248	–	–	257,049,535
Investment securities – available-for-sale (debt)	2,906,176	77,344	812,385	70,499,947	–	50,833,463	125,129,315
Acceptances, guarantees and letters of credit	2,299,355	–	–	–	–	5,252,197	7,551,552
Other assets	–	–	–	634,799	679,763	6,713,926	8,028,488
	1,232,081,618	**107,726,479**	**171,734,331**	**662,445,312**	**180,435,684**	**158,899,858**	**2,513,323,282**

The Government of St. Kitts and Nevis accounts for $897,276,864 (2018: $1,042,045,559) or 35% (2018: 41%) 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 available-for-sale 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 equities price risk because of investments held by the Bank and classified on the separate statement of financial position as FVTPL and FVOCI (2018: AFS). To manage this price risk arising from investments in equity securities, the Bank diversifies its investment portfolio.

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 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, 2019	XCD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	206,092,442	6,896,663	24,739	106,726	8,251	15,536	–	213,144,357
Treasury bills	55,001,900	–	–	–	–	–	–	55,001,900
Deposits with other financial institutions	39,683,769	536,671,331	9,554,146	2,193,857	1,709,949	715,683	33,047	590,561,782
Financial asset	682,074,899	–	–	–	–	–	–	682,074,899
Loans and advances to customers	512,418,831	323,526,035	–	–	–	–	–	835,944,866
Originated debts	81,896,165	142,318,464	–	–	–	–	–	224,214,629
Investment securities FVOCI	11,201,289	180,616,146	–	–	–	–	–	191,817,435
Investment securities FVTPL	1,030,400	732,200,008	–	–	–	–	–	733,230,408
Acceptances, guarantees and letters of credit	6,374,705	–	–	–	–	–	–	6,374,705
Other assets	4,685,811	10,114,610	–	–	–	–	–	14,800,421
Total financial assets	**1,600,460,211**	**1,932,343,257**	**9,578,885**	**2,300,583**	**1,718,200**	**731,219**	**33,047**	**3,547,165,402**
Liabilities								
Customers' deposits	2,555,998,885	482,324,522	36,108	52,598	308,909	–	–	3,038,721,022
Due to other financial institutions	–	124,223	–	–	–	–	–	124,223
Acceptances, guarantees and letters of credit	6,374,705	–	–	–	–	–	–	6,374,705
Accumulated provisions, creditors and accruals	22,276,935	30,497,842	44,078	498,421	56,563	137,387	–	53,511,226
Total financial liabilities	**2,584,650,525**	**512,946,587**	**80,186**	**551,019**	**365,472**	**137,387**	–	**3,098,731,176**
Net on-separate statement of financial position	**(984,190,314)**	**1,419,396,670**	**9,498,699**	**1,749,564**	**1,352,728**	**593,832**	**33,047**	**448,434,226**
Credit commitments	**28,935,650**	**2,282,739**	**–**	**–**	**–**	**–**	**–**	**31,218,389**

(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, 2018	XCD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	217,030,110	4,932,578	52,766	56,341	19,419	19,103	–	222,110,317
Treasury bills	88,881,733	–	–	–	–	–	–	88,881,733
Deposits with other financial institutions	42,504,225	384,641,783	1,502,197	2,114,194	1,444,843	709,983	28,839	432,946,064
Financial asset	783,036,376	–	–	–	–	–	–	783,036,376
Loans and advances to customers	506,963,022	267,908,508	–	–	–	–	–	774,871,530
Originated debts	81,377,847	175,671,688	–	–	–	–	–	257,049,535
Investment securities – available-for-sale	8,843,782	984,321,983	–	–	–	–	–	993,165,765
Acceptances, guarantees and letters of credit	7,551,552	–	–	–	–	–	–	7,551,552
Other assets	1,673,680	6,354,808	–	–	–	–	–	8,028,488
Total financial assets	**1,737,862,327**	**1,823,831,348**	**1,554,963**	**2,170,535**	**1,464,262**	**729,086**	**28,839**	**3,567,641,360**
Liabilities								
Customers' deposits	2,495,035,426	541,362,695	135,568	80,564	303,121	–	–	3,036,917,374
Acceptances, guarantees and letters of credit	7,551,552	–	–	–	–	–	–	7,551,552
Accumulated provisions, creditors and accruals	17,029,503	27,439,813	42,514	3,010,940	49,134	136,087	–	47,707,991
Total financial liabilities	**2,519,616,481**	**568,802,508**	**178,082**	**3,091,504**	**352,255**	**136,087**	**–**	**3,092,176,917**
Net on-separate statement of financial position	**(781,754,154)**	**1,255,028,840**	**1,376,881**	**(920,969)**	**1,112,007**	**592,999**	**28,839**	**475,464,443**
Credit commitments	**80,162,682**	**–**	**–**	**–**	**–**	**–**	**–**	**80,162,682**

(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, 2019	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	–	–	–	–	–	213,144,357	213,144,357
Treasury bills	–	–	54,714,046	–	–	287,854	55,001,900
Deposits with other financial institutions	339,778,766	43,538,026	27,105,903	–	–	180,139,087	590,561,782
Financial asset	–	–	–	659,524,535	–	22,550,364	682,074,899
Loans and advances to customers	382,740,129	356,439	47,365,980	31,346,995	373,317,433	817,890	835,944,866
Originated debts	151,045,971	–	24,381,929	25,193,778	22,372,854	1,220,097	224,214,629
Investment securities – FVOCI	40,155,668	–	293,518	21,671,518	14,243,073	115,453,658	191,817,435
Investment securities – FVTPL	1,247,655	–	11,963,059	51,359,008	–	668,660,686	733,230,408
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,374,705	6,374,705
Other assets	276,292	–	–	–	–	14,524,129	14,800,421
Total financial assets	**915,244,481**	**43,894,465**	**165,824,435**	**789,095,834**	**409,933,360**	**1,223,172,827**	**3,547,165,402**
Liabilities							
Customers' deposits	1,000,524,716	224,982,214	951,665,384	1,012,025	–	860,536,683	3,038,721,022
Due to financial institutions	124,223	–	–	–	–	-	124,223
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,374,705	6,374,705
Accumulated provisions, creditors and accruals	2,532	–	–	–	–	53,508,694	53,511,226
Total financial liabilities	**1,000,651,471**	**224,982,214**	**951,665,384**	**1,012,025**	–	**920,420,082**	**3,098,731,176**
Total interest repricing gap	**(85,406,990)**	**(181,087,749)**	**(785,840,949)**	**788,083,809**	**409,933,360**	**302,752,745**	**448,434,226**

(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, 2018	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	–	–	–	–	–	222,110,317	222,110,317
Treasury bills	–	–	88,417,440	–	–	464,293	88,881,733
Deposits with other financial institutions	234,413,995	–	27,198,444	–	–	171,333,625	432,946,064
Financial asset	–	–	–	759,867,249	–	23,169,127	783,036,376
Loans and advances to customers	441,884,882	990,483	5,993,458	71,672,231	253,985,752	344,724	774,871,530
Originated debts	128,397,355	25,404,440	7,037,841	37,067,500	21,681,985	37,460,414	257,049,535
Investment securities – available-for-sale	124,791,825	–	–	–	–	868,373,940	993,165,765
Acceptances, guarantees and letters of credit	–	–	–	–	–	7,551,552	7,551,552
Other assets	280,334	–	–	–	–	7,748,154	8,028,488
Total financial assets	**929,768,391**	**26,394,923**	**128,647,183**	**868,606,980**	**275,667,737**	**1,338,556,146**	**3,567,641,360**
Liabilities							
Customers' deposits	1,089,088,231	208,253,562	978,025,077	–	–	761,550,504	3,036,917,374
Acceptances, guarantees and letters of credit	–	–	–	–	–	7,551,552	7,551,552
Accumulated provisions, creditors and accruals	–	–	–	–	–	47,707,991	47,707,991
Total financial liabilities	**1,089,088,231**	**208,253,562**	**978,025,077**	**–**	**–**	**816,810,047**	**3,092,176,917**
Total interest repricing gap	**(159,319,840)**	**(181,858,639)**	**(849,377,894)**	**868,606,980**	**275,667,737**	**521,746,099**	**475,464,443**

(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 (2018: AFS). 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 $390,292 (2018: $838,366) lower/higher as a result of the decrease/increase in revaluation reserve for FVOCI debt securities (2018: fair value of AFS debt securities) and profit or loss for the year would have been $645,697 lower/higher due to an 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 $3,991,489 (2018: $4,259,384) higher/lower, 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 Comptroller 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; and
- FVOCI debt and equity investment securities (2018: AFS investment securities).

(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, 2019	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	1,849,822,650	228,699,387	980,101,228	1,012,853	–	3,059,636,118
Due to other financial institutions	124,223	–	–	–	–	124,223
Acceptances, guarantees and letters of credit	–	–	6,374,705	–	–	6,374,705
Accumulated provisions, creditors and accruals	40,951,125	12,560,101	–	–	–	53,511,226
Total financial liabilities	**1,890,897,998**	**241,259,488**	**986,475,933**	**1,012,853**	**–**	**3,119,646,272**
Assets held to manage liquidity risk	**2,160,030,534**	**28,195,884**	**169,513,351**	**789,864,840**	**388,636,834**	**3,536,241,443**
Net liquidity gap	**269,132,536**	**(213,063,604)**	**(816,962,582)**	**788,851,987**	**388,636,834**	**416,595,171**
As at June 30, 2018						
Liabilities						
Customers' deposits, including interest until maturity	1,839,705,520	211,485,690	1,007,058,494	–	–	3,058,249,704
Acceptances, guarantees and letters of credit	–	–	7,551,552	–	–	7,551,552
Accumulated provisions, creditors and accruals	41,347,462	5,780,118	576,137	–	–	47,703,717
Total financial liabilities	**1,881,052,982**	**217,265,808**	**1,015,186,183**	**–**	**–**	**3,113,504,973**
Assets held to manage liquidity risk	**2,214,644,815**	**50,151,556**	**147,136,265**	**901,215,658**	**255,998,348**	**3,569,146,642**
Net liquidity gap	**333,591,833**	**(167,114,252)**	**(868,049,918)**	**901,215,658**	**255,998,348**	**455,641,669**

(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 28), are summarised in the table below:

As of June 30, 2019	Up to 1 year $	1 to 3 years $	Over 3 years $	Total $
Loan commitments	10,412,245	84,035	11,525,812	22,022,092
Credit card commitments	9,196,297	–	–	9,196,297
	19,608,542	**84,035**	**11,525,812**	**31,218,389**
As of June 30, 2018				
Loan commitments	8,233,800	371,725	62,549,532	71,155,057
Credit card commitments	9,007,625	–	–	9,007,625
	17,241,425	**371,725**	**62,549,532**	**80,162,682**

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-statement of financial position commitments are also assumed to approximate the amount disclosed in note 28. 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) Originated debt

Originated debt securities include only interest bearing financial assets.

(v) 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.

(vi) Due to financial institutions

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

(vii) 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	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with Central Bank	**213,144,357**	222,110,317	**213,144,357**	222,110,317
Treasury bills	**55,001,900**	88,881,733	**55,001,900**	88,881,733
Deposits with other financial institutions	**590,561,782**	432,946,064	**590,561,782**	432,946,064
Financial asset	**682,074,899**	783,036,376	**682,074,899**	783,036,376
Loans and advances to customers	**835,944,866**	774,871,530	**841,049,116**	715,909,824
Originated debts	**224,214,629**	257,049,535	**224,214,629**	257,049,535
Acceptances, guarantees and letters of credit	**6,374,705**	7,551,552	**6,374,705**	7,551,552
Other assets	**14,800,421**	8,028,488	**14,800,421**	8,028,488
	2,622,117,559	2,574,475,595	**2,627,221,809**	2,515,513,889
Financial liabilities				
Customers' deposits	**3,038,721,022**	3,036,917,374	**3,038,721,022**	3,036,917,374
Due to other financial institutions	**124,223**	–	**124,223**	–
Acceptances, guarantees and letters of credit	**6,374,705**	7,551,552	**6,374,705**	7,551,552
Accumulated provisions, creditors and accruals	**53,511,226**	47,703,717	**53,511,226**	47,703,717
	3,098,731,176	3,092,172,643	**3,098,731,176**	3,092,172,643

(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 table provides an analysis of financial instruments 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 values 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).

FVTPL and FVOCI investment securities (2018: AFS investment securities)

	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
As at June 30, 2019				
Debt securities	77,634,529	2,706,384	67,760,337	148,101,250
Equities	764,709,756	1,030,400	11,206,437	776,946,593
	842,344,285	**3,736,784**	**78,966,774**	**925,047,843**
As at June 30, 2018				
Debt securities	112,733,374	1,178,234	10,880,217	124,791,825
Equities	858,021,989	38,413	2,052,466	860,112,868
	970,755,363	**1,216,647**	**12,932,683**	**984,904,693**

3.5 Fair value measurement 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, 2019				
Land and property	–	**21,474,618**	–	**21,474,618**
As at June 30, 2018				
Land and property	–	22,202,908	–	22,202,908

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

3.5 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.

3.6 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 Eastern Caribbean Central Bank (the "Central Bank" or "ECCB");
- 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 (2018: available-for-sale).

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-statement of financial position 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*

3.6 Capital management *...continued*

	2019 $	2018 $
Tier 1 capital		
Share capital	**135,000,000**	135,000,000
Share premium	**3,877,424**	3,877,424
Issued bonus shares from capitalisation of unrealised assets	**(4,500,000)**	(4,500,000)
Reserves	**298,355,520**	338,866,584
Add/(deduct) fair value reserves – FVOCI (2018: AFS investment securities)	**39,608,478**	(6,416,731)
Less Revaluation reserve – land and property	**(15,912,813)**	(15,912,813)
Retained earnings	**104,997,933**	56,346,335
Total qualifying Tier 1 capital	**561,426,542**	507,260,799

	2019 $	2018 $
Tier 2 capital		
Fair value reserve – FVOCI investment securities (2018: AFS)	**(39,608,478)**	6,416,731
Revaluation reserve – land and property	**15,912,813**	15,912,813
Issued bonus shares from capitalisation of unrealised assets	**4,500,000**	4,500,000
Total qualifying Tier 2 capital	**(19,195,665)**	26,829,544
Investment in subsidiaries	**(26,750,000)**	(26,750,000)
Total regulatory capital	**515,480,877**	507,340,343

	2019 $	2018 $
Risk-weighted assets:		
On-separate statement of financial position	**1,569,537,095**	1,719,908,457
Off-separate statement of financial position	**31,211,371**	40,625,845
Total risk-weighted assets	**1,600,748,466**	1,760,534,302
Tier 1 capital ratio	**35%**	28%
Basel ratio	**32%**	28%

(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) Evaluation of business model applied in managing financial instruments

Upon adoption of IFRS 9, the Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under IFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment and trading strategies.

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

In determining the classification of financial assets under IFRS 9, 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

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *…continued*

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

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.

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.

iv) 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 $4,617,992 lower or $4,222,165 higher (2018: $4,030,044 lower or $4,060,777 higher).

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *…continued*

(v) 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 31.

(vi) Recognition of deferred tax assets

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

	2019	**2018**
	$	**$**
Cash on hand	**17,492,942**	14,448,969
Balances with Central Bank other than mandatory deposits	**23,684,966**	35,828,689
Included in cash and cash equivalents (note 30)	**41,177,908**	50,277,658
Mandatory deposits with Central Bank	**171,966,449**	171,832,659
	213,144,357	222,110,317

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, 2019 amounted to $6,079,017 (2018: $5,939,421).

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.

(expressed in Eastern Caribbean dollars)

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

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

6 Treasury bills

	2019 $	2018 $
Treasury bills	**54,817,440**	88,417,440
Interest receivable	**287,854**	464,293
	55,105,294	88,881,733
Less: provision for expected losses	**(103,394)**	–
	55,001,900	88,881,733

Treasury bills are held with Eastern Caribbean Governments with maturities of one year. Interest on treasury bills is accrued at 4.0% per annum (2018: 4.0% to 5.0%).

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

	2019 $	2018 $
Balance at beginning of year under IAS 39	**88,881,733**	107,303,739
Amount restated through retained earnings (note 2)	**(162,517)**	–
Balance at beginning of year, as restated	**88,719,216**	107,303,739
Additions	**59,101,500**	–
Disposals (sales/redemptions)	**(92,701,500)**	(18,304,500)
Impairment recovery during the year	**59,123**	–
Movement of interest receivable	**(176,439)**	(117,506)
Balance at end of year	**55,001,900**	88,881,733

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

	2019 $	2018 $
Balance at beginning of year	**–**	–
Amounts restated through opening retained earnings	**162,517**	–
Restated opening balance under IFRS 9 as at July 1, 2018	**162,517**	–
Expected credit losses (net of recoveries)	**(59,123)**	–
Balance at end of year	**103,394**	–

(expressed in Eastern Caribbean dollars)

7 Deposits with other financial institutions

	2019 $	2018 $
Operating cash balances	**369,414,803**	303,332,097
Interest bearing term deposits	**170,539,793**	106,519,944
Items in the course of collection	**7,069,504**	10,128,131
Included in cash and cash equivalents (note 30)	**547,024,100**	419,980,172
Restricted term deposits	**42,791,183**	12,264,628
	589,815,283	432,244,800
Interest receivable	**923,942**	701,264
Total deposits with other financial institutions, gross	**590,739,225**	432,946,064
Less: provision for expected credit losses	**(177,443)**	–
	590,561,782	432,946,064
Current	**547,770,599**	420,681,436
Non-current	**42,791,183**	12,264,628
	590,561,782	432,946,064

The operating cash balances earn interest at rates of 0% to 4% (2018: 0.05% to 4%). 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, 2019 is 2.12% (2018: 0.6248%).

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

	2019 $	2018 $
Balance at beginning of year under IAS 39	**–**	795,739
Amounts restated through opening retained earnings (note 2)	**45,901**	–
Restated opening balance under IFRS 9 as at July 1, 2018	**45,901**	795,739
Expected credit losses (net of recoveries)	**131,542**	(795,739)
Balance at end of year	**177,443**	–

(expressed in Eastern Caribbean dollars)

8 Loans and advances to customers

	2019 $	2018 $
Performing		
Demand	**255,150,687**	–
Mortgages	**109,008,624**	–
Other secured	**23,041,400**	–
Overdrafts	**21,528,106**	–
Credit cards	**7,154,045**	–
Consumer	**5,513,997**	–
Under-performing		–
Demand	**1,030,763**	–
Mortgages	**3,123,320**	–
Other secured	**40,533**	–
Overdrafts	**3,759**	–
Credit cards	**494,170**	–
Consumer	**38,491**	–
Non-performing	**485,878,732**	–
Demand	–	172,531,892
Mortgages	–	106,339,155
Other secured	–	23,973,053
Overdrafts	–	19,069,614
Credit cards	–	7,391,998
Consumer	–	4,874,928
Impaired loans and advances	–	504,955,057
Interest receivable	**817,890**	344,724
Total loans and advances to customers, gross	**912,824,517**	839,480,421
Less: Provision for expected credit losses	**(76,879,651)**	(64,608,891)
Total loans and advances to customers, net	**835,944,866**	774,871,530
Current	**431,280,438**	448,876,770
Non-current	**404,664,428**	325,994,760
	835,944,866	774,871,530

The weighted average effective interest rate on performing loans and advances excluding overdrafts at June 30, 2019 was 6.5% (2018: 6.6%) and overdrafts were 6.8% (2018: 6.64%).

The movement in the provision for expected credit losses (2018: allowance for loan impairment) is as follows:

	2019 $	2018 $
Balance at beginning of year under IAS 39	**64,608,891**	62,587,280
Amounts restated through opening retained earnings (note 2)	**1,903,713**	–
Restated opening balance under IFRS 9 as at July 1, 2018	**66,512,604**	62,587,280
Impairment charge – net (note 23)	**10,367,047**	2,021,611
Balance at end of year	**76,879,651**	64,608,891

(expressed in Eastern Caribbean dollars)

9 Originated debts

	2019 $	2018 $
Local sovereign bonds	**21,104,140**	20,362,933
Regional sovereign bonds	**62,471,940**	62,471,940
Certificates of participation	**36,242,620**	36,242,620
Regional corporate bond	**2,269,987**	1,319,052
International corporate bonds	**–**	67,800,430
	122,088,687	188,196,975
Included in cash and cash equivalents:		
International commercial paper	**101,300,381**	67,634,766
	223,389,068	255,831,741
Interest receivable	**1,220,097**	1,217,794
Less: Provision for expected credit losses	**(394,536)**	–
	224,214,629	257,049,535
Current	**176,647,997**	198,300,050
Non-current	**47,566,632**	58,749,485
	224,214,629	257,049,535

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 sovereign fixed rate held with sovereigns in the ECCU. Bonds yield interest at rates of 1.5% - 7.5% (2018: 1.5% - 7.5%). Bonds have terms ranging from 2 – 45 years (2018: 2 – 45 years) and will mature between July 17, 2019 and April 18, 2057 (2018: September 5, 2018 and April 18, 2057) and pay semi-annual coupon interest payments until maturity.

b) 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*

b) 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, 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 the ABIB. During the years of ECCB's control of ABIB, the Bank received an annual confirmation from ECCB of the total outstanding amounts of the COPs, 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 March 2, 2017, the Monetary Council of the ECCU decided that ECCB would work in conjunction with the GoAB towards finding a resolution of the matter in the best interest and mutual benefit of all parties involved, including the Bank and that all efforts would be made to ensure that the Bank would not incur any impairment loss on the amount of the COPs it holds. The ECCB advised that the Monetary Council deemed the resolution of this matter as a priority for all stakeholders and indicated its intention to ensure that the matter was resolved expeditiously.

As mandated by the Monetary Council, ECCB engaged with the GoAB and, on July 25, 2017, advised the Bank that the GoAB offered the Bank a settlement of $11,900,000 to be serviced with a 2%, 20-year bond with semi-annual payments, with the remaining balance of $25,700,000 to be resolved by ABIB (in receivership). The Bank responded to the offer presented by the ECCB on July 28, 2017 indicating that, while it appreciated their efforts to obtain a resolution to this matter, the Bank was dissatisfied with the GoAB offer.

Discussions are ongoing between the Bank and the ECCB to find a resolution which, as mandated by the Monetary Council, is in the best interest and mutual benefit of all parties, including the Bank. The Bank is continuing to pursue its entitlement under the COPs, and is of the view that it would not be appropriate for the COPs to be written down at the reporting date.

On July 11, 2019, the Bank wrote to Caribbean Financial Services Corporation informing them that the Bank intends 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, 2019, the Bank's interest under the COP's amounted to $36,242,620 (2018: $36,242,620). All of the COP's have matured and are past due. As at the date of approval of these separate financial statements, the Bank has not been advised of any time frame for payment of the outstanding balance.

c) Regional corporate bond

The Bank holds a bond with Antigua Commercial Bank Limited which is denominated in Eastern Caribbean Dollars and which yields interest rate at a rate of 9% (2018: 9%). The bond will mature on September 30, 2025.

(expressed in Eastern Caribbean dollars)

9 Originated debts*...continued*

d) International corporate bonds and commercial paper

The Bank held various corporate bonds with Wells Fargo which were denominated in United States Dollars and which accrued interest at rates of 0.85% – 6.30%. The bonds matured on July 25, 2018 and April 23, 2019.

The Bank also holds 30-day commercial paper with Wells Fargo which yield interest rate at rates of 1.98% – 2.15% (2018: 1.35%) which matures between July 15, 2019 and July 22, 2019 (2018: July 18, 2018). These financial instruments are included as cash and cash equivalents.

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

	2019 $	2018 $
Balance at beginning of year under IAS 39	**257,049,535**	113,209,189
Amount restated through retained earnings (note 2)	**(408,935)**	–
Balance at beginning of year, as restated	**256,640,600**	113,209,189
Additions	**830,606,033**	215,199,560
Disposals (sales/redemptions)	**(863,048,706)**	(71,669,992)
Impairment recovery during the year	**14,399**	–
Movement in interest receivable	**2,303**	310,778
Balance at end of year	**224,214,629**	257,049,535

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

	2019 $	2018 $
Balance at beginning of year under IAS 39	**–**	–
Amounts restated through opening retained earnings	**408,935**	–
Restated opening balance under IFRS 9 as at July 1, 2018	**408,935**	–
Recovery of expected credit losses	**(14,399)**	–
Balance at end of year	**394,536**	–

(expressed in Eastern Caribbean dollars)

10 Investment securities

FVTPL

	2019 $
Equity investments	**668,660,686**
Debt investments	**64,569,722**
	733,230,408

FVOCI – equity securities

	2019 $
Quoted equity investments	**97,079,470**
Unquoted equity investments	**11,206,437**
	108,285,907

FVOCI – debt securities

	2019 $
Quoted corporate bonds	**39,029,253**
Quoted sovereign bonds	**43,435,208**
Interest receivable	**1,270,752**
Total debt securities – FVOCI (gross)	**83,735,213**
Less provision for expected credit losses	**(203,685)**
Total debt securities – FVOCI (net)	**83,531,528**
Total investment securities	**925,047,843**
Current	**816,761,936**
Non-Current	**108,285,907**
Total investment securities	**925,047,843**

(expressed in Eastern Caribbean dollars)

10 Investment securities *…continued*

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

	FVTPL $	Equity securities – FVOCI $	Debt securities – FVOCI $	Total $
Balance at beginning of year under IAS 39	–	–	–	–
Effects of adoption of IFRS 9				
Reclassification	862,136,064	94,976,672	36,053,029	993,165,765
Remeasurement	–	1,801,658	(208,200)	1,593,458
Balance at beginning of year under IFRS 9, as restated	862,136,064	96,778,330	35,844,829	994,759,223
Additions	700,523,317	56,040,777	146,753,239	903,317,333
Disposals (sales/redemptions)	(818,758,403)	(3,173,693)	(102,033,492)	(923,965,588)
Fair value losses – net	(10,670,570)	(41,359,507)	2,029,175	(50,000,902)
Recovery of expected credit losses	–	–	4,515	4,515
Interest receivable	–	–	933,262	933,262
Balance at end of year	**733,230,408**	**108,285,907**	**83,531,528**	**925,047,843**

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.

b) FVOCI – 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.

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 gains related to financial assets in equity securities which are not trading in an active market amounted to $2,092,326 (2018: $nil).

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 0.88% to 9.00%; whilst, the effective interest rate for these bonds ranges from 2.00% to 13.00%. Bonds have an average term of ten (10) years and will mature between July 2019 and February 2029 and pay semi-annual coupon interest payments until maturity. As at June 30, 2019, the fair values of these amounted to $83,531,528

(expressed in Eastern Caribbean dollars)

10 Investment securities *…continued*

The movement in provision for expected credit losses (2018: impairment allowance) as follows:

	2019 **$**
Balance at beginning of year under IAS 39	5,005,521
Amounts transferred to FVOCI equity securities on transition to IFRS 9	(5,005,521)
Amounts restated through opening retained earnings (note 2)	208,200
Restated opening balance under IFRS 9 as at July 1, 2018	208,200
Recovery of expected credit losses, net	(4,515)
Balance at end of year	**203,685**

Under IAS 39, the investment securities were as follows:

(A) Investment securities

	2018 **$**
Listed securities at fair value	970,755,363
Unlisted securities	27,078,433
Total Investment securities, gross	997,833,796
Less: Expected credit loss allowance	–
Less: provision for impairment	(5,005,521)
	992,828,275
Interest receivable	337,490
Total investment securities, net	993,165,765

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

	2018 **$**
Balance, beginning of year	916,345,753
Additions	1,157,904,689
Disposals (sales/redemptions)	(1,092,035,280)
Fair value gains – net	11,393,691
Interest receivable	(443,088)
Balance, end of year	993,165,765

(expressed in Eastern Caribbean dollars)

10 Investment securities *…continued*

(C) Provision for impairment – investment securities include:

	2018 **$**
Balance, beginning and end of year	5,005,521

Provision for impairment includes the following:

	2018 **$**
Wireless Ventures (St. Kitts-Nevis) Limited	1,636,674
TCI Bank Limited	1,351,300
Cable Bay Hotel Development Co. Limited	1,018,548
Antigua & Barbuda Investment Bank	998,999
	5,005,521

(D) Available-for-sale financial assets are as follows:

	2018 **$**
Listed securities:	
- Equity securities – US	857,101,789
- Debt securities – US	112,733,374
- Equity securities – Caribbean	920,200
Total listed securities	970,755,363
Unlisted securities:	
- Equity securities – Caribbean	12,929,103
- Debt securities – US	12,058,451
- Equity securities – US	2,090,879
Total unlisted securities	27,078,433

(expressed in Eastern Caribbean dollars)

10 Investment securities *…continued*

	2018 $
Total investment securities, gross	997,833,796
Less: Provision for impairment	(5,005,521)
	992,828,275
Interest receivable	337,490
Total investment securities, net	993,165,765

(E) AFS securities are denominated in the following currencies:

	2018 $
Listed:	
US dollars	969,835,163
EC dollars	920,200
Total listed securities	970,755,363
Unlisted:	
US dollars	14,149,330
EC dollars	12,929,103
Total unlisted securities	27,078,433
Total investment securities, gross	997,833,796
Less: Expected credit loss allowance	–
Less: Provision for impairment	(5,005,521)
	992,828,275
Interest receivable	337,490
Total investment securities, net	993,165,765

(expressed in Eastern Caribbean dollars)

11 Investment in subsidiaries

	2019 **$**	**2018** **$**
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
	26,750,000	26,750,000

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.

(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, 2017							
Cost or valuation	25,195,864	13,279,038	3,407,998	396,200	140,368	1,408,124	43,827,592
Accumulated depreciation	(2,264,666)	(9,960,517)	(2,722,017)	(325,447)	(140,283)	–	(15,412,930)
Net book value	**22,931,198**	**3,318,521**	**685,981**	**70,753**	**85**	**1,408,124**	**28,414,662**
Year ended June 30, 2018							
Opening net book value	22,931,198	3,318,521	685,981	70,753	85	1,408,124	28,414,662
Additions	–	125,778	217,229	105,000	–	133,314	581,321
Disposals	–	(74,530)	–	(97,000)	–	–	(171,530)
Depreciation charge	(728,290)	(995,393)	(283,067)	(51,742)	–	–	(2,058,492)
Write-back on disposals	–	74,530	–	96,999	–	–	171,529
Closing net book value	**22,202,908**	**2,448,906**	**620,143**	**124,010**	**85**	**1,541,438**	**26,937,490**
At June 30, 2018							
Cost or valuation	25,195,864	13,330,286	3,625,227	404,200	140,368	1,541,438	44,237,383
Accumulated depreciation	(2,992,956)	(10,881,380)	(3,005,084)	(280,190)	(140,283)	–	(17,299,893)
Net book value	**22,202,908**	**2,448,906**	**620,143**	**124,010**	**85**	**1,541,438**	**26,937,490**

(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, 2019							
Opening net book value	22,202,908	2,448,906	620,143	124,010	85	1,541,438	26,937,490
Additions	–	979,796	76,449	244,500	–	–	1,300,745
Disposals	–	(129,460)	(46,424)	(84,240)	–	(455,570)	(715,694)
Depreciation charge	(728,290)	(950,716)	(186,214)	(63,625)	–	–	(1,928,845)
Write-back on disposals	–	128,946	46,218	84,239	–	–	259,403
Closing net book value	**21,474,618**	**2,477,472**	**510,172**	**304,884**	**85**	**1,085,868**	**25,853,099**
At June 30, 2019							
Cost or valuation	25,195,864	14,180,622	3,655,252	564,460	140,368	1,085,868	44,822,434
Accumulated depreciation	(3,721,246)	(11,703,150)	(3,145,080)	(259,576)	(140,283)	–	(18,969,335)
Net book value	**21,474,618**	**2,477,472**	**510,172**	**304,884**	**85**	**1,085,868**	**25,853,099**

(expressed in Eastern Caribbean dollars)

12 Property and equipment *...continued*

Included in Property is land at a carrying value of $4,347,412. This is made up as follows:

	2019 $	2018 $
Headquarters (Basseterre)	**2,206,260**	2,206,260
Nevis	**1,019,250**	1,019,250
West Independence Square	**809,589**	809,589
Rosemary Lane (#1)	**110,000**	110,000
Rosemary Lane (#2)	**102,975**	102,975
Sandy Point (#1)	**46,785**	46,785
Saddlers	**26,513**	26,513
Sandy Point (#2)	**26,040**	26,040
Total	**4,347,412**	4,347,412

In 2015, 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 $	Property $	Total $
At June 30, 2019			
Cost	2,928,371	13,722,199	16,650,570
Accumulated depreciation	–	(3,819,187)	(3,819,187)
Net book value	**2,928,371**	**9,903,012**	**12,831,383**

	Land $	Property $	Total $
At June 30, 2018			
Cost	2,928,371	13,722,199	16,650,570
Accumulated depreciation	–	(3,404,154)	(3,404,154)
Net book value	**2,928,371**	**10,318,045**	**13,246,416**

(expressed in Eastern Caribbean dollars)

13 Intangible assets

	Computer software $
At June 30, 2017	
Cost	6,440,529
Accumulated amortisation	(6,149,835)
Net book value	**290,694**
Year ended June 30, 2018	
Opening balance	290,694
Additions	169,284
Amortisation charge	(180,833)
Closing net book value	**279,145**
At June 30, 2018	
Cost	6,609,813
Accumulated amortisation	(6,330,668)
Net book value	**279,145**
Year ended June 30, 2019	
Opening balance	279,145
Additions	467,812
Amortisation charge	(156,216)
Closing net book value	**590,741**
At June 30, 2019	
Cost	7,077,625
Accumulated amortisation	(6,486,884)
Net book value	**590,741**

(expressed in Eastern Caribbean dollars)

14 Other assets

	2019 $	2018 $
Suspense assets and prepayments	**12,104,586**	2,923,041
Net defined benefit asset (note 31)	**11,471,963**	12,773,032
Other receivables	**2,763,702**	5,478,467
Stationery	**990,812**	766,961
	27,331,063	21,941,501
Current	**15,859,100**	9,168,469
Non-current	**11,471,963**	12,773,032
	27,331,063	21,941,501

15 Customers' deposits

	2019 $	2018 $
Fixed deposit accounts	**1,488,957,193**	1,514,166,312
Direct demand accounts	**846,500,845**	747,686,596
Savings accounts	**506,078,945**	471,708,846
Call accounts	**183,148,201**	289,491,712
	3,024,685,184	3,023,053,466
Interest payable	**14,035,838**	13,863,908
	3,038,721,022	3,036,917,374

Customers' deposits represent all types of deposit accounts held by the Bank on behalf of 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 deposit accounts for the year amounted to $49,711,997 (2018: $51,852,682). The average effective rate of interest paid on customers' deposits was 1.64% (2018: 1.66%).

(expressed in Eastern Caribbean dollars)

16 Accumulated provisions, creditors and accruals

	2019 $	2018 $
Suspense liabilities	**31,374,971**	30,430,536
Employee related payables	**8,969,979**	6,754,398
Other payables	**8,121,482**	8,440,843
Unpaid drafts on other banks	**2,712,863**	2,361,279
Managers' cheques and bankers' payments	**2,331,931**	1,866,245
	53,511,226	49,853,301

17 Taxation

17.1 Tax expense

	2019 $	2018 $
Operating profit before tax	**59,328,347**	79,427,737
Income tax at 33%	**19,578,355**	26,211,153
Adjustments to income tax expense from prior years	–	10,429,740
Adjustments to deferred taxes from prior years	**377,855**	–
Non-deductible expenses and other permanent differences	**10,103,392**	7,580,110
Income not subject to tax	**(2,604,975)**	(2,850,230)
Tax credit from discounted interest on government loans	**(15,689,389)**	(12,072,008)
Income tax expense	**11,765,238**	29,298,765
Represented as follows:		
Current income tax expense		
Current year's income tax expense	**26,790,688**	31,230,052
Adjustments to income tax expense from prior years	–	10,429,740
Tax credit from discounted interest on government loans	**(15,689,389)**	(12,072,008)
	11,101,299	29,587,784
Deferred tax expense/(credit)	**663,939**	(289,019)
	11,765,238	29,298,765

(expressed in Eastern Caribbean dollars)

17 Taxation *...continued*

17.2 Deferred tax asset/(liability) *...continued*

	2019 $	2018 $
Items recognized in profit or loss:		
Accelerated depreciation	**661,565**	717,018
Net defined benefit asset	**(460,155)**	148,331
	201,410	865,349
Items recognized directly in other comprehensive income		
Unrealised (losses)/gains on FVOCI securities (2018:AFS securities)	**21,426,586**	(3,160,479)
Net defined benefit asset	**(3,325,594)**	(3,985,578)
	18,100,992	(7,146,057)
	18,302,402	(6,280,708)

The movements on the deferred tax asset/(liability) are as follows:

	2019 $	2018 $
Balance, beginning of year	**(6,280,708)**	(2,976,387)
Current year (charge)/credit	**(663,939)**	289,019
Movement in net unrealised (losses)/gains on investment securities	**24,587,065**	(3,759,920)
Losses on re-measurement of defined benefit asset	**659,984**	166,580
Balance, end of year	**18,302,402**	(6,280,708)

17.3 Income tax recoverable

Included in the separate statement of financial position is an amount of $14,557,305 (2018: $16,748,669) 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, 2014, 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:

	2019 $	2018 $
Balance, beginning of year	**16,748,669**	29,660,703
Current year's income tax credit	**15,689,389**	12,072,008
Advance taxes paid during the year	**5,561,502**	–
Current year's income tax expense offset (limited to 80%)	**(21,432,550)**	(24,984,042)
Balance, end of year	**16,567,010**	16,748,669

(expressed in Eastern Caribbean dollars)

17 Taxation *...continued*

17.4 Income taxes payable

	2019 $	2018 $
Balance, beginning of year	**17,576,399**	3,502,363
Income tax payments made during year	**(17,576,399)**	(2,601,710)
Adjustments to income tax expense from prior years	–	10,429,740
Adjustments related to the transition to IFRS 9	**1,439,105**	–
Current year's income taxes (20%)	**5,358,138**	6,246,006
Balance, end of year	**6,797,243**	17,576,399

18 Share capital

	2019 $	2018 $
Authorised		
270,000,000 Ordinary shares of $1 each	**270,000,000**	270,000,000
Issued and fully paid		
135,000,000 Ordinary shares of $1 each	**135,000,000**	135,000,000

19 Reserves

	2019 $	2018 $
Statutory reserve	**140,645,633**	133,791,519
Revaluation reserves	**15,912,813**	22,329,544
Fair value reserves – FVOCI	**(39,608,478)**	–
Other reserves	**181,405,552**	182,745,521
	298,355,520	338,866,584

a) Statutory reserve

	2019 $	2018 $
Balance at beginning of year	**133,791,519**	123,765,725
Addition	**6,854,114**	10,025,794
Balance at end of year	**140,645,633**	133,791,519

(expressed in Eastern Caribbean dollars)

19 Reserves *...continued*

a) Statutory reserve *...continued*

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.

b) Revaluation reserves

	2019 $	2018 $
Balance at beginning year under IAS 39	**22,329,544**	14,695,771
Transfer of opening balance on AFS investments to FVOCI reserves and retained earnings	**(6,416,731)**	–
Restated balance at beginning of year under IFRS 9 as at July 1, 2018	**15,912,813**	14,695,771
Movement in market value of investment, net	**–**	7,633,773
Balance at end of year	**15,912,813**	22,329,544
Revaluation reserves is represented by:		
Land and property	**15,912,813**	15,912,813
AFS investment securities	**–**	6,416,731
Balance at end of year	**15,912,813**	22,329,544

c) FVOCI reserves

	2019 $	2018 $
Balance at beginning of year under IAS 39	**–**	–
Transfer of opening unrealised loss on AFS securities reclassified in FVOCI	**(15,053,576)**	–
Restated balance at beginning of year under IFRS 9 as at July 1, 2018	**(15,053,576)**	–
Movement in market value of securities, net	**(24,554,902)**	–
Balance at end of year	**(39,608,478)**	–

d) Other reserves

	2019 $	2018 $
Balance at beginning of year	**182,745,521**	183,083,732
Remeasurement loss on defined benefit asset, net of tax	**(1,339,969)**	(338,211)
Balance at end of year	**181,405,552**	182,745,521

(expressed in Eastern Caribbean dollars)

19 Reserves *...continued*

d) Other reserves *...continued*

	2019 $	2018 $
Other reserves is represented by:		
Regulatory reserve for interest accrued on non-performing loans (note 3.1.2)	**68,848,679**	56,055,340
Regulatory reserve for loan impairment (note 3.1.2)	**6,472,798**	5,252,073
Defined benefit pension plan reserve	**6,751,966**	8,091,935
General reserve	**99,332,109**	113,346,173
	181,405,552	182,745,521

Other reserves
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 (2018: IAS 39). 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 (2018: IAS 39), the difference is set aside 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.

20 Net interest income

	2019 $	2018 $
Interest income		
Loans and advances to customers	**48,011,963**	44,273,485
Financial asset (note 29)	**20,241,746**	21,549,651
Investment securities at FVTPL & FVOCI (2018: AFS)	**6,633,862**	4,244,984
Originated debts	**6,867,144**	4,095,069
Deposits with other financial institutions	**3,958,197**	3,707,354
Treasury bills	**2,989,813**	4,541,992
Interest income for the year	**88,702,725**	82,412,535

(expressed in Eastern Caribbean dollars)

20 Net interest income *...continued*

	2019 $	2018 $
Interest expense		
Fixed deposits	**39,656,400**	42,380,718
Savings accounts	**8,997,789**	8,484,149
Debt and other related accounts	**734,492**	616,549
Call accounts	**323,316**	371,266
Interest expense for the year	**49,711,997**	51,852,682
Net interest income	**38,990,728**	30,559,853

21 Net fees and commission income

	2019 $	2018 $
Fees and commission income		
International business and foreign exchange	**9,042,633**	8,320,945
Credit related fees and commission	**3,485,959**	2,999,224
Brokerage and other fees and commission	**3,071,339**	2,420,633
Fees and commission income for year	**15,599,931**	13,740,802
Fee expenses		
International business and foreign exchange	**8,604,462**	8,235,512
Other fee expenses	**6,126,518**	5,323,292
Brokerage and other related fee expenses	**100,293**	114,694
Fee expenses for year	**14,831,273**	13,673,498
Net fees and commission income	**768,658**	67,304

(expressed in Eastern Caribbean dollars)

22 Net gains from investments in debt and equity instruments

	2019 $	2018 $
Fair value through profit or loss investment securities:		
Net realised gains on investment securities – FVPTL	**53,121,982**	–
Net unrealised losses on investment securities – FVPTL	**(2,886,496)**	–
Net gains on financial assets measured at FVOCI reclassified to profit and loss	**(750,125)**	–
Available-for-sale investment securities:		
Net realised gains on investment securities	–	74,652,648
Net gains from investment securities	**49,485,361**	74,652,648

23 Credit and other impairment charges

	2019 $	2018 $
Loans and advances to customers (note 8)	**10,367,047**	2,021,611
Investments and other financial assets at amortised costs	**53,543**	–
Other assets	–	6,107,800
Total credit and other impairment charges	**10,420,590**	8,129,411

(expressed in Eastern Caribbean dollars)

24 Administrative and general expenses

	2019 $	2018 $
Employee cost (note 24.1)	**24,044,594**	19,474,604
Repairs and maintenance	**3,049,228**	2,900,663
Other general	**1,242,977**	1,146,467
Communication	**1,002,504**	951,314
Advertisement and marketing	**1,001,983**	726,749
Stationery and supplies	**873,533**	814,506
Utilities	**774,119**	752,985
Insurance	**589,347**	514,142
Rent and occupancy	**576,178**	557,103
Security services	**528,581**	329,800
Legal fees and expenses	**318,369**	594,296
Shareholders' expenses	**238,193**	193,721
Taxes and licences	**235,202**	421,998
Sundry losses	**89,312**	1,545,234
Premises upkeep	**29,811**	43,030
	34,593,931	30,966,612

24.1 Employee costs

The detail of the employee cost is shown below.

	2019 $	2018 $
Salaries and wages	**13,906,335**	13,053,355
Insurance and other benefits	**1,251,280**	1,530,788
Other staff cost	**8,354,048**	4,351,001
Pension expense (note 31)	**532,931**	539,460
	24,044,594	19,474,604

(expressed in Eastern Caribbean dollars)

25 Earnings per share

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

	2019 $	2018 $
Net income attributable to shareholders	**47,563,109**	50,128,972
Weighted average number of ordinary shares in issue	**135,000,000**	135,000,000
Basic and diluted earnings per share	**0.35**	0.37

The Bank has no dilutive potential ordinary shares as of June 30, 2019 and 2018.

26 Dividends

The separate financial statements reflect dividends of $13,500,000 or $0.10 per share in the financial year ended June 30, 2019 (2018: $13,500,000 or $0.10 per share) paid on December 20, 2018. Approval of this payment was given at the Forty-eighth Annual General Meeting held on December 20, 2018.

27 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 our 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)

27 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.

	2019 $	2018 $
Central Government and statutory bodies (public sector)		
Deposits	**1,701,617,545**	1,727,553,913
Financial asset	**682,074,899**	783,036,376
Loans and advances	**353,127,821**	346,602,129
Interest on deposits	**28,741,318**	39,610,049
Interest on financial asset	**20,241,746**	21,549,651
Interest on loans and advances	**12,641,996**	12,239,731
Subsidiaries		
Deposits	**220,274,121**	221,442,654
Loans and advances	**11,118,229**	9,497,237
Interest on deposits	**8,527,062**	8,201,922
Interest from loans and advances	**476,465**	487,683
Associated companies		
Loans and advances	**69,830,443**	70,006,336
Deposits	**11,355,315**	11,472,634
Interest on deposits	**110,081**	108,798
Interest from loans and advances	**120**	120
Directors and associates		
Loans and advances	**1,295,928**	989,587
Directors' fees and expense	**879,173**	789,714
Deposits	**594,314**	475,192
Interest from loans and advances	**78,857**	70,490
Interest on deposits	**3,630**	6,018
Key management		
Loans and advances	**2,728,083**	3,905,769
Total remuneration	**2,174,522**	1,893,903
Deposits	**906,967**	824,918
Interest from loans and advances	**195,492**	254,945
Interest on deposits	**16,060**	14,196

As at June 30, 2019, directors held total shares in the Bank of 107,232 (2018: 133,134) and key management held total shares in the Bank of 11,433 (2018: 30,765).

(expressed in Eastern Caribbean dollars)

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

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.0% (2018: 6.0%). Secured loans are collaterised by cash and mortgages over properties.

A provision of $18,578,388 (2018: $13,045,843) has been recognised in respect to advances made to a related party (associated company).

28 Commitments and contingencies

Commitments
At the separate statement of financial position date, the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	2019 **$**	**2018** **$**
Loan commitments	**22,022,092**	71,155,057
Credit card commitments	**9,196,297**	9,007,625
	31,218,389	80,162,682

Contingent tax liability
On January 29, 2016, the Inland Revenue Department (IRD) assessed the Bank with additional corporate income taxes for the financial years 2012 to 2014. The Bank disputed the assessment and filed an objection with the IRD. A settlement agreement was reached during the financial year in July 2018 and as such, there are no further outstanding corporate tax liabilities to the IRD in respect of the financial years 2012 to 2014.

29 Financial asset

The financial asset of $682,074,899 (2018: $783,036,376) with the provision for expected credit losses of $1,163 (adjusted through retained earnings 2018: $1,125) 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.

(expressed in Eastern Caribbean dollars)

29 Financial asset *…continued*

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.

3. Distribution of sales 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, 2019, the Bank's separate statement of income includes interest income amounting to $20,241,746 (2018: $21,549,651). Further, as of June 30, 2019, interest receivable of $22,550,364 (2018: $23,169,127) was pending from the GOSKN. During the year, $20,860,509 (2018: $27,234,097) of cumulative interest payments were received from the GOSKN.

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.

(expressed in Eastern Caribbean dollars)

30 Cash and cash equivalents

	2019 $	2018 $
Deposits with other financial institutions (note 7)	**547,024,100**	419,980,172
Originated debts (note 9)	**101,300,381**	67,634,766
Cash and balances with Central Bank (note 5)	**41,177,908**	50,277,658
	689,502,389	537,892,596

31 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, 2019 by independent actuaries. The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2019 Per annum %	2018 Per annum %
Actuarial assumptions		
Discount rate	**3.75**	4.0
Expected return on plan assets	**5.00**	5.0
Future salary increases	**3.25**	3.5

Mortality table (UP94 table projected to 2020 using Scale AA) in both years.

The present value of the funded obligation amounts $32,433,901 (2018: $29,125,134) which is supported by investments in fixed deposits, treasury bills and equity security. The fair value of these investments amounts to $43,905,864 (2018: $41,898,166).

	2019 $	2018 $
Plan asset allocation		
Certificates of deposit	**99.5%**	99.5%
Shares and treasury bills	**0.5%**	0.5%
	100%	100%

(expressed in Eastern Caribbean dollars)

31 Defined benefit asset *...continued*

	2019 $	2018 $
Changes in the present value of defined benefit obligation		
Opening defined benefit obligation	**29,125,134**	27,134,619
Current service cost	**1,435,183**	1,343,419
Interest cost	**1,092,193**	1,085,385
Actuarial losses	**1,617,822**	111,691
Benefits paid	**(836,431)**	(549,980)
Closing defined benefit obligation	**32,433,901**	29,125,134
Changes in the fair value of plan assets		
Opening fair value of plan assets	**41,898,166**	39,806,896
Interest income	**2,094,908**	1,990,345
Employer contributions	**1,231,815**	1,145,008
Management expenses	**(100,463)**	(101,001)
Return on plan assets (other than net interest)	**(382,131)**	(393,102)
Benefits paid	**(836,431)**	(549,980)
Closing fair value of plan assets	**43,905,864**	41,898,166
Benefit cost		
Current service cost	**1,435,183**	1,343,419
Interest cost on net benefit asset	**1,092,193**	1,085,385
Return on plan assets	**(1,994,445)**	(1,889,344)
Pension expense (note 24)	**532,931**	539,460
Amount recognised in other comprehensive income		
Actuarial losses	**1,617,822**	111,691
Interest income on plan assets	**2,094,908**	1,990,345
Actual return on plan assets	**(1,712,777)**	(1,597,243)
Re-measurement loss on net defined benefit asset	**1,999,953**	504,793
Net defined benefit asset recognised in the separate statement of financial position		
Fair value of plan assets	**43,905,864**	41,898,166
Present value of defined benefit obligation	**(32,433,901)**	(29,125,134)
Net defined benefit asset (note 14)	**11,471,963**	12,773,032

(expressed in Eastern Caribbean dollars)

31 Defined benefit asset *…continued*

	2019 $	2018 $
Reconciliation: Net defined benefit asset		
Opening balance	**12,773,032**	12,672,277
Employer contribution	**1,231,815**	1,145,008
Effect of other comprehensive income	**(1,999,953)**	(504,793)
Period recovery	**(532,931)**	(539,460)
Closing balance (note 14)	**11,471,963**	12,773,032

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	**(1,815,000)**	**1,559,000**

	Mortality plus 10%	Mortality minus 10%
(Decrease)/increase in obligation	**(792,000)**	**643,000**

32 Comparatives

The classification of certain items in the separate financial statements has been changed from the prior period to achieve a clearer or more appropriate presentation. The comparative figures have been similarly reformatted and reclassified in order to achieve comparability with the current period.