Schedule 1

FORM ECSRC – K (2018)

ANNUAL REPORT PURSUANT TO SECTION 98 OF THE SECURITIES ACT OF 2001

For the financial year ended **December 31, 2018**

Issuer Registration number **SLCB31121937SL**

1st National Bank St. Lucia Limited
(Exact name of reporting issuer as specified in its charter)

St. Lucia
(Territory of incorporation)

#21 Bridge Street, P.O. Box 168, Castries, St. Lucia
(Address of principal office)

Reporting issuer's:

Telephone number (including area code): 1 758 455 7000

Fax number: 1 758 453 1630

Email address: manager@1stnationalbankslu.com

(Provide information stipulated in paragraphs 1 to 14 hereunder)

Indicate whether the reporting issuer has filed all reports required to be filed by Sections 98 of the Securities Act of 2001 during the preceding 12 months.

Yes__x__ No_____

Indicate the number of outstanding shares of each of the reporting issuer's classes of common stock, as of the date of completion of this report.

CLASS	NUMBER
Ordinary	6,372,452

SIGNATURES

Chief Executive Officer:
Johnathan J. Johannes

Signature

30 April 2019

Date

Director:
Richard Monplaisir

Signature

30 April. 2019

Date

INFORMATION TO BE INCLUDED IN THE REPORT

1. Business.

Provide a description of the developments in the main line of business including accomplishments and future plans. The discussion of the development of the reporting issuer's business need only include developments since the beginning of the financial year for which this report is filed.

Solid growth characterized 2018 for the Bank, with growth in total assets of 14%, representing the highest growth spurt the Bank has experienced in the last ten (10) years. This growth was driven by the loan and advances portfolio. Total assets stood at $765 million at December 31, 2018 compared to $672 million at December 31, 2017. Loans in every industry sector grew by more than double digits with the highest growth deriving from Government lending, which increased by 92%, from $31 million to $61 million during the year, and "other" industries (including utilities), which grew by 41% or $31 million.

Some of the developments for the Bank include the following:

1. **Improving financial performance by developing and implementing growth initiatives. The Bank sought to stabilize the Branch Business Model to increase revenues and reduce costs.**

2. **The promotion of IT capabilities to enable continuous improvement processes and technologies. An enhanced help desk was implemented during the period, to increase operational efficiency. Value creation for stakeholders is a priority for the Bank and one critical means of achieving this is by using appropriate technology to enhance service delivery. Our main software system and its cheque payments system have the latest upgrade. A redundancy site has been established at the Choc Bay sub Branch and is near completion.**

3. **Smart banking products (mobile, internet, debit and credit cards) and services were improved in 2018, resulting in fewer complaints from customers. The Bank has made further investments to improve its Mobanking product for its customers. Our credit cards are now EMV compliant and this feature has enhanced security of the card.**

4. **Strengthening our risk and control frameworks. We focused on work to implement an enterprise wide risk management framework to help mitigate operational, liquidity, interest rate, foreign exchange and credit risk amongst other risks. Many policies and strategies were reviewed to manage these risks. For credit risk, the revised NPL strategy and Credit Risk Policy enabled the reduction in the NPL ratio from 12.6% in 2017 to 8.65% in 2018. The Bank is also pursuing the establishment of a credit risk business model to create efficiencies in lending.**

5. **Building capability by continuously investing in our people and infrastructure. Twenty-five (25) leaders were exposed to the world-renowned leadership training: Franklyn Covey 7 Habits of Highly Effective People. The training focused on the belief that the way we see the world is entirely based on our own perceptions and that in order to change a given situation, we must change ourselves and our perceptions. The path to succeed is dependent on the clear identification of the habit that can help us along our way. It is expected that the desired changes will manifest themselves within the Bank. Bridging the customer service gaps within the Bank, was a major priority in 2018.**

Apart from the in-house customer service training, a Franklin Covey session dubbed "Customer Loyalty" was held for ALL customer-facing employees.

Strides have been made to launch a human resource information system (HRIS) to eradicate the mundane tasks associated with key HR processes. The rollout is slated for end of Q1, 2019.

6. **The Bank launched its redesigned website during the observance of its 80th anniversary. The revamped website provides enhanced functionality and is designed to highlight information without prolonged searches. This ultra-modern site is where you will find information about the Bank; its history, vision, mission, core values and the full gamut of products and services, thus making the website both informative and educational.**

7. **During our 80th year we also launched a first within the banking industry locally, that is our 100% mortgage financing to assist St. Lucians both locally and in the diaspora. Another first was realized when the Bank partnered with another local optical company to create "VITMAN", providing low interest loans quickly for Saint Lucians seeking better eye health as well as eye wear.**

8. **The Bank reviewed its Capital Preservation Plan and deemed that a distribution of the unsubscribed share balance of 627,508 shares will be allocated over the next three years.**

2. Properties.

Provide a list of properties owned by the reporting entity, detailing the productive capacity and future prospects of the facilities. Identify properties acquired or disposed of since the beginning of the financial year for which this report is filed.

The Bank owns two properties:

- **Land and building at Bridge Street, Castries valued at $4.84 million at December 31, 2018. This property currently accommodates approximately eighty staff members. There is little room for expansion and renovation work is ongoing to meet health and safety regulations as well as staff and customer comfort. The plan for the property over the medium to long term is to transform it into a state of the art branch with modern aesthetics.**

- **Land and building at Commercial Street, Vieux Fort valued at $0.810 million at December 31, 2018, houses thirteen staff. However, a decision was taken by the Board to relocate the operations of the Vieux Fort business near the main business district along the Vieux Fort Highway. The relocation expenditure was approximately $1.69 million at December 31, 2018. It is anticipated that the move will significantly improve the Branch's non-interest income. A decision has not been made on disposal prospects of this property.**

3. Legal Proceedings.

Furnish information on any proceedings that were commenced or were terminated during the current financial year. Information should include date of commencement or termination of proceedings. Also include a description of the disposition thereof with respect to the reporting issuer and its subsidiaries.
There were no material contingent legal liabilities during the reporting period.

4. Submission of Matters to a Vote of Security Holders. N/A

If any matter was submitted during the financial year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise, furnish the following information:

(a) The date of the meeting and whether it was an annual or special meeting.
The annual meeting was held on May 30th 2018.

(b) If the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting.

Three directors were returned by acclamation as follows:

1. Mrs. Geraldine Lendor-Gabriel
2. Mr. Nigel A. Fulgence

Two directors were elected by the shareholders at the meeting, namely:

1. Mr. Agosta Degazon
2. Mr. Derek George. Mr. Derek George subsequently resigned from the Board of Directors on 2nd July, 2018.

Continuing Directors were:

1. Mrs. Brenda Floissac-Fleming
2. Mr. V. Adrian Augier
3. Ms. Jennifer Remy
4. Mr. Richard Monplaisir
5. Mr. Johnson Cenac
6. Mr. Tedburt Theobalds

(c) A brief description of each other matter voted upon at the meeting and state the number of votes cast for or against as well as the number of abstentions as to each such matter, including a separate tabulation with respect to each nominee for office.

There were no matters voted upon at the meeting other than elections.

(d) A description of the terms of any settlement between the registrant and any other participant.
N/A

(e) Relevant details of any matter where a decision was taken otherwise than at a meeting of such security holders. **N/A**

5. Market for Reporting issuer's Common Equity and Related Stockholder Matters.

Furnish information regarding all equity securities of the reporting issuer sold by the reporting issuer during the period covered by the report. (N/A)

Month	Amount	Number of persons	Relationship	Price

6. **Financial Statements and Selected Financial Data.**

Provide audited Financial Statements, Statement of Revenue Reserves, and Changes in Financial Position for the year ended. The relevant financial data items to be used in constructing the financial statements are provided in Parts A-D.

Include the following documents with the financial statement:

(i) Auditor's report;

(ii) A balance sheet as of the end of each of the two most recent financial years.

(iii) Consolidated statements of income, statements of cash flows, and statements of other stockholders' equity for each of the two financial years preceding the date of the most recent audited balance sheet being filed.

(iv) Financial statements for the most recent financial year.

(v) Notes to Financial Statements

Data relevant to point 6 above is enclosed.

7. **Disclosure about Risk Factors.**

Provide a discussion of the risk factors that may have an impact on the results from operations or on the financial conditions. Avoid generalised statements and only include factors that are unique to the company. Typical risk factors include untested products, cash flow and liquidity problems, dependence on a key supplier or customer, management inexperience, nature of business, absence of a trading market (specific to the securities of the reporting issuer), etc. Indicate if any risk factors have increased or decreased in the time interval between the previous and current filing.

i. **Liquidity risk was low for most of the year due to the fact that the Bank had excess funds held at ECCB and at its correspondent Bank accounts. The lack of a developed market to utilize excess liquidity did not assist with attracting the excess liquidity.**

ii. **Credit risk - The Bank's credit risk remains high but continues on its downward trajectory, falling from 12.6% at December 31, 2016 to 8.65% this year. We executed our tactical strategy to improve the quality of the loans portfolio resulting in a growth**

in the portfolio of 14%. We believe that demand for credit has increased somewhat and we are actively seeking and implementing available opportunities.

The Credit Risk Policy for retail and business credit have been reviewed and credit operations are executed in line with these policies to improve credit quality. We continue to push for a revision to the current legal framework to support our ability to lend to ensure business continuity and development of the country. The Bank is making strides to eradicate toxic assets from its books and in 2018 and we continued discussions with several asset companies like Ascendancy to achieve this objective.

iii. **Interest rate risk was high this reporting period as banks actively competed for available credit, bringing interest rates to its lowest in the market. This contributed to a reduction in the weighted average effective interest rate on loans from 7.68% to 6.93% at December 31, 2017 and 2018 respectively. To reduce this risk, the Bank managed the cost of funding downward and monitored the interest rate spread with positive results, giving rise to an increase of 24% over the position last year. Additionally, it strived to improve other income.**

iv. **Operational risk required review and improvement. We believe this was mainly attributable to the movement of staff and staff constraints. However, the Bank is re-implementing a number of initiatives to ensure this risk is mitigated as it can result in reputational risk and sustainability of the institution.**

8. Changes in Securities and Use of Proceeds.

(a) Where the rights of the holders of any class of registered securities have been materially modified, give the title of the class of securities involved. State briefly the general effect of such modification upon the rights of holders of such securities.

There has been no change in the class of the securities.

(b) Where the use of proceeds of a security issue is different from that which is stated in the registration statement, provide the following:

- Offer opening date (provide explanation if different from date disclosed in the registration statement)
- Offer closing date (provide explanation if different from date disclosed in the registration statement)
- Name and address of underwriter(s)
- Amount of expenses incurred in connection with the offer
- Net proceeds of the issue and a schedule of its use
- Payments to associated persons and the purpose for such payments

This is not applicable for the reporting year.

Report any working capital restrictions and other limitations upon the payment of dividends.

The Bank had no working capital constraints and was fairly liquid at the year end. There were no limitations on the payment of a dividend.

9. Defaults upon Senior Securities.

(a) If there has been any material default in the payment of principal, interest, a sinking or purchase fund instalment, or any other material default not satisfied within 30 days, with respect to any indebtedness of the reporting issuer or any of its significant subsidiaries exceeding 5 percent of the total assets of the reporting issuer and its consolidated subsidiaries, identify the indebtedness. Indicate the nature of the default. In the case of default in the payment of principal, interest, or a sinking or purchase fund instalment, state the amount of the default and the total arrears on the date of filing this report.

There was no default greater than 5% of the Bank's assets which occurred during the reporting period.

(b) If any material arrears in the payment of dividends has occurred or if there has been any other material delinquency not satisfied within 30 days, give the title of the class and state the amount and nature of the arrears or delinquency.

There have been no material arrears in the payment of dividends.

10. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Provide a discussion of the results of operation covering aspects such as liquidity, capital resources and results of operations. Discuss reporting issuer's financial condition, changes in financial condition and results of operations during the financial year of the filing. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated.

(i) Liquidity

Identify any known trends, commitments, demands, events that will result in or that are reasonably likely to result in the reporting issuer's liquidity increasing or decreasing in any material way. If a deficiency is identified, indicate the course of action that the reporting issuer has taken or proposes to take to remedy the deficiency.

The liquidity position was satisfactory during the year. At this year- end, a total of $163 million in assets was available to meet liquidity needs within one month. Historically, the Bank's short-term liabilities have been greater than its short-term assets but for liquidity purposes, this has not posed a problem. Cash and cash equivalents at year end was $48 million comprising 7% of our deposit base.

There were no single material events that affected the Bank's liquidity position negatively. Should a liquidity crisis arise, the Bank's Liquidity Policy and Capital Preservation Plan outlines a plan to address any liquidity concerns. Additionally, the ECCB Repo Interbank Market will be used should there be any liquidity concerns. Further, should these fail, asset management policies will be used whereby investments will be sold to manage the liquidity position.

(ii) Capital Resources

Describe the reporting issuer's material commitments for capital expenditure as of the end of the latest fiscal period, and indicate the general purposes of such commitments and the anticipated source of Schemes needed to fulfil such commitments. Describe any material trends, favourable or unfavourable in the reporting issuer's capital resources and any expected change in mix. The discussion should consider changes between equity, debt and any off-balance sheet financing arrangements.

Material capital expenditure was allocated to purchase computer hardware and software such as IT upgrades, improvements in the communication system to build capacity, improved security systems and renovation work at the branches. A new branch will be retrofitted for our Vieux Fort Operations costing approximately $1.7 million. Funding for these projects came from core funds and cash flow from operations.

The Bank's NPL ratio has reduced significantly from 21% at December 31, 2013 to of 8.65% at December 31, 2018. $45 million loans and advances are classified as non-performing. As at December 31, 2019, should the NPL be written off against capital with no recoveries, this will reduce capital to $48 million and the capital adequacy ratio to 7%. The Capital Preservation Plan addresses shortfalls and strategies are under review to address these as they occur.

It is anticipated that the capital mix will not change significantly during short to medium term. The Bank has sufficient resources to meet its off balance sheet commitments as these become realised.

(iii) Results of Operation.

Describe any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and in each case indicate the extent the income was so affected. Describe any known trends or uncertainties that have had or that the reporting issuer reasonably expects will have a material favourable or unfavourable impact on net sales or revenues or income from continuing operations. If the reporting issuer knows of events that will cause a material change in the relationship between costs and revenues (such as price increases, costs of labour or materials), the changes in relationship should be disclosed.

The Bank has made great strides in the management of its credit portfolio, evident in the lower non-performing loan ratio. It is expected that we will achieve the regulatory threshold of 5% in the short to medium term. Stage three expected credit losses comprised 41% of the non-performing loan portfolio, a position we believe is adequate at this time.

Heightened competition during 2018 has impacted our interest income on loans and advances. This was offset by an increase in loan bookings of 14%, causing total interest income from loans and advances to increase by 13% over last year.

Interest expenses remained static as we reviewed interest rates downwards in line with the market, ensuring our customers received a reasonable return on their funds.

Non-interest expenses increased over the audited position at 2017 by 8%. This was attributable to expenses to manage our people and IT resources as well as our initiatives to enhance our brand and market our new products like our 100% mortgage campaign.

There were no other known factors that would cause a material change in the revenue cost relationship.

11. Changes in and Disagreements with Auditors on Accounting and Financial Disclosure.

Describe any changes in auditors or disagreements with auditors, if any, on financial disclosure.

There were no material disagreements with Auditors on the subject.

12. Directors and Executive Officers of the Reporting Issuer

Name	Position	Age	Education	Experience (last five years)	Tel: contact
Nigel Fulgence	President	57	BSC (Hons.) P. Electrical Eng. John Moores University, UK.	Electrical Engineer, St. Lucia Electricity Services Ltd.	457-4400
Geraldine Lendor-Gabriel	1st Vice President	52	MSC Envir. Mgt; BSC Econ & Mgt; CGA	Environmental and Business Consultant	451 7202
Brenda Floissac-Fleming	2nd Vice President	58	B.A. Law	Partner, Floissac Fleming and Associates	452-2887
Johnson Cenac	Director	75	MBA Public Administration, M. Ed. (Testing, Measurement and Evaluation), University of Arizona; B.A. (Hon) Mathematics and Economics, University of the West Indies. Teaching Certificate	Project Manager, Education Administration; Permanent Secretary (Retired) Parliamentary Commissioner, 2010 to date.	452 7255
Tedburt Theobalds	Director	70	BSc., MIS MBA University West Indies	Valuation Surveyor; Agricultural Consultant; Lecturer, SALCC	454 6002
Name	Position	Age	Education	Experience (last five years)	Tel: contact
V. Adrian Augier	Director	59	MA-Development Finance& Planning BA- Economics & Political Science	Consultant-Economic Development Chairman, Land mark Group	285 2666

Richard Monplaisir	**Director**	**53**	**BA (Hons) Business Administration, Accounting and Computers- Toronto School of Business.** **BIMAP- Accounting and Computer Tech CGA Level 2**	**Financial Controller, C.O. Williams Group of Companies, St. Lucia;** **Director of Administration, CO Williams Group of Companies, St. Lucia.**	**458 0094**
Agosta Degazon	**Director**	**53**	M. B. A., University of the West Indies, Cave Hill Campus, 1998 □ B. Sc. (Accounting), University of the West Indies, Mona Campus, 1988 □ C. Dir., Caribbean Governance Training Institute Chartered Director Program, 2017 □ Association of Chartered Certified Accountants (ACCA) o Progress: Foundation Stage plus one subject in the Professional Stage	**MINISTRY OF FINANCE - 2009 to 2014** Director of Finance (March 5, 2012 to March 11, 2014) **MINISTRY OF HOME AFFAIRS AND NATIONAL SECURITY - 2014 to 2018** Permanent Secretary (March 12, 2014 to May 27, 2018) **DEPARTMENT OF HOUSING, URBAN RENEWAL AND TELECOMMUNICATIONS – 2018 to date** Permanent Secretary (May 28, 2018 to date)	**468-2630**

Jennifer Remy	**Director**	**68**	**B.A. Psychology & Philosophy LAW**	**Principal Attorney – Jennifer Remy & Associates**	**456-0535**
Johnathan Johannes	**Managing Director**	**41**	**Bachelor of Arts International Business Admin** **University of Lincoln, UK; Bachelor of Arts (Hons.), International Business Administration, 1996- 1999**	**Managing Director, 1st National Bank St. Lucia Limited; June 2017 to present** **Director of Sales** **(OECS Region),** **Unicomer Group - April 2012 to May 2017**	**455 7201**
Aurea Lafeuillee	**Executive Manager, Finance**	**55**	**FCCA, FCIB**	**Finance Manager, 1st National Bank St. Lucia Ltd -2004 November 2013;** **Executive Manager, Finance – 2013 to date.**	**455-7202**
Valery Marshall-St. Omer	**Executive Manager, Human Resources, Organizational Development & Support Services**	**51**	**St. Joseph's Convent. MBA Human Resource Management – Anglia Ruskin University 2018**	**Deputy Operations Manager - 2011 to October 2013;** **Executive Manager, Human Resource, Organizational Development & Client Support November 2013 to November 2017 Executive Manager, Operations and Support; December 2017**	**455-7224**
Prisca Eristhee-Delice	**Executive Manager, Human Resources, Organizational Development & Support Services**	**48**	**M.A. Business and Management, University of East London, Duncan House, High Street London, United Kingdom (1996-1997);**	**HR Generalist Consultant/Frank Covey Trainer - October 2015 – Present** **Human Resource Manager, Winward & Leeward Brewery Limited (WLBL) St. Lucia, Subsidiary of Heineken**	**455-7211**

			BSc. Industrial Management, University of the West Indies, St. Augustine Campus, Trinidad & Tobago, (1991-1994)	**International - October 2001- July 2015.** Executive Manager, Human Resource & Organisational Behaviour -1st National Bank St. Lucia Limited - December 2017 - Present	
Sylvia Alcee	**Executive Manager, Client Services**	**57**	**Castries Comprehensive School, St. Lucia; GCE "O" Levels;** **Associate of the Institute of Canadian Bankers** **MBA- Business Administration**	**Branch Manager, 1st National Bank St. Lucia Ltd. 1997 to November 2013;** **Executive Manager, Credit and Client Services; November 2013 to date.**	**455-7293**
Clarette Auguste-Taylor	**Executive Manager, Risk, Compliance, Recoveries and Securities**	**56**	**St. Joseph's Convent, St. Lucia, GCE "O" Levels;** **St. Lucia "A" Level College - "A" Levels** **Associate of the Institute of Canadian Bankers; Executive Diploma in HR Management - 2000**	**Credit Risk Manager, 1st National Bank St. Lucia Ltd – 2011 to November 2013.** **Executive Manager, Risk, Compliance and Recoveries - November 2013 to date.**	**455-7294**
Robert Fevrier	**Executive Manager, Marketing and Public Relations**	**54**	**Executive Diploma in Business Management - 2002**	**Manager, Projects and Services – 1st National Bank St. Lucia Ltd, 2004 to November 2013;** **Executive Manager, Marketing and Public Relations - 2013 to date.**	**455 7100**

Denise Holden-Pierre	**Executive Manager, Internal Audit**	**52**	**St. Joseph's Convent, St. Lucia, GCE "O" St. Lucia "A" Level College - "A" Levels Fellow, Chartered Association of Certified Accountants (FCCA)**	**Manager, Internal Audit, 1st National Bank St. Lucia Ltd – 2007 to November 2013;** **Executive Manager, Internal Audit, 1st National Bank St. Lucia Ltd – 2013 to date**	**455-7221**
Henri-Jacque Mangal	**Corporate Secretary/Legal Officer**	**30**	**St. Mary's College, St. Lucia GCE "O" Levels; Sir Arthur Lewis Community College-Cambridge "A" levels; University of the West-Indies Cave Hill Campus-Bachelor of Laws (LL.B); Hugh Wooding Law School – Legal Education Certificate (L.E.C.)**	**Associate Attorney-at-Law, Chong & Co. July 2014 – December 2015; Corporate Secretary & Legal Officer, 1st National Bank St. Lucia Limited December 2015 to date**	**455-7205**

13. Other Information.

The reporting issuer may, at its option, report under this item any information, not previously reported in a Form ECSRC - MC report (related to disclosure of material information), with respect to which information is not otherwise called for by this form. If disclosure of such information is made under this item, it need not be repeated in a Form ECSRC - MC report which would otherwise be required to be filed with respect to such information or in a subsequent Form ECSRC - K report.

There is no significant other data that requires distinct and separate reporting under this section.

14. List of Exhibits

List all exhibits, financial statements, and all other papers and documentation filed with this report.

- **Audited Financial Statements for 2018**

1st NATIONAL BANK ST. LUCIA LIMITED

Financial Statements

December 31, 2018

(Expressed in Eastern Caribbean dollars)

1st NATIONAL BANK ST. LUCIA LIMITED

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P.O. Box GI 2171
Gros-Islet LC01 101
Saint Lucia
Telephone: (758) 453-5764
Email: ecinfo@kpmg.lc

INDEPENDENT AUDITORS' REPORT

To the Shareholders of 1st National Bank St. Lucia Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of 1st National Bank St. Lucia Limited ("the Bank"), which comprise the statement of financial position as at December 31, 2018, the statements of income, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Saint Lucia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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INDEPENDENT AUDITORS' REPORT, continued

To the Shareholders of 1st National Bank St. Lucia Limited

Other Information

Management is responsible for the other information. The other information comprises the Annual Report 2018, but does not include the financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report 2018, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the 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.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORT, continued

To the Shareholders of 1st National Bank St. Lucia Limited

Auditors' Responsibilities for the Audit of the Financial Statements *(cont'd)*
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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.

KPMG

Chartered Accountants
Castries, Saint Lucia

April 25, 2019

1ST NATIONAL BANK ST. LUCIA LIMITED

Statement of Financial Position

December 31, 2018

(Expressed in Eastern Caribbean dollars)

	Notes	2018	2017
Assets		$	$
Cash and balances with Central Bank	7	57,859,437	78,896,834
Due from other banks	8	28,003,720	53,739,498
Treasury bills	9	36,422,936	31,733,399
Loans and advances to financial institutions	10	-	23,971,139
Loans and advances to customers	11	502,107,145	384,839,300
Investment securities	13	115,691,583	74,181,301
Income tax recoverable		-	505,372
Defined benefit asset	21	2,743,000	2,546,000
Property and equipment	14	13,069,542	12,854,092
Intangible assets	15	614,282	531,863
Other assets	17	8,055,755	7,888,801
Total assets		764,567,400	671,687,599
Liabilities			
Due to customers	18	645,176,129	580,956,745
Other liabilities	19	23,368,014	5,220,816
Current income tax payable		2,744,757	-
Provisions	20	39,131	-
Deferred income tax liability	22	309,399	797,594
Total liabilities		671,637,430	586,975,155
Equity:			
Capital and reserves:			
Share capital	23	20,000,000	20,000,000
Reserves	24	21,450,049	16,551,774
Retained earnings		51,479,921	48,160,670
Total equity		92,929,970	84,712,444
Total liabilities and equity		764,567,400	671,687,599

Approved for issuance by the Board of Directors and signed on its behalf by:

Nigel A. Fulgence
President

Geraldine Lendor-Gabriel
Director

The notes on pages 10 to 109 are an integral part of these financial statements.

1ST NATIONAL BANK ST. LUCIA LIMITED

Statement of Income

For the year ended December 31, 2018

(Expressed in Eastern Caribbean dollars)

	Notes	2018	2017
		$	$
Interest and similar income	25	38,341,195	32,960,130
Interest expense and similar charges	25	(10,997,073)	(10,995,231)
Net interest income		27,344,122	21,964,899
Other operating income	26	13,103,946	10,909,169
Net interest and other operating income		40,448,068	32,874,068
Other expenses	27	(21,881,810)	(20,311,024)
Impairment losses on financial assets	30	(4,723,925)	(7,698,293)
Profit before income tax		13,842,333	4,864,751
Income tax expense	31	(3,913,403)	(1,319,629)
Profit for the year		9,928,930	3,545,122
Earnings per share			
(expressed in EC$ per share)			
Basic and diluted	32	1.56	0.66

The notes on pages 10 to 109 are an integral part of these financial statements.

1ST NATIONAL BANK ST. LUCIA LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2018

(Expressed in Eastern Caribbean dollars)

	2018	**2017**
	$	$
Profit for the year	9,928,930	3,545,122
Other comprehensive income:		
Items that will never be reclassified to profit or loss:		
Re-measurement of defined benefit asset (Note 21)	(51,000)	412,000
Revaluation adjustment on land and buildings	(2,274,832)	-
Items that are or may be reclassified subsequently to profit or loss:		
Net fair value losses on debt investments at FVOCI	(1,159,554)	-
Net fair value gains on available-for-sale investment securities	-	290,938
Other comprehensive (loss)/income for the year	(3,485,386)	702,938
Total comprehensive income for the year	6,443,544	4,248,060

The notes on pages 10 to 109 are an integral part of these financial statements.

1ST NATIONAL BANK ST. LUCIA LIMITED

Statement of Changes in Equity

For the year ended December 31, 2018

(Expressed in Eastern Caribbean dollars)

	Share capital	Statutory reserve	Revaluation reserve	Revaluation reserve on FVOCI investments	Other reserves	Retained earnings	Total equity
	$	$	$	$	$	$	$
Balance at January 1, 2018	20,000,000	8,680,478	3,708,673	945,363	3,217,260	48,160,670	84,712,444
Impact of adopting IFRS 9 at January 1, 2018	-	-	-	-	-	3,402,984	3,402,984
Restated balance at January 1, 2018	20,000,000	8,680,478	3,708,673	945,363	3,217,260	51,563,654	88,115,428
Total comprehensive income							
Profit for the year	-	-	-	-	-	9,928,930	9,928,930
Other comprehensive income							
Fair value loss on debt investment securities	-	-	-	(1,159,554)	-	-	(1,159,554)
Revaluation of land and buildings	-	-	(2,274,832)	-	-	-	(2,274,832)
Re-measurement of defined benefit asset (Note 21)	-	-	-	-	-	(51,000)	(51,000)
Total other comprehensive income	-	-	(2,274,832)	(1,159,554)	-	(51,000)	(3,485,386)
Total comprehensive income	-	-	(2,274,832)	(1,159,554)	-	9,877,930	6,443,544
Net transfer from retained earnings (Note 24)	-	1,985,786	(6,675)	-	-	(1,979,111)	-
Reserve for loan loss provision (Note 24)	-	-	-	-	5,007,668	(5,007,668)	-
Reserve for interest recognized on non-performing loans (Note 24)	-	-	-	-	1,345,882	(1,345,882)	-
Profit share 2017	-	-	-	-	-	(354,512)	(354,512)
Transactions with owners							
Dividends to shareholders (Note 33)	-	-	-	-	-	(1,274,490)	(1,274,490)
Balance at December 31, 2018	20,000,000	10,666,264	1,427,166	(214,191)	9,570,810	51,479,921	92,929,970

The notes on pages 10 to 109 are an integral part of these financial statements.

1ST NATIONAL BANK ST. LUCIA LIMITED

Statement of Changes in Equity (cont'd)

For the year ended December 31, 2018

(Expressed in Eastern Caribbean dollars)

	Share capital	Statutory reserve	Revaluation reserve	Revaluation reserve available-for-sale investments	Other reserves	Retained earnings	Total equity
	$	$	$	$	$	$	$
Balance at January 1, 2017	7,971,454	7,971,454	3,715,427	654,425	5,599,117	51,377,583	77,289,460
Total comprehensive income							
Profit for the year	-	-	-	-	-	3,545,122	3,545,122
Other comprehensive income							
Fair value gain on available-for-sale financial assets	-	-	-	290,938	-	-	290,938
Re-measurement of defined benefit asset (Note 21)	-	-	-	-	-	412,000	412,000
Total other comprehensive income	-	-	-	290,938	-	412,000	702,938
Total comprehensive income	-	-	-	290,938	-	3,957,122	4,248,060
Net transfer from retained earnings (Note 24)	-	709,024	(6,754)	-	-	(702,270)	-
Reserve for loan loss provision (Note 24)	-	-	-	-	(1,216,353)	1,216,353	-
Reserve for interest recognised on non-performing loans (Note 24)	-	-	-	-	(1,165,504)	1,165,504	-
Transactions with owners							
Dividends to shareholders (Note 33)	-	-	-	-	-	(549,996)	(549,996)
Issue of share capital (Note 23)	12,028,546	-	-	-	-	(8,303,626)	3,724,920
Balance at December 31, 2017	20,000,000	8,680,478	3,708,673	945,363	3,217,260	48,160,670	84,712,444

The notes on pages 10 to 109 are an integral part of these financial statements.

1ST NATIONAL BANK ST. LUCIA LIMITED

Statement of Cash Flows

For the year ended December 31, 2018

(Expressed in Eastern Caribbean dollars)

	Notes	2018	2017
Cash flows from operating activities		$	$
Profit for the year		9,928,930	3,545,122
Adjustments for:			
Depreciation and amortisation	14,15	1,171,632	1,042,941
Loss on disposal of property and equipment	26	79,985	42,192
Loss on disposal of investment	26	-	22,254
Impairment losses on financial assets	30	4,723,925	7,698,293
Defined benefit income	21	(52,000)	(20,000)
Dividend income	26	(162,243)	(226,582)
Tax expense		3,913,403	1,319,629
Interest and similar income		(38,341,195)	(32,960,130)
Interest expense and similar charges		10,997,073	10,995,231
Cash flows before changes in operating assets and liabilities		(7,740,490)	(8,541,050)
Change in mandatory reserve deposits with Central Bank		17,199,591	(15,307,636)
Change in loans and advances to financial institutions		-	(618,252)
Change in loans and advances to customers		(116,418,587)	(30,984,596)
Change in other assets		(166,954)	(748,411)
Change in due to customers		64,479,432	40,750,404
Change in other liabilities		17,995,023	(2,632,115)
Cash used in operations		(24,651,985)	(18,081,656)
Interest and similar income received		35,369,503	32,952,003
Interest expense and similar charges paid		(11,257,121)	(11,303,754)
Profit sharing and bonuses paid		(354,512)	-
Defined benefit contributions paid		(196,000)	(180,000)
Income taxes paid		(1,151,469)	(507,606)
Net cash (used in)/generated from operating activities		(2,241,584)	2,878,987
Cash flows from investing activities			
Purchase of treasury bills		(25,488,359)	(10,517,998)
Proceeds from sale of treasury bills		20,497,274	12,529,387
Purchase of investment securities		(30,986,890)	(34,028,377)
Proceeds from sale of investment securities		13,430,365	4,032,300
Dividends received		162,243	226,582
Proceeds from sale of property and equipment		1,350	4,623
Acquisition of property and equipment	14	(3,592,639)	(776,745)
Acquisition of intangible assets	15	(233,029)	(99,478)
Net cash used in investing activities		(26,209,685)	(28,629,706)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		-	3,724,920
Dividends paid		(1,122,315)	(518,440)
Net cash (used in)/generated from financing activities		(1,122,315)	3,206,480
Net decrease in cash and cash equivalents		(29,573,584)	(22,544,239)
Cash and cash equivalents at 1 January		77,221,046	99,765,285
Cash and cash equivalents at 31 December	16	47,647,462	77,221,046

The notes on pages 10 to 109 are an integral part of these financial statements.

(Expressed in Eastern Caribbean dollars)

1. Reporting entity

1st National Bank St. Lucia Limited, ("the Bank") was incorporated in Saint Lucia in December 1937 and continued under the Companies Act of 1996. It commenced trading in January 1938 and provides commercial and retail banking services, including the acceptance of deposits, granting of loans and advances, credit and debit cards, foreign exchange services, and online and mobile banking services.

The Bank is subject to the provisions of the Banking Act of Saint Lucia No. 3 of 2015 and the Companies Act, Cap 13.01 of the revised laws of St. Lucia. It is regulated by the Eastern Caribbean Central Bank (ECCB), the Financial Services Regulatory Authority and the Eastern Caribbean Securities Regulatory Commission.

The Bank serves the public from six branches and one Bureau De Change all located in Saint Lucia. The registered office and principal place of business of the Bank is #21 Bridge Street, Castries, Saint Lucia.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were approved by the Board of Directors and authorized for issue on April 25, 2019.

(b) Basis of preparation

These financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position that are measured at fair value:

- Debt investments measured at fair value through other comprehensive income (applicable for 2018)
- Equity investments designated at fair value through other comprehensive income (applicable for 2018)
- Available-for-sale financial assets (applicable for 2017 only)
- Land and buildings measured at revalued amounts
- Net defined benefit asset, which is measured at the fair value of plan assets less the present value of the defined benefit obligation, as explained in Note 21.

(c) Functional and presentation currency

These financial statements are presented in Eastern Caribbean dollars, which is the Bank's functional currency. All amounts have been rounded to the nearest dollar, unless otherwise indicated.

(d) Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of, assets, liabilities, and the income and expenses. Actual results may differ from those estimates.

2. Basis of preparation *(cont'd)*

(d) Use of judgements and estimates (cont'd)

Estimates, and underlying assumptions, are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

<u>Judgements</u>

For the purpose of these financial statements which are prepared in accordance with IFRS, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS. Judgements made by management in the application of IFRS that have a significant effect on the amounts recognized in these financial statements are set out below:

Applicable to 2018 only:

- *Classification of financial assets*

  Notes 2 (e), 3 (e)(ii) and 13: Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

- *Expected credit losses*

  Notes 2 (e), 3 (e)(vi) and 12: Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Applicable to 2018 and 2017:

- *Income taxes*

  Notes 3 (k) and 31: Significant judgment is required in determining the provision for income taxes including any liabilities for tax audit issues. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Applicable before January 1, 2018:

- *Classification of investments as held-to-maturity*

  Notes 3 (e)(ii) and 13: The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement about the Bank's intention and ability to hold the security to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will reclassify the entire class as available-for-sale. The investments would thereafter be measured at fair value not amortised cost. If the entire held to maturity portfolio of investments was tainted, the carrying value would decrease by $890,083 with a corresponding entry in the fair value reserve in OCI.

2. Basis of preparation *(cont'd)*

(d) Use of judgements and estimates (cont'd)

Judgements *(cont'd)*

Applicable before January 1, 2018 *(cont'd)*

– *Impairment of available-for-sale equity investments*
Notes 3 (e)(vi) and 13: The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgment, the Bank evaluates, among other factors, when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. During 2017, the Bank did not recognise impairment losses on available-for-sale equity investments.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in these financial statements are set out below:

Applicable to 2018 only:

– *Impairment of financial assets*
Notes 2 (e) and 3 (e)(vi): Determining inputs into the ECL measurement model, including incorporation of forward-looking information.

Applicable to 2018 and 2017:

– *Impairment of financial assets*
Note 3 (e)(vi): Key assumptions used in estimating recoverable cash flows. To the extent that the net present value of estimated cash flows differs by +/-5%, the portfolio provision would be estimated to be $1,946,290/$2,568,890 [lower/higher].

– *Measurement of defined benefit obligations*
Notes 3 (j) and 21: The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of key actuarial assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

– *Determination of fair values*
Note 3 (e)(v) and 5: The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3(e)(v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

2. Basis of preparation *(cont'd)*

(d) Use of judgements and estimates (cont'd)

Assumptions and estimation uncertainties *(cont'd)*

Applicable to 2018 and 2017: *(cont'd)*

– *Determination of fair values (cont'd)*

When measuring the fair value of an asset or a liability, the Bank uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted market price (unadjusted) in an active market for identical assets and liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the same fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Applicable before January 1, 2018

– *Impairment losses on loans and advances*

Notes 3 (e)(vi) and 12: The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. At the end of 2017, to the extent that the net present value of estimated cash flows differs by +/-5%, the portfolio provision would be estimated to be $1,425,673 lower/higher.

2. Basis of preparation *(cont'd)*

(d) Use of judgements and estimates (cont'd)

Assumptions and estimation uncertainties *(cont'd)*

Applicable before January 1, 2018: *(cont'd)*

– *Impairment losses on loans and advances (cont'd)*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 3(e) (vi).

The specific component of the total allowances for impairment applies to financial assets evaluated individually for impairment (those that have been outstanding for more than 90 days and considered non-performing according to the guidelines of the regulators, the Eastern Caribbean Central Bank (ECCB)) and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merit, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

A collective component of the total allowance is established for:

- Groups of homogenous loans that are not considered individually significant; and
- Groups of assets that are individually significant but were not found to be individually impaired (Incurred but not reported - IBNR).

Collective allowance for groups of homogenous loans is established using a formula approach based on historic loss rate experience.

Collective impairment for groups of assets that are individually significant but that were not found to be individually impaired (IBNR) cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified.

In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

2. Basis of preparation *(cont'd)*

(e) Adoption of new accounting standards or amendments to standards

The Bank has adopted IFRS 9 and IFRS 15 from January 1, 2018.

A number of other new standards are also effective from January 1, 2018 but they do not have a significant impact on the Bank's financial statements.

Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers recognized by the Bank.

The effect of initially applying IFRS 9 is mainly attributed to the following:

- a decrease in impairment losses recognized on financial assets
- additional disclosures related to IFRS 9

Except for the changes below, the Bank has consistently applied the accounting policies as outlined to all periods presented in these financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* and sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The requirements of IFRS 9 represent a significant change from IAS 39 and brings fundamental changes to the accounting for financial assets.

IFRS 9 introduced changes to the classification and measurement of financial assets and the accounting for impairment of financial assets from an incurred loss approach with a forward-looking expected credit loss approach.

New or amended disclosures have been provided for the current period, where applicable. The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below.

2. Basis of preparation *(cont'd)*

(e) Adoption of new accounting standards or amendments to standards (cont'd)

IFRS 9 *Financial Instruments* *(cont'd)*
Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). For classification purposes, IFRS 9 requires all financial assets, except equity instruments and derivatives to be assessed on the basis of the entity's business model for managing the assets and the contractual cash flow characteristics of the instruments. The standard eliminates the previous categories under IAS 39 of available-for-sale, held-to-maturity and loans and receivables. The Bank will generally therefore classify its financial assets as follows:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVOCI);
- Equity instruments designated at fair value through other comprehensive income (FVOCI); and
- Financial assets at fair value through profit or loss (FVTPL).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities and therefore, there have been no significant changes to the accounting for the Bank's financial liabilities under IFRS 9.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model for financial assets. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. These new requirements are forward-looking and eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the new approach it is no longer necessary for a credit event to have occurred before credit losses are recognized and therefore under IFRS 9, credit losses are recognized earlier than under IAS 39. The impairment allowance is based on a three-stage model that determines the expected credit loss based on the probability of default, the exposure at default and the loss given default for loans and loan commitments, debt securities not held for trading and financial guarantee contracts.

2. Basis of preparation *(cont'd)*

(e) Adoption of new accounting standards or amendments to standards (cont'd)

IFRS 9 *Financial Instruments* *(cont'd)*
Transition disclosures

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

- As permitted by the transition provisions of IFRS 9, the Bank elected not to restate comparative financial information for 2017 for financial instruments within the scope of IFRS 9. As such, the comparative financial information for 2017 is reported under IAS 39 and is not comparable to the information presented in 2018 under IFRS 9. Adjustments to carrying amounts of financial assets and liabilities arising from the adoption of IFRS 9 have been recognized in opening retained earnings and other components of equity as at January 1, 2018.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held; and
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The differences arising from the adoption of IFRS 9 are disclosed in the transition note disclosures below.

The table below presents a reconciliation between the carrying amounts under IAS 39 with the carrying amounts of the balances under IFRS 9 at January 1, 2018 including the effect of reclassification and re-measurements.

(Expressed in Eastern Caribbean dollars)

2. Basis of preparation *(cont'd)*

(e) Adoption of new accounting standards or amendments to standards (cont'd)
IFRS 9 *Financial Instruments* *(cont'd)*
Transition disclosures (cont'd)

	IAS 39 measurement at 31.12.17	Reclassifica/ tion	Remeasure/ ment ECL	IFRS 9 carrying amount at 1.1.2018	Category
	$	$	$	$	
Financial assets					
Cash and balances with Central Bank	78,896,834	-	-	78,896,834	Amortised cost
Due from other banks	53,739,498	-	-	53,739,498	Amortised cost
Treasury bills	31,733,399	-	-	31,733,399	Amortised cost
Loans and advances to financial institutions	23,971,139	-	-	23,971,139	Amortised cost
Loans and advances to customers	384,839,300	-	(3,798,130)	381,041,170	Amortised cost
Debt securities - amortised cost	-	-	-	-	
From securities – available-for-sale	30,245,691	(30,245,691)	-	-	
From securities – held-to-maturity	43,935,610	(43,935,610)	-	-	
	647,361,471	(74,181,301)	(3,798,130)	569,382,040	Amortised cost
Equity Instruments at FVOCI					
Opening balance	-	-	-	-	
From securities – available-for-sale		4,451,308	-	4,451,308	FVOCI
Closing balance	-	4,451,308	-	4,451,308	
Investment securities – held-to-maturity	43,935,610	-	-	43,935,610	
To debt securities -amortised cost	-	(43,935,610)		(43,935,610)	
Closing balance	43,935,610	(43,935,610)	-	-	
Investment securities - available for sale					
Opening balance	30,245,691	-	-	30,245,691	
To debt instruments amortised cost	-	(3,229,161)	-	(3,229,161)	
To debt instruments at FVOCI	-	(22,565,222)	-	(22,565,222)	
To equity instruments at FVOCI	-	(4,451,308)	-	(4,451,308)	
Closing balance	30,245,691	(30,245,691)	-	-	
Financial liabilities					
Due to customers	580,956,745	-	-	580,956,745	
Provision for undrawn loan commitments	-	-	116,831	116,831	
Total financial liabilities	580,956,745	-	116,831	581,073,576	

2. Basis of preparation *(cont'd)*

(e) Adoption of new accounting standards or amendments to standards (cont'd)

IFRS 9 *Financial Instruments* *(cont'd)*
Transition disclosures (cont'd)

Classification adjustments

Debt Securities at amortised cost
Transfer from investment securities held-to-maturity to Debt securities at amortised cost

At January 1, 2018 the Bank reclassified an amount totaling $43,935,610 from investment securities held-to-maturity to debt securities at amortised cost. All such securities were held within a business model whose objective is to collect contractual cash flows and the cash flows are solely payments of principal and interest on the principal amounts outstanding, therefore meeting the SPPI test.

Transfer from Available-for-sale (AFS) to Debt securities at amortised cost

At January 1, 2018 the Bank reclassified an amount totaling $3,229,161 of its debt available-for-sale portfolio to debt securities at amortised cost. These instruments met the SPPI test, are not actively traded and were held within a business model whose objective is to collect contractual cash flows of principal and interest and for which there is no intention to sell. The fair value of these instruments at December 31, 2017 was $3,125,977. Their change in fair value in 2018 which would have been recorded in OCI had these been instruments that continued to be revalued through OCI would have been $30,329.

Equity instruments at FVOCI
Transfer from AFS to Equity instruments at FVOCI (no recycling of gains or losses to profit or loss)

At January 1, 2018 the Bank elected to reclassify $4,451,308 of its equity available-for-sale portfolio to equity instruments at FVOCI. No differences arose from this reclassification.

Impairment adjustments

Expected credit losses

The following table reconciles the opening impairment allowance for financial assets under IAS 39 and provisions for loan commitments in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to the ECL allowance determined under IFRS 9 as at January 1, 2018.

(Expressed in Eastern Caribbean dollars)

2. Basis of preparation *(cont'd)*

(e) Adoption of new accounting standards or amendments to standards (cont'd)

IFRS 9 *Financial Instruments* *(cont'd)*

Transition disclosures (cont'd)

	Provision for Impairment under IAS 39 at December 31, 2017	**Re-measurement at January 1, 2018**	**ECLs under IFRS 9**
	$	$	$
Provision for impairment for:			
Loans and advances to customers	24,255,747	(3,798,130)	20,457,617
Investment securities	193,764	278,315	472,079
	24,449,511	(3,519,815)	20,929,696
Commitments			
Undrawn loan commitments		116,831	116,831
	-	116,831	116,831
Total	**24,449,511**	**(3,402,984)**	**21,046,527**

2. Basis of preparation *(cont'd)*

(e) Adoption of new accounting standards or amendments to standards (cont'd)

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced existing revenue recognition guidance, including IAS 11 *Construction Contracts*, IAS 18 *Revenue,* IFRIC 13 *Customer Loyalty Programmes* and related interpretations.

The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires the Bank to exercise judgement, taking into consideration all of the relevant circumstances when applying each step of the model to contracts with their customers. It also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Management has assessed that the main impact of this standard is in respect of fees and commission income. The Bank earns fee and commission income (other than fees included in the calculation of the effective interest rate) on provision of retail and corporate banking services. Based on preliminary review, IFRS 15 did not have a material impact on the timing and recognition of fees and commission income from contracts with customers and the related assets and liabilities recognized by the Bank.

(f) New standards, and interpretations of and amendments to existing standards that are not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2018 and earlier application is permitted; however, the Bank has not early adopted these new or amended standards in preparing these financial statements.

The new standards listed below are those that could potentially have an impact on the Bank's performance, financial position or disclosures in the period of initial application. The potential impact of each standard is discussed below.

2. Basis of preparation *(cont'd)*

(f) New standards, and interpretations of and amendments to existing standards that are not yet effective (cont'd)

Effective January 1, 2019

IFRS 16 Leases

IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Companies will be required to bring all major leases on-balance sheet, recognizing new assets and liabilities. The on-balance sheet liability will attract interest and the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with a value of US$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Finance lease accounting will be based on IAS 17 lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

The Bank is assessing the impact that this standard will have on its 2019 financial statements.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements unless otherwise stated.

(a) Functional and presentation currency

These financial statements are presented in Eastern Caribbean dollars, which is the Bank's functional currency, except when otherwise indicated. All amounts presented in Eastern Caribbean dollars have been rounded to the nearest dollar.

(b) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the values were determined.

(c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with the Central Bank and deposits with other banks.

(d) Sale and repurchase agreements

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to financial institutions or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. They are measured at amortised cost using the effective interest rate.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(e) Financial instruments

(i) *Non-derivative financial assets and financial liabilities – Recognition, initial measurement and derecognition*

The Bank initially recognizes loans and advances, deposits and debt securities on the date they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control, over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as "Assets pledged as collateral", if the transferee has the right to sell or re-pledge them.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

From January 1, 2018 any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities.

The Bank derecognizes a financial liability when its contractual obligations are discharged, or cancelled, or when they expire.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(ii) *Classification and measurement*

Financial assets – Policy applicable from January 1, 2018
On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

Financial assets are measured at initial recognition at fair value and are classified and subsequently measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at initial recognition at fair value and is classified and subsequently measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other equity investments are classified as measured at FVTPL. In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at initial application, the business model assessment is based on facts and circumstances at that date. Also, IFRS 9 permits new elective designations at FVTPL or FVOCI to be made on the date of initial application and permits or requires revocation of previous FVTPL elections at the date of initial application depending on the facts and circumstances at that date.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(ii) *Classification and measurement (cont'd)*

Financial assets – Policy applicable from January 1, 2018 *(cont'd)*

Business model assessment

IFRS 9 requires that financial assets are classified on the basis of the Bank's business model for managing such assets unless it makes an irrevocable election to designate the asset at fair value through profit or loss. The business model refers to how financial assets are managed in order to generate cash flows. The Bank determines its business model at the level that best reflects how it manages its portfolios of financial assets to achieve its business objectives. Judgment is used in determining the Bank's business models that is supported by relevant, objective evidence including:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How performance of the business model and the financial assets held within the model are evaluated and reported to key management personnel;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- The frequency and significance of past sales activity, the reason for those sales as well as expectations about future sales; and
- The significant risks affecting the performance of the business model for example, market risk and credit risk and the activities undertaken to manage those risks.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The business model assessment is forward looking in that if cash flows are realized in a manner that is different from expectations the classification of the remaining assets in the business model is not changed but instead that information is used to assess new instruments acquired.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(ii) *Classification and measurement (cont'd)*

Financial assets – Policy applicable from January 1, 2018 *(cont'd)*

Business model assessment (cont'd)

Applicability to the Bank
The Bank's business models fall into two main categories, which are indicative of the key strategies used to generate returns as follows:

- Hold to collect contractual cash flows (HTC) - the objective of this business model is to hold assets in order to collect contractual cash flows. Under this model, the Bank holds loans and investment securities to collect contractual principal and interest cash flows. Sales are expected to be insignificant or infrequent; and

- Hold to collect contractual cash flows and to sell (HTCS) - the objective of this business model is to both collect contractual cash flows and to sell. Under this model the Bank holds investment securities to manage everyday liquidity needs and sales are significant in value.

Assessment of whether contractual cash flows are solely payments of principal and interest - SPPI assessment
For classification purposes the Bank first reviews the terms of the instruments to determine whether they give rise on specified dates to cash flows that meet the SPPI test.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(ii) *Classification and measurement (cont'd)*

Financial assets – Policy applicable from January 1, 2018 *(cont'd)*

Under IFRS 9 – Applicability to the Bank

Due from banks, treasury bills, loans and advances to financial institutions and loans and advances to customers

Prior to January 1, 2018, due from banks, treasury bills, loans and advances to financial institutions and loans and advances to customers were carried at amortised cost. Investment securities available-for-sale were carried at fair value through OCI.

Effective January 1, 2018 the Bank measured due from banks, treasury bills, loans and advances to financial institutions, loans and advances to customers and investment securities at amortised cost if both of the following conditions are met:

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

The financial assets are measured at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payment so principal and interest on the principal amount outstanding.

Loans and advances and debt instruments recognized initially at fair value are subsequently measured in accordance with the classification of financial assets policy of the Bank. The Bank's loan portfolio is carried at amortised cost using the effective interest method which represents the gross carrying amount less allowance for credit losses.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(ii) *Classification and measurement (cont'd)*

Financial assets – Policy applicable from January 1, 2018 *(cont'd)*

Under IFRS 9 – Applicability to the Bank (cont'd)

Investment Securities
Investment securities are initially recorded at fair value and subsequently measured according to their respective classification. The Bank has no financial instruments that are measured at FVTPL.

Debt securities carried at amortised cost are measured using the effective interest method and are presented net of any allowance for credit losses, calculated in accordance with our policy for expected credit losses (ECL), as described below. Interest income, including the amortization of premiums and discounts are recorded in profit or loss.

Impairment gains or losses recognized on amortised cost securities are recorded in the allowance for impairment. When a debt instrument measured at amortised is sold, the difference between the sales proceeds and the amortised cost of the security at the time of sale is recorded as other gains, in profit or loss.

Debt securities carried at FVOCI are measured at fair value with unrealized gains and losses from changes in fair value recognized in other comprehensive income (OCI). The loss allowance is recorded in OCI and does not reduce the carrying amount of the assets in the statement of financial position. When a debt instrument measured at FVOCI is sold the cumulative gain or loss previously recorded in equity is reclassified to profit or loss.

All equity securities are measured at fair value. On initial recognition the Bank may make an irrevocable election to present in OCI gains and losses from changes in fair value of certain equity instruments. When insufficient information is available to measure fair value, then the instrument is measured at cost when it represents the best estimate of fair value. When an equity instrument classified at FVOCI is sold the cumulative gain or loss recorded in OCI is not recycled to profit or loss. Dividends from securities measured at FVOCI are recognized in profit or loss.

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The Bank has not designated any financial instruments as FVTPL on initial recognition.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(ii) *Classification and measurement (cont'd)*

Financial liabilities

At initial recognition financial liabilities are measured at fair value plus or minus, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. Financial liabilities other than loan commitments, financial guarantees and derivatives are subsequently measured at amortised cost.

Financial assets – Policy applicable before January 1, 2018

The Bank classified non-derivative financial assets into the following categories:

- *Financial assets at fair value through profit or loss*
  A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition.

- *Held-to-maturity financial assets*
  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than: (a) those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank designates as available-for-sale; and (c) those that meet the definition of loans and receivables. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

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

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

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(ii) *Classification and measurement (cont'd)*

Financial assets – Policy applicable before January 1, 2018 *(cont'd)*

Non-derivative financial assets - Measurement

Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss. Directly attributable transaction costs are recognized in profit or loss as incurred.
Held-to-maturity financial assets	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.
Loans and receivables	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.
Available-for-sale financial assets	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognized in OCI and accumulated in fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

Financial liabilities

The Bank classifies non-derivative financial liabilities, other than financial guarantees and loan commitments, into the following categories:

- financial liabilities at fair value through profit or loss, and
- other liabilities.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(iii) *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions similar to the Bank's trading activities.

(iv) *Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(v) *Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Bank's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price, and liabilities and short positions at an ask price.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(v) *Fair value measurement (cont'd)*

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price, and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability not based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(vi) *Impairment*

Policy applicable from January 1, 2018

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments'.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vi) *Impairment (cont'd)*

Policy applicable from January 1, 2018 *(cont'd)*

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;

- *Undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

- *Financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vi) *Impairment (cont'd)*

Policy applicable from January 1, 2018 *(cont'd)*

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

Presentation of allowance for ECL

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

- *Financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *Loan commitments and financial guarantee contracts:* generally, as a provision;
- *Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *Debt instruments measured at FVOCI:* no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vi) *Impairment (cont'd)*

Policy applicable from January 1, 2018 *(cont'd)*

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Under IFRS 9 – Applicability to the Bank

Impairment of Financial Assets
For loans carried at amortised cost, impairment losses are recognized at each reporting date in accordance with the three-stage impairment model outlined below.

An impairment allowance is established for all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. Assets subject to impairment assessment include certain loans, debt securities, interest-bearing deposits with banks, customers' liability under acceptances, accounts and accrued interest receivable.

Impairment on loans is presented in 'Allowance for Impairment'. Impairment allowance on debt securities measured at FVOCI is presented in other components of equity. Other financial assets carried at amortised cost are presented net of impairment in the statement of financial position.

Off-balance sheet items subject to impairment assessment include undrawn loan commitments. The impairment is included in the provision for impairment losses to the extent that it does not exceed the related loan balance and therefore included in other liabilities as provisions.

The impairment allowance is measured at each reporting date and is based on the three-stage impairment model for expected credit losses.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vi) *Impairment (cont'd)*

Policy applicable from January 1, 2018 *(cont'd)*

Under IFRS 9 – Applicability to the Bank (cont'd)

Calculation of expected credit losses

The Bank uses the explicit probability of default method when calculating expected credit losses. The expected credit loss allowance (ECL) is based on credit losses that are expected to arise over the life of the asset, referred to as the lifetime ECL, unless there has not been a significant increase in credit risk since origination, in which case a 12-month expected credit loss (12-month ECL) is measured.

The lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument. Lifetime expected credit losses are calculated based on a weighted average of the expected losses with the weightings being based on the respective probabilities of default. PDs and LGDs are therefore calculated over the life of the instrument.

The 12-month ECL represents a financial asset's expected losses that are expected to arise from default events that are possible within the 12-month period following origination of the instrument or from each reporting date for those assets in stage 1. It is calculated by multiplying the probability of default occurring in the next 12 months by the lifetime ECLs that would result from that default, regardless of when those losses occur.

The Bank's policy for determining whether there is a significant increase in credit risk is outlined below.

The ECL is calculated on an individual account basis but for purposes of determining probability of default and exposure at default, financial assets are grouped according to common characteristics.

Impairment is assessed at each reporting period. IFRS 9 establishes a three-stage impairment model based on whether there has been a significant increase in credit risk of a financial asset since its initial recognition. The three stages then determine the amount of impairment to be recognized as expected credit losses (ECL) at each reporting date as well as the amount of interest revenue to be recorded.

The Bank makes a determination as to whether there has been a significant increase in credit risk since initial recognition by considering the deterioration in internal rating and payment delinquencies. For purposes of calculating ECL the Bank classifies its financial assets into Stages. The stages for loans and advances align with the Bank's internal ratings system. Facilities with an internal rating of 1 are aligned to Stage 1. Facilities with an internal rating of 2 are classified as Stage 2 and facilities with an internal rating of 3-5 are classified as Stage 3.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vi) *Impairment (cont'd)*

Policy applicable from January 1, 2018 *(cont'd)*

Under IFRS 9 – Applicability to the Bank (cont'd)

Calculation of expected credit losses *(cont'd)*

Stages 1 and 2 comprise performing financial assets while Stage 3 comprises non-performing assets as follows:

Performing financial assets

- Stage 1 – For instruments in this stage, credit risk has not increased significantly since initial recognition. A 12-month ECL is recognized and interest income is recognized on the gross carrying amount of the financial instrument. Financial assets in this stage are operating in accordance with the contractual terms and conditions since initial recognition. These assets align with the Bank's internal rating of 1.

- Stage 2 – For instruments in this stage, credit risk has increased significantly since initial recognition. Lifetime ECL is recognized and interest income is recognized on the gross carrying amount of the financial instrument. This stage also includes financial assets reclassified from Stage 3 whose credit risk has improved. Financial assets in this stage align with the Bank's internal rating of 2.

Credit-impaired financial assets

- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance is recognized equal to credit losses expected over the remaining lifetime of the asset. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount. Financial assets in this stage align with the Bank's internal ratings of 3 – 5.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vi) *Impairment (cont'd)*

Policy applicable from January 1, 2018 *(cont'd)*

Under IFRS 9 – Applicability to the Bank (cont'd)

Calculation of expected credit losses *(cont'd)*

Assessment of significant increase in credit risk and credit -impaired financial assets
The transition from recognizing 12-month expected credit losses (i.e. stage 1) to lifetime expected credit losses (i.e. stage 2) is based on the notion of a significant increase in credit risk over the remaining life of the instrument in comparison with the credit risk on initial recognition. The focus is on the changes in the credit risk and not the changes in the amount of the expected credit losses.

The determination of whether there has been a significant increase in credit risk is therefore critical to the staging process. Factors to consider include:

- Changes in market or general economic conditions;
- Expectation of potential breaches;
- Expected delays in payment;
- Deterioration in credit ratings; or
- Significant changes in operating results or financial position of the borrower.

In making the determination of whether there has been a significant increase in credit risk, the Bank considers deterioration in its internal ratings as well as payment delinquencies. A significant increase in credit risk will exist when repayments are 30 days in arrears and/or when there has been a deterioration in the internal rating assigned.

Credit-impaired financial assets are those for which one or more detrimental effects on the estimated future cash flows have already occurred. This is similar to the point at which an incurred loss would have been recognized under IAS 39.

These instruments are in stage 3 and lifetime expected credit losses are recognized. Indicators that an asset is credit-impaired include observable data about the following:

- Actual breach of contract, e.g. delinquency in payments

- Probability that the borrower will enter bankruptcy

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vi) *Impairment (cont'd)*

Policy applicable from January 1, 2018 *(cont'd)*

Under IFRS 9 – Applicability to the Bank (cont'd)

Calculation of expected credit losses *(cont'd)*

Definition of default

The definition of default is integral to the ECL model. The Bank's definition of default is consistent with its internal risk management process and includes a qualitative creditworthiness criterion as well as a quantitative past due criterion. For loans and advances, default occurs when the borrower is more than 90 days past due on any obligation with the Bank and/or if the Bank considers that the borrower is unlikely to make their repayment in full without the Bank foreclosing on the loan facility. The Bank also uses its internal rating system to determine default. All loans and advances with a rating of 3 – 5 are considered to be in default. For credit card balances, default occurs when payments are 90 days past due. The definition of default is applied consistently from one year to another and to all loans and advances unless it can be demonstrated that circumstances have changed such that a new definition is appropriate.

For investment securities, the Bank considers default to take place when there has been significant deterioration in the rating of the underlying security and payment of principal and interest is over 90 days in arrears.

ECL Calculation Methodology

For loans and advances, the Bank calculates ECL in a manner that reflects an unbiased and probability-weighted amount that is determined by evaluation of a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The Bank applies a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. The cash shortfall is the difference between the cash flows that are due according to the terms of the agreement and the cash flows it expects to collect over the relevant time period.

The Bank calculates the probability-weighted average of expected credit losses over different scenarios. Each scenario specifies forecasts of different economic conditions and these economic conditions are used to adjust default probabilities to incorporate this forward-looking information.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vi) *Impairment (cont'd)*

Policy applicable from January 1, 2018 *(cont'd)*

Under IFRS 9 – Applicability to the Bank (cont'd)

Calculation of expected credit losses *(cont'd)*

ECL Calculation Methodology (cont'd)
The forward-looking information is incorporated through the use of regression formulae that translate the input economic information and uses this information to forecast default rates and non-performing loan ratios. The macroeconomic information used by the Bank are:

- Gross Domestic Product (local GDP)
- Inflation
- Global GDP (for international investments)

Three variables are integral to the calculation of the ECL - the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). The product of these variables is adjusted for forward-looking information and discounted at the instrument's original interest rate to arrive at the calculation of ECL.

Probability of default - measures likelihood of default over a given period of time. In arriving at the probability of default the Bank first categorizes facilities according to common characteristics and uses migration analysis to measure the percentage of loans as they move across the relevant stages. From this analysis marginal PDs for successive years are generated using a multiplication matrix. In the case of investment securities, the Bank utilized information from credit loss tables that are generated by reputable external agencies.

Exposure at default - this is an estimate of the exposure at a default date that takes place in the future, taking into consideration repayments of principal or interest and interest charged. In arriving at EAD estimates, the Bank employs cash flow analyses.

Loss given default - this is an estimate of the cash shortfall the Bank expects when a facility defaults at a point in time. For secured facilities the Bank considers the amount that may be realized from the sale of the collateral net of costs to sell. In the case of investment securities, the Bank utilized information from credit loss tables that are generated by reputable external agencies.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vi) *Impairment (cont'd)*

Policy applicable from January 1, 2018 *(cont'd)*

Under IFRS 9 – Applicability to the Bank (cont'd)

Calculation of expected credit losses *(cont'd)*

ECL Calculation Methodology (cont'd)

Loan Commitments
Loan commitments arise when an entity enters into a contract to provide a loan facility to another party. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period.

At the end of each reporting period, 12-month expected credit losses are initially provided for such commitments. Where there has been a significant increase in credit risk of a default occurring on the loan to which the commitment relates, lifetime expected credit losses are recognized.

For loan commitments, ECL is calculated as the difference between:

- The contractual cash flows for amounts that are repayable if the holder of the loan commitment draws on the loan; and
- The cash flows that the Bank expects to receive if the loan is drawn down.

The discount rate used is the effective interest rate for the primary facility. In instances where there has been no draw downs on the loan facility, the loss allowance is recognized and presented as a provision.

Judgement

Judgement is required in making assumptions and estimations when calculating the ECL. This includes the movement of financial instruments between stages and the application of forward-looking information. The underlying assumptions and estimates may result in changes to the amounts recorded from period to period and can significantly impact the results of operations.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vi) *Impairment (cont'd)*

Policy applicable before January 1, 2018

Identification and measurement of impairment

<u>Non-derivative financial assets</u>

At each reporting date, the Bank assessed whether there was objective evidence that financial assets not classified as at fair value through profit or loss were impaired.

Objective evidence that financial assets are impaired can include:

1) significant financial difficulty of the borrower or issuer;
2) default or delinquency by a borrower;
3) restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider;
4) indications that a borrower or issuer will enter bankruptcy;
5) the disappearance of an active market for a security because of financial difficulties; or
6) other observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. In general, the Bank considers a decline of 20% to be significant and a period of nine (9) months to be prolonged.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vi) *Impairment (cont'd)*

Policy applicable before January 1, 2018 *(cont'd)*

Identification and measurement of impairment (cont'd)

Non-derivative financial assets *(cont'd)*

Financial assets measured at amortised cost

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities both at an individual asset and a collective level. All individually significant loans and advances and held-to-maturity investments are assessed for specific impairment. Those not found to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Bank uses historical information on the timing of recoveries and the amount of the loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Bank considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vi) *Impairment (cont'd)*

Policy applicable before January 1, 2018 *(cont'd)*

Identification and measurement of impairment (cont'd)

Non-derivative financial assets *(cont'd)*

Available-for-sale financial assets	Impairment losses on available-for-sale investment securities are recognized by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.
Equity-accounted investees	An impairment loss in respect of an equity accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vii) *Modifications of financial assets and financial liabilities*

Policy applicable from January 1, 2018

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vii) *Modifications of financial assets and financial liabilities (cont'd)*

Policy applicable from January 1, 2018 *(cont'd)*

Financial assets *(cont'd)*
If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities
The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable before January 1, 2018

Financial assets
If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(e) Financial instruments (cont'd)

(vii) *Modifications of financial assets and financial liabilities (cont'd)*

Policy applicable before January 1, 2018 *(cont'd)*

Financial liabilities

The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3. Significant accounting policies *(cont'd)*

(f) Property and equipment

(i) Recognition and measurement

Land and buildings, which comprise mainly branches and offices, are shown at fair value, based on valuations done by external independent valuers every 5 years, less subsequent depreciation for buildings. Any accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

All other assets are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self-constructed assets includes:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the asset to a working condition for its intended use;
- in instances when the Bank has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalized borrowing costs.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Bank. All other related expenditures are charged to profit or loss during the period in which they are incurred.

(iii) Depreciation

Depreciation for buildings is calculated to write off their costs less their estimated residual values using the straight-line method over their estimated useful lives, and the reducing balance method for all other property and equipment as follows:

Buildings	2%
Furniture and fixtures	10%
Equipment	15% - 25%
Leasehold improvements	20%
Motor vehicles	20%

3. Significant accounting policies *(cont'd)*

(f) Property and equipment (cont'd)

(iii) Depreciation *(cont'd)*

Depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Land is not depreciated.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

(g) Intangible assets

Intangible assets comprise separately identifiable intangible items arising from computer software licenses and other intangible assets. Intangible assets are recognized at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 4 years. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Bank have a definite useful life.

At each reporting date intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. The Bank chooses to use the cost model for the measurement after recognition. Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired, the intangible asset is analyzed to assess whether their carrying amount is fully recoverable.

Computer software licenses

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortised on the basis of the expected useful lives.

Software has a maximum expected useful life of 4 years (25% per annum).

3. Significant accounting policies *(cont'd)*

(h) 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.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognized. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in profit or loss within other operating expenses.

(i) Provisions

Provisions are recognized when:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- and the amount has been reliably estimated.

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 recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

(j) Employee benefits

(i) Pension obligation

The Bank operates a defined benefit plan for all employees. The assets of the plan are held separately from those of the Bank. The pension plan is funded through payments from employees and the Bank, taking account of the recommendations of independent qualified actuaries. The Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(j) Employee benefits (cont'd)

(i) Pension obligation (cont'd)

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognized immediately in OCI. The Bank determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Bank recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(ii) Profit-sharing and bonus plans

The Bank recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Bank's shareholders after certain adjustments. The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(k) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

a) Current tax

Current tax comprises the expected tax payable or recoverable on the taxable profit or loss for the year and any adjustments to the tax payable or recoverable in respect of previous years. The amount of the current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(k) Income tax (cont'd)

b) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The principal temporary differences arise from depreciation of property and equipment. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss.

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the Bank's business plans and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

(l) Share capital

(i) Ordinary shares

Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Bank. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the shareholders. Dividends for the year declared after the reporting date are disclosed in the notes to the financial statements.

3. Significant accounting policies *(cont'd)*

(m) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within "interest income" and "interest expense" in profit or loss 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, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points 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.

Interest on loans and advances and fee income

Interest on loans is recognized in interest income using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Fees that are an integral part of the effective interest rate are treated as an adjustment to the effective interest rate.

Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognized as non-interest income over the expected term of such loans using the effective interest method. Where there is a reasonable expectation that a loan will be originated, commitment and standby fees are also recognized as fee income over the expected term of the resulting loans using the effective interest method.

(n) Fees and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Performance linked fees or fee components are recognized when the performance criteria are fulfilled.

(o) Dividend income

Dividends are recognized in profit or loss when the Bank's right to receive payment is established.

(p) Leases

(i) The Bank is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight-line basis over the period of the lease.

(ii) The Bank is the lessor

When assets are leased out under an operating lease, the assets are included in the statement of financial position based on the nature of the assets. Lease income is recognized over the term of the lease on the straight line basis.

(Expressed in Eastern Caribbean dollars)

3. Significant accounting policies *(cont'd)*

(q) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss.

(Expressed in Eastern Caribbean dollars)

4. Financial risk management

The Bank has exposure to the following risks from financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk (including currency risk, interest rate and other price risk); and
- Operational risk

4.1 Risk management framework

The Bank's Board of Directors has overall responsibility for the establishment and oversight of its risk management framework. 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 retail banking, and 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 minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee oversees how management, through the finance department, monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. Management identifies and evaluates financial risks in close co-operation with the Bank's operating units. The Board provides oversight for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. It undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

4.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities in investment securities and other bills. 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. There is also credit risk in off-balance sheet financial instruments such as loan commitments. Credit risk is managed and controlled by management which reports to the Board of Directors.

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.1 Credit risk measurement

(a) *Loans and advances*

Eastern Caribbean Central Bank's prudential guidelines are embedded in the Bank's daily operational management. The operational measurements can be compared with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date (the "incurred loss model").

The Bank assesses the probability of default of individual counterparties using the Eastern Caribbean Central Bank prudential guidelines. Clients of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

Bank's rating	**Description of the grade** *Applicable after January 1, 2018*	**Description of the grade** *Applicable before January 1, 2018*
1	Stage 1 - Pass	Pass
2	Stage 2 - Special Mention	Special Mention
3	Stage 3 - Sub-standard	Sub-standard
4	Stage 3 - Doubtful	Doubtful
5	Stage 3 - Loss	Loss

This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

(b) *Debt securities and other bills*

For debt securities and other bills, external ratings such as Caricris or their equivalents are used by management for management of the credit risk exposures.

4.2.2 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.

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

The exposure to any one borrower including banks and brokers is further restricted by sub-limits.

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.2 Risk limit control and mitigation policies *(cont'd)*

Covering on-balance sheet and off-balance sheet exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily.

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

Some other specific control and mitigation measures are outlined below.

(a) *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 credit risk mitigation. The principal collateral types for loans and advances are:

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

Longer-term finance and lending to corporate entities are generally secured, while revolving individual credit facilities are generally unsecured. In addition, in order to minimize the 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.

(b) *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 authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions) are collateralized 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 authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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 to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.3 Impairment and provisioning policies

The impairment provision shown in the statement of financial position at the reporting date is derived from each of the five internal rating grades. The table below shows the percentage of the Bank's on-balance sheet items relating to loans and advances and the associated impairment provision for 2017 and expected credit loss (ECL) for 2018 for each of the Bank's internal rating categories:

	2018		**2017**	
	Loans and advances	**ECL provision**	**Loans and advances**	**Impairment provision**
Bank's rating	(%)	(%)	(%)	(%)
Stage 1 – Pass	82.2	12.9	-	-
Stage 2 – Special mention	7.6	29.0	-	-
Stage 3 - Sub-standard, doubtful, loss	10.2	58.1	-	-
Pass	-	-	81.7	26.3
Special Mention	-	-	5.1	1.5
Sub-standard	-	-	7.3	33.7
Doubtful	-	-	3.3	20.8
Loss	-	-	2.6	17.7

The internal rating tool assists management to determine whether objective evidence of impairment exists, based on the following factors set out by the Bank:

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

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

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

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

Credit risk exposures relating to on-balance sheet assets are as follows:

	Maximum exposure	
	2018	**2017**
	$	$
Due from other banks	28,003,720	53,739,498
Treasury bills	36,422,936	31,733,399
Loans and advances to financial institutions	-	23,971,139
Loans and advances to customers:		
- Overdrafts	10,980,992	13,321,624
- Demand loans	316,103,997	216,532,407
- Promissory notes	8,294,196	7,158,139
- Mortgages	164,564,856	145,859,115
- Credit cards	2,163,104	1,968,015
Investment securities:		
- Debt instrument at FVOCI	33,238,509	-
- Debt instrument at amortised cost	77,247,306	-
- Available-for-sale securities	-	25,794,383
- Held-to-maturity securities	-	43,935,610
Other assets	5,554,989	5,134,489
	682,574,605	569,147,818
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	688,008	173,008
Loan commitments and other credit related facilities	45,937,540	66,801,507
	46,625,548	66,974,515
At December 31	729,200,153	636,122,333

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

Loans and advances to customers and financial institutions comprise 73% of the total maximum exposure (2017 - 71%); investments in debt securities comprise 17% (2017 - 12%).

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements *(cont'd)*

Notwithstanding the current dynamics of the economy, management is fairly confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank based on the following:

- 87% (2017 - 87%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;
- 86% (2017 – 78%) of the portfolio is backed by collateral in the form of mortgage debentures, legal mortgages, life and comprehensive insurances, bills of sale, cash and guarantees;
- 73% (2017 - 71%) of the total loans and advances portfolio is 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
- 12% (2017 – 5.4%) of investments are rated above A-; no investments were rated CariA (2017 - 72%); 36% (2017 – 24.7%) are rated above B- and below BBB+; 34% (2017 - 57.8%) are above CariBBB and below CariA. Many issuers are not rated but only 17% (2017 - 12%) of investments in the portfolio are not rated and 2% (2017 – nil) are selective default.

4.2.5 Loans and advances

Loans and advances are summarized as follows:

	2018	2017
	$	$
Loans and advances to customers		
Neither past due nor impaired	381,541,200	290,099,609
Past due but not impaired	91,744,124	64,917,855
Impaired	52,723,920	54,077,583
Gross	526,009,244	409,095,047
Less: allowance for impairment (Notes 11 and 12)	(23,902,099)	(24,255,747)
Net	502,107,145	384,839,300
Loans and advances to financial institutions		
Neither past due nor impaired (Note 10)	-	23,971,139

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.5 Loans and advances *(cont'd)*

(a) Loans and advances neither past due nor impaired

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

December 31, 2018	**Overdrafts**	**Credit Cards**	**Demand loans**	**Promissory notes**	**Mortgages**	**Total loans and advances to customers**
Loans and advances to customers	**$**	**$**	**$**	**$**	**$**	**$**
Grades						
1. Stage 1 - pass	10,093,619	1,666,924	246,963,145	7,026,980	101,601,847	367,352,515
2. Stage 2 - special mention	295,621	-	7,008,016	12,100	6,872,948	14,188,685
3. Stage 3 - Sub-standard	-	-	-	-	-	-
4. Stage 3 - Doubtful	-	-	-	-	-	-
5. Stage 3 - Loss	-	-	-	-	-	-
Total	10,389,240	1,666,924	253,971,161	7,039,080	108,474,795	381,541,200

December 31, 2017	**Overdrafts**	**Credit Cards**	**Demand loans**	**Promissory notes**	**Mortgages**	**Total loans and advances to customers**
Loans and advances to customers						
Grades						
1. Pass	13,084,843	1,718,863	167,727,668	6,040,841	85,049,271	273,621,486
2. Special mention	113,531	-	5,069,781	-	10,917,537	16,100,849
3. Sub-standard	348,450	-	-	-	-	348,450
4. Doubtful	28,824	-	-	-	-	28,824
5. Loss	-	-	-	-	-	-
Total	13,575,648	1,718,863	172,797,449	6,040,841	95,966,808	290,099,609

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.5 Loans and advances *(cont'd)*

(a) *Loans and advances neither past due nor impaired (cont'd)*

Loans and advances to financial institutions
Loans and advances to financial institutions were graded as Pass as at December 31, 2018 and December 31, 2017.

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

December 31, 2018	**Credit cards**	**Demand loans**	**Promissory notes**	**Mortgages**	**Total loans and advances to customers**
	$	$	$	$	$
Past due up to 30 days	511,917	48,013,915	1,061,795	28,907,905	78,495,532
Past due 30-60 days	290,077	1,196,556	241,942	3,292,241	5,020,816
Past due 61-90 days	97,078	5,432,963	195,669	2,502,066	8,227,776
Past due over 90 days	-	-	-	-	-
Total	899,072	54,643,434	1,499,406	34,702,212	91,744,124
Fair value of collateral	-	122,282,535	1,886,894	86,653,710	210,823,139

December 31, 2017	**Credit cards**	**Demand loans**	**Promissory notes**	**Mortgages**	**Total loans and advances to customers**
	$	$	$	$	$
Past due up to 30 days	190,825	24,508,184	1,006,709	23,267,907	48,973,625
Past due 30-60 days	-	3,072,455	106,383	4,100,262	7,279,100
Past due 61-90 days	35,049	4,596,813	39,222	3,970,768	8,641,852
Past due over 90 days	23,278	-	-	-	23,278
Total	249,152	32,177,452	1,152,314	31,338,937	64,917,855
Fair value of collateral	-	116,046,559	3,433,162	90,879,783	210,359,504

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.5 Loans and advances *(cont'd)*

(c) Loans and advances individually impaired

The table below shows the gross amount of individually impaired loans and advances to customers by grades before taking into consideration the cash flows from collateral held.

	2018	**2017**
Individual impaired loans	$	$
1. Stage 3 - Sub-standard, doubtful, loss	52,723,920	-
2. Pass	-	242,091
3. Special mention	-	168,290
4. Sub-standard	-	29,620,242
5. Doubtful	-	13,596,530
6. Loss	-	10,450,430
Total	52,723,920	54,077,583
Fair value collateral	97,908,236	103,942,928

(d) Loans and advances 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 normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local 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 that would otherwise be past due or impaired as at December 31, 2018 amounted to $6,964,579 (2017 - $1,830,299).

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.6 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 December 31, 2018 and 2017, based on Caricris or their equivalent:

	Investment securities			
At December 31, 2018	**Treasury bills**	**Debt Instruments at FVOCI**	**Debt Instruments at Amortised Cost**	**Total $**
	$	$	$	$
A- to A+	-	17,644,775	-	17,644,775
BBB- to BBB+	-	15,593,734	22,340,548	37,934,282
BB- to BB+	6,984,129	-	7,680,366	14,664,495
CariBBB+	-	-	6,565,343	6,565,343
CariBBB	11,695,354	-	31,179,680	42,875,034
SD (selective default)	2,984,488	-	-	2,984,488
Unrated	14,758,965	-	9,481,369	24,240,334
Total	36,422,936	33,238,509	77,247,306	146,908,751

	Investment securities			
At December 31, 2017	**Treasury bills**	**Held-to-maturity**	**Available-for-sale**	**Total**
	$	$	$	$
A- to A+	-	-	5,485,412	5,485,412
BBB- to BBB+	-	-	14,158,666	14,158,666
BB- to BB+	-	5,111,534	5,809,271	10,920,805
CariBBB+	-	9,078,853	-	9,078,853
CariBBB	28,745,443	20,771,686	-	49,517,129
Unrated	2,987,956	8,973,537	341,033	12,302,526
Total	31,733,399	43,935,610	25,794,382	101,463,391

4.2.7 Repossessed collateral

During 2018, the Bank obtained assets by taking possession of collateral held as security, as follows:

	Carrying amount
Nature of assets	**$**
Vehicles	608,576

Repossessed vehicles are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.8 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors
The Bank operates primarily in Saint Lucia and the exposure to credit risk is concentrated there.

(b) Industry sectors
The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of counterparties.

	Financial institutions	Manufacturing	Tourism	Government	Professional and other services	Personal	Other industries	Total
	$	$	$	$	$	$	$	$
Due from other banks	28,003,720	-	-	-	-	-	-	28,003,720
Treasury bills	-	-	-	36,422,936	-	-	-	36,422,936
Loans and advances to customers:								
- Overdraft	849	683,377	1,292,116	-	2,563,030	856,847	5,584,773	10,980,992
- Credit cards	-	-	-	-	-	1,514,173	648,931	2,163,104
- Demand loans	1,135,742	16,048,252	2,099,089	61,139,942	28,269,476	101,034,195	106,377,301	316,103,997
- Promissory notes	-	-	-	-	21,609	8,220,763	51,824	8,294,196
- Mortgages	1,804,638	611,969	1,674,258	-	6,865,861	105,906,899	47,701,231	164,564,856
Investment securities:								
- Debt instruments at FVOCI	11,515,328	-	-	5,459,919	-	-	16,263,262	33,238,509
- Debt instruments at amortised costs	38,035,864	-	-	39,109,295	-	-	102,147	77,247,306
Other assets	5,554,989	-	-	-	-	-	-	5,554,989
As at December 31, 2018	86,051,130	17,343,598	5,065,463	142,132,092	37,719,976	217,532,877	176,729,469	682,574,605
Credit commitments	-	381,207	207,463	2,797,138	18,330,286	15,718,125	9,191,329	46,625,548

4. Financial risk management *(cont'd)*

4.2 Credit risk *(cont'd)*

4.2.8 Concentration of risks of financial assets with credit risk exposure (cont'd)

(b) Industry sectors (cont'd)

	Financial institutions	Manufacturing	Tourism	Government	Professional and other services	Personal	Other industries	Total
	$	$	$	$	$	$	$	$
Due from other banks	53,739,498	-	-	-	-	-	-	53,739,498
Treasury bills	-	-	-	31,733,399	-	-	-	31,733,399
Loans and advances to financial institutions	23,971,139	-	-	-	-	-	-	23,971,139
Loans and advances to customers:								
Overdraft	-	162,597	1,576,462	1,021,207	2,965,152	1,082,301	6,513,905	13,321,624
Credit cards	-	-	-	-	-	1,377,610	590,405	1,968,015
Demand loans	-	5,375,560	1,624,079	31,415,327	24,885,867	76,744,276	76,487,298	216,532,407
Promissory notes	-	117,515	-	-	30,272	6,969,130	41,222	7,158,139
Mortgages	1,933,531	642,328	1,812,221	-	4,666,119	90,099,998	46,704,918	145,859,115
Investment securities:								
available-for-sale	9,833,847	-	-	6,051,736	-	-	9,908,800	25,794,383
held-to-maturity	17,948,816	-	-	25,883,219	-	-	103,575	43,935,610
Other assets	5,134,489	-	-	-	-	-	-	5,134,489
As at December 31, 2017	112,561,320	6,298,000	5,012,762	96,104,888	32,547,410	176,273,315	140,350,123	569,147,818
Credit commitments	-	550,000	94,170	2,970,295	5,918,358	28,131,385	29,137,299	66,801,507

4. Financial risk management *(cont'd)*

4.3 Market risk

Market risk is the risk that changes in market prices - e.g. equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) - will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the bank's solvency while optimizing the return on risk.

The Bank's exposures to market risks primarily arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities and equity risks arising from the Bank's available-for-sale investments.

4.3.1 Other price risk

The Bank is exposed to equity securities price risk because of investments held by the Bank and classified in the statement of financial position as available-for-sale. To manage its price risk arising from investments in equity securities, the Bank diversifies its portfolio.

At December 31, 2018, if equity securities prices had been 5% higher/lower with all other variables held constant, comprehensive income for the year would have been $145,359 higher/lower (2017 -$145,336 higher/lower) as a result of a reasonably possible increase/decrease in fair value of available-for-sale equity securities at the reporting date.

4.3.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency, and in total, 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 exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.70 = US$1.00 since 1976. The rate of exchange of EC$1 for relevant major currencies was as follows:

	USD	**BBD**	**CAD**	**EUR**	**GBP**
	$	$	$	$	$
At December 31, 2018	2.7000	1.3517	1.9834	3.0937	3.4490
At December 31, 2017	2.7000	1.3517	2.1541	3.2330	3.6453

The following table summarizes the Bank's exposure to foreign currency exchange rate risk at December 31, 2018 and 2017. Included in the table, are the Bank's financial instruments at carrying amount, categorized by currency.

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.3 Market risk *(cont'd)*

4.3.2 Foreign exchange risk *(cont'd)*

Concentration of currency risk - on and off balance sheet financial instruments

	ECD	CAD	EURO	USD	GBP	TTD	BD	Total
As at December 31, 2018								
Financial assets								
Cash and balances with Central Bank	54,244,936	198,823	546,080	2,514,666	171,803	-	183,129	57,859,437
Due from other banks	13,286,182	385,219	386,806	12,226,907	1,190,071	172,098	356,437	28,003,720
Treasury bills	36,422,936	-	-	-	-	-	-	36,422,936
Loans and advances to customers	502,107,145	-	-	-	-	-	-	502,107,145
Investment securities								
- Debt instruments at FVOCI	-	-	-	33,238,509	-	-	-	33,238,509
- Debt instruments at amortised cost	73,960,495	-	-	3,286,811	-	-	-	77,247,306
Other assets	5,554,989	-	-	-	-	-	-	5,554,989
Total financial assets	685,576,683	584,042	932,886	51,266,893	1,361,874	172,098	539,566	740,434,042
Financial liabilities								
Due to customers	637,953,869	-	960	7,221,300	-	-	-	645,176,129
Other liabilities	23,368,014	-	-	-	-	-	-	23,368,014
Total financial liabilities	661,321,883	-	960	7,221,300	-	-	-	668,544,143
Net on-balance sheet positions	24,254,800	584,042	931,926	44,045,593	1,361,874	172,098	539,566	71,889,899
Credit commitments	46,625,548	-	-	-	-	-	-	46,625,548

4. Financial risk management *(cont'd)*

4.3 Market risk *(cont'd)*

4.3.2 Foreign exchange risk *(cont'd)*

Concentration of currency risk - on and off balance sheet financial instruments *(cont'd)*

	ECD	CAD	EURO	USD	GBP	TTD	BD	Total
As at December 31, 2017								
Financial assets								
Cash and balances with Central Bank	76,230,247	232,896	527,796	1,884,256	15,441	-	6,198	78,896,834
Due from other banks	(3,396,390)	502,710	2,041,451	52,969,724	1,471,217	58,202	92,584	53,739,498
Treasury bills	31,733,399	-	-	-	-	-	-	31,733,399
Loans and advances to financial institutions	23,971,139	-	-	-	-	-	-	23,971,139
Loans and advances to customers	384,839,300	-	-	-	-	-	-	384,839,300
Investment securities:								
available-for-sale	152,640	-	-	25,641,743	-	-	-	25,794,383
held-to-maturity	43,935,610	-	-	-	-	-	-	43,935,610
Other assets	5,134,489	-	-	-	-	-	-	5,134,489
Total financial assets	562,600,434	735,606	2,569,247	80,495,723	1,486,658	58,202	98,782	648,044,652
Financial liabilities								
Due to customers	576,228,860	-	1,294	4,726,591	-	-	-	580,956,745
Other liabilities	5,220,816	-	-	-	-	-	-	5,220,816
Total financial liabilities	581,449,676	-	1,294	4,726,591	-	-	-	586,177,561
Net on-balance sheet positions	(18,849,242)	735,606	2,567,953	75,769,132	1,486,658	58,202	98,782	61,867,091
Credit commitments	66,974,515	-	-	-	-	-	-	66,974,515

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.3 Market risk *(cont'd)*

4.3.3 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.

4. Financial risk management *(cont'd)*

4.3 Market risk *(cont'd)*

4.3.3 Interest rate risk *(cont'd)*

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at December 31, 2018	$	$	$	$	$	$	$
Assets							
Cash and balances with Central Bank	-	-	-	-	-	57,859,437	57,859,437
Due from other banks	18,608,122	-	-	-	-	9,395,598	28,003,720
Treasury bills	13,333,346	11,067,396	12,022,194	-	-	-	36,422,936
Loans and advances to customers	18,291,602	815,588	4,940,597	52,538,190	425,521,168	-	502,107,145
Investment securities							
- Debt instruments at FVOCI	33,238,509	-	-	-	-	-	33,238,509
- Debt instruments at amortised cost	3,789,156	9,112,330	34,705,845	19,992,032	9,647,943	-	77,247,306
Other assets	-	-	-	-	-	5,554,989	5,554,989
Total financial assets	87,260,735	20,995,314	51,668,636	72,530,222	435,169,111	72,810,024	740,434,042
Liabilities							
Due to customers	437,211,879	13,147,472	122,371,089	215,217	-	72,230,472	645,176,129
Other liabilities	-	-	-	-	-	23,368,014	23,368,014
Total financial liabilities	437,211,879	13,147,472	122,371,089	215,217	-	95,598,486	668,544,143
Total interest repricing gap	(349,951,144)	7,847,842	(70,702,453)	72,315,005	435,169,111	(22,788,462)	71,889,899

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.3 Market risk *(cont'd)*

4.3.3 Interest rate risk *(cont'd)*

	Up to 1 month $	1-3 months $	3-12 months $	1-5 years $	Over 5 years $	Non-interest bearing $	Total $
As at December 31, 2017							
Assets							
Cash and balances with Central Bank	-	-	-	-	-	78,896,834	78,896,834
Due from other banks	52,623,475	-	-	-	-	1,116,023	53,739,498
Treasury bills	8,344,219	6,108,901	17,280,279	-	-	-	31,733,399
Loans and advances to financial institutions	-	5,645,544	18,325,595	-	-	-	23,971,139
Loans and advances to customers	16,665,986	2,031,745	15,366,949	41,919,033	308,855,587	-	384,839,300
Investment securities:							
available-for-sale	25,453,350	188,395	152,638	-	-	-	25,794,383
held-to-maturity	751,592	3,075,677	16,245,422	18,794,082	5,068,837	-	43,935,610
Other assets	-	-	-	-	-	5,134,489	5,134,489
Total financial assets	103,838,622	17,050,262	67,370,883	60,713,115	313,924,424	85,147,346	648,044,652
Liabilities							
Due to customers	396,940,089	14,529,121	117,672,676	111,602	-	51,703,257	580,956,745
Other liabilities	-	-	-	-	-	5,220,816	5,220,816
Total financial liabilities	396,940,089	14,529,121	117,672,676	111,602	-	56,924,073	586,177,561
Total interest repricing gap	(293,101,467)	2,521,141	(50,301,793)	60,601,513	313,924,424	28,223,273	61,867,091

4. Financial risk management *(cont'd)*

4.3 Market risk *(cont'd)*

4.3.3 Interest rate risk *(cont'd)*

The Bank's fair value interest rate risk arises from debt securities classified as available-for-sale debt. At December 31, 2018, if market interest rates had been 100 basis points higher/lower with all variables held constant, comprehensive income for the year would have been $1,717,947 higher/$66,863 lower. At December 31, 2017, if the same scenario was applied debt securities available for sale, comprehensive income would be $832,563 higher and $792,823 lower as a result of the decrease/increase in fair value of available-for-sale debt securities.

Cash flow interest rate risk arises from loans and advances to customers at variable rates. At December 31, 2018, if variable interest rates had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been $3,303,918 higher/lower (2017 - $2,318,593).

4.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

4.4.1 Liquidity risk management process

The Board of Directors establishes the strategy and policy for the management of liquidity risk. The Bank's liquidity is managed by the Finance Department. 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 they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. While a significant proportion of the Bank's liabilities fall within the current category, the Bank maintains approximately 31% (2017 - 42%) of assets to manage any payment obligations as history has shown that the assets maintained to manage these outflows is adequate.

The key elements of the liquidity management process are as follows:

- Daily and weekly monitoring to ensure that requirements are met. This includes the replenishment of funds as they mature or as borrowed by customers. The Bank ensures that sufficient funds are held in the one to thirty day maturity bucket to satisfy liquidity requirements.
- Maintaining a portfolio of marketable assets that can easily be liquidated, as protection against any unforeseen liquidity problems. Additionally, the investment portfolio is fairly diversified by currency, geography, provider, product and term.
- Weekly monitoring of the statement of financial position liquidity ratios against internal and regulatory requirements.
- Managing the concentration and profile of debt maturities.
- Reviewing sources of liquidity regularly to maintain a wide diversification by currency, geography, provider, product and term.

(Expressed in Eastern Caribbean dollars)

4. Financial risk management *(cont'd)*

4.4 Liquidity risk *(cont'd)*

4.4.2 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows; the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
As at December 31, 2018	$	$	$	$	$	$
Financial liabilities						
Due to customers	509,762,030	13,385,954	124,726,412	220,542	-	648,094,938
Other liabilities	23,368,014	-	-	-	-	23,368,014
Total financial liabilities						
(Contractual maturity dates)	533,130,044	13,385,954	124,726,412	220,542	-	671,462,952
Assets held for managing liquidity risk						
(Contractual maturity dates)	162,571,524	20,995,314	51,668,636	72,530,222	436,690,044	744,455,740

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
As at December 31, 2017	$	$	$	$	$	$
Financial liabilities						
Due to customers	448,655,598	14,600,999	119,274,394	114,227	-	582,645,218
Other liabilities	5,220,816	-	-	-	-	5,220,816
Total financial liabilities						
(Contractual maturity dates)	453,876,414	14,600,999	119,274,394	114,227	-	587,866,034
Assets held for managing liquidity risk						
(Contractual maturity dates)	131,130,826	17,050,260	67,370,884	60,713,116	313,924,422	590,189,508

4. Financial risk management *(cont'd)*

4.4 Liquidity risk *(cont'd)*

4.4.3 Assets held for managing liquidity risk

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, Central Bank balances, items in the course of collection, and treasury and other eligible bills, loans and advances to financial institutions, and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

4.4.4 Off-balance sheet items

(a) 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 35), are summarized in the table below.

(b) Financial guarantees and other financial facilities
Financial guarantees (Note 35) are also included below based on the earliest contractual maturity date.

	1 year	1-5 years	Over 5 years	Total
As at December 31, 2018	$	$	$	$
Loan commitments	45,521,020	268,532	147,988	45,937,540
Guarantees, acceptances and other financial facilities	688,008	-	-	688,008
Total	46,209,028	268,532	147,988	46,625,548
As at December 31, 2017				
Loan commitments	65,917,412	884,095	-	66,801,507
Guarantees, acceptances and other financial facilities	173,008	-	-	173,008
Total	66,090,420	884,095	-	66,974,515

4.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market, and liquidity risks - e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

4 Financial risk management *(cont'd)*

4.5 Operational risk *(cont'd)*

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the bank's reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has oversight of the operational risk management strategy and processes of the Bank, delegated to the credit risk committee and the managing director. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transaction;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is cost-effective.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit, which reports direct to the Audit Committee.

5. Fair values of financial assets and liabilities

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

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature.

5. Fair values of financial assets and liabilities *(cont'd)*

(i) Loans and advances to customers

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

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models such as discounted cash flow techniques. Input into the valuation techniques includes the expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the underlying collateral. Input into the models may include data from third party brokers and information obtained from other market participants, which includes observed primary and secondary transactions. To improve the accuracy of the valuation estimates, loans are grouped into portfolios with similar characteristics such as the quality of collateral, repayment and delinquency rates.

(ii) Investment securities

Investment securities include only interest-bearing debt assets at amortised cost and FVOCI; assets classified as FVOCI are measured at fair value except for unlisted equity securities which are carried at cost. The fair value of equity securities carried at cost is not disclosed as it cannot be reliably estimated (Note 13). The fair value for amortised cost assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

Prior to January 1, 2018, the investment securities were classified per IAS 39. The categories are explained in Note 3(e)(ii).

(iii) Due to customers

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

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

(Expressed in Eastern Caribbean dollars)

5. Fair values of financial assets and liabilities *(cont'd)*

	Carrying amount		Fair value	
	2018	**2017**	**2018**	**2017**
	$	$	$	$
Financial assets				
Loans and advances to financial institutions	-	23,971,139	-	23,971,139
Due from other banks	28,003,720	53,739,498	28,003,720	53,739,498
Loans and advances to customers:				
Overdrafts	10,980,992	13,321,624	10,980,992	13,321,624
Demand loans	316,103,997	216,532,407	312,846,970	238,588,095
Promissory notes	8,294,196	7,158,139	9,699,007	8,453,237
Mortgages	164,564,856	145,859,115	163,263,212	140,173,943
Credit cards	2,163,104	1,968,015	2,163,104	1,968,015
Investment securities:				
- Treasury bills	36,422,936	31,733,399	36,422,936	31,733,399
- Debt instruments at amortised costs	77,247,306	-	74,629,356	-
Held to maturity	-	43,935,610	-	42,766,795
Financial liabilities				
Due to customers:				
- Time deposits	153,044,073	148,855,290	150,830,197	146,835,996
- Savings accounts	388,434,952	353,749,692	388,434,952	353,749,692
- Demand accounts	103,697,104	78,351,763	103,697,104	78,351,763

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following fair value hierarchy:

- Level 1 - Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. This level includes listed equity securities and debt instruments on exchanges.

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar

(Expressed in Eastern Caribbean dollars)

5. Fair values of financial assets and liabilities *(cont'd)*

Fair value hierarchy (cont'd)

instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3 - Inputs that are unobservable (not based on observable market data). This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between instruments.

5.1 Assets measured at fair value

	Level 1 $	Level 2 $	Level 3 $	Total $
December 31, 2018				
Investment securities				
- Debt instruments at FVOCI	33,238,509	-	-	33,238,509
- Equity instruments at FVOCI	-	2,932,180	-	2,932,180
Total assets	33,238,509	2,932,180	-	36,170,689
December 31, 2017				
Available-for-sale financial assets				
- Investment securities - debt	22,412,529	4,133,446	-	26,545,975
- Investment securities - equity	-	1,831,720	-	1,831,720
Total assets	22,412,529	5,965,166	-	28,377,695

(Expressed in Eastern Caribbean dollars)

5. Fair values of financial assets and liabilities *(cont'd)*

5.2 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value, and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

	Level 1 $	Level 2 $	Level 3 $	Total fair values $	Total carrying amounts $
December 31, 2018					
Financial assets					
Cash and balances with Central Bank	-	57,859,437	-	57,859,437	57,859,437
Treasury bills	-	36,422,936	-	36,422,936	36,422,936
Due from other banks	-	28,003,720	-	28,003,720	28,003,720
Loans and advances to customers	-	498,953,285	-	498,953,285	502,107,145
Debt instruments at amortised cost	-	74,629,356	-	74,629,356	77,247,306
Financial liabilities					
Deposits from customers	-	642,962,252	-	642,962,252	645,176,129
Other liabilities	-	23,368,014	-	23,368,014	23,368,014
		1,362,199,000	-	1,362,199,000	1,370,184,687

	Level 1 $	Level 2 $	Level 3 $	Total fair values $	Total carrying amounts $
December 31, 2017					
Financial assets					
Cash and balances with Central Bank	-	78,896,834	-	78,896,834	78,896,834
Treasury bills	-	31,733,399	-	31,733,399	31,733,399
Due from other banks	-	53,739,498	-	53,739,498	53,739,498
Loans and advances to financial institutions	-	23,971,139	-	23,971,139	23,971,139
Loans and advances to customers	-	402,504,914	-	402,504,914	384,839,300
Held to maturity investment securities	-	42,766,795	-	42,766,795	43,935,610
Financial liabilities					
Deposits from customers	-	578,937,450	-	578,937,450	580,956,745
Other liabilities	-	5,220,816	-	5,220,816	5,220,816
	-	1,217,770,845	-	1,217,770,845	1,203,293,341

6. Capital management

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

- to comply with the capital requirements set by the Eastern Caribbean Central Bank;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

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

The Central Bank requires every bank within its regulatory jurisdiction to: (a) hold the minimum level of paid up capital of $20,000,000, and (b) maintain a ratio of total regulatory capital to the risk-weighted assets (the "Basel ratio") at or above the minimum indicated in the prudential guidelines.

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 appropriations of retained earnings.
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealized gains arising on the fair valuation of equity instruments held as 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-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

6. Capital management *(cont'd)*

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended December 31, 2018 and 2017. During those two years, the Bank complied with all of the externally imposed capital requirements.

	2018	**2017**
Tier 1 capital	$	$
Share capital	20,000,000	20,000,000
Statutory reserve	10,666,264	8,680,478
Retained earnings	51,479,921	48,160,670
Total qualifying Tier 1 capital	82,146,185	76,841,148
Tier 2 capital		
Other reserves	9,570,810	3,217,260
Revaluation reserve – FVOCI (2017: AFS) investments	(214,191)	945,363
Revaluation reserve – property and equipment	1,427,166	3,708,673
Total qualifying Tier 2 capital	10,783,785	7,871,296
Total regulatory capital	92,929,970	84,712,444
Risk-weighted assets:		
On-balance sheet	487,745,900	382,945,100
Off-balance sheet	9,388,000	13,074,600
Total risk-weighted assets	497,133,900	396,019,700
Capital adequacy ratio - required	8%	8%
Capital adequacy ratio - actual	17%	19%
Basel ratio - required	8%	8%
Basel ratio - actual	19%	21%

The capital adequacy ratio is calculated as total qualifying Tier 1 capital divided by total risk-weighted assets. The Basel ratio is calculated as total regulatory capital divided by total risk-weighted assets. It is in compliance with the Banking Act.

(Expressed in Eastern Caribbean dollars)

7. Cash and balances with Central Bank

	2018	2017
	$	$
Cash in hand	14,277,365	13,711,357
Balances with Central Bank other than mandatory reserve deposits	5,366,377	9,770,191
Included in cash and cash equivalents (Note 16)	19,643,742	23,481,548
Mandatory reserve deposits with Central Bank	38,215,695	55,415,286
	57,859,437	78,896,834

The Bank is required to maintain in cash and deposits with the Central Bank, reserve balances in relation to the deposit liabilities of the institution.

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

8. Due from other banks

	2018	2017
	$	$
Items in the course of collection from other banks	3,784,173	(4,576,773)
Placements with other banks	24,219,547	58,316,271
Included in cash and cash equivalents (Note 16)	28,003,720	53,739,498

The weighted average effective interest rate in respect of interest bearing deposits at December 31, 2018 was 1.3% (2017 - 0.1%).

9. Treasury bills

	2018	2017
	$	$
Treasury bills (Note 13)	36,422,936	31,733,399

The Bank has invested in treasury bills issued by the Government of Saint Lucia. The weighted average effective interest rate of the treasury bills in 2018 was 3.61% (2017 – 4.64%). All treasury bills have fixed interest rates, and they mature within one year of the end of the financial year.

The December 31, 2018 balance includes ECL of $68,316 (2017: nil).

10. Loans and advances to financial institutions

	2018	2017
	$	$
Reverse repos (Note 13)	-	23,971,139

Reverse repos are securities that have been purchased under agreements to resell. The weighted average effective interest rate of the reverse repos in 2018 was nil (2017 - 2.46%). Reverse repos mature within one year. These investments were transferred to debt instruments at amortised cost from January 1, 2018.

Allowance account for losses on loans and advances to financial institutions as at December 31, 2018 and 2017 was nil.

11. Loans and advances to customers

	2018	2017
	$	$
Overdrafts	13,796,014	13,575,647
Demand loans	329,812,450	232,124,882
Promissory notes	11,428,663	9,552,118
Mortgages	172,749,497	155,373,512
Credit cards	2,635,005	1,968,015
	530,421,629	412,594,174
Less: Deferred fees	(2,058,076)	(1,482,115)
Less: Interest earned not collected	(2,354,309)	(2,017,012)
	526,009,244	409,095,047
Less: Impairment allowance on loans and advances (Note 12)	(23,902,099)	(24,255,747)
	502,107,145	384,839,300
Current	24,047,785	34,064,680
Non-current	478,059,360	350,774,620
	502,107,145	384,839,300

The weighted average effective interest rate on productive loans measured at amortised cost at December 31, 2018 was 6.93% (2017 - 7.68%) and the rate on productive overdrafts measured at amortised cost was 10.34% (2017 - 10.24%).

(Expressed in Eastern Caribbean dollars)

12. Provision for impairment of loans and advances

Reconciliation of the allowance account for losses on loans and advances by class is as follows:

	Overdraft	Credit Cards	Demand Loans	Promissory Notes	Mortgage	Total
	$		$	$	$	$
Balance at January 1, 2018	254,023	-	14,440,290	532,053	9,029,381	24,255,747
Effect of adopting IFRS 9 at January 1, 2018	1,110,581	806,717	(2,929,043)	12,880	(2,799,266)	(3,798,131)
Provision for ECL (Note 30)	1,450,418	(334,817)	876,483	254,327	2,620,621	4,867,032
Loans written off during the year	-	-	(227,186)	-	(1,195,363)	(1,422,549)
At December 31, 2018	2,815,022	471,900	12,160,544	799,260	7,655,373	23,902,099
Balance at January 1, 2017	226,466	-	14,384,424	420,171	9,516,839	24,547,900
Provision for loan impairment (Note 30)	27,557	-	4,792,162	175,295	2,703,279	7,698,293
Loans written off during the year	-	-	(4,736,296)	(63,413)	(3,190,737)	(7,990,446)
At December 31, 2017	254,023	-	14,440,290	532,053	9,029,381	24,255,747

The total impairment provision for loans and advances to customers is $23,902,099 (2017 - $24,255,747) of which $13,881,933 (2017 - $16,827,524) represents the individually impaired loans and the remaining amount of $10,020,166 (2017 - $7,428,223) represents the general portfolio provision.

A breakdown of the staging of advances and the related ECLs for loans and advances is illustrated below:

	Demand	Mortgages	Promissory Notes	Overdrafts	Credit Cards	Total
	$	$	$	$	$	$
December 31, 2018						
Net loans before provision	327,954,837	172,220,226	9,093,457	14,105,720	2,635,004	526,009,244
Stage 1: 12 month ECL	(1,347,553)	(278,744)	(228,002)	(966,693)	(248,512)	(3,069,504)
Stage 2: Lifetime ECL	(3,520,652)	(2,920,408)	(175,850)	(179,372)	(154,381)	(6,950,663)
Stage 3: Credit Impaired	(6,982,635)	(4,456,218)	(395,409)	(1,978,663)	(69,007)	(13,881,932)
Financial Assets - Lifetime ECL	**316,103,998**	**164,564,856**	**8,294,196**	**10,980,992**	**2,163,104**	**502,107,145**

	Demand	Mortgages	Promissory	Overdrafts	Credit Cards	Total
January 1, 2018						
Gross loans and advances	230,262,956	154,888,494	8,399,935	13,575,647	1,968,015	409,095,047
Allowance for ECL	(11,488,527)	(6,230,114)	(544,933)	(1,387,326)	(806,717)	(20,457,617)
Net advances	218,774,429	148,658,380	7,855,002	12,188,321	1,161,298	388,637,430

12. Provision for impairment of loans and advances *(cont'd)*

A breakdown of the staging of advances and the related ECLs for loans and advances is illustrated below *(cont'd)*

	Demand	Mortgages	Promissory Notes	Overdrafts	Credit Cards	Total
	$	$	$	$	$	$
Gross loans as at January 1, 2018	230,262,956	154,888,494	8,399,935	13,575,647	1,968,015	409,095,047
Stage 1: 12 month ECL	(751,252)	(181,458)	(150,177)	(417,864)	(86,307)	(1,587,058)
Stage 2: Lifetime ECL	(1,902,358)	(1,198,953)	(50,860)	(519,802)	(243,317)	(3,915,290)
Stage 3: Credit impaired	(8,834,916)	(4,849,703)	(343,896)	(449,660)	(477,094)	(14,955,269)
Financial assets - lifetime ECL	**218,774,429**	**148,658,380**	**7,855,001**	**12,188,321**	**1,161,297**	**388,637,430**
Stage 1: 12 month ECL						
ECL allowance as at:						
January 1, 2018 under IFRS 9	751,252	181,458	150,177	417,864	86,307	1,587,058
Credit loss movements, new						
Loans, repayments, etc.	596,301	97,286	77,825	548,829	162,206	1,482,447
As at December 31, 2018	**1,347,553**	**278,744**	**228,002**	**966,693**	**248,512**	**3,069,504**
Stage 2: Lifetime ECL						
ECL allowance as at:						
January 1, 2018 under IFRS 9	1,902,358	1,198,953	50,860	519,802	243,317	3,915,290
Credit loss movements, new						
Loans, repayments, etc.	1,618,294	1,721,455	124,990	(340,430)	(88,935)	3,035,374
As at December 31, 2018	**3,520,652**	**2,920,408**	**175,850**	**179,372**	**154,381**	**6,950,664**
Stage 3: Lifetime ECL						
ECL allowance as at:						
January 1, 2018 under IFRS 9	8,834,916	4,849,703	343,896	449,660	477,094	14,955,269
Credit loss expense	(1,625,096)	801,879	51,512	1,529,003	(408,086)	349,212
Charge-offs and write-offs	(227,186)	(1,195,363)	-	-	-	(1,422,549)
As at December 31, 2018	**6,982,634**	**4,456,219**	**395,408**	**1,978,663**	**69,008**	**13,881,932**
Total	**11,850,841**	**7,655,370**	**799,260**	**3,124,728**	**471,900**	**23,902,099**

(Expressed in Eastern Caribbean dollars)

13. Investment securities

	2018	2017
Fair value through other comprehensive income (FVOCI)	$	$
Equity securities – Listed	2,932,180	-
Equity securities – Unlisted	2,273,588	-
	5,205,768	-
Debt securities - Listed	33,279,104	-
Debt securities - Unlisted	-	-
Allowance for impairment	(40,595)	-
	33,238,509	-
Total securities: FVOCI	38,444,277	-
Amortised cost		
Debt securities - Listed	48,756,995	-
Debt securities - Unlisted	28,788,073	-
Allowance for impairment	(297,762)	-
Total securities: amortised cost	77,247,306	

13. Investment securities *(cont'd)*

	2018	2017
	$	$
Available-for sale	-	2,906,720

(Expressed in Eastern Caribbean dollars)

Equity securities - Listed		
Equity securities - Unlisted	-	1,544,588
		4,451,308
Debt securities - at fair value		
- Listed	-	22,412,529
- Unlisted	-	3,575,618
Allowance for impairment	-	(193,764)
	-	25,794,383
Total securities: available-for-sale	-	30,245,691
Held-to-maturity		
Debt securities - at amortised cost		
- Listed	-	34,962,073
- Unlisted	-	8,973,537
Total securities: held-to-maturity	-	43,935,610
Total investment securities	115,691,583	74,181,301
Current	86,051,608	50,318,383
Non-current	29,639,975	23,862,918
	115,691,583	74,181,301

Unlisted equity securities totaling $2,273,588 (2017: $1,544,588) are carried at cost. The Bank is unable to reliably measure the fair value of these equity securities since the shares are not traded in an active market and the future cash flows relating to the securities cannot be reliably estimated. These securities were previously classified as available-for-sale. Effective January 1, 2018, these were transferred to equity securities designated as at FVOCI.

All debt securities have fixed interest rates.

The weighted average effective interest rate on debt securities stated at amortised cost at December 31, 2018 was nil (2017 - 5.06%).

(Expressed in Eastern Caribbean dollars)

13. Investment securities *(cont'd)*

The movements in investment securities financial assets during the year are as follows:

	Fair value through OCI	Amortised cost	Treasury Bills	Loans to Financial Institutions	Available-For-sale	Held-to-maturity
At January 1, 2018	-	-	31,733,399	23,971,139	30,245,691	43,935,610
Impact of adopting IFRS 9 at January 1, 2018	27,087,728	70,869,636	(83,240)	(23,971,139)	(30,245,691)	(43,935,610)
Restated balance at January 1, 2018	27,087,728	70,869,636	31,650,159	-	-	-
Additions	13,608,511	18,665,144	13,255,127	-	-	-
Disposals (sale and redemption)	(1,094,195)	(12,336,170)	(8,497,274)	-	-	-
Loss from changes in fair value (debt FVOCI securities)	(1,159,554)	-	-	-	-	-
Loss on disposal	-	-	-	-	-	-
Allowance for expected credit losses	1,787	48,696	14,924	-	-	-
At December 31, 2018	38,444,277	77,247,306	36,422,936	-	-	-
At January 1, 2017	-	-	-	-	10,207,001	33,703,060
Additions	-	-	-	-	22,212,237	11,816,140
Disposals (sale and redemption)	-	-	-	-	(2,442,231)	(1,583,590)
Gain from changes in fair value	-	-	-	-	290,938	-
Loss on disposal	-	-	-	-	(22,254)	-
At December 31, 2017	-	-	-	-	30,245,691	43,935,610

(Expressed in Eastern Caribbean dollars)

13. Investment securities *(cont'd)*

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's credit rating system and year end stage classification for investments.

	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets Lifetime ECL	Total
	$	$	$	$
December 31, 2018				
Gross exposure	152,521,191	–	–	152,521,191
ECL	(406,673)	–	–	(406,673)
Net exposure	**152,114,517**	**–**	**–**	**152,114,517**

	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets Lifetime ECL	Total
	$	$	$	$
January 1, 2018				
Gross exposure	129,885,837	–	–	129,885,837
ECL	(472,079)	–	–	(472,079)
Net exposure	**129,413,758**	**–**	**–**	**129,413,758**
ECL allowance as at January 1, 2018 under IFRS 9	472,079	–	–	472,079
Translation adjustments	–	–	–	–
ECL on new instruments issued during the year	200,447	–	–	200,447
Other credit loss movements, Repayments and maturities	(265,853)	–	–	(265,853)
At December 31, 2018	**406,673**	**–**	**–**	**406,673**

The gross exposure and ECL balance as at December 31, 2018 above includes investment securities of $115,691,583 [ECL - $338,357] as included in Note 13 and treasury bills of $36,422,936 [ECL - $68,316] as included in Note 9.

(Expressed in Eastern Caribbean dollars)

14. Property and equipment

	Land and building	Furniture and Fixtures	Equipment	Motor Vehicles	Work in progress	Total
	$	$	$	$	$	$
Year ended December 31, 2018						
Opening net book amount	9,281,623	630,166	2,646,981	198,811	96,511	12,854,092
Additions	105,491	153,712	1,307,096	-	2,026,340	3,592,639
Revaluation adjustment	(2,829,142)					(2,829,142)
Disposals		(39,259)	(531,724)	-	-	(570,983)
Transfers	95,107	-	17,420		(112,527)	-
Depreciation on disposals	-	29,434	460,214	-	-	489,648
Revaluation adjustment	554,310	-	-	-	-	554,310
Depreciation (Note 27)	(338,727)	(69,560)	(576,422)	(36,313)	-	(1,021,022)
Closing net book amount	6,868,662	704,493	3,323,565	162,498	2,010,324	13,069,542
At December 31, 2018						
Cost or valuation	9,562,023	1,580,908	9,701,052	285,000	2,010,324	23,139,307
Accumulated depreciation	(2,693,361)	(876,415)	(6,377,487)	(122,502)	-	(10,069,765)
Net book amount	6,868,662	704,493	3,323,565	162,498	2,010,324	13,069,542
Year ended December 31, 2017						
Opening net book amount	9,572,995	638,356	2,611,454	25,987	68,227	12,917,019
Additions	62,978	61,027	425,456	199,000	28,284	776,745
Disposals	-	(12,476)	(163,977)	-	-	(176,453)
Adjustment for cost written off	-	-	(468,962)	-	-	(468,962)
Depreciation on disposals	-	9,339	124,707	-	-	134,046
Adjustment for depreciation written off	-	-	559,201	-	-	559,201
Depreciation (Note 27)	(354,350)	(66,080)	(440,898)	(26,176)	-	(887,504)
Closing net book amount	9,281,623	630,166	2,646,981	198,811	96,511	12,854,092
At December 31, 2017						
Cost or valuation	12,190,567	1,466,455	8,908,260	285,000	96,511	22,946,793
Accumulated depreciation	(2,908,944)	(836,289)	(6,261,279)	(86,189)	-	(10,092,701)
Net book amount	9,281,623	630,166	2,646,981	198,811	96,511	12,854,092

14. Property and equipment *(cont'd)*

The historical cost of land and buildings are:

	2018	**2017**
	$	$
Cost	6,640,276	6,590,171
Accumulated depreciation based on historical cost	(3,531,991)	(3,457,749)
Depreciated historical cost	3,108,285	3,132,422

Valuation techniques	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Market based approach: The approach is based on the principle of substitution whereby the purchaser with perfect knowledge of the property market pays no more for the subject property than the cost of acquiring an existing comparable property, assuming no cost delay in making the substitution. The approach requires comparison of the subject property with others of inter alia similar design and utility, which were sold in the recent past. However, as no two properties are exactly alike, adjustment is made for the difference between property subject to valuation and comparable properties.	• Details of sales of comparable properties. • Conditions influencing the sale of the comparable properties. • Comparability adjustment.	The estimated fair value would increase/(decrease) if: • Sale value of comparable properties were higher/(lower) • Comparability adjustment were added/ (deducted).

The Bank's lands and buildings located in Castries and Vieux Fort were revalued by EMC Ltd in December 2018. The Managing Valuer is Mr. Egbert L Louis who is a RICS Register Valuer, Fellow of the Royal Institution of Chartered Surveyors (FRICS), Member of Chartered Institute of Arbitrators (MCIArb).

15. Intangible assets

	Software
	$
Year ended December 31, 2018	
Opening net book amount	531,863
Additions for the year	233,029
Adjustment for cost written off	-
Adjustment for depreciation written off	-
Amortization (Note 26)	(150,610)
Closing net book amount	614,282
As at December 31, 2018	
Cost	3,329,721
Accumulated depreciation	(2,715,439)
Net book amount	614,282
Year ended December 31, 2017	
Opening net book amount	682,468
Additions for the year	99,478
Adjustment for cost written off	464,024
Adjustment for depreciation written off	(558,670)
Amortization (Note 26)	(155,437)
Closing net book amount	531,863
As at December 31, 2017	
Cost	3,096,692
Accumulated depreciation	(2,564,829)
Net book amount	531,863

16. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 3 months maturity:

	2018	2017
	$	$
Cash and balances with Central Bank (Note 7)	19,643,742	23,481,548
Due from other banks (Note 8)	28,003,720	53,739,498
	47,647,462	77,221,046

(Expressed in Eastern Caribbean dollars)

17. Other assets

	2018	2017
	$	$
Accounts receivable	5,554,989	5,134,489
Inventories of stationery and supplies	246,810	277,773
Deferred expenditure	521,911	-
Prepayments	1,732,045	2,476,539
	8,055,755	7,888,801

18. Due to customers

	2018	2017
	$	$
Time deposits	151,851,703	147,401,650
Savings accounts	388,434,945	353,749,685
Demand amounts	103,695,704	78,351,585
	643,982,352	579,502,920
Interest payable	1,193,777	1,453,825
	645,176,129	580,956,745
Current	644,960,912	580,845,143
Non-current	215,217	111,602
	645,176,129	580,956,745

All deposits bear fixed interest rates.

The weighted average effective interest rate of customers' deposits at December 31, 2018 was 1.86% (2017 - 1.96%).

19. Other liabilities

	2018	2017
	$	$
Manager's cheques outstanding	8,797,683	1,397,803
Accounts payable and accrued expenses	13,710,072	3,114,929
Dividends payable on ordinary shares	860,259	708,084
	23,368,014	5,220,816

20. Provisions

	2018	2017
	$	$
Provision for undrawn loan commitments	39,131	-
	39,131	-

The Bank is required to allocate a provision for expected credit losses related to loan commitments issued as a result of the implementation of IFRS 9. There was no such provision in the previous year.

21. Defined benefit asset

Net Asset in Statement of Financial Position
The amount recognized in the statement of financial position at the reporting date is determined as follows:

	2018	2017
	$	$
Present value of funded obligations	4,918,000	4,445,000
Fair value of plan assets	(7,661,000)	(6,991,000)
Net defined benefit asset	(2,743,000)	(2,546,000)

Movement in defined benefit obligations

	2018	2017
	$	$
Defined benefit obligation at start of year	4,445,000	4,174,000
Current service cost	135,000	123,000
Interest cost	309,000	291,000
Members' contributions	65,000	56,000
Experience adjustments	20,000	(153,000)
Benefits paid	(56,000)	(46,000)
Defined benefit obligation at end of year	4,918,000	4,445,000

The defined benefit obligation is allocated between the Plan's members as follows:

		2018	2017
(i)	Active members	82%	81%
(ii)	Deferred members	10%	10%
(iii)	Pensioners	8%	9%

21. Defined benefit asset *(cont'd)*

The weighted average duration of the defined benefit obligation at the end of the reporting period was 10.4 years (2017 - 11.0 years). 99% (2017 - 99%) of the benefits for active members are vested. 17% (2017 - 20%) of the defined benefit obligation for active members is conditional on future salary increases.

Movement in fair value of plan assets

	2018	**2017**
	$	$
Fair value of Plan Assets at start of year	6,991,000	6,108,000
Interest income	496,000	434,000
Return on Plan Assets, excluding interest income	(31,000)	259,000
Bank's contributions	196,000	180,000
Members' contributions	65,000	56,000
Benefits paid	(56,000)	(46,000)
Fair value of plan assets at end of year	7,661,000	6,991,000
Actual return on plan assets	465,000	693,000

Allocation of plan assets

	2018	**2017**
	$	$
Locally listed equities	850,000	850,000
Government issued bonds	5,522,000	5,612,000
Corporate Bonds	-	501,000
Treasury Bills	1,134,000	-
Cash and cash equivalents	155,000	28,000
Fair value of plan assets at end of year	7,661,000	6,991,000

All asset values as at 31 December 2018 were provided by the Bank. Government bonds have been calculated on fair value basis.

The Plan's assets are invested in a strategy agreed with the Plan's Trustees, which is largely driven by the statutory constraints and asset availability. There are no asset-liability matching strategies used by the Plan.

(Expressed in Eastern Caribbean dollars)

21. Defined benefit asset *(cont'd)*

Amounts Recognized in the Statement of Income

	2018	2017
	$	$
Current service cost	135,000	123,000
Net interest on net defined benefit asset	(187,000)	(143,000)
Net pension income (Note 29)	(52,000)	(20,000)

Re-measurements recognized in Other Comprehensive Income

	2018	2017
	$	$
Experience losses/(gains)	51,000	(412,000)

Reconciliation of opening and closing statement of financial position amounts

	2018	2017
	$	$
Net defined benefit asset at January 1	(2,546,000)	(1,934,000)
Unrecognized gain charged to retained earnings	-	-
Opening defined benefit asset	(2,546,000)	(1,934,000)
Net pension (income)/expense	(52,000)	(20,000)
Re-measurements recognized in Other Comprehensive Income	51,000	(412,000)
Bank contributions paid	(196,000)	(180,000)
Net defined benefit asset at December 31	(2,743,000)	(2,546,000)

Summary of principal actuarial assumptions as at December 31

	2018	2017
	%	%
Discount rate	7	7
Future NIC earnings increases	2	2
Future Pension increases	0	0
Future salary increases	4	4

(Expressed in Eastern Caribbean dollars)

21. Defined benefit asset *(cont'd)*

Summary of principal actuarial assumptions as at December 31 *(cont'd)*
Assumptions regarding future mortality are based on published mortality tables. The life expectancies underlying the value of the defined benefit obligation as at December 31, 2018 and 2017 are as follows:

Life expectancy at age 60 for current pensioner in years		
- **Male**	21.0	21.0
- **Female**	25.1	25.1
Life expectancy at age 60 for current members age 40 in years		
- **Male**	21.4	21.4
- **Female**	25.4	25.4

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions used. The following table summarizes how the defined benefit obligation as at December 31, 2018 would have changed as a result of a change in assumptions used.

	1% p.a. decrease	**1% p.a. increase**
- Discount rate	521,000	(437,000)
- Future salary increases	(260,000)	315,000

An increase of 1 year in the assumed life expectancies shown above would have increased the defined benefit obligation at December 31, 2018 by $51,000 (2017 - $45,000).

Funding

The Bank meets the balance of the cost of funding the defined benefit pension plan and the Bank must pay contributions at least equal to those paid by members, which are fixed. The funding requirements are based on regular (at least every 4 years) actuarial valuations of the Plan and the assumptions used to determine the funding required may differ from those set out above. The Bank expects to pay $197,000 (2017 - $190,000) to the Pension Plan during 2019.

22. Deferred income tax liability

Deferred income taxes are calculated on temporary differences between amounts for financial reporting purposes and those for tax purposes, using a principal tax rate of 30%.

	2018	**2017**
	$	$
At beginning of year	(797,594)	(643,466)
Recovery/(Charge) for the year (Note 31)	488,195	(154,128)
Deferred income tax liability at end of year	(309,399)	(797,594)

(Expressed in Eastern Caribbean dollars)

22. Deferred income tax liability *(cont'd)*

The deferred income tax liability comprises the following temporary differences:

	2018	2017
	$	$
Accelerated capital allowances	1,711,670	(112,646)
Defined benefit asset	(2,743,000)	(2,546,000)
	(1,031,330)	(2,658,646)
Deferred tax liability at income tax rate of 30%	(309,399)	(797,594)

23. Share capital

	No. of Shares	2018 $	No. of Shares	2017 $
Authorized:				
7,000,000 ordinary shares of no par value				
Issued and fully paid:				
At beginning of year	6,372,452	20,000,000	4,999,966	7,971,454
Bonus Share Issue	-	-	999,994	3,000,000
New Share Issue	-	-	372,492	3,724,920
	6,372,452	20,000,000	6,372,452	14,696,374
Transfer from retained earnings	-	-	-	5,303,626
At end of year	6,372,452	20,000,000	6,372,452	20,000,000

In accordance with the provisions of Section 44 (1)(a) of the Banking Act of Saint Lucia No. 3 of 2015, the Bank is required to hold a minimum level of paid up capital of $20,000,000. During 2017, in order to be in compliance with this requirement, the Bank temporarily transferred an amount of $12,028,546 from retained earnings to paid-up capital. $3,000,000 of this amount was issued as bonus shares on September 1, 2017, giving each existing shareholder one share for every five shares held.

Further to this, the Bank sought and received approval from shareholders at a Special Meeting dated December 17, 2016 to pursue an additional public offering ('APO') of 1,000,000 shares at $10.00 per share to augment its capital base. At the same time, shareholders also approved the transfer of $9,028,546 from paid up capital back to retained earnings upon the sale of these 1,000,000 shares.

During 2017, 372,492 shares, equating to capital of $3,724,920 were sold over the subscription period of September 4th to November 13th 2017. However, 627,508 shares currently remain unsubscribed further to the completion of the process. A plan to address these shares has been agreed by the Board of Directors and will be tabled at a special meeting of shareholders during the 2019 financial year.

24. Reserves

	2018	2017
	$	$
Statutory reserve	10,666,264	8,680,478
Revaluation reserve - property and equipment	1,427,166	3,708,673
Revaluation reserve for interest on non-performing loans	4,563,142	3,217,260
Revaluation reserve for loan impairment	5,007,668	-
Revaluation reserve – investment securities	(214,191)	945,363
	21,450,049	16,551,774

Statutory reserve

	2018	2017
	$	$
Balance at beginning of year	8,680,478	7,971,454
Transfer from profit after taxation	1,985,786	709,024
Balance at end of year	10,666,264	8,680,478

Section 45 (1) of the Banking Act #3 of 2015, which was enacted in November 2015, requires all banks to maintain a reserve fund - *Every licensed financial institution shall maintain a reserve fund and shall, out of its net profits of each year, transfer to that fund a sum equal to not less than twenty per cent of profits whenever the amount of the reserve fund is less than a hundred per cent of the paid-up or, as the case may be, assigned capital of the licensed financial institution*.

Revaluation reserve - Property and equipment

	2018	2017
	$	$
Balance at beginning of year	3,708,673	3,715,427
Depreciation transfer	(6,675)	(6,754)
Decline in reserve due to revaluation of land and buildings	(2,274,832)	-
Balance at end of year	1,427,166	3,708,673

The revaluation reserve relates to the revaluation of property and equipment above its previous carrying amount. The Bank transfers a portion of the reserve to retained earnings annually as the asset is used by the Bank. The value of the transfer is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Any declines in value upon revaluation are initially applied to the existing reserve amount and any amounts in excess are taken to profit or loss.

24. Reserves *(cont'd)*

Revaluation reserve for interest on non-performing loans

	2018	2017
	$	$
Balance at beginning of year	3,217,260	4,382,764
Increase/(decrease) in reserve for regulatory purposes	1,345,882	(1,165,504)
Balance at end of year	4,563,142	3,217,260

This reserve is created to set aside interest accrued on non-performing loans where certain conditions are met in accordance with International Financial Reporting Standards. The Eastern Caribbean Central Bank, however, does not allow for the accrual of such interest. The interest is therefore set aside in a reserve and is not available for distribution to the shareholders.

Reserve for loan impairment

	2018	2017
	$	$
Balance at beginning of year	-	1,216,353
Increase/(decrease) in reserve for regulatory purposes	5,007,668	(1,216,353)
Balance at end of year	5,007,668	-

This reserve is created to set aside the amount by which the loan loss provision calculated under the Prudential Guidelines of the Eastern Caribbean Central Bank exceeds the loan loss provision calculated in accordance with IFRS 9 (2017: IAS 39). The excess is therefore set aside in a reserve and is not available for distribution to the shareholders.

Revaluation reserve - FVOCI securities (2018) & Available-for-sale securities (2017)

	2018	2017
	$	$
Balance at beginning of year	945,363	654,425
(Decrease)/Increase in market value of FVOCI (2017: AFS) securities	(1,159,554)	290,938
Balance at end of year	(214,191)	945,363

At the end of 2017, this reserve comprised the cumulative net change in the fair value of available-for-sale financial assets until the assets were derecognized or impaired. For the financial year commencing January 1, 2018, this reserve comprises the fair value reserve related to financial assets measured at FVOCI.

25. Net interest income

	2018	2017
	$	$
Interest and similar income		
Loans and advances	31,972,028	28,195,419
Deposits with banks	430,645	270,829
Investment securities	5,938,522	4,493,882
	38,341,195	32,960,130
Interest expense and similar charges		
Time deposits	2,663,665	3,612,588
Savings deposits	8,201,934	7,308,168
Demand deposits	131,474	74,475
	10,997,073	10,995,231
Net interest income	27,344,122	21,964,899

26. Other operating income

	2018	2017
	$	$
Commission and other income	6,706,259	6,432,615
Foreign exchange	3,483,712	3,754,423
Loss on disposal of property and equipment	(79,985)	(42,192)
Loss on disposal of investment	-	(22,254)
Fee income	2,831,717	559,995
Dividend income	162,243	226,582
	13,103,946	10,909,169

27. Other expenses

	2018	2017
	$	$
Administrative expenses (Note 28)	10,712,464	10,522,509
Staff costs (Note 29)	8,748,325	7,634,481
Depreciation and amortization (Notes 14 and 15)	1,171,632	1,042,941
Operating lease rental	1,249,389	1,111,093
	21,881,810	20,311,024

(Expressed in Eastern Caribbean dollars)

28. Administrative expenses

	2018	2017
	$	$
Card services expense	2,156,412	1,746,166
Computer expense	1,530,674	1,013,296
Other operating expenses	1,234,803	1,132,325
Postage, telephone and telexes	815,718	709,115
Security expenses	506,792	580,879
Utilities	606,404	543,540
Repairs and maintenance	502,870	589,633
Advertising	702,981	199,574
Other professional fees	757,972	2,102,146
Bank charges	793,657	696,159
Directors' fees and expenses	248,481	328,983
Stationery	235,972	233,953
Audit fees	203,424	236,783
Insurance	185,988	172,001
Bank license	200,000	200,000
Rates and taxes	30,316	37,956
Total administrative expenses	10,712,464	10,522,509

29. Staff costs

	2018	2017
	$	$
Salaries and wages	7,225,393	6,191,999
Other employee benefits	1,283,487	1,202,436
Social security costs	291,445	260,046
Pension income (Note 21)	(52,000)	(20,000)
	8,748,325	7,634,481

30. Impairment losses

	2018	2017
	$	**$**
Impairment losses from loans and advances (Note 12)	4,867,032	7,698,293
Recovery of impairment on investments (Note 13)	(65,407)	-
Recovery of impairment on undrawn loan commitments	(77,700)	-
	4,723,925	7,698,293

(Expressed in Eastern Caribbean dollars)

31. Income tax expense

	2018	2017
	$	$
Current tax	4,401,598	1,165,501
Deferred tax (recovery)/charge (Note 22)	(488,195)	154,128
	3,913,403	1,319,629

Tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 30% (2017 - 30%) as follows:

	2018	2017
	$	$
Profit before income tax	13,842,333	4,864,751
Tax calculated at the statutory tax rate of 30%	4,152,700	1,459,425
Tax effect of exempt income	(1,888,764)	(1,657,617)
Tax effect of non-deductible expenses	2,617,174	1,662,571
Tax incentives	(967,707)	(144,750)
	3,913,403	1,319,629
Effective tax rate	28.3%	27.1%

32. Earnings per share

	2018	2017
	$	**$**
Weighted average no. of shares	6,372,452	5,410,030
Profit for the year	9,928,930	3,545,122
Earnings per share	1.56	0.66

32. Earnings per share *(cont'd)*

Basic and diluted

Earnings per share of $1.56 (2017: $0.66) for the year ended December 31, 2018 is calculated by dividing the net profit for the year attributable to shareholders of $9,928,930 (2017: $3,545,122) by the weighted average number of ordinary shares in issue for the year of 6,372,452 (2017 - 5,410,030). The weighted average number of shares for the year is calculated as follows:

	2018	**2017**
Issued ordinary shares at beginning of year	6,372,452	4,999,966
Effect of shares issued during the year – bonus issue	-	331,507
Effect of shares issued during the year – APO	-	78,557
Weighted average number of ordinary shares at end of year	6,372,452	5,410,030

33. Dividends

During the year, a total of $1,274,490 (2017- $549,996) representing $0.20 per share, was appropriated from retained earnings relating to dividends declared in respect of the year ended December 31, 2017. As at December 31, 2018, $1,122,315 (2017 - $518,440) of this amount had been paid.

The dividend proposed in respect of the 2018 financial year end is $1,593,113 for each unit of paid up share capital, or EC$0.25. The financial statements for the year ended December 31, 2018 do not reflect this proposed dividend which, if ratified, will be accounted for in equity as an appropriation of retained earnings in the year ending December 31, 2019. The Board also proposed a distribution of shares in lieu of a cash dividend at a ratio of 1:36.

34. Related party balances and transactions

Related party definition

A related party is a person or entity that is related to the Bank.

(a) A person or a close member of that person's family is related to the Bank if that person:

- (i) has control or joint control over the Bank;
- (ii) has significant influence over the Bank; or
- (iii) is a member of the key management personnel of the Bank or of a parent of the Bank.

(b) An entity is related to the Bank if any of the following conditions applies:

- (i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

34. Related party balances and transactions *(cont'd)*

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.

(vi) The entity is controlled, or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the Bank or is a member of the key management personnel of the Bank (or of a parent of the Bank).

(viii) The entity, or any member of a group of which it is part, provides key management personnel services to the Bank or its parent.

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

The related party transactions, outstanding balances at the year-end and related expenses and income for the year are as follows:

Loans and advances to Directors and related entities

	2018	2017
	$	$
Loans outstanding at beginning of year	4,546,483	4,381,897
Net loans (repaid)/issued during the year	(2,835,084)	164,586
Loans outstanding at end of year	1,711,399	4,546,483
Interest income earned	90,067	250,684

Loans and advances to key management personnel

	2018	2017
	$	$
Loans outstanding at beginning of year	3,229,612	3,580,682
Net loans repaid during the year	(1,952,333)	(351,070)
Loans outstanding at end of year	1,277,279	3,229,612
Interest income earned	158,317	160,843

The loans and advances to directors and other key management personnel are secured over property of the respective borrowers.

(Expressed in Eastern Caribbean dollars)

34. Related party balances and transactions *(cont'd)*

Loans and advances to key management personnel *(cont'd)*

No specific allowance has been made for impairment losses on balances with directors or key management personnel and their immediate relatives at the reporting date (2017: nil).

Deposits from Directors and related entities

	2018	2017
	$	$
Deposits at beginning of year	7,545,516	9,904,006
Net deposits received/(withdrawals) during the year	171,650	(2,358,490)
Deposits outstanding at end of year	7,717,166	7,545,516
Interest expense on deposits	73,150	129,289

Deposits from key management personnel

	2018	2017
	$	$
Deposits at beginning of year	570,831	126,808
Net deposits received during the year	706,449	444,023
Deposits outstanding at end of year	1,277,280	570,831
Interest expense on deposits	102,518	9,167

Key management personnel compensation

Key management personnel are those persons that have authority and responsibility for directly or indirectly planning, directing and controlling the activities of the Bank.

	2018	2017
	$	$
Salaries and other short-term benefits	1,632,709	1,125,635
Post and other employment benefits	225,121	147,063
	1,857,830	1,272,698

At the end of the financial year, directors' holding of shares totaled 64,796 (2017 - 65,546) or 1.02% (2017 - 0.97%) of shares outstanding.

(Expressed in Eastern Caribbean dollars)

35. Contingent liabilities and commitments

Loan commitments, guarantees and other financial facilities

At December 31, 2018, the Bank had contractual off-balance sheet financial instruments in respect of (i) commitments to extend credit to customers, (ii) guarantees, and (iii) other facilities, as follows:

	2018	2017
	$	$
Undrawn loan commitments	45,937,540	66,801,507
Guarantees and standby letters of credit	688,008	173,008
	46,625,548	66,974,515

A matter related to the Bank's previous tax filings has been raised by the Inland Revenue Department of Saint Lucia (IRD) and the Bank is currently in discussions with the IRD on the matter. The outcome is subject to a final assessment by the IRD and cannot be determined at this stage. Accordingly, no provisions have been made in these financial statements for any likely liability which may arise. Any additional amounts due will be charged against income in the year in which they are determined.

36. Operating leases

The Bank leases a number of branches and other office facilities under operating leases. Lease payments are renegotiated when the previous lease term has expired and typically run for a period of 5 years. Some leases provide for additional rent payments that are based on changes in local price indices. At the year end, several operating lease agreements were under negotiation. At December 31, 2018 the future minimum lease payments under non-cancellable leases were as follows:

	2018	2017
	$	$
Within one year	986,338	1,111,093
Within two to five years	1,686,423	3,099,296
	2,672,761	4,210,389