



Accountants &
business advisers

1ST NATIONAL BANK ST. LUCIA LIMITED

Financial Statements

Year ended December 31, 2022

1st National Bank St. Lucia Limited

Financial Statements

For the year Ended December 31, 2022

(Expressed in Eastern Caribbean dollars)

Table of Contents

	Pages
Independent Auditors' Report	3-6
Statement of Financial Position	7
Statement of Profit or Loss and Other Comprehensive Income	8
Statement of Changes in Equity	9-10
Statement of Cash Flows	11
Notes to the Financial Statements	12-104

**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, 2022, the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements, including a summary of 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, 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
1st NATIONAL BANK ST. LUCIA LIMITED
(continued)**

Report on the Audit of the Financial Statements (continued)

Other information

Other information consists of the information included in the Bank's 2022 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will 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 identified above when it becomes available 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 Bank's 2022 Annual Report, if we conclude that it contains a material misstatement, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and The Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
1st NATIONAL BANK ST. LUCIA LIMITED
(continued)**

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibility 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 auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
1st NATIONAL BANK ST. LUCIA LIMITED
(continued)**

Report on the Audit of the Financial Statements (continued)

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

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

GRENADA

May 31st, 2024

A handwritten signature in black ink that reads "PKF". The signature is written in a cursive, stylized font and is placed on a light yellow rectangular background.

Accountants & Business Advisers

1st National Bank St. Lucia Limited
Statement of Financial Position
As at December 31, 2022
(Expressed in Eastern Caribbean dollars)

	Notes	2022 \$	2021 \$
Assets			
Cash and balances with Central Bank	7	315,576,840	293,056,915
Due from other banks	8	133,214,671	98,809,989
Treasury bills	9	28,247,950	15,674,819
Loans and advances to customers	10	906,948,364	832,976,577
Investment securities	12	136,135,203	121,383,183
Defined benefit asset	22	3,277,000	2,667,000
Property and equipment	13	15,012,002	11,275,609
Right-of-use assets	14	14,276,239	16,016,686
Intangible assets	15	20,269,195	12,833,624
Income tax recoverable	32	471,537	-
Other assets	17	28,653,754	78,595,314
Total assets		1,602,082,755	1,483,289,716
Liabilities			
Due to customers	18	1,406,410,803	1,278,783,705
Due to banks	19	26,636,244	29,099,500
Other liabilities	20	28,501,273	45,752,192
Lease liabilities	14	16,150,282	17,517,941
Current income tax payable	32	-	1,118,486
Provisions	21	2,623,615	56,688
Deferred income tax liability	23	465,100	532,115
Total liabilities		1,480,787,317	1,372,860,627
Equity:			
Capital and reserves:			
Share capital	24	20,000,000	20,000,000
Reserves	25	55,079,008	34,095,186
Retained earnings		46,216,430	56,333,903
Total equity		121,295,438	110,429,089
Total liabilities and equity		1,602,082,755	1,483,289,716

The notes on pages 12 to 104 are an integral part of these financial statements.

Approved on behalf of the Board: -



Nigel A. Fulgence

President



Geraldine Lendor-Gabriel

Director

1st National Bank St. Lucia Limited
Statement of Profit or Loss and Other Comprehensive Income
For the year ended December 31, 2022
(Expressed in Eastern Caribbean dollars)

	Notes	2022 \$	2021 \$
Interest and similar income	26	52,367,961	52,572,636
Interest expense and similar charges	26	(21,866,709)	(18,505,473)
Net interest income		30,501,252	34,067,163
Other operating income, net	27	24,527,464	19,954,725
Net interest and other operating income		55,028,716	54,021,888
Other expenses	28	(51,253,202)	(43,683,722)
Bargain purchase	36	8,894,978	-
Impairment recovery/(losses) on financial assets	31	4,619,361	(2,181,882)
Profit before income tax		17,289,853	8,156,284
Income tax expense	32	(961,233)	(4,173,764)
Profit for the year		16,328,620	3,982,520
Other comprehensive income:			
Items that will never be reclassified to profit or loss:			
Re-measurement of defined benefit asset	22	371,000	(697,000)
Deferred tax on re-measurement of defined benefit asset	23	111,300	209,100
Net fair value (losses)/gains on equity investments at FVOCI		(1,036,593)	1,673,454
Items that are or may be reclassified subsequently to profit or loss:			
Net fair value losses on debt investments at FVOCI		(4,907,978)	(686,031)
Other comprehensive (loss)/income for the year		(5,462,271)	499,523
Total comprehensive income for the year		10,866,349	4,482,043
Earnings per share			
(expressed in EC\$ per share)			
Basic and diluted	33	2.43	0.59

The notes on pages 12 to 104 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, 2022
(Expressed in Eastern Caribbean dollars)

	Notes	Share capital	Statutory reserve	Revaluation reserve	Revaluation reserve on FVOCI investments	Other reserves	Retained earnings	Total equity
		\$	\$	\$	\$	\$	\$	\$
Balance at December 31, 2021		20,000,000	14,278,657	1,580,843	3,061,351	15,174,335	56,333,903	110,429,089
Total comprehensive income								
Profit for the year		-	-	-	-	-	16,328,620	16,328,620
Other comprehensive income								
Fair value loss on FVOCI investment securities	25	-	-	-	(5,944,571)	-	-	(5,944,571)
Re-measurement of defined benefit asset	22	-	-	-	-	-	371,000	371,000
Deferred tax on re-measurement of defined benefit asset	23	-	-	-	-	-	111,300	111,300
Total other comprehensive income		-	-	-	(5,944,571)	-	482,300	(5,462,271)
Total comprehensive income		-	-	-	(5,944,571)	-	16,810,920	10,866,349
Net transfer from retained earnings	25	-	3,265,724	50,660	-	-	(3,316,384)	-
Reserve for loan loss provision	25	-	-	-	-	22,408,626	(22,408,626)	-
Reserve for interest recognized on non-performing loans	25	-	-	-	-	1,203,383	(1,203,383)	-
Balance at December 31, 2022		20,000,000	17,544,381	1,631,503	(2,883,220)	38,786,344	46,216,430	121,295,438

The notes on pages 12 to 104 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, 2022
(Expressed in Eastern Caribbean dollars)

	Notes	Share capital	Statutory reserve	Revaluation reserve	Revaluation reserve on FVOCI investments	Other reserves	Retained earnings	Total equity
		\$	\$	\$	\$	\$	\$	\$
Balance at December 31, 2020		20,000,000	13,482,153	1,530,183	2,073,928	10,571,797	59,328,127	106,986,188
Total comprehensive income								
Profit for the year		-	-	-	-	-	3,982,520	3,982,520
Other comprehensive income								
Fair value gain on FVOCI investment securities		-	-	-	987,423	-	-	987,423
Re-measurement of defined benefit asset	22	-	-	-	-	-	(697,000)	(697,000)
Deferred tax on re-measurement of defined benefit asset	23	-	-	-	-	-	209,100	209,100
Total other comprehensive income		-	-	-	987,423	-	(487,900)	499,523
Total comprehensive income		-	-	-	987,423	-	3,494,620	4,482,043
Net transfer from retained earnings	25	-	796,504	50,660	-	-	(847,164)	-
Reserve for loan loss provision	25	-	-	-	-	3,446,709	(3,446,709)	-
Reserve for interest recognized on non-performing loans	25	-	-	-	-	1,155,829	(1,155,829)	-
Profit share 2019		-	-	-	-	-	(384,195)	(384,195)
Transactions with owners								
Dividends to shareholders	33(b)	-	-	-	-	-	(654,947)	(654,947)
Balance at December 31, 2021		20,000,000	14,278,657	1,580,843	3,061,351	15,174,335	56,333,903	110,429,089

The notes on pages 12 to 104 are an integral part of these financial statements.

1st National Bank St. Lucia Limited
Statement of Cash Flows
As of December 31, 2022
(Expressed in Eastern Caribbean dollars)

	Notes	2022 \$	2021 \$
Cash flows from operating activities			
Profit for the year		16,328,620	3,982,520
Adjustments for:		-	
Depreciation and amortization	13,15	2,212,246	4,628,397
Depreciation on right-of-use assets	14	2,280,488	1,890,357
Loss/(Gain) on disposal of property and equipment	27	2,801	(22,301)
Impairment (recovery)/loss on financial assets		(672,194)	2,181,882
Defined benefit income	22	(12,000)	(60,000)
Dividend income	27	(320,493)	(338,985)
Tax expense		961,233	4,173,764
Tax penalties		106,168	-
Interest and similar income		(52,367,962)	(52,572,636)
Gain on acquisition		(8,894,978)	-
Interest expense and similar charges		21,866,710	18,505,473
Cash flows before changes in operating assets and liabilities		(18,509,361)	(17,631,529)
Change in mandatory reserve deposits with Central Bank		(136,485,426)	(27,713,295)
Change in loans and advances to customers		(125,762)	7,381,452
Change in other assets		63,932,488	(58,677,154)
Change in due to customers		(75,309,506)	136,239,145
Change in other liabilities		(32,962,686)	15,076,787
Cash (used)/generated from operations		(199,460,253)	54,675,406
Interest and similar income received		56,104,418	53,303,071
Interest expense and similar charges paid		(22,314,383)	(17,515,012)
Profit sharing and bonuses paid		-	(384,195)
Defined benefit contributions paid	22	(227,000)	(249,000)
Income taxes paid		(2,613,140)	(2,981,486)
Net cash (used)/generated from operating activities		(168,510,358)	86,848,784
Cash flows from investing activities			
Purchase of treasury bills		(49,420,947)	(467,259)
Proceeds from sale of treasury bills		36,900,256	2,423,487
Purchase of investment securities		(60,415,675)	(43,334,255)
Proceeds from sale of investment securities		39,699,209	6,097,215
Dividends received		320,493	338,985
Proceeds from sale of property and equipment		161	120,650
Acquisition of property and equipment	13	(2,822,468)	(1,223,933)
Acquisition of intangible assets	15	(724,460)	(20,643)
Acquisition of RBTT/RBC		129,783,988	77,625,649
Net cash generated from investing activities		93,320,557	41,559,896
Cash flows from financing activities			
Principal portion of lease liabilities	14	(1,907,534)	(960,560)
Proceeds from bank borrowings		-	29,700,000
Repayment on bank borrowings		(2,462,396)	(610,661)
Dividends paid on ordinary shares		(1,087)	(1,098,031)
Net cash (used)/generated from financing activities		(4,371,017)	27,030,748
Net (decrease)/increase in cash and cash equivalents		(79,560,818)	155,439,428
Cash and cash equivalents at 1 January		319,821,904	164,382,476
Cash and cash equivalents at 31 December	16	240,261,086	319,821,904

The notes on pages 12 to 104 are an integral part of these financial statements.

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, Cap 12.01 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 eight 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.

On December 12, 2019, the Bank announced that it had entered into an agreement to purchase the banking operations owned by Royal Bank of Canada (RBC) in St. Lucia and St. Vincent and the Grenadines, including the retail and commercial business and substantially all of its related assets and liabilities. These transactions received regulatory approval on December 22, 2020 and other customary closing arrangements were finalized during 2021. On March 18, 2022 the Bank received the Vesting Order for the RBC owned operations in St. Vincent and the Grenadines. Regulatory approval to commence and conduct operations was received August 1, 2022 and was deemed the date of effective control.

The consideration for the transaction for both RBC owned entities in St. Lucia and St. Vincent was EC\$23 million and this was paid in full by April 8th, 2021 as agreed. At the end of the transition exercise, no equity interests was acquired. The Bank was permitted by Central Bank of Trinidad and Tobago and RBC to continue to use the name RBTT Bank Caribbean Limited in St. Vincent until August 1, 2022, whereupon it began trading in its formal name and carry the Bank’s brand.

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 May 29, 2024.

2. Basis of preparation (cont'd)

(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
- Equity investments designated at fair value through other comprehensive income
- 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 22.

(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.

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

Judgements

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:

- Classification of financial assets
Notes 3 (e)(ii) 11 and 12: Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding.
- Expected credit losses (ECL)
Notes 3 (e)(iii) and 11: 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.

2. Basis of preparation (cont'd)

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

- Income taxes
Notes 3 (k) and 32: 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.
- Leases - Determining the lease term of contracts with renewal and termination options
Notes 3(p) and 14: The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

The Bank included the renewal period as part of the lease term for all leases of property relevant to the branches, Bureau De Change and administrative building.

Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

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:

- Leases - Determining the incremental borrowing rate
Notes 3(p) and 14: The present value of the lease payments of the leased properties is determined using the discount rate representing the Bank's incremental borrowing rate. This rate represents the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Significant judgement was applied to determine the incremental borrowing rate.
- Impairment of financial assets
Note 3(e)(iii): Determining inputs into the ECL measurement model, including incorporation of forward-looking information.

2. Basis of preparation (cont'd)

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

Assumptions and estimation uncertainties (cont'd)

- Impairment of financial assets
Note 3(e)(iii): 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 -/+ \$2,432,876 [lower/higher].
- Measurement of defined benefit obligations
Notes 3(j) and 22: 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)(ii) 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) (ii). 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.

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.

2. Basis of preparation (cont'd)

(e) Adoption of new accounting standards

i. New standards, interpretations and amendments that were effective and adopted during the year:

- **IAS 16 Property, Plant and Equipment - Proceeds before intended use.** This amendment prohibits deducting the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. This amendment is effective for annual periods beginning on or after January 1, 2022. Early application is permitted. An entity applies the amendments retrospectively on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract.** The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. This amendment is effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

Improvements in International Financial Reporting Standards

- **Annual Improvements to IFRSs 2018-2021 Cycle.** The following amendments became effective during the period:
 - **IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities.** The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
 - **IFRS 16 Leases - Lease incentives.** The amendment to illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

2. Basis of preparation (cont'd)

(e) Adoption of new accounting standards (cont'd)

ii. New standards, interpretations and amendments not yet effective:

Effective for annual periods beginning on or after January 1, 2023:

- ***Amendments to References to the Conceptual Framework in IFRS Standards.*** Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.
- ***Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).*** The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.
- ***IFRS 17 Insurance Contracts.*** IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.
- ***Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*** The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendment is effective for annual reporting periods beginning on or after 1 January 2023. An amendment was made to defer the effective date of the January 2020 amendments by one year, so that entities would be required to apply the amendment for annual periods beginning on or after January 1, 2023.

2. Basis of preparation (cont'd)

(e) Adoption of new accounting standards (cont'd)

ii. New standards, interpretations and amendments not yet effective: (cont'd)

Effective for annual periods beginning on or after January 1, 2023: (cont'd)

- ***Definition of Accounting Estimates (Amendments to IAS 8)***. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. The amendment is effective for annual reporting periods beginning on or after 1 January 2023.
- ***Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)***. The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.

Under prevailing circumstances, the adoption of the foregoing new and amended IFRS is not expected to have any material effect on the financial statements of the Bank.

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 investment securities. 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 amortized cost using the effective interest rate.

(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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(i) Non-derivative financial assets and financial liabilities - Recognition, initial measurement and derecognition (cont'd)

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 Other Comprehensive Income (OCI) is recognized in profit or loss.

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.

(ii) Classification and measurement

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

Financial assets are measured at initial recognition at fair value and are classified and subsequently measured at amortized 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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(ii) Classification and measurement (cont'd)

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 amortized 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.

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;

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(ii) Classification and measurement (cont'd)

Business model assessment (cont'd)

- 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.

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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(ii) Classification and measurement (cont'd)

Assessment of whether contractual cash flows are solely payments of principal and interest - SPPI assessment (cont'd)

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.

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

The Bank measured due from banks, treasury bills, loans and advances to financial institutions, loans and advances to customers and investment securities at amortized 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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(ii) Classification and measurement (cont'd)

Reclassifications (cont'd)

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 amortized cost using the effective interest method which represents the gross carrying amount less allowance for credit losses.

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 amortized 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 amortized cost securities are recorded in the allowance for impairment. When a debt instrument measured at amortized cost is sold, the difference between the sales proceeds and the amortized 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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(ii) Classification and measurement (cont'd)

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.

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 amortized cost.

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.

Amortized cost measurement

The amortized 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.

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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(ii) Classification and measurement (cont'd)

Fair value measurement (cont'd)

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.

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.

(iii) **Impairment**

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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(iii) Impairment (cont'd)

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'.

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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(iii) Impairment (cont'd)

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.

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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(iii) Impairment (cont'd)

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.

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.

Impairment of financial assets

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

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(iii) Impairment (cont'd)

Impairment of financial assets (cont'd)

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 amortized 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.

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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(iii) Impairment (cont'd)

Calculation of expected credit losses (cont'd)

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 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.

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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(iii) Impairment (cont'd)

Calculation of expected credit losses (cont'd)

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.

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. 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)

(iii) Impairment (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.

The Bank extended a moratorium to borrowers up to a maximum of six months in the first instance in April 2020; the moratorium was extended for a further twelve months to end in September 2021 and a further extension was granted to March 2022. In both instances, approval from the Board of Directors and the Eastern Caribbean Central Bank was sought and obtained. During the period of the moratorium, the next payment date of the loan was amended in accordance with customer requests and approved by the Assessment Department based on a review of the facility. Consequently, the Bank does not consider these loans to be in default. In this instance, default commences 90 days after the last day of moratorium in effect. IFRS 9 states that "the extension of payment holidays to all borrowers in particular classes of financial instruments should not automatically result in all those instruments being considered to have suffered an "SICR" (significant increase in credit risk). During the reporting period, we observed that COVID-19 had no impact on the recoverability of the underlying security for the loan portfolio.

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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(iii) Impairment (cont'd)

ECL calculation methodology (cont'd)

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.

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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(iii) Impairment (cont'd)

ECL calculation methodology (cont'd)

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.

Macroeconomic conditions continued to improve over the period, albeit at a relatively slow rate. While there was recovery and normalcy to business, the economy fell short of the favorable economic growth projection owing to the continued impact of supply chain challenges which has been further exacerbated by the Russian war on Ukraine. The International community's efforts to address and control the resulting worldwide inflation has been the imposition of high interest rates to curb spending.

Tourism activity, the mainstay of the ECCU economies have reopened with a slow start and though far from pre-covid numbers, has shown promising signs of rebound in all the sub-sectors. The IMF has projected global economic growth of 3.4%. The ECCU Monetary Council has projected a growth rate of 5.0%.

The moratoriums culminated on March 31. The combination of that and the slow pace of economic recovery has resulted in the increase in non-performing loans. The ECL model utilized a number of inputs to include forward looking macroeconomic projections, internal assessments of the portfolio and transfers between the stages. As a result of the improvements in the country's economic performance, projections utilised were reflective of normal averages of inflation and GDP rates.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(iii) Impairment (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 have 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)

(iv) Modifications of financial assets and financial liabilities

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.

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.

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(iv) Modifications of financial assets and financial liabilities (cont'd)

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.

(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.

3. Significant accounting policies (cont'd)

(f) Property and equipment (cont'd)

(i) Recognition and measurement (cont'd)

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 is calculated to write off their costs less their estimated residual values using the straight-line method over their estimated useful lives are as follows:

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

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.

3. Significant accounting policies (cont'd)

(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 amortized using the reducing balance method over their estimated useful economic 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 and other intangibles assets

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 amortized on the reducing balance basis. Software has a maximum expected useful life of 4 years (25% per annum). Intangible assets such as goodwill and core deposit intangibles with an indefinite useful life are not amortized.

(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 IFRS 15 Revenue from Contracts with Customers, 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.

3. Significant accounting policies (cont'd)

(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.

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.

3. Significant accounting policies (cont'd)

(j) Employee benefits (cont'd)

(i) Pension obligation (cont'd)

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, 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. The profit-sharing decision is currently at the discretion of the Board of Directors based upon a recommendation made by management that ensures that profit share does not exceed dividends recommended for the year, nor the distributions from profit set out in the Dividend Policy. The Profit share distribution to staff is linked to basic pay.

The Bank recognized the National Workers Union (the Union) as the bargaining unit for the majority of staff in January 2020. A Collective Agreement signed between the Bank and the Union provided for a 2.5% increase in basic wages to staff in year 2020 and 2% increase thereafter for years 2021 to 2023. This will undoubtedly affect pension contributions by staff and the Bank as well as profit share distributions to staff covered under this agreement.

(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.

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 are reversed, 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 amortized 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

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

3. Significant accounting policies (cont'd)

(p) Leases (cont'd)

(i) The Bank is the lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right of use asset has been depreciated on a straight-line basis over the remaining lease term for each lease.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of office floor lease and a few of the motor vehicle leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(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.

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 Cash Generating Units (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.

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.

4. Financial risk management (cont'd)

4.1 Risk management framework (cont'd)

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, due from 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.

4.2.1 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 are based on losses that have been incurred at the reporting date.

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
1	Stage 1 - Pass
2	Stage 2 - Special Mention
3	Stage 3 - Sub-standard
4	Stage 3 - Doubtful
5	Stage 3 - 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.

4. Financial risk management (cont'd)

4.2 Credit risk (cont'd)

4.2.1 Credit risk measurement (cont'd)

(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.

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.

4. Financial risk management (cont'd)

4.2 Credit risk (cont'd)

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

(a) Collateral (cont'd)

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 expected credit loss (ECL) for each of the Bank's internal rating categories:

	2022		2021	
	Loans and advances	ECL provision	Loans and advances	ECL provision
Bank's rating	%	%	%	%
Stage 1 - Pass	83.2	12.2	81.5	5.8
Stage 2 - Special mention	4.3	8.5	6.1	24.9
Stage 3 - Sub-standard, doubtful, loss	12.5	79.3	12.4	69.3

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.

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(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	
	2022	2021
	\$	\$
Due from other banks	133,214,671	98,809,989
Treasury bills	28,247,950	15,674,819
Loans and advances to customers:		
- Overdrafts	34,545,464	27,596,567
- Demand loans	436,570,887	394,047,391
- Promissory notes	5,454,306	13,043,630
- Mortgages	426,115,580	390,248,005
- Credit cards	5,157,903	4,942,275
- FV arising from business combinations (Note 36)	(895,776)	3,098,709
-Investment securities:		
- Debt instrument at FVOCI	43,223,235	42,669,236
- Debt instrument at amortized cost	74,788,848	65,760,401
- FV arising from business combinations (Note 36)	-	452,825
Other assets	25,774,878	61,642,664
	<u>1,212,197,946</u>	<u>1,117,986,511</u>

Credit risk exposures relating to off-balance sheet items are as follows:

Financial guarantees	3,759,754	10,741,445
Loan commitments and other credit related facilities	130,618,816	193,345,513
	<u>134,378,570</u>	<u>204,086,958</u>
At December 31	<u>1,346,576,516</u>	<u>1,322,073,469</u>

The above table represents a worst-case scenario of credit risk exposure to the Bank at December 31, 2022 and 2021, 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.

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)

Loans and advances to customers comprise 66% of the total maximum exposure (2021 - 63%); investments in debt securities comprise 9% (2021 - 8%).

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:

- 88% (2021 - 92%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;
- 69% (2021 - 82%) 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;
- 84% (2021 - 79%) 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
- 19% (2021 - 24%) of investments are rated above A-; 8% of investments were rated CariA (2021 - 6%); 39% (2021 - 24%) are rated from B- and up to BBB+; 24% (2021 - 6%) are rated above CariBBB and below CariA; 39% are rated CariBBB- (2021 - 36%). Many issuers are not rated but only 9% (2021 - 10%) of investments in the portfolio are not rated and none are selective default both in 2022 and 2021.

4.2.5 Loans and advances

Loans and advances are summarized as follows:

	Notes	2022 \$	2021 \$
Loans and advances to customers			
Performing loans		796,247,619	736,296,931
Underperforming loans		40,673,485	75,153,835
Non-performing loans		119,960,223	72,209,254
Gross		956,881,327	883,660,020
FV arising from business combinations	36	(895,776)	3,098,709
Less: expected credit loss	10, 11	(49,037,187)	(53,782,152)
Net		906,948,364	832,976,577

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(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) Performing 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.

	Overdrafts	Credit Cards	Demand loans	Promissory notes	Mortgages	Total loans and advances to customers
	\$	\$	\$	\$	\$	\$
December 31, 2022						
Loans and advances to customers						
Grades						
1. Stage 1 - pass	4,177,463	3,937,578	337,533,173	3,434,851	349,705,325	698,788,390
2. Stage 2 - special mention	18,613,624	757,104	50,796,801	110,106	29,128,299	99,405,934
Total	22,791,087	4,694,682	388,329,974	3,544,957	378,833,624	798,194,324
December 31, 2021						
Loans and advances to customers						
Grades						
1. Stage 1 - pass	28,514,833	1,863,922	335,441,519	10,702,262	303,460,354	679,982,890
2. Stage 2 - special mention	845,571	4,144,690	15,347,218	1,218,791	34,757,771	56,314,041
Total	29,360,404	6,008,612	350,788,737	11,921,053	338,218,125	736,296,931

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(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)

(b) Underperforming loans and advances

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:

	Overdraft	Credit cards	Demand loans	Promissory notes	Mortgages	Total loans and advances to customers
		\$	\$	\$	\$	\$
December 31, 2022						
Past due up to 30 days		757,104	49,073,235	82,882	28,866,850	78,780,071
Past due 30-60 days		272,932	13,561,751	54,370	6,806,522	20,695,575
Past due 61-90 days	444,945	191,806	11,392,538	52,005	6,023,558	18,104,852
Total	444,945	1,221,842	74,027,524	189,257	41,696,930	117,580,498
Fair value of collateral	-	-	221,253,339	2,221,212	77,125,873	300,600,424

	Credit cards	Demand loans	Promissory notes	Mortgages	Total loans and advances to customers
	\$	\$	\$	\$	\$
December 31, 2021					
Past due up to 30 days	154,673	29,126,806	815,600	29,854,885	59,951,964
Past due 30-60 days	1,582,829	4,472,194	453,835	6,673,182	13,182,040
Past due 61-90 days	35,493	590,287	44,321	1,349,730	2,019,831
Total	1,772,995	34,189,287	1,313,756	37,877,797	75,153,835
Fair value of collateral	-	71,722,307	1,967,976	115,562,822	189,253,105

(c) Non-performing loans and advances

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

	2022	2021
	\$	\$
Individual impaired loans		
1. Stage 3 - Sub-standard, doubtful, loss	119,960,223	72,209,254
Total	119,960,223	72,209,254
Fair value collateral	288,835,081	125,161,298

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, 2022 and 2021, based on Caricris or their equivalent:

	Investment securities			Total \$
	Treasury Bills \$	Debt Instruments at FVOCI \$	Debt Instruments at Amortized Cost \$	
At December 31, 2022				
AAA-to AAA+	-	1,273,497	-	1,273,497
AA-to AA+	2,680,426	2,535,957	2,705,852	7,922,235
A- to A+	-	14,875,369	8,642,424	23,517,793
BBB- to BBB+	-	24,538,412	6,176,368	30,714,780
B- to B+	7,879,433	-	3,509,959	11,389,392
CariA-	-	-	9,509,402	9,509,402
CariBBB-	16,550,559	-	32,171,149	48,721,708
Unrated	1,137,532	-	12,073,694	13,211,226
Total	28,247,950	43,223,235	74,788,848	146,260,033

	Investment securities			Total \$
	Treasury Bills \$	Debt Instruments at FVOCI \$	Debt Instruments at Amortized Cost \$	
At December 31, 2021				
AAA-to AAA+	-	1,414,237	-	1,414,237
AA-to AA+	-	2,822,618	-	2,822,618
A- to A+	-	16,764,167	8,102,927	24,867,094
BBB- to BBB+	-	21,668,214	6,189,559	27,857,773
B- to B+	-	-	2,491,148	2,491,148
CariA-	-	-	7,492,037	7,492,037
CariBBB-	14,538,141	-	29,734,324	44,272,465
Unrated	1,136,678	-	11,750,406	12,887,084
Total	15,674,819	42,669,236	65,760,401	124,104,456

4. Financial risk management (cont'd)

4.2 Credit risk (cont'd)

4.2.7 Repossessed collateral

At December 31, 2022, the Bank had in its possession two vehicles valued at \$82,745 that was held as security.

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

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.

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(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 (cont'd)

(b) Industry sectors (cont'd)

	Financial institutions	Manufacturing	Tourism	Government	Professional and other services	Personal	Other industries	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Due from other banks	133,214,671	-	-	-	-	-	-	133,214,671
Treasury bills	-	-	-	28,247,950	-	-	-	28,247,950
<i>Loans and advances to customers:</i>								
- Overdraft	2,764,239	2,725,871	430,879	-	4,522,876	2,065,918	22,035,681	34,545,464
- Credit cards	9,715	5,074	68,406	1,176	462,688	3,476,634	1,134,210	5,157,903
- Demand loans	571,376	22,362,120	19,300,701	36,406,784	147,565,420	122,213,050	88,151,437	436,570,888
- Promissory notes	-	-	-	-	21,627	5,237,502	195,177	5,454,306
- Mortgages	-	2,426,118	2,000,947	4,069,383	83,255,462	300,371,094	33,992,576	426,115,580
FV adjustment arising from business combinations (note 36)	-	-	-	-	-	-	(895,776)	(895,776)
<i>Investment securities:</i>								
- Debt instruments at FVOCI	14,727,049	2,115,619	-	-	-	-	26,380,567	43,223,235
- Debt instruments at amortized Cost	36,117,233	-	-	36,671,615	-	-	-	72,788,848
Other assets	25,774,878	-	-	-	-	-	-	25,774,878
As at December 31, 2022	213,179,161	29,634,802	21,800,933	105,396,908	235,828,073	433,364,198	170,993,872	1,210,197,947
Credit commitments	128,584	2,377,576	2,149,396	24,100,000	44,909,769	14,571,343	46,141,902	134,378,570

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(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 (cont'd)

	Financial institutions	Manufacturing	Tourism	Government	Professional and other services	Personal	Other industries	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Due from other banks	98,809,989	-	-	-	-	-	-	98,809,989
Treasury bills	-	-	-	15,674,819	-	-	-	15,674,819
<i>Loans and advances to customers:</i>								
- Overdraft	269,195	1,369,176	379,252	-	3,020,233	3,372,798	19,185,913	27,596,567
- Credit cards	-	20,865	150,434	-	389,905	3,933,019	448,052	4,942,275
- Demand loans	777,871	15,744,019	12,305,244	40,501,370	150,866,698	111,873,900	61,978,289	394,047,391
- Promissory notes	-	-	-	-	175,739	12,761,648	106,243	13,043,630
- Mortgages	-	2,434,696	2,332,872	-	98,079,934	258,227,404	29,173,099	390,248,005
FV adjustment arising from business combinations (note 36)	-	-	-	-	-	-	3,098,709	3,098,709
<i>Investment securities:</i>								
- Debt instruments at FVOCI	14,207,486	-	-	-	-	-	28,461,750	42,669,236
- Debt instruments at amortized cost	33,233,609	-	-	32,423,695	-	-	103,097	65,760,401
FV adjustment arising from business combinations (note 36)	-	-	-	-	-	-	452,825	452,825
Other assets	61,642,664	-	-	-	-	-	-	61,642,664
As at December 31, 2021	208,940,814	19,568,756	15,167,802	88,599,884	252,532,509	390,168,769	143,007,977	1,117,986,511
Credit commitments	514,560	4,164,227	4,010,162	57,930,667	48,529,764	25,092,885	63,844,693	204,086,958

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 investments measured at fair value through other comprehensive income.

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 equity instruments at fair value through other comprehensive income.

To manage its price risk arising from investments in equity securities, the Bank diversifies its portfolio.

- At December 31, 2022, if equity securities prices had been 5% higher/ lower with all other variables held constant, comprehensive income for the year would have been \$906,156 higher/lower (2021 - \$1,161,570 higher/lower) as a result of a reasonably possible increase/decrease in fair value of equity investments through other comprehensive income 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 currency unit for relevant major currencies was as follows:

	USD \$	BBD \$	CAD \$	EUR \$	GBP \$
At December 31, 2022	2.70	1.3517	1.9954	2.8805	3.2523
At December 31, 2021	2.70	1.3517	2.1179	3.3176	3.6885

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

4. Financial risk management (cont'd)

4.3 Market risk

4.3.2 Foreign exchange risk

The following table summarizes the Bank's exposure to foreign currency exchange rate risk at December 31, 2022 and 2021. Included in the table, are the Bank's financial instruments at carrying amount, categorized by currency.

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

	ECD	CAD	EURO	USD	GBP	TTD	BD	Total
As at December 31, 2022								
Financial assets								
Cash and balances with Central Bank	312,023,113	238,644	563,545	2,411,501	171,020	-	169,017	315,576,840
Due from other banks	48,156,971	817,297	2,510,918	73,876,374	1,609,627	5,850,340	393,144	133,214,671
Treasury bills	25,598,019	-	-	2,649,931	-	-	-	28,247,950
Loans and advances to customers	907,844,140	-	-	-	-	-	-	907,844,140
Fair value arising from business combination	(3,994,485)	-	-	3,098,709	-	-	-	(895,776)
Investment securities	-	-	-	-	-	-	-	-
- Debt instruments at FVOCI	-	-	-	43,223,235	-	-	-	43,223,235
- Debt instruments at amortized cost	63,440,573	-	-	11,348,275	-	-	-	74,788,848
Other assets	25,774,878	-	-	-	-	-	-	25,774,878
Total financial assets	1,378,843,209	1,055,941	3,074,463	136,608,025	1,780,647	5,850,340	562,161	1,527,774,786
Financial liabilities								
Due to customers	1,362,393,291	-	-	44,017,512	-	-	-	1,406,410,803
Other liabilities	28,501,273	-	-	-	-	-	-	28,501,273
Lease liabilities	9,610,143	-	-	6,540,139	-	-	-	16,150,282
Total financial liabilities	1,400,504,707	-	-	50,557,651	-	-	-	1,451,062,358
Net on-balance sheet positions	(21,661,498)	1,055,941	3,074,463	86,050,374	1,780,647	5,850,340	562,161	76,712,428
Credit commitments	134,069,734	-	-	308,836	-	-	-	134,378,570

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(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)

	ECD	CAD	EURO	USD	GBP	TTD	BD	Total
As at December 31, 2021								
Financial assets								
Cash and balances with Central Bank	288,885,499	390,843	1,537,671	1,559,203	383,466	-	300,233	293,056,915
Due from other banks	3,253,415	455,581	508,986	93,338,699	1,023,878	35,098	194,332	98,809,989
Treasury bills	15,674,819	-	-	-	-	-	-	15,674,819
Loans and advances to customers	829,877,868	-	-	-	-	-	-	829,877,868
FV adjustment arising from business combinations (Note 36)	-	-	-	3,098,709	-	-	-	3,098,709
Investment securities								
- Debt instruments at FVOCI	-	-	-	42,669,236	-	-	-	42,669,236
- Debt instruments at amortized cost	64,562,321	-	-	1,198,080	-	-	-	65,760,401
FV adjustment arising from business combinations (Note 36)	-	-	-	452,825	-	-	-	452,825
Other assets	61,642,664	-	-	-	-	-	-	61,642,664
Total financial assets	1,263,896,586	846,424	2,046,657	142,316,752	1,407,344	35,098	494,565	1,411,043,426
Financial liabilities								
Due to customers	1,213,170,555	-	-	65,613,150	-	-	-	1,278,783,705
Other liabilities	45,752,192	-	-	-	-	-	-	45,752,192
Lease liabilities	6,553,331	-	-	10,964,610	-	-	-	17,517,941
Total financial liabilities	1,265,476,078	-	-	76,577,760	-	-	-	1,342,053,838
Net on-balance sheet positions	(1,579,492)	846,424	2,046,657	65,738,992	1,407,344	35,098	494,565	68,989,588
Credit commitments	203,571,534	-	-	515,424	-	-	-	204,086,958

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(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.

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, 2022	\$	\$	\$	\$	\$	\$	\$
Assets							
Cash and balances with Central Bank	-	-	-	-	-	315,576,840	315,576,840
Due from other banks	95,025,022	-	-	-	32,406,620	5,783,029	133,214,671
Treasury bills	11,228,153	9,342,186	7,677,611	-	-	-	28,247,950
Loans and advances to customers	26,687,491	589,400	10,317,223	88,993,988	781,255,958	(895,696)	906,948,364
Investment securities:							
- Debt instruments at FVOCI	-	-	2,695,093	27,558,362	12,969,780	-	43,223,235
- Debt instruments at amortized cost	-	6,821,207	34,404,883	33,562,758	-	-	74,788,848
Other assets	-	-	-	-	-	25,774,878	25,774,878
Total financial assets	132,940,666	16,752,793	55,094,810	150,115,108	826,632,358	346,239,051	1,527,774,786
Liabilities							
Due to customers	1,022,299,385	25,699,500	345,820,685	7,375,595	5,000,000	215,637	1,406,410,802
Other liabilities	14,910,286	-	13,590,987	-	-	-	28,501,273
Lease liabilities	159,995	343,566	1,444,086	11,367,212	2,835,424	-	16,150,283
Total financial liabilities	1,037,369,666	26,043,066	360,855,758	18,742,807	7,835,424	215,637	1,451,062,358
Total interest repricing gap	(904,429,000)	(9,290,273)	(305,760,948)	131,372,301	818,796,934	346,023,414	76,712,428

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(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, 2021	\$	\$	\$	\$	\$	\$	\$
Assets							
Cash and balances with Central Bank	-	-	-	-	-	293,056,915	293,056,915
Due from other banks	63,020,110	-	-	-	-	35,789,879	98,809,989
Treasury bills	8,298,860	4,378,343	2,997,616	-	-	-	15,674,819
Loans and advances to customers	10,482,576	9,845,856	19,851,195	82,614,686	707,083,555	3,098,709	832,976,577
Investment securities:							
- Debt instruments at FVOCI	42,669,236	-	-	-	-	-	42,669,236
- Debt instruments at amortized cost	-	11,887,854	33,655,473	20,217,074	-	-	65,760,401
FV adjustment arising from business combinations (note 36)	-	-	-	-	-	452,825	452,825
Other assets	-	-	-	-	-	61,642,664	61,642,664
Total financial assets	124,470,782	26,112,053	56,504,284	102,831,760	707,083,555	394,040,992	1,411,043,426
Liabilities							
Due to customers	1,065,013,483	30,993,699	171,062,496	11,280,692	-	433,335	1,278,783,705
Other liabilities	-	-	-	-	-	45,752,192	45,752,192
Lease liabilities	141,476	430,193	1,147,472	10,400,656	5,398,144	-	17,517,941
Total financial liabilities	1,065,154,959	31,423,892	172,209,968	21,681,348	5,398,144	46,185,527	1,342,053,838
Total interest repricing gap	(940,684,177)	(5,311,839)	(115,705,684)	81,150,412	701,685,411	347,855,465	68,989,588

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 FVOCI debt. At December 31, 2022, if market interest rates had been 100 basis points higher/lower with all variables held constant, comprehensive income for the year would have been \$7,692,385 higher/\$9,213,524 lower. At December 31, 2021, if the same scenario was applied, comprehensive income would be \$1,439,154 higher/\$662,348 as a result of the decrease/increase in fair value of FVOCI debt securities.

Cash flow interest rate risk arises from loans and advances to customers at variable rates. At December 31, 2022, 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 \$6,021,297 higher/lower (2021 - \$3,802,083).

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 18% (2020 - 30%) 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.

4. Financial risk management (cont'd)

4.4 Liquidity risk (cont'd)

4.4.1 Liquidity risk management process (cont'd)

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

- 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.

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	Total
As at December 31, 2022	\$	\$	\$	\$	\$	\$
Financial liabilities						
Due to customers	1,022,415,022	25,699,501	345,920,685	7,375,595	5,000,000	1,406,410,803
Other liabilities	14,910,286	-	13,590,987	-	-	28,501,273
Lease liabilities	159,996	343,566	1,444,086	11,367,212	2,835,422	16,150,282
Total financial liabilities						
(Contractual maturity dates)	1,037,485,304	26,043,067	360,955,758	18,742,807	7,835,422	1,451,062,358
Assets held for managing liquidity risk						
(Contractual maturity dates)	147,987,189	49,634,317	192,295,525	142,953,444	765,892,715	1,298,763,190

4. Financial risk management (cont'd)

4.4 Liquidity risk (cont'd)

4.4.2 Non-derivative cash flows (cont'd)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at December 31, 2021	\$	\$	\$	\$	\$	\$
Financial liabilities						
Due to customers	1,065,446,818	30,993,699	171,062,496	11,280,692	-	1,278,783,705
Other liabilities	45,752,192	-	-	-	-	45,752,192
Lease liabilities	141,476	430,193	1,147,472	10,400,656	5,398,144	17,517,941
Total financial liabilities						
(Contractual maturity dates)	<u>1,111,340,486</u>	<u>31,423,892</u>	<u>172,209,968</u>	<u>21,681,348</u>	<u>5,398,144</u>	<u>1,342,053,838</u>
Assets held for managing liquidity risk						
(Contractual maturity dates)	<u>123,662,286</u>	<u>26,112,053</u>	<u>56,504,284</u>	<u>102,831,760</u>	<u>707,083,555</u>	<u>1,016,193,938</u>

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.

4. Financial risk management (cont'd)

4.4 Liquidity risk (cont'd)

4.4.4 Off-balance sheet items (cont'd)

	1 year	1-5 years	Over 5 years	Total
As at December 31, 2022				
Loan commitments	120,401,417	10,217,399	-	130,618,816
Guarantees, acceptances and other financial facilities	2,170,273	1,589,481	-	3,759,754
Total	122,571,690	11,806,879	-	134,378,570
As at December 31, 2021				
Loan commitments	154,921,461	38,424,052	-	193,345,513
Guarantees, acceptances and other financial facilities	-	10,741,445	-	10,741,445
Total	154,921,461	49,165,497	-	204,086,958

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.

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.

(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. For the loans and advances at amortized cost, one or more of the inputs was not based on observable market data.

(ii) Investment securities

Investment securities include only interest-bearing assets at amortized cost as well as assets classified as fair value through other comprehensive income. The fair value for investment securities 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. For equity securities that are unlisted, the Bank estimated its fair value based on quoted equities in a similar market on the Eastern Caribbean Stock Exchange (ECSE) and examined the price to earnings ratio of these companies. A high and low data point was used and applied to the net profit to ascertain a value per share, with the average of the two being used as the value per share per unlisted security. For the debt securities at amortized cost, one or more of the significant inputs was not based on observable market data.

The categories are explained in Note 3(e)(ii).

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

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

(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. For the deposits with a fixed maturity, one or more of the significant inputs was not based on observable market data.

(iv) Lease liabilities

The fair value of lease liabilities has been estimated using current observable interest rate data, a Level 2 input.

The following table 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.

	Carrying amount		Fair value	
	2022 \$	2021 \$	2022 \$	2021 \$
Financial assets				
Due from other banks	133,214,671	98,809,989	133,214,671	98,809,989
Loans and advances to customers:				
- Overdrafts	34,545,464	27,596,567	30,087,941	27,596,567
- Demand loans	436,570,887	394,047,391	389,008,853	303,637,384
- Promissory notes	5,454,306	13,043,630	5,980,858	2,424,187
- Mortgages	426,115,580	390,248,005	390,044,551	231,005,050
- Credit cards	5,157,903	4,942,275	5,157,903	4,942,775
FV adjustment arising from business contributions (note 36)	(895,776)	3,098,709	(895,776)	3,098,709
Investment securities:				
- Treasury bills	28,247,950	15,674,819	28,247,950	15,674,819
- Debt instruments at amortized cost	74,788,848	65,760,401	70,438,352	54,009,995
FV adjustment arising from business contributions (note 36)		452,825		452,825
Financial liabilities				
Due to customers:				
- Time deposits	210,907,734	231,834,307	210,907,734	233,741,898
- Savings accounts	820,688,787	658,830,603	820,688,787	658,830,603
- Demand accounts	372,885,650	385,743,514	372,885,650	385,743,514

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

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 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, 2022				
Investment securities				
– Debt instruments at FVOCI	43,223,235	-	-	43,223,235
– Equity instruments at FVOCI	-	7,823,979	10,299,141	18,123,120
Total assets	43,223,235	7,823,979	10,299,141	61,346,355
December 31, 2021				
Investment securities				
- Debt instruments at FVOCI	42,669,236	-	-	42,669,236
- Fair value adjustment arising from business combination	-	-	452,825	452,825
- Equity instruments at FVOCI	-	2,592,000	9,908,721	12,500,721
Total assets	42,669,236	2,592,000	10,361,546	55,622,782

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 at fair value through other comprehensive income.

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.

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

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, 2022, and 2021. During those two years, the Bank complied with all of the externally imposed capital requirements.

	2022 \$	2021 \$
Tier 1 capital		
Share capital	20,000,000	20,000,000
Statutory reserve	17,544,381	14,278,657
Retained earnings	46,216,430	56,333,903
	<u>83,761,811</u>	<u>90,612,560</u>
Less:		
Goodwill	(4,942,900)	(4,942,900)
Other intangibles	(15,326,295)	(7,791,452)
Total qualifying Tier 1 capital	<u>63,491,616</u>	<u>77,878,208</u>
Tier 2 capital		
Other reserves	38,786,344	15,174,335
Revaluation reserve - FVOCI investments	(2,883,220)	3,061,351
Revaluation reserve - property and equipment	1,631,503	1,580,843
Total qualifying Tier 2 capital	<u>37,534,627</u>	<u>19,816,529</u>
Total regulatory capital	<u>101,026,243</u>	<u>97,694,737</u>
Risk-weighted assets:		
On-balance sheet	927,397,000	814,540,862
Off-balance sheet	145,069,000	60,672,000
Total risk-weighted assets	<u>1,072,466,000</u>	<u>875,212,862</u>
Capital adequacy ratio - required	<u>8%</u>	<u>8%</u>
Capital adequacy ratio - actual	<u>6%</u>	<u>9%</u>
Basel ratio - required	<u>8%</u>	<u>8%</u>
Basel ratio - actual	<u>9%</u>	<u>11%</u>

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.

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

7. Cash and balances with Central Bank

	Notes	2022 \$	2021 \$
Cash in hand		23,618,198	18,332,282
Balances with Central Bank other than mandatory reserve deposits		83,428,217	202,679,633
Included in cash and cash equivalents	16	107,046,415	221,011,915
Mandatory reserve deposits with Central Bank		208,530,425	72,045,000
		<u>315,576,840</u>	<u>293,056,915</u>

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

	Notes	2022 \$	2021 \$
Items in the course of collection from other banks		9,573,855	(5,513,597)
Placements with other banks		123,640,816	104,323,586
Included in cash and cash equivalents	16	133,214,671	98,809,989

The weighted average effective interest rate in respect of interest-bearing deposits at December 31, 2022 was 0.65% (2021 - 0.66%).

9. Treasury bills

	Notes	2022 \$	2021 \$
Treasury bills	12	28,247,950	15,674,819

The Bank has invested in treasury bills issued by the Governments of Saint Lucia, St. Vincent & the Grenadines and Antigua. The weighted average effective interest rate of the treasury bills in 2022 was 3.32% (2021 - 3.84%). All treasury bills have fixed interest rates, and they mature within one year of the end of the financial year.

The December 31, 2022 balance includes ECL of \$43,368 (2021: \$24,308).

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

10. Loans and advances to customers

	Notes	2022 \$	2021 \$
Overdrafts		40,029,146	32,406,891
Demand loans		458,268,089	414,352,580
Promissory notes		6,808,358	15,253,409
Mortgages		449,639,129	419,175,280
Credit cards		8,316,061	6,101,407
		<u>963,060,783</u>	<u>887,289,567</u>
Less: Deferred fees		(3,759,985)	(3,067,580)
Less: Interest earned not collected		(2,419,471)	(561,967)
		<u>956,881,327</u>	<u>883,660,020</u>
Less: Impairment allowance on loans and advances	11	(49,037,187)	(53,782,152)
		<u>907,844,140</u>	<u>829,877,868</u>
Add: Fair value adjustment arising from business combinations	36	(895,776)	3,098,709
		<u>906,948,364</u>	<u>832,976,577</u>
Current		33,599,629	111,718,348
Non-current		873,348,735	721,258,229
		<u>906,948,364</u>	<u>832,976,577</u>

The weighted average effective interest rate on productive loans measured at amortized cost at December 31, 2022 was 5.65% (2021: 5.89%) and the rate on productive overdrafts measured at amortized cost was 7.32% (2021: 13.32%).

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

11. 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 December 31, 2021	4,822,255	1,159,634	18,492,637	2,257,576	27,050,050	53,782,152
Transferred at August 1 2022	965,709	357,370	1,359,527	198,974	756,827	3,638,407
Provision for ECL (Note 31)	(1,083,683)	1,641,154	1,923,403	(1,529,324)	(8,258,271)	(7,306,721)
Loans written off during the year	-	-	(39,201)	-	(1,037,450)	(1,076,651)
At December 31, 2022	4,704,281	3,158,158	21,736,366	927,226	18,511,156	49,037,187
Balance at December 31, 2020	3,549,398	699,285	11,078,188	1,056,222	7,079,051	23,462,144
Acquisitions from RBC	2,767,230	797,180	12,431,138	842,519	11,373,087	28,211,154
Provision for ECL (Note 31)	(1,494,373)	(336,831)	(4,965,002)	358,835	8,621,407	2,184,036
Loans written off during the year	-	-	(51,687)	-	(23,495)	(75,182)
At December 31, 2021	4,822,255	1,159,634	18,492,637	2,257,576	27,050,050	53,782,152

The total impairment provision for loans and advances to customers is \$49,037,187 (2021 - \$53,782,152).

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, 2022						
Loans and advances before provision	458,268,090	444,626,737	6,381,532	39,288,907	8,316,061	956,881,327
Stage 1: 12-month ECL	(3,598,565)	(1,290,143)	(12,233)	(714,550)	(367,336)	(5,982,827)
Stage 2: Lifetime ECL	(1,941,756)	(1,034,382)	(3,718)	(985,706)	(185,631)	(4,151,193)
Stage 3: Credit Impaired	(16,156,881)	(16,186,631)	(911,275)	(3,043,187)	(2,605,193)	(38,903,167)
Loans and advances after provision	436,570,888	426,115,581	5,454,306	34,545,464	5,157,901	907,844,140
December 31, 2021						
Loans and advances before provision	412,540,028	417,298,055	15,301,206	32,418,822	6,101,909	883,660,020
Stage 1: 12-month ECL	(1,056,365)	(879,376)	(134,449)	(847,595)	(278,271)	(3,196,056)
Stage 2: Lifetime ECL	(1,510,982)	(11,053,475)	(151,549)	(35,933)	(557,774)	(13,309,713)
Stage 3: Credit Impaired	(15,925,290)	(15,117,199)	(1,971,578)	(3,938,727)	(323,589)	(37,276,383)
Loans and advances after provision	394,047,391	390,248,005	13,043,630	27,596,567	4,942,275	829,877,868

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

11. 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 \$
Stage 1: 12-month ECL						
ECL allowance as at:						
January 1, 2022	1,056,365	879,376	134,449	847,595	278,271	3,196,056
Transferred at August 1, 2022	27,580	33,036	27,857	29,515	65,768	183,756
Credit loss movements, new						
Loans, repayments, etc.	2,514,621	377,731	(150,073)	(162,560)	23,297	2,603,016
As at December 31, 2022	3,598,566	1,290,143	12,233	714,550	367,336	5,982,828
Stage 2: Lifetime ECL						
ECL allowance as at:						
January 1, 2022	1,510,982	11,053,475	151,549	35,933	557,774	13,309,713
Transferred at August 1, 2022	2,830	57,807	21,823	98,688	291,602	472,750
Credit loss movements, new						
Loans, repayments, etc.	427,945	(10,076,901)	(169,654)	851,085	(663,745)	(9,631,270)
As at December 31, 2022	1,941,757	1,034,381	3,718	985,706	185,631	4,151,193
Stage 3: Lifetime ECL						
ECL allowance as at:						
January 1, 2022	15,925,290	15,117,199	1,971,578	3,938,727	323,589	37,276,383
Transferred at August 1, 2022	935,299	665,984	149,294	1,231,324	-	2,981,901
Charge-offs and write-offs	-	-	(39,201)	-	(1,037,450)	(1,076,651)
Credit loss movements, new						
Loans, repayments, etc.	(703,708)	403,448	(1,170,396)	(2,126,864)	3,319,053	(278,467)
As at December 31, 2022	16,156,881	16,186,631	911,275	3,043,187	2,605,192	38,903,166
Total	21,697,204	18,511,155	927,226	4,743,443	3,158,159	49,037,187

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

11. 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 \$
Stage 1: 12-month ECL						
ECL allowance as at:						
January 1, 2021	2,027,085	1,347,685	148,660	672,874	307,157	4,503,461
Acquisitions from RBC	316,212	747,046	105,556	2,060,492	518,599	3,747,905
Credit loss movements, new						
Loans, repayments, etc.	(1,286,932)	(1,215,355)	(119,767)	(1,885,771)	(547,485)	(5,055,310)
As at December 31, 2021	1,056,365	879,376	134,449	847,595	278,271	3,196,056
Stage 2: Lifetime ECL						
ECL allowance as at:						
January 1, 2021	4,594,836	2,896,194	389,613	189,945	223,410	8,293,998
Acquisitions from RBC	-	1,351,724	335,248	228,244	131,639	2,046,855
Credit loss movements, new						
Loans, repayments, etc.	(3,083,854)	6,805,557	(573,312)	(382,256)	202,725	2,968,860
As at December 31, 2021	1,510,982	11,053,475	151,549	35,933	557,774	13,309,713
Stage 3: Lifetime ECL						
ECL allowance as at:						
January 1, 2021	4,456,266	2,835,172	517,949	2,686,582	168,716	10,664,685
Acquisitions from RBC	13,158,884	9,966,154	373,205	(269,361)	260,000	23,488,882
Charge-offs and write-offs	(830,720)	5,595,891	1,067,456	1,298,299	(146,942)	6,983,984
Credit loss movements, new						
Loans; repayments; etc.	(859,140)	(3,280,018)	12,968	223,207	41,815	(3,861,168)
As at December 31, 2021	15,925,290	15,117,199	1,971,578	3,938,727	323,589	37,276,383
Total	18,492,637	27,050,050	2,257,576	4,822,255	1,159,634	53,782,152

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

12. Investment securities

	2022 \$	2021 \$
Fair value through other comprehensive income (FVOCI)		
Equity securities - Listed	7,823,979	2,592,000
Equity securities - Unlisted	10,299,141	9,908,721
	<u>18,123,120</u>	<u>12,500,721</u>
Debt securities - Listed	43,243,497	42,681,728
Allowance for impairment	(20,262)	(12,492)
	<u>43,223,235</u>	<u>42,669,236</u>
Total securities: FVOCI	<u>61,346,355</u>	<u>55,169,957</u>
Amortized cost		
Debt securities - Listed	48,277,711	40,002,843
Debt securities - Unlisted	26,928,716	26,077,315
Allowance for impairment	(417,579)	(319,757)
Total securities: amortized cost	<u>74,788,848</u>	<u>65,760,401</u>
Fair value adjustment arising from business combinations (note 36)	-	452,825
Total investment securities	<u>136,135,203</u>	<u>121,383,183</u>
Current	43,921,183	73,198,700
Non-current	92,214,020	48,184,483
	<u>136,135,203</u>	<u>121,383,183</u>

Unlisted equity securities totaling \$10,299,141 (2021: \$9,908,721) are carried at fair values. The fair value was estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

12. Investment securities (cont'd)

All debt securities have fixed interest rates.

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

	Fair value through OCI \$	Amortized Cost \$	Treasury Bills \$	Total \$
At December 31, 2021	55,622,782	65,760,401	15,674,819	137,058,002
Additions	17,383,314	43,118,078	49,492,447	109,993,839
Disposals (sale and redemption)	(5,707,400)	(33,991,809)	(36,900,256)	(76,599,465)
Loss from changes in fair value (debt and equity securities)	(5,944,572)	-	-	(5,944,572)
Allowance for expected credit losses	(7,769)	(97,822)	(19,060)	(124,651)
At December 31, 2022	61,346,355	74,788,848	28,247,950	164,383,153
At December 31, 2020	22,120,244	60,286,847	17,637,820	100,044,911
Additions	32,162,209	11,540,916	467,259	44,170,384
Disposals (sale and redemption)	(113,460)	(5,983,755)	(2,423,487)	(8,520,702)
Gain from changes in fair value (debt and equity securities)	1,011,383	-	-	1,011,383
Fair value adjustment arising from business combinations (note 36)	452,825	-	-	452,825
Allowance for expected credit losses	(10,419)	(83,607)	(6,773)	(100,799)
At December 31, 2021	55,622,782	65,760,401	15,674,819	137,058,002

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

12. 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, including Treasury Bills.

	Stage 1 12 Month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Credit Impaired Financial Assets Lifetime ECL \$	Total \$
December 31, 2022				
Gross exposure	164,864,361	-	-	164,864,361
ECL	(481,208)	-	-	(481,208)
Net exposure	164,383,153	-	-	164,383,153
ECL allowance as at				
January 1, 2022	356,557	-	-	356,557
ECL for the year	124,651	-	-	124,651
At December 31, 2022	481,208	-	-	481,208
December 31, 2021				
Gross exposure	137,414,559	-	-	137,414,559
ECL	(356,557)	-	-	(356,557)
Net exposure	137,058,002	-	-	137,058,002
ECL allowance as at				
January 1, 2021	255,758	-	-	255,758
ECL for the year	100,799	-	-	100,799
At December 31, 2021	356,557	-	-	356,557

The net exposure and ECL balance as at December 31, 2022 above includes investment securities of \$136,135,203 [ECL - \$437,841] (2021: \$121,383,427 [ECL - \$332,249]) as included in Note 12 and treasury bills of \$28,247,950 [ECL - \$43,368] (2021: \$15,674,819 [ECL - \$24,308]) as included in Note 9.

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

13. Property and equipment

	Land and building \$	Furniture and Fixtures \$	Equipment \$	Motor Vehicles \$	Work in progress \$	Total \$
Year ended December 31, 2022						
Opening net book amount	7,578,356	570,002	2,707,628	160,550	259,073	11,275,609
Transferred at August 1, 2022	2,665,505	-	48,154	-	-	2,713,659
Additions	-	79,238	1,267,276	-	1,475,954	2,822,468
Disposals	-	(4,700)	(47,541)	-	-	(52,241)
Depreciation on disposals	-	3,040	46,200	-	-	49,240
Depreciation (Note 28)	(601,977)	(109,216)	(1,014,859)	(70,681)	-	(1,796,733)
Closing net book amount	9,641,884	538,364	3,006,858	89,869	1,735,027	15,012,002
At December 31, 2022						
Cost or valuation	14,971,182	2,049,646	13,623,571	320,660	1,735,027	32,700,086
Accumulated depreciation	(5,329,298)	(1,511,282)	(10,616,713)	(230,791)	-	(17,688,084)
Net book amount	9,641,884	538,364	3,006,858	89,869	1,735,027	15,012,002
Year ended December 31, 2021						
Opening net book amount	7,150,143	876,755	3,704,768	221,292	327,279	12,280,237
Acquisitions (RBC)	1,445,750	-	502,368	175,276	-	2,123,394
Additions	23,756	23,087	869,148	-	307,942	1,223,933
Disposals	(137,792)	(2,025)	(3,528)	(209,616)	-	(352,961)
Adjustment for cost written off	339,827	36,321	-	-	(376,148)	-
Depreciation on disposals	137,792	704	829	115,288	-	254,613
Depreciation (Note 28)	(1,381,120)	(364,840)	(2,365,957)	(141,690)	-	(4,253,607)
Closing net book amount	7,578,356	570,002	2,707,628	160,550	259,073	11,275,609
At December 31, 2021						
Cost or valuation	12,305,677	1,975,107	12,355,682	320,660	259,073	27,216,199
Accumulated depreciation	(4,727,321)	(1,405,105)	(9,648,054)	(160,110)	-	(15,940,590)
Net book amount	7,578,356	570,002	2,707,628	160,550	259,073	11,275,609

The historical cost of land and buildings are:

	2022 \$	2021 \$
Cost	6,647,233	6,647,233
Accumulated depreciation based on historical cost	(3,829,238)	(3,754,854)
Depreciated historical cost	2,817,995	2,892,379

13. Property and equipment (cont'd)

Valuation techniques	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<p><i>Market based approach:</i> 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.</p>	<ul style="list-style-type: none"> • Details of sales of comparable properties. • Conditions influencing the sale of the comparable properties. • Comparability adjustment. 	<p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> • Sale value of comparable properties were higher/(lower) • Comparability adjustment were added/(deducted).
<p>The approach requires comparison of the subject property with others of inter alia similar design and utility, which were sold in the recent past.</p>		
<p>However, as no two properties are exactly alike, adjustment is made for the difference between property subject to valuation and comparable properties.</p>		

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

14. Leases

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the period:

	Right of Use Property \$	Lease Liability \$
As at 1 January 2022	16,016,686	17,517,941
Additions	547,648	547,648
Depreciation expense	(2,280,488)	-
Principal payments	-	(1,907,534)
Derecognition, net	(7,607)	(7,773)
As at 31 December 2022	14,276,239	16,150,282
As at 1 January 2021	7,307,589	7,888,461
Additions	10,695,897	10,695,897
Depreciation expense	(1,890,357)	-
Principal payments	-	(960,560)
Derecognition, net	(96,443)	(105,857)
As at 31 December 2021	16,016,686	17,517,941
	2022	2021
Lease Liability	\$	\$
Current	1,947,648	1,719,141
Non-current	14,202,634	15,798,800
	16,150,282	17,517,941

Future minimum lease payments at 31 December 2022 were as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2022						
Lease payments	272,145	544,290	2,404,215	15,063,011	3,146,938	21,430,599
Finance charges	(112,150)	(221,022)	(939,831)	(3,695,800)	(311,514)	(5,280,317)
Net Present Values	159,995	323,268	1,464,384	11,367,211	2,835,424	16,150,282
As at 31 December 2021						
Lease payments	262,900	788,701	2,060,833	14,962,133	6,057,577	24,132,144
Finance charges	(121,424)	(358,508)	(913,361)	(4,561,477)	(659,433)	(6,614,203)
Net Present Values	141,476	430,193	1,147,472	10,400,656	5,398,144	17,517,941

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

14. Leases (cont'd)

The table below describes the nature of the leasing activities by type of right-of-use asset recognized in the statement of financial position:

	No of right-of-use assets leased	Range of remaining term	Average remaining term of lease	No of leases with extension option	No of leases with option to purchase	No of leases with termination option	No of leases with variable payment linked to an index
Right of use asset							
Office building	9	1-10 years	6 years	9	1	9	0
Storage related facility	2	½ year	½ year	2	0	2	0

15. Intangible assets

	Note	Goodwill \$	Core deposit Intangibles \$	Software \$	Assembled workforce	Total \$
Year ended December 31, 2022						
Opening net book amount		4,942,900	7,791,452	99,272	-	12,833,624
Additions for the year		-	-	724,460	-	724,460
Acquired through combinations	36	-	6,021,281	-	1,105,343	7,126,624
Amortization		-	-	(415,513)	-	(415,513)
Closing net book amount		4,942,900	13,812,733	408,219	1,105,343	20,269,195
As at December 31, 2022						
Cost		4,942,900	13,812,733	4,171,388	1,105,343	24,032,364
Accumulated amortization		-	-	(3,763,169)	-	(3,763,169)
Net book amount		4,942,900	13,812,733	408,219	1,105,343	20,269,195
Year ended December 31, 2021						
Opening net book amount		-	-	453,419	-	453,419
Additions for the year		-	-	20,643	-	20,643
Acquired through combinations	36	4,942,900	7,791,452	-	-	12,734,352
Amortization		-	-	(374,790)	-	(374,790)
Closing net book amount		4,942,900	7,791,452	99,272	-	12,833,624
As at December 31, 2021						
Cost		4,942,900	7,791,452	3,446,928	-	16,181,280
Accumulated amortization		-	-	(3,347,656)	-	(3,347,656)
Net book amount		4,942,900	7,791,452	99,272	-	12,833,624

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

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:

	Notes	2022 \$	2021 \$
Cash and balances with Central Bank	7	107,046,415	221,011,915
Due from other banks	8	133,214,671	98,809,989
		<u>240,261,086</u>	<u>319,821,904</u>

17. Other assets

	2022 \$	2021 \$
Accounts receivable	23,698,012	61,642,664
Inventories of stationery and supplies	322,810	335,899
Deferred expenditure	333,710	573,884
Prepayments	2,222,356	16,042,867
Interest earned not collected	2,076,866	-
	<u>28,653,754</u>	<u>78,595,314</u>

18. Due to customers

	2022 \$	2021 \$
Time deposits	210,907,734	231,834,307
Savings accounts	820,688,787	658,830,603
Demand amounts	372,885,650	385,743,514
	<u>1,404,482,171</u>	<u>1,276,408,424</u>
Interest payable	1,928,632	2,375,281
	<u>1,406,410,803</u>	<u>1,278,783,705</u>
Current	1,366,174,147	1,268,066,688
Non-current	40,236,656	10,717,017
	<u>1,406,410,803</u>	<u>1,278,783,705</u>

All deposits bear fixed interest rates.

The weighted average effective interest rate of customers' deposits at December 31, 2022 was 1.57% (2021 - 2.05%).

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

19. Due to banks

	2022 \$	2021 \$
St. Kitts Nevis Anguilla National Bank (<i>Note 19.a</i>)	26,626,943	29,089,339
Interest payable	9,301	10,161
	<u>26,636,244</u>	<u>29,099,500</u>

19. a

	2022 \$	2021 \$
St. Kitts-Nevis-Anguilla National Bank Limited		
Original loan of \$29,700,000 (USD11,000,000 x 2.70). The loan is repayable in monthly installments of \$304,241 (USD112,682 x 2.70) at an interest rate of 4.25% per annum effective on the 28th of the month following the disbursement of the funds. Security is provided by way of assignment of investment securities totaling \$42,428,062. The loan is due to be fully paid after 10 years (120 months).	26,626,943	29,089,339

	2022 \$	2021 \$
Non-current	24,066,199	25,438,447
Current	2,570,045	3,661,053
	<u>26,636,244</u>	<u>29,099,500</u>

20. Other liabilities

	2022 \$	2021 \$
Manager's cheques outstanding	6,243,264	5,938,226
Accounts payable and accrued expenses	20,428,283	38,051,047
Due to affiliated companies	67,894	-
Dividends payable on ordinary shares	1,122,766	1,123,853
Provision for retiree group life benefit	466,389	466,389
Deferred income	172,677	172,677
	<u>28,501,273</u>	<u>45,752,192</u>

The provision for retiree group life benefit pertains to retiree group life benefit coverage for RBC St. Lucia employees.

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

21. Provisions

	2022	2021
	\$	\$
Provision for undrawn loan commitments	2,623,615	56,688

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.

22. 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:

	2022	2021
	\$	\$
Present value of funded obligations	7,228,000	7,086,000
Fair value of plan assets	(10,505,000)	(9,753,000)
Net defined benefit asset	(3,277,000)	(2,667,000)

Movement in defined benefit obligations

	2022	2021
	\$	\$
Defined benefit obligation at start of year	7,086,000	5,689,000
Current service cost	185,000	165,000
Interest cost	486,000	401,000
Members' contributions	81,000	89,000
Transfer payments received	-	161,000
Experience adjustments	(315,000)	669,000
Benefits paid	(295,000)	(88,000)
Defined benefit obligation at end of year	7,228,000	7,086,000

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

(i) Active members	71%	79%
(ii) Deferred members	9%	8%
(iii) Pensioners	18%	11%

The weighted average duration of the defined benefit obligation at the end of the reporting period was 8.6 years (2021 - 8.9 years). 97% (2021 - 98%) of the benefits for active members are vested. 7% (2021 - 9%) of the defined benefit obligation for active members is conditional on future salary increases.

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

22. Defined benefit asset (cont'd)

Movement in fair value of plan assets

	2022 \$	2021 \$
Fair value of Plan Assets at start of year	9,753,000	8,744,000
Interest income	683,000	626,000
Return on Plan Assets, excluding interest income	56,000	(28,000)
Bank's contributions	227,000	249,000
Members' contributions	81,000	89,000
Transfer payments received	-	161,000
Benefits paid	(295,000)	(88,000)
Fair value of plan assets at end of year	10,505,000	9,753,000
Actual return on plan assets	739,000	598,000

Allocation of plan assets

	2022 \$	2021 \$
Locally listed equities	750,000	700,000
Government issued bonds	8,297,000	7,887,000
Treasury Bills	1,194,000	704,000
Cash and cash equivalents	264,000	462,000
Fair value of plan assets at end of year	10,505,000	9,753,000

Government bonds have been calculated on a 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.

Amounts recognized in the statement of income

	2022 \$	2021 \$
Current service cost	185,000	165,000
Net interest on net defined benefit asset	(197,000)	(225,000)
Net pension income	(12,000)	(60,000)

Re-measurements recognized in Other Comprehensive Income

	2022 \$	2021 \$
Experience (gains)/losses	(371,000)	697,000

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

22. Defined benefit asset (cont'd)

Reconciliation of opening and closing statement of financial position amounts

	2022	2021
	\$	\$
Net defined benefit asset at January 1	(2,667,000)	(3,055,000)
Net pension cost	(12,000)	(60,000)
Re-measurements recognized in Other Comprehensive Income	(371,000)	697,000
Bank contributions paid	(227,000)	(249,000)
Net defined benefit asset at December 31	<u>(3,277,000)</u>	<u>(2,667,000)</u>

Summary of principal actuarial assumptions as at December 31

	2022	2021
	%	%
Discount rate	7	7
Future NIC earnings increases	2	2
Future Pension increases	0	0
Future salary increases	4	4

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, 2022 and 2021 are as follows:

Life expectancy at age 60 for current pensioner in years

- Male	21.9	21.8
- Female	26.1	26.1

Life expectancy at age 60 for current members age 40 in years

- Male	22.7	22.7
- Female	27.1	27.0

22. Defined benefit asset (cont'd)

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, 2022 would have changed as a result of a change in assumptions used.

	1% p.a. decrease	1% p.a. increase
Discount rate	637,000	(529,000)
Future salary increases	(151,000)	202,000

An increase of 1 year in the assumed life expectancies shown above would have increased the defined benefit obligation at December 31, 2022 by \$75,000 (2021 - \$71,000).

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 \$222,000 (2021 - \$243,000) to the Pension Plan during 2023.

23. 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%.

	Notes	2022 %	2021 %
At beginning of year		(532,115)	(702,953)
Deferred tax (credit)/charge recognised in statement of profit	32	(44,285)	891,351
Deferred tax charge recognised in other comprehensive income		111,300	209,100
Deferred tax credit arising on business combination	36	-	(929,613)
Deferred income tax liability at end of year		(465,100)	(532,115)

The deferred income tax liability comprises the following temporary differences:

	2022 \$	2021 \$
Accelerated capital allowances	2,951,334	2,490,736
Defined benefit asset	(3,277,000)	(2,667,000)
Arising on business combination	(3,098,709)	(3,098,709)
Leases	1,874,040	1,501,255
	(1,550,335)	(1,773,718)
Deferred tax liability at income tax rate of 30%	(465,100)	(532,115)

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

24. Share capital

	No. of Shares	2022 \$	No. of Shares	2021 \$
Authorized:				
7,000,000 ordinary shares of no par value				
Issued and fully paid shares:				
At the beginning of year	6,726,478	20,000,000	6,549,465	20,000,000
Stock dividend	-	-	177,013	-
	<u>6,726,478</u>	<u>20,000,000</u>	<u>6,726,478</u>	<u>20,000,000</u>
At end of year	<u>6,726,478</u>	<u>20,000,000</u>	<u>6,726,478</u>	<u>20,000,000</u>

In accordance with the provisions of Section 44 (1)(a) of the Banking Act, Cap 12.01, 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 4 to November 13, 2017. At the completion of that process, 627,508 shares remained unsubscribed. At a Special Meeting of Shareholders held on May 30, 2019, the shareholders approved a stock dividend in the ratio of one share for every thirty-six shares held. A further 177,013 shares were approved in lieu of cash dividend for the financial year ended December 31, 2019. This was appropriated from retained earnings at the end of the 2021 financial year end. This brings the total of unsubscribed shares to 273,482. A plan to distribute the remaining unsubscribed shares has been ratified by the Board of Directors, to be distributed during the 2023 financial year. At the 2021 Annual General Meeting held in 2023 the stock dividend was declared for the remaining 273,482 unsubscribed shares. The share movement will be reflected in the 2023 financial statements.

25. Reserves

	2022 \$	2021 \$
Statutory reserve	17,544,381	14,278,657
Revaluation reserve - property and equipment	1,631,503	1,580,843
Revaluation reserve for interest on non-performing loans	6,007,528	4,804,145
Revaluation reserve for loan impairment	29,778,816	7,370,190
Revaluation reserve - investment securities	(2,883,220)	3,061,351
Resiliency reserve	3,000,000	3,000,000
	<u>55,079,008</u>	<u>34,095,186</u>

25. Reserves (cont'd)

Statutory reserve

	2022 \$	2021 \$
Balance at beginning of year	14,278,657	13,482,153
Transfer from profit after taxation	3,265,724	796,504
Balance at end of year	<u>17,544,381</u>	<u>14,278,657</u>

Section 45 (1) of the Banking Act, Cap 12.01, 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

	2022 \$	2021 \$
Balance at beginning of year	1,580,843	1,530,183
Depreciation transfer	50,660	50,660
Balance at end of year	<u>1,631,503</u>	<u>1,580,843</u>

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

Revaluation reserve for interest on non-performing loans

	2022 \$	2021 \$
Balance at beginning of year	4,804,145	3,648,316
Increase in reserve for regulatory purposes	1,203,383	1,155,829
Balance at end of year	<u>6,007,528</u>	<u>4,804,145</u>

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.

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

25. Reserves (cont'd)

Reserve for loan impairment

	2022 \$	2021 \$
Balance at beginning of year	7,370,190	3,923,481
Increase in reserve for regulatory purposes	22,408,626	3,446,709
Balance at end of year	29,778,816	7,370,190

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. The excess is therefore set aside in a reserve and is not available for distribution to the shareholders.

Revaluation reserve - FVOCI securities

	2022 \$	2021 \$
Balance at beginning of year	3,061,351	2,073,928
(Decrease)/Increase in market value of FVOCI	(5,944,571)	987,423
Balance at end of year	(2,883,220)	3,061,351

This reserve comprises the fair value reserve related to financial assets measured at FVOCI.

Resiliency reserve

	2022 \$	2021 \$
Balance at end of year	3,000,000	3,000,000

This reserve was established for the eventualities associated with natural disasters and for the investments in necessary assets and key strategic initiatives which shall strengthen the Bank's response to internal and external shocks.

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

26. Net interest income

	2022 \$	2021 \$
Interest and similar income		
Loans and advances	47,345,187	48,835,478
Investment securities	4,859,294	3,729,821
Deposits with banks	163,480	7,337
	<u>52,367,961</u>	<u>52,572,636</u>
Interest expense and similar charges		
Savings deposits	15,197,190	12,684,341
Time deposits	3,810,473	4,103,623
Interest on lease liabilities	1,457,519	1,293,741
Demand deposits	213,886	111,544
Borrowings	1,187,641	312,224
	<u>21,866,709</u>	<u>18,505,473</u>
Net interest income	<u>30,501,252</u>	<u>34,067,163</u>

27. Other operating income, net

	2022 \$	2021 \$
Commission and other income	15,466,627	11,449,699
Bad debts recovered	2,732,423	2,903,010
Foreign exchange gains	6,073,517	5,100,614
Dividend income	320,493	338,985
Fee income	(62,795)	140,116
(Loss)/gain on disposal of property and equipment	(2,801)	22,301
	<u>24,527,464</u>	<u>19,954,725</u>

28. Other expenses

	Notes	2022 \$	2021 \$
Administrative expenses	29	32,377,436	22,132,725
Staff costs	30	14,383,032	15,032,243
Depreciation and amortization	13, 15	2,212,246	4,628,397
Depreciation on right-of-use assets	14	2,280,488	1,890,357
		<u>51,253,202</u>	<u>43,683,722</u>

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

29. Administrative expenses

	2022	2021
	\$	\$
Advertising	520,579	193,976
Audit fees	280,000	183,500
Bank charges	913,504	961,538
Bank licence	220,100	200,000
Card services expense	6,773,419	3,590,816
Computer expense	3,173,721	1,994,120
Directors' fees and expenses	408,797	299,754
Insurance	308,580	230,355
Other operating expenses	8,289,941	2,803,734
Other professional fees	3,865,140	7,930,885
Postage, telephone and telexes	1,411,516	1,168,623
Rates and taxes	2,186,076	88,816
Repairs and maintenance	1,629,749	917,311
Security expenses	632,586	422,876
Stationery	452,006	301,165
Utilities	1,311,722	845,256
Total administrative expenses	<u>32,377,436</u>	<u>22,132,725</u>

30. Staff costs

	2022	2021
	\$	\$
Other employee benefits	2,180,415	4,688,396
Pension income	(12,000)	(60,000)
Social security costs	474,783	392,382
Salaries and wages	11,739,834	10,011,465
	<u>14,383,032</u>	<u>15,032,243</u>

31. Impairment losses

	2022	2021
	\$	\$
(Recovery of impairment)/Impairment losses from loans and advances	(7,306,721)	2,184,036
Impairment on investments	124,651	100,799
Impairment on undrawn loan commitments/(recovery of impairment)	2,562,709	(102,953)
	<u>(4,619,361)</u>	<u>2,181,882</u>

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

32. Income tax expense

		2022	2021
	Notes	\$	\$
Current tax		916,948	5,065,115
Deferred tax charge/(credit)	23	44,285	(891,351)
		<u>961,233</u>	<u>4,173,764</u>

Tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 33% (2021 - 33%) as follows:

	2022	2021
	\$	\$
Profit before income tax	17,289,853	8,156,284
Tax calculated at the statutory tax rate of 33% (2021 -33%)	6,624,344	2,691,574
Tax calculated at the statutory tax rate of 30% (2021 -nil)	(774,959)	-
Tax effect of exempt income	(5,102,830)	(1,890,882)
Tax effect of non-deductible expenses	663,814	5,177,437
Tax incentives	(449,136)	(1,804,365)
	<u>961,233</u>	<u>4,173,764</u>

At the end of the year ended December 31, 2022, the Bank recorded an income tax payable and recoverable. A reconciliation of the two amounts is as follows:

Income tax payable brought forward	1,118,486	(965,143)
Income tax paid during the year	(2,613,140)	(2,981,486)
Income tax charge for the year	916,948	5,065,115
Penalties	106,169	-
Income tax (recoverable)/payable	<u>(471,537)</u>	<u>1,118,486</u>

33. (a) Earnings per share

	2022	2021
	\$	\$
Weighted average no. of shares	6,726,478	6,726,478
Profit for the year	16,328,620	3,982,520
Earnings per share	<u>2.43</u>	<u>0.59</u>

33. (a) Earnings per share (cont'd)

Basic and diluted

Earnings per share of \$2.46 (2021: \$0.59) for the year ended December 31, 2022, is calculated by dividing the net profit for the year attributable to shareholders of \$16,570,109 (2021: \$3,982,520) by the weighted average number of ordinary shares in issue for the year of 6,726,478 (2021 - 6,726,478).

The weighted average number of shares for the year is calculated as follows:

	Notes	2022 \$	2021 \$
Weighted average number of shares at beginning of year	24	6,726,478	6,549,465
Effect of shares issued during the year - stock dividend		-	177,013
Weighted average number of ordinary shares at end of year		<u>6,726,478</u>	<u>6,726,478</u>

(b) Dividends

A stock dividend in the form of the 273,482 unsubscribed shares was declared by the Board of Directors at the 2021 Annual General Meeting and allocated to shareholders during the financial year ending December 31, 2023. This will be appropriated from the retained earnings.

In 2020 the Board approved a cash dividend of \$0.10 for each unit of paid up share capital, or \$654,947 and a distribution of shares in lieu of a cash dividend at a ratio of one share for every thirty seven shares held or 1:37.

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).
 - (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.

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

Related party definition (cont'd)

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

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

	2022	2021
	\$	\$
Loans outstanding at beginning of year	10,404,727	9,273,528
Net loans issued during the year	2,112,523	1,131,199
Loans outstanding at end of year	12,517,250	10,404,727
Interest income earned	673,102	549,084

Loans and advances to key management personnel

	2022	2021
	\$	\$
Loans outstanding at beginning of year	5,320,841	3,978,752
Net loans issued during the year	457,308	1,342,089
Loans outstanding at end of year	5,778,149	5,320,841
Interest income earned	268,908	285,475

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

No related party debts were doubtful during the year. However, a total expected credit loss allowance of \$58,345 (2021 - \$107,759) was recognized with respect to loans and advances for related parties for the year.

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

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

Deposits from Directors and related entities

	2022 \$	2021 \$
Deposits at beginning of year	3,812,599	9,631,264
Net deposit/(withdrawals) during the year	3,728,660	(5,818,665)
Deposits outstanding at end of year	7,541,259	3,812,599
Interest expense on deposits	103,808	59,551

Deposits from key management personnel

	2022 \$	2021 \$
Deposits at beginning of year	2,054,211	1,417,553
Net deposits received during the year	(1,137,132)	636,658
Deposits outstanding at end of year	917,079	2,054,211
Interest expense on deposits	16,466	26,607

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.

	2022 \$	2021 \$
Salaries and other short-term benefits	1,204,641	1,984,598
Post and other employment benefits	109,419	549,263
	1,314,060	2,533,861

At the end of the financial year, directors' holding of shares totalled 40,528 (2021 - 25,974) or 0.60% (2021 - 0.39%) of shares outstanding.

Transactions with Directors and related parties

During the year, the Bank entered service transactions with Directors and related parties as follows:

	2022 \$	2021 \$
Lease payment for premises	433,125	377,500
Right of use asset	1,911,376	1,773,102
Lease liability	2,163,764	2,018,393

35. Contingent liabilities and commitments

Loan commitments, guarantees and other financial facilities

At December 31, 2022, 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:

	2022 \$	2021 \$
Undrawn loan commitments	132,694,493	193,345,513
Guarantees and standby letters of credit	1,589,481	10,741,445
	<u>134,283,974</u>	<u>204,086,958</u>

The Bank is currently in discussions with the Inland Revenue Department of Saint Lucia (IRD) on a matter related to previous tax filings. The outcome is subject to a final assessment by the IRD and cannot be determined at this stage.

On March 31, 2021, in an effort to settle the stamp duty on the transfer of assets from the Asset Purchase Agreement between the Bank and Royal Bank of Canada (RBC) for the banking operations in St. Lucia, the parties to the transaction wrote to the Inland Revenue Department (IRD) indicating that their computation of the stamp duty due on the transaction was \$2,428,710.35. Each bank to the transaction paid 50% of the amount due. However, the IRD wrote to the Bank indicating their assessment of the tax due was \$8,989,452.26. The matter is currently in Court and there has been no date for a hearing, the outcome of which cannot be determined at this time. As a result, no provision was made in the financial statements.

36. Business combinations

(a) Acquisition of the net assets of RBTT Bank Caribbean Limited (RBTT St. Vincent)

On August 1, 2022, 1st National Bank St. Lucia Limited acquired the net assets of RBTT Bank Caribbean Limited (RBTT St. Vincent). The bank pursued the acquisition for the following general reasons:

- Cost savings and value enhancements due to the consolidation of staff operations and back-office functions and other RBC infrastructure related costs.
- Increased competitive position as the amalgamation will result in a more formidable wider product offerings to a large client base. This is expected to increase profitability for the combined entity.
- From improved economies of scope, revenues of the combined entity will be generated by a smaller set of resources. In addition, existing delivery channels and product and process development structures may be leveraged to deliver a wider set of products through existing group resources leading to increased profitability, which has not been projected.
- Diversification of customer base to reduce risk.

1st National Bank St. Lucia Limited
Notes to the Financial Statements
December 31, 2022
(Expressed in Eastern Caribbean dollars)

36. Business combinations (cont'd)

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and bargain purchase were as follows:

	Book Value	Adjustments	Fair value
	\$	\$	\$
Assets			
Cash and due from banks	122,368,938	-	122,368,938
Statutory reserve with central banks	15,191,922	-	15,191,922
Loans and advances to customers	78,370,409	(3,994,484)	74,375,925
Other receivables	11,937,409	-	11,937,409
Investments	785,969	-	785,969
Premises and equipment	3,129,466	-	3,129,466
Others assets	1,267,551	-	1,267,551
Total assets	233,051,664	(3,994,484)	229,057,180
Liabilities			
Customer deposits	203,383,252	-	203,383,252
Due to affiliated companies	236,957	-	236,957
Other liabilities - transactions with Head Office	9,559,311	-	9,559,311
Other liabilities	6,418,337	-	6,418,337
Total liabilities	219,597,857	-	219,597,857
Total Net Tangible Assets	13,453,807	(3,994,484)	9,459,323
Core deposit intangibles - Term Deposits	-	189,179	189,179
Core deposit intangibles - Current	-	3,767,355	3,767,355
Core deposit intangibles - Savings	-	2,064,747	2,064,747
Assemble workforce in place	-	1,105,343	1,105,343
Total Intangible Assets	-	7,126,624	7,126,624
Total Net Assets	13,453,807	3,132,140	16,585,947
Purchase price			<u>7,690,969</u>
Bargain purchase			<u>(8,894,978)</u>

36. Business combinations during the period (cont'd)

(a) Acquisition of the net assets of RBTT Bank Caribbean Limited (RBTT St. Vincent) (cont'd)

The consideration that gave rise to the bargain purchase in this case was primarily attributable to the following:

- RBTT St. Vincent's financial performance deteriorated over the last 4 years income was reported, with the branch incurring a net loss in each of the 4 years from 2017 to 2020.
- The loan balance fell from USD\$39.5M to USD\$24.2M from 2017 to July 2022. While the bank has historically been loss-making, the deposit base has fluctuated ranging between USD\$81.9M and USD\$71.3M between 2017 and 2022.
- The total purchase price was allocated across the Consortium based on a combination of a weighted share of the Target's assets and revenue, each with a 50% weight and the adjustments for property uplifts for those entities acquiring real property.
- Each of the RBTT entities purchased in the Transaction were required to hold a minimum capital of XCD\$20M, in accordance with the Banking Act 2015, as governed by the Eastern Caribbean Central Bank. Based on the structure of the RBTT entities, there would have been a required surplus of assets to remain in each of the entities to ensure compliance. As such, at Valuation Date, the net assets would have exceeded the allocated purchase price, resulting in a bargain purchase.
- RBC Royal Bank Holdings (EC) Limited has a history of making capital injections into RBTT St. Vincent. The latest of which was December 2, 2019 and March 20, 2020 in the amount of XCD\$5M respectively.

Costs on stamp duty amounting to \$480,708 was as a direct result of the acquisition. These have been recognised as part of administrative expenses in the statement of comprehensive income.

The bargain purchase recognized is not taxable.

Since acquisition date of August 1, 2022 the former RBTT Bank Caribbean Limited operations have contributed \$2,640,727 of combined revenues and \$1,422,077 of net interest income. If the acquisition had occurred on 1 January 2022, combined revenue inclusive of other income would have been \$92,060,176 and net interest income of \$31,975,419.

36. Business combinations during the period (cont'd)

(b) Acquisition of the net assets of Royal Bank of Canada (RBC) entity in St. Lucia

On April 1, 2021, 1st National Bank St. Lucia Limited acquired the net assets of Royal Bank of Canada (RBC) entity in St. Lucia. The bank pursued the acquisition for the following general reasons:

- Cost savings and value enhancements due to the consolidation of staff operations and back-office functions and other RBC infrastructure related costs.
- Increased competitive position as the amalgamation will result in a more formidable wider product offerings to a large client base. This is expected to increase profitability for the combined entity.
- From improved economies of scope, revenues of the combined entity will be generated by a smaller set of resources. In addition, existing delivery channels and product and process development structures may be leveraged to deliver a wider set of products through existing group resources leading to increased profitability, which has not been projected.
- Diversification of customer base to reduce risk.

Details of the fair value of identifiable assets and liabilities acquired purchase consideration and goodwill were as follows:

	Book Value \$	Adjustment \$	Fair Value \$
Other assets	7,224,768	-	7,224,768
Intangible assets	-	7,791,452	7,791,452
Premises and equipment	2,123,394	-	2,123,394
Due from associated & affiliated companies	2,347,508	-	2,347,508
Investment securities	392,830	452,825	845,655
Loans and advances to customers	255,094,810	3,098,709	258,193,519
Balances with Central Bank	28,839,319	-	28,839,319
Cash & cash equivalents	64,129,617	-	64,129,617
Due to banks	(85,503)	-	(85,503)
Customer deposits	(353,830,226)	-	(353,830,226)
Due to associated & affiliated companies	(8,041)	-	(8,041)
Other liabilities	(6,228,476)	-	(6,228,476)
Total net assets, excluding deferred tax	-	11,342,986	11,342,986
Deferred tax liability			(929,613)
Total net assets			<u>10,413,373</u>
Fair value of consideration paid			
Total contribution paid in cash			<u>15,356,273</u>
Goodwill (Note 15)			<u>4,942,900</u>

36. Business combinations during the period (cont'd)

(b) Acquisition of the net assets of Royal Bank of Canada (RBC) entity in St. Lucia

Costs on stamp duty amounting to \$1,214,355 was as a direct result of the acquisition. These have been recognised as part of administrative expenses in the statement of comprehensive income.

The goodwill recognized will be treated as exempt for tax purposes.

During the year the former RBC St. Lucia operations contributed \$14,916,534 (2021 - \$11,146,742) to combined revenues and \$12,112,953 (2021 - \$8,841,691) to combined net interest income.

37. Comparatives

Certain comparatives have been amended to conform to the current year's presentation.