Schedule 1

FORM ECSRC – K

ANNUAL REPORT
PURSUANT TO SECTION 98(1) OF THE SECURITIES ACT, 2001

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

Issuer Registration number **BOSVG01061977SV**

Bank of St. Vincent and the Grenadines Ltd.

(Exact name of reporting issuer as specified in its charter)

St. Vincent and the Grenadines

(Territory of incorporation)

Reigate, Granby Street, Kingstown, St. Vincent and the Grenadines

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(Address of principal office)

<u>REPORTING ISSUER'S</u>:

Telephone number (including area code): **1784-457-1844**

Fax number: **1784-456-2612**

Email address: **info@bosvg.com**

(Provide information stipulated in paragraphs 1 to 14 hereunder)

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

Yes **X** No______

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

CLASS	NUMBER
Common	**14,999,844**

SIGNATURES

A Director, the Chief Executive Officer and Chief Financial Officer of the company shall sign this Annual Report on behalf of the company. By so doing each certifies that he has made diligent efforts to verify the material accuracy and completeness of the information herein contained.

The Chief Financial Officer by signing this form is hereby certifying that the financial statements submitted fairly state the company's financial position and results of operations, or receipts and disbursements, as of the dates and period(s) indicated. The Chief Financial Officer further certifies that all financial statements submitted herewith are prepared in accordance with International Accounting Standards consistently applied (except as stated in the notes thereto) and (with respect to year-end figures) including all adjustments necessary for fair presentation under the circumstances.

Name of Managing Director:

Derry Williams

Signature

April 30, 2019

Date

Name of Director:

Maurice Edwards

Signature

April 30, 2019

Date

Name of Chief Financial Officer:

Bennie Stapleton

Signature

Date

INFORMATION TO BE INCLUDED IN FORM ECSRC-K

1. Business.

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

The banking sector continues to face several critical challenges including the increasing threat of cyber security, the emerging threats from new technologies and the risks posed to business continuity, particularly, in the event of natural disaster. We, therefore, have to continue to invest in building new capabilities and competencies to minimize the possible impact on the operations of the Bank. Notwithstanding the existence of these risks, there are opportunities that the Bank will continue to pursue to improve the output in a number of key results areas including earnings, asset quality, efficiency, human capital, risk management, customer and brand value. Given the stable economic outlook, the Bank is also poised to take advantage of the growth opportunities in the market. To this end, we will continue to foster critical alliances and partnerships with appropriate stakeholders to ensure that we maximize the value from the available opportunities.

2. Properties.

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

Note: The subsidiary Property Holding SVG Ltd. disposed three lots of land being lot#2, lot#3 and lot#4 admeasuring 11,885 square feet each, totaling 35,655 square feet in June 2017. Please see below details of properties held by the BOSVG and its subsidiary.

BANK OF ST. VINCENT & THE GRENADINES LTD PROPERTIES			
Properties	**Date of Acquisition**	**Size**	**Purpose of Acquisition/Productive Capacity**
BOSVG Bedford Street Branch	30-Jul-10	5255 sq. ft. land with three storey building 14,236 sq. ft.	To conduct banking business
BOSVG Reigate Branch	21-Nov-11	18,090 sq. ft. land with four storey building 42,660 sq. ft.	To conduct banking business
BOSVG Georgetown Branch	30-Jul-10	7,200 sq. ft. with two storey building 4,294 sq. ft.	To conduct banking business
BOSVG Canouan Branch	30-Jul-10	7,663 sq. ft. land with two storey building 4,200 sq. ft.	To conduct banking business
BOSVG Bequia Branch	30-Jul-10	26,349 sq. ft. land with two storey building 4,200 sq. ft.	To conduct banking business
BOSVG Union Island Branch	30-Jul-10	15,191 sq. ft. land with two storey building 5,510 sq. ft.	To conduct banking business
BOSVG Barrouallie Branch	30-Jul-10	1,705 sq. ft. land	Acquired for the purpose of building a branch to conduct banking business
Land at Rillan Hill	30-Jul-10	9,814 sq. ft. land	Transfer of land from mortgage customer to bank. Land was sold to customer by the bank for the purpose of constructing dwelling house. However, land was unsuitable for construction as a result of water pipe running through the middle of the land. Productive capacity - Agriculture
PROPERTY HOLDING SVG LTD REMAINING PROPERTIES			
Properties	**Date of Acquisition**	**Size**	**Purpose of Acquisition/Productive Capacity**
Real estate	26-Oct-11	23,851 sq. ft.	Temporary acquisition of distressed properties for future investment
Real estate	26-Oct-11	2AIR24P/105,544 sq. ft.	Temporary acquisition of distressed properties for future investment
Real estate	26-Oct-11	39,454 sq. ft.	Temporary acquisition of distressed properties for future investment

3. Legal Proceedings.

Furnish information on any proceedings that were commenced or were terminated during the current financial year. Information should include date of commencement or termination of proceedings. Also include a description of the disposition thereof with respect to the reporting issuer and its subsidiaries.

All previously filed:

Claim No: SVGHCV2018/78 Anson Randall Layne/David Everson Layne (First & Second Claimants respectively) and Lillian Williams / The Bank of St. Vincent and The Grenadines Ltd. (First & Second Defendants respectively).

Claim

- Damages for loss of entitlement incurred by the claimants under deceased's estate (father of claimants) as a result of the first defendant's (mother of claimants) fraud and /or breach of trust.
- A declaration of interest in the 1.63 acres of land situate at Joseph Land, Mc Carthy, St. Vincent
- A declaration that the First Defendant used undue influence to induce the Claimants to transfer their interest in the deceased's estate to the First Defendant
- The following Deeds to be cancelled:
  - ✓ Deed of Assent No. 3698 of 2006
  - ✓ Deed of Mortgage No. 3722 of 2006
  - ✓ Deed of Further Charge No. 4149/2010
  - ✓ Second Deed of Further Charge No. 2175/2014
  - ✓ Deed of Confirmation No. 3518 of 2017
- Further or other relief as the court deems fit; and
- Costs

Update:
Judgment in the caption matter are as follows:

- ✓ The Claimant's claim for loss of entitlement is declined;
- ✓ The Claimants do not have an interest in the property and
- ✓ The Deed of Confirmation bearing registration number 3518/2017 is valid; Deed of Assent bearing registration number 3698/2006 is valid and the mortgage bearing registration number 3722/2006 and therefore Deeds of Further Charge bearing registration numbers 4149 of 2010 and 2175 of 2014 are also valid.
- ✓ The Judge ordered that costs are awarded to the Defendants.

Attorneys advise that the Bank can proceed with the sale of the property as it has a valid mortgage. The matter is closed.

Claim No SVGHCV2017/0124 – Wendy Minors v Margot Dehen (1st and Bank of St. Vincent and the Grenadines Ltd.

The Claimant filed a notice of discontinuance in the subject matter against the Bank of St. Vincent and the Grenadines Ltd (2nd defendant) on March 16, 2018. The matter is closed.

4. Submission of Matters to a Vote of Security Holders.

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

(a) The date of the meeting and whether it was an annual or special meeting.

Annual Meeting of Shareholders held on May 28, 2018 (previously reported)

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

No elections held. Directorship continued after the Meeting:

Mr. Maurice Edwards	-	Chairman – Gov't appointee
Sir. Errol Allen	-	Gov't appointee
Mrs. Judith Veira	-	Gov't appointee
Dr. Timothy Providence	-	Elected by the public shareholders
Mr. Omar Davis	-	ECFH appointee
Mr. Lennox Bowman	-	NIS appointee
Mr. Lennox Timm	-	NIS appointee
Mr. Andre Chastanet	-	ECFH appointee (replaced by Mr. Medford Francis on August 1, 2018)
Mrs. Saibrina Brewster-Dickson	-	Gov't appointee

each such matter, including a separate tabulation with respect to each nominee for office.

See Agenda items listed below. There were no votes by ballots. All matters were decided by a show of hands which were all adopted/carried.

1. To consider and adopt the Report of the Auditors and Audited Financial Statements of the Company for the year ended December 31, 2017
2. To consider and adopt the Directors' Report
3. To sanction cash dividends of $0.17 per share paid for the financial year ending December 31, 2017
4. To appoint Auditors for the Financial Year January to December 2018
5. To discuss any other business which may be properly considered at the Annual Meeting"

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

None

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

None

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

Furnish information regarding all equity securities of the reporting issuer sold by the reporting issuer during the period covered by the report.

SHAREHOLDER	NO. OF COMMON SHARES	PERCENTAGE
East Caribbean Financial Holding Company Ltd.	3,000,000	20%
The National Insurance Services	2,999,999	20%
The Public inclusive of employees of the Bank	2,530,623	16.87%
Government of St. Vincent and the Grenadines	6,469,222	43.13%

See attached copy of Annual Returns submitted to the Companies Registry for December 31, 2018 showing movement of securities.

6. Financial Statements and Selected Financial Data.

Attach Audited Financial Statements, which comprise the following:

<u>For the most recent financial year</u>

(i) Auditor's report; and
(ii) Statement of Financial Position;

<u>For the most recent financial year and for each of the two financial years preceding the date of the most recent audited Statement of Financial Position being filed</u>

(iii) Statement of Profit or Loss and other Comprehensive Income;
(iv) Statement of Cash Flows;
(v) Statement of Changes in Equity; and
(vi) Notes to the Financial Statements.

The 2018 Financial Statements are attached.

Bank of St Vincent
2018 FS Issued Final

7. Disclosure about Risk Factors.

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

As at December 31, 2018, the Bank's overall risk profile remained stable in the following categories: Credit Risk, Liquidity Risk, Market Risk, Reputational Risk, Legal and Regulatory/Compliance Risk, Earnings and Capital Adequacy. Due to the continued volatility of corresponding banking relationships, the risk rating for operational risk remained higher than the other risk categories.
The Bank has had minimal operational losses and litigation costs.

During the period attention was placed on the following risk areas under operational risk:

Policy Review Exercise
The Policy Review exercise that commenced in June 2018 is on schedule for May 2019 completion.

IT Governance Framework
The IT Governance Committee has been established and is comprised primarily of executive managers, with a consultant providing advisory services.

Cybersecurity risk
This area continues to be of high risk due to constant technological developments. The Bank has a number of systems and controls in place to detect and prevent unauthorized access to its network and IT systems. The Bank also has an arrangement with an external company to conduct 24 hour monitoring of its environment and provide incident reports.
There were no major security activities for the quarter ended December 31, 2018.

Business Continuity and Disaster Recovery
The Bank conducts annual testing of its IT infrastructure to determine its ability to recovery and provide service to its customers in the event of a disaster. The DR testing is scheduled for May 2019 to assess and mitigate all applicable risks, ahead of the commencement of the annual hurricane season.

Compliance
There was no increase in the risk rating in this area.
AML – There is general compliance with policies and procedures. Activities are generally in keeping with what is known of the bank's customers and supporting documentation is obtained as required.
The Enhanced Compliance Solutions software is utilized to monitor all transactions, including wire transfers for structuring any other AML infractions.
There were no reported breaches for the quarter ended December 31, 2018.

Legal and Regulatory
The Bank maintains it compliance with the established legal and regulatory requirements.
Reporting requirements under FATCA and Common Reporting Standard (CRS) have been satisfied for 2018.

8. Changes in Securities and Use of Proceeds.

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

There were no changes to the rights of the holders of BOSVG securities.

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

- Offer opening date (provide explanation if different from date disclosed in the registration statement)

  N/A

- Offer closing date (provide explanation if different from date disclosed in the registration statement)

  N/A

- Name and address of underwriter(s)

  N/A

- Amount of expenses incurred in connection with the offer N/A

- Net proceeds of the issue and a schedule of its use

  N/A

- Payments to associated persons and the purpose for such payments

  N/A

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

N/A

9. Defaults upon Senior Securities.

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

N/A

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

N/A

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

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

The Management's Discussion and Analysis should disclose sufficient information to enable investors to judge:

1. The quality of earnings;
2. The likelihood that past performance is indicative of future performance; and
3. The issuer's general financial condition and outlook.

It should disclose information over and above that which is provided in the management accounts and should not be merely a description of the movements in the financial statements in narrative form or an otherwise uninformative series of technical responses. It should provide management's perspective of the company that enables investors to view the business from the vantage point of management.

General Discussion and Analysis of Financial Condition

The discussion should focus on aspects such as liquidity; capital resources; changes in financial condition; results of operations; material trends and uncertainties and measures taken or to be taken to address unfavourable trends; key performance indicators; and non-financial indicators.

The 2018 financial year was a successful one for the Bank of St. Vincent and the Grenadines. This success is reflected not only in the excellent financial results, but perhaps more importantly, in the improvements to operations and corporate governance which took place during the year

The Bank started the year with the ambitious task of implementing a new Strategic Plan 2018 – 2020 with the primary objective of repositioning the institution on a path of cautious growth and sustained profitability.

The Bank recorded profits after tax of $12.9 million for the 2018 financial year compared to $0.8 million in 2017. Total revenue increased by $4.8 million or 7.7% during the year to reach $66.9 million, up from $62.1 million in 2017. While there was also an increase in operating expenses over the same period, the value of the growth in revenue was approximately 50%. The profitability was also positively impacted by the significant reduction in the level of provisions for credit losses resulting mainly from the net impact of the increase in recovery income and the improvement in the quality of the financial assets of the Bank.

The total assets of the Bank also grew marginally (by 2.7%) from the $974.5 million in 2017, to narrowly exceed 1billion dollar at the end of 2018. This growth rate of assets in 2017 and 2018 is comparable with the level of growth in the economy for the respective periods.

Successful Implementation of IFRS 9

The results for 2018 were also subject to the transitioning of the accounting standards for impairment of financial assets from the IAS 39 to the new IFRS 9 which took effect from January 1, 2018. Following the assessment of the adequacy of the related provisions under the new reporting standard, it was determined that the Bank held excess provisions for impairment losses.

Given this development, and to ensure that we continue to create a strong buffer against the inherent volatility, the Board thought it prudent to create a general provision reserve to transfer this excess provision. Accordingly, the reserve was established during the year with an opening balance of $3.1 million. This general provision reserve will be funded on an annual basis until the balance of the reserve and the allowances for impairment losses under the IFRS 9 standard aggregate to 100% of the non-performing loans of the Bank. At the end of the 2018 financial year, the aggregate balance of the general reserve and the allowances for losses under the IFRS 9 stood at $20.1 million or 50.9%.

While we welcome and celebrate the achievement of these milestones, we remain mindful that there is still a long road ahead with many challenges and opportunities in equal measure. It is therefore imperative that we redouble our efforts in the ensuing periods to stay on course to achieve our stated strategic objective of cautious growth and sustained profitability.

Liquidity and Capital Resources

Provide a narrative explanation of the following (but not limited to):

i) The reporting issuer's financial condition covering aspects such as liquidity, capital resources, changes in financial condition and results of operations.

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

iii) The issuer's internal and external sources of liquidity and any material unused sources of liquid assets.

iv) Provisions contained in financial guarantees or commitments, debt or lease agreements or other arrangements that could trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation such as adverse changes in the issuer's financial ratios, earnings, cash flows or stock price or changes in the value of underlying, linked or indexed assets.

v) Circumstances that could impair the issuer's ability to continue to engage in transactions that have been integral to historical operations or are financially or operationally essential or that could render that activity commercially impracticable such as the inability to maintain a specified level of earnings, earnings per share, financial ratios or collateral

vi) Factors specific to the issuer and its markets that the issuer expects will affect its ability to raise short-term and long-term financing, guarantees of debt or other commitment to third parties, and written options on non-financial assets.

vii) The relevant maturity grouping of assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date. Commentary should provide information about effective periods and the way the risks associated with different maturity and interest profiles are managed and controlled.

viii) The issuer's material commitments for capital expenditures as of the end of the latest fiscal period, and indicate the general purposes of such commitments and the anticipated source of funds needed to fulfil such commitments.

ix) Any known material trends, favorable or unfavorable, in the issuer's capital resources, including any expected material changes in the mix and relative cost of capital resources, considering changes between debt, equity and any off-balance sheet financing arrangements.

Discussion of Liquidity and Capital Resources

The Bank's liquidity position continues to be stable, with the a liquid assets to deposit coverage ratio of 31.3% compared to a benchmarked ratio of 25%. As at December 31, 2018 liquid assets amounted to $234.1M, a reduction of $19.6M over the 2017 corresponding period, which was mainly as a result of a decrease in deposits with banks.

The capital position remained strong with Tier1 Capital ratio of 24%, while the Banking Act fund requires a minimum tranfer of 20 % of profit after tax to fund shortfalls in Statutory Reserve. The Board of Directors opted to fully fund this reserve in the 2018 financial year with a transfer of $5.8m.

Off Balance Sheet Arrangements

Provide a narrative explanation of the following (but not limited to):

i) Disclosures concerning transactions, arrangements and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of, or requirements for capital resources.

ii) The extent of the issuer's reliance on off-balance sheet arrangements should be described fully and clearly where those entities provide financing, liquidity, market or credit risk support, or expose the issuer to liability that is not reflected on the face of the financial statements.

iii) Off-balance sheet arrangements such as their business purposes and activities, their economic substance, the key terms and conditions of any commitments, the initial on-going relationship with the issuer and its affiliates and the potential risk exposures resulting from its contractual or other commitments involving the off-balance sheet arrangements.

iv) The effects on the issuer's business and financial condition of the entity's termination if it has a finite life or it is reasonably likely that the issuer's arrangements with the entity may be discontinued in the foreseeable future.

There was no material off balance sheet arrangements at reporting period.

Results of Operations

In discussing results of operations, issuers should highlight the company's products and services, facilities and future direction. There should be a discussion of operating considerations and unusual events, which have influenced results for the reporting period. Additionally, any trends or uncertainties that might materially affect operating results in the future should be discussed.

Provide a narrative explanation of the following (but not limited to):

i) Any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and, in each case, the extent to which income was so affected.

ii) Significant components of revenues or expenses that should, in the company's judgment, be described in order to understand the issuer's results of operations.

iii) Known trends or uncertainties that have had or that the issuer reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

iv) Known events that will cause a material change in the relationship between costs and revenues (such as price increases, costs of labour or materials), and changes in relationships should be disclosed.

    i. The extent to which material increases in net sales or revenues are attributable to increases in prices or to increases in the volume or amount of goods or services being sold or to the introduction of new products or services.

Results of Operations
The increase in current year's profitability was primarily driven by increases in net interest income and in non-interest income and a reduction in credit losses

Net Interest Income
Total interest income grew by $1. 3 million, with income from deposits from banks increasing by approximately $119 thousand, while income from loans and advances and investment grew by approximately $600 thousand each. Interest expenses declined by $1.6 million or 9.23% with a reduction of $1.1million in expense on savings being the major contributor. The overall decline was consistent with the Bank's strategy to reduce the cost of funds

Non-Interest Income
Total non-interest income grew by approximately $3.5 million mainly due to increases in the fees and commission income. This resulted mainly from a combination of the introduction of a number of new fees and the improvements in the collection of fees during the year.

Reduction in Provisions for Credit Losses
Total provision expenses net of recovery income was $2.6 million in 2018 compared to $9.9 million in 2017. This significant reduction is reflective of the overall improvement in asset quality. Additionally, the Bank recovered $1.1 million from amounts previously written off compared to an amount of $454 thousand for the previous financial year.

Operating Expenses
Total Operating Expenses, comprising of staff cost and other operating expenses increased by 8% to $34.5 million. This increase was mainly in the category of employee benefits and expenses, which grew by $2.0 million. The increase in expenses in this category was as a result of costs incurred in repositioning the institution as a stand-alone entity.

The increased cost of doing business in a complex regulatory environment and its associated compliance cost resulted in an increase in licenses and membership fees of $732K. The increase of $260 thousand in interest levy cost was commensurate with the growth in the deposit portfolio, while the increase in Credit Card expenses of $274 thousand was mainly due to increased transaction levels during the year. However, there is a corresponding increase in the associated revenue from the credit card activities with a margin of approximately 20%.

Balance Sheet Review

The growth in assets was driven by increases in the investments and loans and advances portfolios of $24 and $11million respectively. This growth was funded by an increase of $21.4 million in Due to Customers, which increased by 2.9% to $767.2 million at the end of 2018

Investments
Total investments as at December 31, 2018, amounted to $79.2 million compared to $55 million at the end of 2017. The increase in the portfolio was consistent with the strategy to utilise excess liquidity and place funds into income generating assets within the Bank's risk appetite. The majority of this excess liquidity was deployed in investment-graded assets on the international market.

Loans and Advances
The modest growth in the portfolio was mainly manifested in the retail mortgage category, where there was an increase of $19.1 million or 6.0% over the previous year. There was a decline of $24.9 million or 14.7% in the commercial lending portfolio, which resulted primarily from the combination of the normal amortisation of the portfolio and the successful liquidation of a number of loans within this category. Total overdraft balances increased by $10.0 million or 21.9% mainly as a result of increased exposure to the public sector while term loans grew by $3.7 million or 4.2%.

Fundings
During the 2018 financial year, the Bank strengthened efforts to optimise its funding structure with a view to reducing the overall cost of funds, while being cognizant of the developments in the international market and the potential adverse impact on liquidity. These efforts resulted in the overall reduction in interest expense despite the increase in deposits during the year.

The growth of 8.72% or $20.6 million in demand deposits was the major contributor to the overall deposit growth of $21.4 million. Savings deposits grew by $6.0 million or 1.52% while there was a reduction in term deposits of $5.2 million or 4.37%.

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

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

There were no changes in and disagreements with Auditors on Accounting and Financial disclosure.

12. Directors and Executive Officers of the Reporting Issuer. (*Complete Biographical Data Form attached in Appendix 1 and Appendix 1(a) for each director and executive officer*)

Furnish biographical information on directors and executive officers indicating the nature of their expertise.

13. Other Information.

The reporting issuer may, at its option, report under this item any information, not previously reported in a Form ECSRC – MC report provided that the material change occurred within seven days of the due date of the Form ECSRC – K report. If disclosure of such information is made under this item, it need not be repeated in a Form ECSRC – MC report which would otherwise be required to be filed with respect to such information.

N/A

14. List of Exhibits

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

1. Appendix 1- Biographical Data Forms –Directors of the Company
2. Appendix 1a-Biographical Data Forms – Executive Officers
3. Audited Financial Statements for the year ended December 31, 2018
4. Annual Returns 2018

APPENDIX 1 – BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Mr. Maurice Edwards

Position: Chairman of the Board of Directors, Member of the Audit Committee and Member of the Risk & Compliance Committee
Age: 59

Mailing Address: C/O Bank of St. Vincent and the Grenadines Ltd., Reigate, Granby Street, P.O. Box 880, Kingstown, VC0 100, St. Vincent and the Grenadines

Telephone No: (784) 457-1844

List jobs held during the past five years. Give brief description of responsibilities. Include names of employers.

- Consultant – 2017 - Present
- Director General Finance – Government of SVG – 1990 - 2017
- Present Director – St. Vincent Electricity Services
- Present Director – Ottley Hall Marina
- Present Director – Argyle International Airport
- Present Director – Agricultural Input Warehouse
- Present Director – Glossy Bay Mariana
- Present Director – Almond Tree Investment
- Former Director – National Properties Ltd.
- Former Director - Eastern Caribbean Central Bank

Give brief description of **current** responsibilities.

Chairman of the Board of Directors - The Chairperson is responsible for:

i) Leading the Board in reviewing and discussing Board matters;
ii) Preside at meetings of directors and the shareholders
iii) Ensuring the efficient organization and conduct of the Board's function
iv) Facilitating effective contribution by all directors
v) Monitoring and reviewing directors performance
vi) Ensuring that directors meet separately at least once per year to consider, among other things, management's performance

Member of the Audit Committee
Member of the Risk & Compliance Committee

Education (degrees or other academic qualifications, schools attended, and dates):

BSc. Accounting – UWI - 1983
CFA – 2016

Use additional sheets if necessary.

APPENDIX 1 – BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Sir Errol Allen

Position: Director of the Board of Directors, Chairman of the Human Resources Committee and Member of the Credit Committee
Age: 81

Mailing Address: C/O Bank of St. Vincent and the Grenadines Ltd., Reigate, Granby Street, P.O. Box 880, Kingstown, VC0 100, St. Vincent and the Grenadines

Telephone No: (784) 457-1844

List jobs held during the past five years. Give brief description of responsibilities. Include names of employers.

- 1983 – 2005: Former Deputy Governor of the Eastern Caribbean Central Bank
- 1996 – Present: President of the Eastern Caribbean Institute of Banking and Financial Services (ECIB)
- 2010 – Present: Chairman of the Eastern Caribbean Securities Regulatory Commissions (ECSRC)
- 2011 – Present: Chairman of the Turks & Caicos Island Regulatory Commissions
- 2016 – Present: Director NCB Anguilla

Give brief description of **current** responsibilities.

Director of the Board of Directors, Chairman of the Human Resources Committee and Member of Credit Committee

Education (degrees or other academic qualifications, schools attended, and dates):

Acc. Dir – Caribbean Governance Training Institute – March 2015
Acc. Dir – ICSA Jan 2013
BSc. Economics – London University, UK 1967
MSc. International Economics – University of Surrey, UK 1970

Use additional sheets if necessary.

APPENDIX 1 – BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Saibrina Brewster-Dickson

Position: Director of the Board of Directors, Member of the Credit Committee and Member of the Human Resources Committee

Age: 41

Mailing Address: C/O Bank of St. Vincent and the Grenadines Ltd. Reigate, Granby Street, P.O. Box 880, Kingstown, VC0 100, St. Vincent and the Grenadines

Telephone No: (784) 457-1844

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

- April 19, 2004 – Present: Chief Accountant – The Mustique Company Limited
- April 21, 2016 – Present: Director – Brewster's Auto Supplies Ltd.
- Present – Owner /Manager – The Corner Store

Give brief description of **current** responsibilities.

Director of the Board of Directors
Member of the Credit Committee
Member of the Human Resources Committee

Education (degrees or other academic qualifications, schools attended, and dates):

- 2004 - MBA – Heriott – Watt
- 2002 -ACCA
- 2000 - BSC Management Studies – UWI

Use additional sheets if necessary.

APPENDIX 1 – BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Mrs. Judith Veira

Position: Director of the Board of Directors, Chairperson of the Audit Committee and Member of the Risk & Compliance Committee
Age: 57

Mailing Address: C/O Bank of St. Vincent and the Grenadines Ltd., Reigate, Granby Street, P.O. Box 880, Kingstown, VC0 100, St. Vincent and the Grenadines
Telephone No.: (784) 457-1844

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

- 1994 – Present –Consulting Actuary, Trinity Consulting Ltd.
- Present: Member & Vice President – Caribbean Actuarial Association Executive Council
- Present: Director - IM Holdings Inc.
- Present: Director – Trinity Consulting Inc

Give brief description of **current** responsibilities.

Director of the Board of Directors
Chairperson of the Audit Committee
Member of the Risk & Compliance Committee

Education (degrees or other academic qualifications, schools attended, and dates):

BA Hons Actuarial Science – London University, UK – 1986
Associate, Society of Actuaries - 1987
Fellow of the Society of Actuaries – 1994

Use additional sheets if necessary.

APPENDIX 1 – BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Lennox Bowman

Position: Director of the Board, Member of the Credit Committee and Member of the Human Resources Committee
Age: 60

Mailing Address: C/O Bank of St. Vincent and the Grenadines Ltd., Reigate, Granby St. P.O. Box 880, Kingstown VC0 100, St. Vincent and the Grenadines
Telephone No: (784) 457-1844

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

- CEO - General Employees Co-operative Credit Union Ltd. – 1994 – present
- Chairman – National Insurance Services – April 2001- present
- Local Director - B2B Ltd. – 2012 – present
- Director – Centre for Enterprise Development (CED) – Jan 2019 – Present

Give brief description of **current** responsibilities.

Director of the Board of Directors
Member of the Credit Committee
Member of the Human Resources Committee

Education (degrees or other academic qualifications, schools attended, and dates):

MAAT- Association of Accounting Technicians UK - 1989
ACIB - Chartered Institute of Bankers UK – 1994

Use additional sheets if necessary.

APPENDIX 1 – BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Dr. Timothy Providence

Position: Director of the Board of Directors, Chairman of the Credit Committee and Member of the Human Resources Committee
Age: 68

Mailing Address: C/O Bank of St. Vincent and the Grenadines Ltd., Reigate, Granby Street, P.O. Box 880, Kingstown, VC0 100, St. Vincent and the Grenadines

Telephone No: (784) 457-1844

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Current Director for the following Companies:

- Irie Investments Ltd.
- Caribbean Reference Laboratory Ltd
- Victoria Medical Centre Inc.

Give brief description of **current** responsibilities.

Director of the Board of Directors
Chairman of the Credit Committee
Member of the Human Resources Committee

Education (degrees or other academic qualifications, schools attended, and dates):

- MBBS (UWI) 1974
- MRCOG (LON) 1981
- FRCOG (LON) 1998

Use additional sheets if necessary.

APPENDIX 1 – BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Omar Davis

Position: Director of the Board of Directors and Member of the Audit Committee
Age: 67

Mailing Address: C/O East Caribbean Financial Holding Company Ltd., P.O. Box 1860, Bridge Street, Castries, St. Lucia

Telephone No: 758-456-6000

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

- Financial Consultant / Chartered Certified Accountant
- Current: Director – OL Davis & Co
- Current: Director – O.T.N Ltd.
- Current: Director – OMS Ltd.
- Current: Director – ODEL Inc
- Current: Director – Adroit Global Solutions
- Current: Director – East Caribbean Financial Holding Company Limited
- Current Director – Caribbean Youth Fest Limited
- Current Director – Caribbean Life Limited
- Current Director – Windward Islands Crop Insurance (1988) Limited

Give brief description of **current** responsibilities.

Director of the Board of Directors

Member of the Audit Committee

Education (degrees or other academic qualifications, schools attended, and dates):

Chartered Accountant – Fellow of the Association of Chartered Certified Accountants 1975
Accredited Director and Member –ICSA - January 2013

Use additional sheets if necessary.

APPENDIX 1 – BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Mr. Lennox Timm

Position: Director of the Board of Directors, Chairman of the Risk & Compliance Committee and Member of the Audit Committee

Age: 58

Mailing Address: C/O Bank of St. Vincent and the Grenadines Ltd. Reigate, Granby Street, P.O. Box 880, Kingstown, VC0 100, St. Vincent and the Grenadines

Telephone No: 784-457-1844

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

- 1993 – Present – Financial Comptroller – National Insurance Services St. Vincent and the Grenadines
- Past Director – National Development Foundation SVG
- Past Director - Carnival Development Corporation SVG
- Past Director – East Caribbean Financial Holding Company Limited

Give brief description of **current** responsibilities.

Director of the Board of Directors
Chairman of the Risk & Compliance Committee
Member of the Audit Committee

Education (degrees or other academic qualifications, schools attended, and dates):

- 1995 – 1997 – Professional Degree in Accounting – Emille Wolf College of Accountancy UK
- 1997 - Chartered Certified Accountant (FCCA)
- Member of the Association of Accounting Technicians (MAAT)
- 2019 – Chartered Business Valuator (CBV) – Canadian Institute of Business Valuators
- 2019 – MSc. International Banking & Finance – University of Salford, Manchester, UK

Use additional sheets if necessary.

APPENDIX 1 – BIOGRAPHICAL DATA FORMS

DIRECTORS OF THE COMPANY

Name: Medford Francis

Position: Director of the Board of Directors, Member of the Risk & Compliance Committee
Age: 47

Mailing Address: C/O East Caribbean Financial Holding Company Ltd., P.O. Box 1860, Bridge Street, Castries, St. Lucia

Telephone No: 758-456-6000

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

- Feb 2019 – Present – Deputy Managing Director, Lending & Investments, Bank of St. Lucia Limited
- June 2015 – Jan 2019 – Senior Manager, Investment Banking Services, Bank of St. Lucia Limited
- April 2014 – June 2015 – Group Investment Manager, East Caribbean Financial Holding Company Limited

Give brief description of **current** responsibilities.

Director of the Board of Directors
Member of the Risk & Compliance Committee

Education (degrees or other academic qualifications, schools attended, and dates):

- 1999 – BSc. Economics – University of the West Indies
- 2006 - MSc. Financial Management – University of London

APPENDIX 1(a) – BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Derry Williams Position: Managing Director

Age: 48

Mailing Address: **Reigate, P.O. Box 880 , Kingstown, VC0 100, St. Vincent and the Grenadines**

Telephone No.: **(784) 457-1844 ext.111**

List jobs held during past five years (including names of employers and dates of employment).

May 2018 – Present – Managing Director, BOSVG

May 2016 – March 2018 – Country Manager/Managing Director, BOSL/ECFH

April 2011 – April 2016 – Managing Director, BOSVG

Give brief description of **current** responsibilities.

Position is responsible for providing strategic leadership for the Bank by working with the Board of Director and the Executive Management Team to establish and ensure delivery of the agreed work programme output and targets for the Bank within agreed budgets and for the development of the Bank's network, systems and strategies, policies, new products and services;

- Review and set work programme strategies, targets and periodic performance monitoring indicators for the various departments;
- Review credit and other financial proposals above specified limits to ensure that they are feasible, bankable and mutually beneficial to the Bank and borrower;
- Manage the risk profile of the bank's credit and investment portfolios;
- Spearhead the development , communication and implementation of effective growth strategies and processes;
- Collaborates with the Executive Management Team to develop and implement plans for operational infrastructure of systems, processes and personnel designed to accommodate the growth objectives of the bank.

Education (degrees or other academic qualifications, schools attended, and dates):

2002 – MBA Finance – University of Leicester, UK
1998 – Institute of Canadian Bankers

Also a Director of the company [ ] Yes [x] No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

Use additional sheets if necessary.

APPENDIX 1(a) – BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Bennie Stapleton | Position: Chief Financial Officer

Age: 46

Mailing Address: **Reigate, P.O. Box 880 , Kingstown, VC0 100, St. Vincent and the Grenadines**

Telephone No.: **(784) 457-1844 ext.111**

List jobs held during past five years (including names of employers and dates of employment).

September 2009– present Chief Financial Officer

Give brief description of **current** responsibilities.

The Chief Financial Officer is responsible for the Bank's fiscal operating results. He engages in strategic planning, prepares, presents and interprets financial reports and provides guidance to senior management on fiscal control and profitability. The CFO assists the Managing Director in finance and accounting policy formulation, attaining the bank's financial goals and ensuring compliance with Bank policies, procedures, legal and regulatory requirements;

- Overall responsibility for finance and accounting for finance and accounting functions;
- Develop and execute strategies to achieve the bank' fiscal goals, including capital-raising strategies and market initiatives to support growth and profitability;
- Develop budget targets and oversees budget preparation and implementation;
- Analyse projections, trends and actual performance to identify opportunities for improvement; provides direction to ensure compliance with budget;

Education (degrees or other academic qualifications, schools attended, and dates):

2010 – Certificate in Executive Management, Columbia Business Graduate School of Business

June 2008 – Certified Internal Auditor, the Institute of Internal Auditors NY

2002 - ACCA

1994 – 1997 – UWI Cave Hill Campus, BSc. Accounting

Also a Director of the company [ ] Yes [x] No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters: ______________

Use additional sheets if necessary.

APPENDIX 1(a) – BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Nandi Williams Morgan Position: Corporate Secretary

Age: 44

Mailing Address: **Reigate, P.O. Box 880 , Kingstown, VC0 100, St. Vincent and the Grenadines**

Telephone No.: **(784) 457-1844 ext.111**

List jobs held during past five years (including names of employers and dates of employment).

December 2004 – Present Corporate Secretary

Give brief description of **current** responsibilities.

To provide support to Directors and Senior Executive Management in areas of corporate governance and corporate legal and administrative matters.

- Ensuring compliance with the statutes and regulations that govern the operations of the bank;
- Executing documents as a signing office and keeping proper records of documents;
- Dealing with matters related to the issue, transfer and transmission of shares and other securities;
- Ensure that the proper procedure for the declaration and payment of dividends is carried out;
- Arranging and maintaining insurance coverage;
- Coordinating arrangements for attending and recording the minutes of shareholders', directors' and other company meetings, and dealing with matters that arise there from;
- Conveying decisions arising from company meetings, and directing and assisting in the implementation of these decisions;
- Directing , coordinating and organizing the flow of information to the board of directors and sub-committees of the board;
- Obtaining from directors and maintaining information required for legal and regulatory compliance;
- Keeping custody of the corporate seal, statutory books and other corporate documents;
- Directing and assisting in the preparation and distribution of reports and other material/communication to the shareholders;
- Coordinating and assisting in orientation of new directors to the Bank and to the Board;

Education (degrees or other academic qualifications, schools attended, and dates):

Jan 2011 – Sept 2011	BPP Law School, UK – Graduate Diploma in Law (GDL)
2003 – 2004	Brunel University, UK - LLM International Trade Law
2001	ECSRC Exam Certificate
June 2001	ECSE System Certificate
1995 – 1998	UWI, Cave Hill, BSc. Economic with Law

Also a Director of the company [ ] Yes [x] No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

Use additional sheets if necessary.

APPENDIX 1(a) – BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: La Fleur Hall Position: Manager Risk & Compliance

Age: 46

Mailing Address: **Reigate, P.O. Box 880 , Kingstown, VC0 100, St. Vincent and the Grenadines**

Telephone No.: **(784) 457-1844 ext.111**

List jobs held during past five years (including names of employers and dates of employment).

February 2011 – Present Manager Risk & Compliance

Give brief description of **current** responsibilities.

Responsibilities include the following among others:
To ensure compliance with Bank policies and procedures, and associated regulatory requirements. The Manager is further responsible for ensuring that the Bank remains in compliance with all applicable laws, rules and regulations, governing operations and products;

- Analyze large transaction report daily, scrutinizing Declaration of Source of Funds forms where necessary, to ensure that compliance issues/concerns within the bank are being identified, appropriately evaluated, investigated and resolved;

- Investigate suspicious transactions and submit Suspicious Activity Reports to the Financial Intelligence Unit in accordance with relevant laws and regulations, and ensure a log of such reporting is properly maintained;

- Ensure compliance with certification and reporting requirements of foreign authorities and correspondent banks with respect to matters relating to money laundering control;

- Develop, coordinate and conduct a comprehensive training programme that focuses on all elements of risk and compliance.

- Review compliance related policies and procedures annually to ensure that policies are adequate and in compliance with relevant laws and regulations and make recommendations for changes where applicable.

- Develop, implement, review and revise compliance risk management programmes, procedures and systems throughout the bank to prevent illegal, unethical or improper conduct.

- Identify potential areas of compliance vulnerability and risk, develop/implement corrective action plans for resolution of problematic issues and provide general guidance on how to avoid or handle similar situations in the future.

Education (degrees or other academic qualifications, schools attended, and dates):

2010 – Certified Anti Money Laundering Specialist – Accreditation Association of Certified Anti-Money Laundering Specialist

2010 – MSc. Audit Management and Consultancy – Birmingham City University

2008 – Anti Money Laundering Certified Associate – Florida International Banker's Association

2007 - Certified Forensic Financial Analyst

Also a Director of the company [ ] Yes [x] No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

Use additional sheets if necessary.

APPENDIX 1(a) – BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Name: Cerlian Russell Position: Senior Manager Business and Operations

Age: 47

Mailing Address: **Reigate, P.O. Box 880 , Kingstown, VC0 100, St. Vincent and the Grenadines**

Telephone No.: **(784) 457-1844 ext.111**

List jobs held during past five years (including names of employers and dates of employment).

March 2010 – Present Senior Manager Business and Operations

Give brief description of **current** responsibilities.

Responsibilities include the following among others:

The Senior Manager Business and Operations leads and directs the operations and compliance functions of the Bank, setting goals and formulating procedures to meet and/or surpass the Bank's objectives for shareholder return, customer service and public expectations. The incumbent is responsible for ensuring the highest level of customer service;

- Develop long-term strategic initiatives and annual business plans establishing goals and targets for the operations function, and developing and executing strategies for the achievement of these goals and targets.
- Responsible for the Deposits Portfolio and to set, monitor, and implement initiatives for the achievement of and reports on the budgeted targets and actual performance.
- Responsible for Operations Integrity and following through and implementing agreed Best Practice recommendations, including the Central Bank's Code of Best Practice for financial institutions licensed under the Banking Act.
- Manage the Staff in the operations function, working closely with the Human Resource Department to provide training, development and career growth opportunities to adequately plan for succession and manpower requirements and to manage disciplinary issues.
- Ensure appropriate initiatives are in place to develop the leadership pipeline throughout the Operations Network and to ensure staff rotation in accordance with Risk Management guidelines.
- Lead the formulation, implementation and management of sales strategies for the various units in the Retail function, initiating the development of individual sales performance reporting for staff within the Operations function, and monitoring Branches' sales performance through working together with Branch Managers and to ensure sales targets are achieved.

Education (degrees or other academic qualifications, schools attended, and dates):

2017 - Anti-Money Laundering Certified Associate (AMLCA) – Florida International Bankers Association (FIBA) Inc.

2007 – Masters in Business Administration – UWI

Sept 2005 - Diploma in Management – UWI

Oct 2004 - Certified Residential Underwriter – Real Estate Institute of Canada

Also a Director of the company [ ] Yes [x] No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

Use additional sheets if necessary.

Bank of St. Vincent and the Grenadines Ltd.

Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in Eastern Caribbean Dollars)

Bank of St. Vincent and the Grenadines Ltd.

Index to the Consolidated Financial Statements

For the year ended 31 December 2018

KPMG
First Floor
National Insurance Services Headquarters
Upper Bay Street
P.O. Box 587, Kingstown
St. Vincent and the Grenadines

Telephone: (784) 451-1300
Fax: (784) 451-2329
Email: kpmg@kpmg.vc

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank of St. Vincent and the Grenadines Ltd. and its subsidiary (collectively, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

KPMG

Independent Auditors' Report (continued)

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

Key Audit Matters (continued)

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">IFRS 9 Expected Credit Losses</td></tr>
<tr><td>Refer to Notes 2, 9, 10, and 37 of the consolidated financial statements

IFRS 9, Financial Instruments, was implemented by the Group on January 1, 2018. The standard, which replaced IAS 39 Financial Instruments: Recognition and Measurement is new and complex and requires the Group to recognise expected credit losses ('ECL') on financial assets, the determination of which is highly subjective and requires management to make significant judgement and estimates.

The key areas requiring a greater level of judgement by management and therefore increased audit focus include the identification of significant increase in credit risk ('SICR') and the application of forward-looking information. The identification of significant increase in credit risk is a key area of judgement as these criteria determine whether a 12 month or lifetime provision is recorded (i.e. the Stage allocation process). IFRS 9 requires the Group to measure expected credit losses on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is used in determining the economic scenarios and management overlay.</td><td>General

We understood management's process and reviewed key activities around the determination of expected credit loss allowances including:

- Appropriateness of modeling methodology;
- Model approval;
- The identification of credit impairment events; and
- The review, challenge and approval of the expected credit loss allowances, including the impairment model outputs, key management judgments and overlays applied.

Stage 1 and Stage 2 Loans and advances

• Obtained an understanding of the impairment model used by management for the calculation of expected credit losses.

• Tested the completeness and accuracy of the key data inputs used in the model to the underlying accounting records.

• Involved our actuarial specialists to evaluate the reasonableness of the Group's ECL estimates based on the underlying ECL models produced by the Group. As part of this, the specialists reviewed the methodologies and assumptions employed within the models for reasonableness. This included a review of the SICR criteria used, the derivation and assumptions selected for probability of default, loss given default and the exposure at default. Additionally the specialists considered the appropriateness of using a management's overlay approach in lieu of a regression model based on the statistical credibility results provided.</td></tr>
</table>

Independent Auditors' Report (continued)

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

Key Audit Matters (continued)

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">IFRS 9 Expected Credit Losses (cont'd)</td></tr>
<tr><td>For the Group's loans and advances in Stage 1 and 2 (i.e. Stage 1 - loans which had not experienced a significant increase in credit risk since origination and; Stage 2 - those that had experienced such), the allowance is determined on a collective basis with the use of impairment models. These models use a number of key assumptions including probability of default, loss given default and valuation of recoveries. Management also apply overlays where they believe the model calculated assumptions and allowances require refinement due to historical trends or due to the model limitations.

For the Group's loans and advances in Stage 3 (i.e. credit impaired facilities) expected credit losses are estimated on an individual basis. Specific criteria has been developed to identify loans that have become credit impaired. However judgement is exercised to determine whether any additional loans are exhibiting specific characteristics that would lead to such classification. The Group then estimates the expected future cash flows related to those loans.

We therefore determined that the impairment of loans and advances has a high degree of estimation uncertainty.

Disclosures regarding the Group's application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements and material inputs to the IFRS 9 ECL results.</td><td>Stage 3 Loans and advances

• We critically assessed the criteria for determining whether a credit impairment event had occurred. This involved reviewing a sample of loan facilities in Stage 1 and 2 for indicators of a credit impairment event based on determined risk characteristics.

• We assessed the adequacy of the impairment allowance for loans and advances by testing the key assumptions used in the Group's ECL calculations including forecasts of future cash flows and timing of such.

• We involved our internal valuation specialists in the review of third party valuations of the underlying collateral security supporting a sample of loans and advances.

• We also considered the current market conditions and compared these against the Group's historical experience of the realization of security and actual collection of cash flows.

• Re-performed management's allowance calculation.

Financial statement disclosures

• Assessed the adequacy of the disclosures of the key assumptions and judgements and the details of the transition adjustment for compliance with the standard.</td></tr>
</table>

Independent Auditors' Report (continued)

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

Other Matter

The consolidated financial statements of Bank of St. Vincent and the Grenadines Ltd. for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 19 March 2018.

Other Information

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

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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Independent Auditors' Report (continued)

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report (continued)

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Lisa Brathwaite.

KPMG

KPMG
Kingstown, St. Vincent and the Grenadines
22 March 2019

Bank of St. Vincent and the Grenadines Ltd.

Consolidated Statement of Financial Position

As at 31 December 2018

(expressed in Eastern Caribbean dollars)

	Note	2018 $	2017 $
Assets			
Cash and balances with Eastern Caribbean Central Bank	5	**105,753,066**	118,625,250
Deposits with other banks	6	**118,850,378**	115,572,633
Treasury bills	7	**10,290,846**	10,401,918
Investment securities	8	**79,013,983**	55,025,191
Loans and advances to customers	9	**616,595,632**	605,030,164
Investment security at amortised cost	11	**9,924,905**	10,032,877
Investment properties	12	**2,232,000**	2,412,000
Property and equipment	13	**53,020,306**	53,190,104
Deferred tax asset	15	**1,592,111**	-
Other assets	16	**4,009,612**	4,292,506
Total assets		**1,001,282,839**	974,582,643
Liabilities			
Deposits from banks	17	**37,863,272**	35,248,997
Due to customers	18	**767,161,792**	745,782,313
Borrowings	19	**38,284,024**	42,095,265
Deferred tax liability	15	**-**	47,105
Provisions and other liabilities	20	**40,298,037**	47,136,292
Total liabilities		**883,607,125**	870,309,972
Equity			
Share capital	21	**20,753,306**	20,753,306
Statutory reserves	22	**20,753,306**	14,912,580
General provision reserves	23	**3,133,354**	-
Unrealised (loss)/gain on investments		**(95,386)**	1,725,685
Retained earnings		**73,131,134**	66,881,100
Total equity		**117,675,714**	104,272,671
Total liabilities and equity		**1,001,282,839**	974,582,643

Approved by the Board of Directors on 22 March 2019

M. Edwards ....Director ....Director

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

Bank of St. Vincent and the Grenadines Ltd.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(expressed in Eastern Caribbean dollars)

	Notes	Share Capital (Note 21) $	Statutory Reserves (Note 22) $	General Provision Reserves (Note 23) $	Unrealised (Loss)/Gain on Investments $	Retained Earnings $	Total $
Balance at 1 January 2017		14,753,306	14,753,306	-	1,529,887	74,795,159	105,831,658
Transfers	21, 22	6,000,000	159,274	-	-	(6,159,274)	-
Total comprehensive income		-	-	-	195,798	796,372	992,170
Dividend paid ($0.17 per share)		-	-	-	-	(2,551,157)	(2,551,157)
Balance at 31 December 2017		20,753,306	14,912,580	-	1,725,685	66,881,100	104,272,671
Balance at 1 January 2018 (as previously reported)		**20,753,306**	**14,912,580**	**-**	**1,725,685**	**66,881,100**	**104,272,671**
Net impact of adopting IFRS 9	37	**-**	**-**	**-**	**(1,725,685)**	**4,859,039**	**3,133,354**
Restated opening balance under IFRS 9		**20,753,306**	**14,912,580**	**-**	**-**	**71,740,139**	**107,406,025**
Transfer to statutory reserves	22	**-**	**5,840,726**	**-**	**-**	**(5,840,726)**	**-**
Transfer to general provision reserves	23	**-**	**-**	**3,133,354**	**-**	**(3,133,354)**	**-**
Total comprehensive income		**-**	**-**	**-**	**(95,386)**	**12,915,048**	**12,819,662**
Dividend paid ($0.17 per share)		**-**	**-**	**-**	**-**	**(2,549,973)**	**(2,549,973)**
Balance at 31 December 2018		**20,753,306**	**20,753,306**	**3,133,354**	**(95,386)**	**73,131,134**	**117,675,714**

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

Bank of St. Vincent and the Grenadines Ltd.

Consolidated Statement of Income

For the year ended 31 December 2018

(expressed in Eastern Caribbean dollars)

	Notes	2018 $	2017 $
Interest income	25	**50,965,020**	49,659,001
Interest expense	25	**(15,777,317)**	(17,382,035)
Net interest income		**35,187,703**	32,276,966
Fee, commission and other income	26, 28, 29	**15,582,035**	12,240,527
Dividend income	27	**380,475**	179,850
Allowances for credit losses on financial assets	32	**(2,559,163)**	(9,911,971)
Operating expenses	30	**(34,526,454)**	(31,995,497)
Profit before income tax		**14,064,596**	2,789,875
Income tax expense	33	**(1,149,548)**	(1,993,503)
Profit for the year		**12,915,048**	796,372
Basic and diluted earnings per share	34	**0.86**	0.05

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

Bank of St. Vincent and the Grenadines Ltd.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Profit for the year	**12,915,048**	796,372
Other comprehensive income ***Items that are or may be reclassified to profit or loss in subsequent periods:***		
Unrealised gain on available-for-sale investments	-	195,798
Net change in fair value of debt instruments measured at FVOCI	**(95,386)**	-
Other comprehensive (loss)/income for the year, net of tax	**(95,386)**	195,798
Total comprehensive income for the year	**12,819,662**	992,170

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

Bank of St. Vincent and the Grenadines Ltd.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Cash flows from operating activities		
Profit for the year	**12,915,048**	796,372
Adjustments for:		
Interest income – investment securities and deposits	**(4,220,495)**	(3,549,911)
Interest expense – borrowings	**1,925,368**	1,984,684
Loan impairment losses	**3,653,325**	8,943,101
Credit losses on investment securities	**1,200**	-
Credit losses on other financial assets	**(4,525)**	1,824,911
Depreciation	**2,466,021**	2,741,407
Recovery of impairment losses on investments	**(13,911)**	(415,974)
Dividend income	**(380,475)**	(179,850)
Fair value loss on investment property	**180,000**	-
Loss on disposal of investment property	**-**	183,484
Gain on disposal of property and equipment	**(60,232)**	-
Income tax expense	**1,149,548**	1,993,503
	17,610,872	14,321,727
Changes in:		
Mandatory deposits with Eastern Caribbean Central Bank	**(1,282,769)**	(1,798,210)
Loans and advances to customers	**(15,215,468)**	(35,159,530)
Other assets	**282,894**	1,360,625
Due to customers	**21,379,479**	29,970,161
Deposits from banks	**2,614,275**	(4,791,808)
Other liabilities	**(4,644,908)**	(16,757,083)
	20,744,375	(12,854,118)
Dividends received	**380,475**	179,850
Interest received	**4,220,495**	3,549,911
Interest paid	**(1,961,184)**	(1,935,802)
Income tax paid	**(2,123,932)**	(708,747)
Net cash from/(used in) operating activities	**21,260,229**	(11,768,906)
Cash flows from investing activities		
Interest bearing deposits with financial institutions	**(20,451,229)**	(48,017)
Proceeds from sale of investment property	**-**	184,516
Proceeds from disposal and redemption of investment securities	**9,498,133**	9,556,663
Purchase of investment securities	**(33,132,204)**	(21,253,788)
Purchase of property and equipment	**(2,301,991)**	(2,198,005)
Proceeds from disposal of property and equipment	**66,000**	-
Net cash used in investing activities	**(46,321,291)**	(13,758,631)

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Cash flows from financing activities		
Dividends paid	**(2,549,973)**	(2,551,157)
Repayment of borrowings	**(4,282,650)**	(4,304,591)
Proceeds from borrowings	**454,175**	-
Net cash used in financing activities	**(6,378,448)**	(6,855,748)
Net decrease in cash and cash equivalents	**(31,439,510)**	(32,383,285)
Cash and cash equivalents at beginning of year	**197,354,931**	229,738,216
Cash and cash equivalents at end of year (Note 35)	**165,915,421**	197,354,931

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

(expressed in Eastern Caribbean dollars)

1 General information

Bank of St. Vincent and the Grenadines Ltd. ("the Bank"), (formerly the National Commercial Bank (SVG) Ltd.) a company listed on the Eastern Caribbean Securities Exchange, was incorporated in St. Vincent and the Grenadines on 1 June 1977. On 19 June 2009, the Bank and the St. Vincent and the Grenadines Development Bank Inc. were amalgamated and continued under the name of the National Commercial Bank (SVG) Ltd. The Bank's name was changed to Bank of St. Vincent and the Grenadines Ltd. on 26 November 2012. In addition to the Company's Act of 1994, the Bank is subject to the provisions of the Banking Act 2015, the Securities Act #29 of 2001 and provisions of other legislations applicable to the business of the Bank.

Property Holdings SVG Ltd. ("the Subsidiary") is wholly owned by the Bank. The Subsidiary was incorporated in St. Vincent and the Grenadines on 13 December 2010. The Subsidiary's principal activity is to own, develop and manage real estate properties acquired by the Bank.

The principal activities of the Bank and its Subsidiary (the Group) are the provision of retail, corporate, banking and investment services in St. Vincent and the Grenadines. The Bank is publicly listed on the Eastern Caribbean Stock Exchange.

The Group's principal place of business and registered office is located at Reigate, Granby Street, Kingstown, St. Vincent.

2 Summary of significant accounting policies

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

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB) as at 31 December 2018 (the reporting date).

The consolidated financial statements for the year ended 31 December 2018 were approved by the Board of Directors for issue on 22 March 2019.

Basis of preparation

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

New and amended standards and interpretations

The Group has initially adopted IFRS 9 and IFRS 15 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they did not have a material effect on the Group's consolidated financial statements.

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

The effect of initially applying these standards is mainly attributed to the following:

- a decrease in impairment losses recognised on financial assets (Note 37)
- additional disclosures related to IFRS 9 (Notes 2, 8, 10 and 37)

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 2 to all periods presented in the consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers*
On 1 January 2018, the Group adopted IFRS 15 *Revenue from Contracts with Customers* as issued in May 2014 by the IASB which replaced IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. IFRS 15 defines principles for recognising revenue and is applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases continues to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g. IFRS 9 and IFRS 16).

The standard requires the identification of distinct performance obligations within a contract, and allocation of the transaction price of the contract to those performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard also provides guidance on whether the entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group.

IFRS 9 *Financial Instruments*
On 1 January 2018, the Group adopted IFRS 9 *Financial Instruments* as issued by the IASB in July 2014, which replaced IAS 39 *Financial Instruments: Recognition and Measurement*. The adoption of this standard resulted in changes in accounting policies and adjustments to the financial statements. The accounting policies that relate to the classification, measurement and impairment of financial assets were amended to comply with this standard. The total adjustment on the adoption of IFRS 9 to the opening balance of the Group's equity on 1 January 2018 was an increase of $3,133,354 (Note 37).

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

New and amended standards and interpretations…*continued*

Changes to classification and measurement
To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available-for-sale (AFS), held-to-maturity (HTM) and amortised cost) have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition;
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets at FVTPL.

The accounting for financial liabilities remains largely the same as under IAS 39.

The Group's classification of its financial assets and liabilities is described in Note 2. The quantitative impact of applying IFRS 9 as at 1 January 2018, is disclosed in the transition disclosures in Note 37.

Changes to impairment calculation
The adoption of IFRS 9 has resulted in fundamental changes to the Group's accounting for impairment of financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Details of the Group's impairment methodology are disclosed in Note 2. The quantitative impact of applying IFRS 9, as at 1 January 2018, is disclosed in the transition disclosures in Note 37.

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

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

New and amended standards and interpretations…*continued*

Transition…*continued*

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 37.

New and amended standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 *Leases* (effective 1 January 2019)

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to re-measure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

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

IFRIC 23 *Uncertainty over Income Tax Treatments* (effective 1 January 2019)
The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profits (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

Amendments to IFRS 9 *Financial Instruments* (effective 1 January 2019)
Amendments to IFRS 9 *Financial Instruments* relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Management anticipates that these IFRS and amendments will be adopted in the initial period when they become mandatorily effective. The impact of these amended standards and interpretations are currently being assessed by Management.

Consolidation

The financial statements of the Subsidiary used to prepare the consolidated financial statements were prepared as of the parent entity's reporting date of 31 December 2018. The consolidation principles are unchanged as against the previous year.

The consolidated financial statements of the Group comprise the financial statements of the parent entity and its Subsidiary (collectively referred to as the "Group") as of 31 December 2018.

Control is achieved when the Group is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure to, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Consolidation*…continued*

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Consolidation*…continued*

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting methods.

Transactions with non-controlling interests
The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Any losses applicable to the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in a deficit balance. Non-controlling interests are presented separately within equity in the consolidated statement of financial position.

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

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Fair value measurement

The Group measures financial instruments such as investment securities and non-financial asset such as investment properties, at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the following notes:

• Disclosures for valuation methods, significant estimates and assumptions	Notes 2 and 4
• Quantitative disclosures of fair value measurement hierarchy	Note 3
• Investment properties	Note 12
• Financial instruments (including those carried at amortised cost)	Notes 3 and 8

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value of a non-financial asset takes into account a market participants ability to generate economic benefits by using the assets in its highest and the best use or by selling to another participant that would use the asset in its highest and best use.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

a) Cash and cash equivalents
For the purposes of the cash flow statement, 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 Eastern Caribbean Central Bank (ECCB), treasury bills, deposits with other banks, deposits with non-bank financial institutions and other short-term securities.

b) Statutory deposits with Eastern Caribbean Central Bank (ECCB)
Pursuant to the Banking Act of St. Vincent and the Grenadines 2015, the Group is required to maintain specified assets as a reserve requirement for its deposit liabilities. The minimum requirement is 6% of the average deposit liabilities over a four-week period.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Fair value measurement…*continued*

c) Financial instruments

Recognition and initial measurement

The Group initially recognises loans and advances, deposits and debt securities on the date they are originated. Financial assets are measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

Measurement categories of financial assets

From 1 January 2018, the Group classifies all of its financial assets into one of the following categories:

- Amortised cost as explained in Note 2
- FVTPL as explained in Note 2 or
- FVOCI as explained in Note 2.

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

Financial assets

Under IFRS 9 (Policy applicable from 1 January 2018)

Deposits with other banks, treasury bills, loans and advances to customers and investment securities

The Group measures deposits with other banks, treasury bills, loans and advances to customers and investment securities at amortised cost if the following criteria are met:

- the financial asset is held within a business model with the objective to hold the financial asset in order 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 (SPPI) on the principal amount outstanding.

Debt instruments

Debt instruments, including loans and debt securities, are classified into one of the following measurement categories:

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Debt instruments*…continued*
Investments in debt instruments are measured at amortised cost if it meets both of the following conditions and is not designated as 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 (SPPI) on the outstanding principal balance.

Business model assessment
With the adoption of IFRS 9, the business model test was used by the Group to migrate the instruments along with the SPPI test to the new reporting classification. The assessment was done by reviewing the investments under the existing IAS 39 classification and selecting the business model that best suits the individual instruments in the respective classification.

The objective of this test was to determine whether an arrangement pays only interest and principal and would then qualify as a basic lending arrangement. An instrument would therefore pass the SSPI test if it does not introduce risks or volatility that is inconsistent with a basic lending arrangement. Conversely, financial assets which have SPPI characteristics but are held within the business model whose objective is both to collect the contractual cash flows and to sell the financial assets ("hold to collect" and sell) are subsequently measured at fair value through other comprehensive income (FVOCI).

The Group currently holds loans and advances solely for the collection of principal and interest. Based on the business model, it is the Group intention to hold these instruments until they are fully amortised. However, there may be instances where the Group may need to dispose of a portion of its portfolio to meet liquidity requirements this is however only done in exceptional circumstances and is not considered to be the sole purpose of negotiating these instruments.

For the held-to-maturity (HTM) instruments the “hold to collect” business model was adopted since the objective is to hold the financial asset and to collect contractual cash flows. The existing fixed income HTM portfolio consists only of bond instruments with fixed contractual cash flows. Since investment disposals, for this portfolio are infrequent and incidental to the model’s objective, the measurement category used will be amortised cost.

Finance instruments held for trading which are primarily for the Group’s repo portfolio were assessed by using the business model from IFRS 9. This portfolio consists of only bullet type fixed income instruments with contractual cash flows. Based on the nature of the portfolio, which is being used as the underlying instrument for these repurchase agreement contracts, the model does not conform with the “hold to collect” or “hold to collect and sell”. Due to this, these instruments will be classified as FVTPL.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Financial assets…*continued*

Business model assessment…*continued*
Financial instruments at FVTPL comprises of our externally and internally managed assets. These portfolios are managed at the portfolio manager's discretion and the objective being one of yield maximization can include a risk or portfolio rebalancing objective. These portfolios are actively managed and buying and selling of securities are done almost daily. Therefore, the portfolio objective is one of hold to collect and sell. The equity component of the portfolios were measured at FVTPL with the exception of the strategic investments which were measured at FVOCI.

Equity investments under the new IFRS 9 are always reported at fair value since they fail the SPPI test. Under IAS 39 the Group's equity instruments fell under the AFS classification. The majority of these investments represents participation interest in a number of sub-regional projects which were designed to improve the efficiency of the services provided to the indigenous banking sector in the Eastern Caribbean Currency Union. Hence, the Group's intention was to hold these investments for a long term. Due to the cost and difficulties in obtaining information that will facilitate accurate fair value measurement, the Group made a decision to recognize these instruments at FVOCI.

The SPPI Test
As a second step of the classification process, the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI criteria.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial assets is denominated and the period for which the interest rate is set.

In contrast, the contractual terms that introduce a more than de minimis exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases the financial asset is required to be measured at FVTPL or FVOCI without recycling.

Debt instruments measured at amortised cost
Debt instruments are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortised cost. Interest income on these instruments is recognised in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortised cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Debt instruments measured at amortised cost*…continued*
Impairment on debt instruments measured at amortised cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortised cost are presented net of the allowance for credit losses (ECL) in the statement consolidated of financial position.

Debt instruments measured at fair value through other comprehensive income (FVOCI)
Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in non-interest income in the consolidated statement of income on an average cost basis. Foreign exchange gains and losses that relate to the amortised cost of the debt instrument are recognised in the consolidated statement of income.

Premiums, discounts and related transaction costs are amortised over the expected life of the instrument to interest income in the consolidated statement of income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the consolidated statement of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to provision for credit losses in the consolidated statement of income. The accumulated allowance recognised in OCI is recycled to the consolidated statement of income upon derecognition of the debt instrument.

Debt instruments measured at fair value through profit or loss (FVTPL)
Debt instruments are measured at FVTPL for assets:

— held for trading purposes;
— held as part of a portfolio managed on a fair value basis; or
— whose cash flows do not represent payments that are SPPI.

These instruments are measured at fair value in the consolidated statement of financial position, with transaction cost recognised immediately in the consolidated statement of income as part of non-interest income. Realised and unrealised gains and losses are recognised as part of non-interest income in the consolidated statement of income.

Debt instruments designated at FVTPL
Financial assets classified in this category are those that have been designated by the Group upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets for which a reliable estimate of fair value can be obtained.

Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Debt instruments measured at fair value through profit or loss (FVTPL) *…continued*
Financial assets designated at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognised in non-interest income in the consolidated statement of income.

Equity instruments
Equity instruments are classified into one of the following measurement categories:

- Fair value through profit or loss (FVTPL); or
- Designated at fair value through other comprehensive income (FVOCI).

Equity instruments measured at FVTPL
Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognised immediately in the consolidated statement of income as part of non-interest income. Subsequent to initial recognition the changes in fair value are recognised as part of non-interest income in the consolidated statement of income.

Equity instruments measured at FVOCI
At initial recognition, there is an irrevocable option for the Group to classify non-trading equity instruments at FVOCI. This election is used for certain equity investments for strategic or longer term investment purposes. This election is made on an instrument-by-instrument basis and is not available for equity instruments that are held for trading purposes.

Gains and losses on these instruments including when derecognised/sold are recorded in OCI and are not subsequently reclassified to the consolidated statement of income. As such, there is no specific impairment requirement. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to the consolidated statement of income on sale of the security.

Financial liabilities
The Group will continue to recognise financial liabilities at amortised cost.

Reclassification of financial assets and liabilities
From 1 January 2018, the Group ceased reclassifying its financial assets subsequent to their initial recognition, apart from exceptional circumstances in which a major acquisition or disposal is deemed. On adoption of IFRS 9, the Group classified its financial assets and liabilities in accordance with its existing business models. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group’s financial assets. Changes in contractual cash flows are considered under the accounting policy on modification and de-recognition of financial assets described below.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Derecognition of financial assets and liabilities

Derecognition of financial assets

The derecognition criteria are applied to the transfer of part of an asset, rather than the asset as a whole, only if such part comprises specifically identified cash flows from the asset, a fully proportionate share of the cash flows from the asset or a fully proportionate share of specifically identified cash flows from the asset.

A financial asset is derecognised when the contractual rights to the cash flows from the asset has expired; or the Group transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party; or the Group has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Group has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Group derecognizes the transferred asset only if it has lost control over that asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Group retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. At times such continuing involvement may be in the form of investment in senior or subordinated tranches of notes issued by non-consolidated structured entities.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the consolidated statement of income.

Transfers of financial assets that do not qualify for derecognition are reported as secured financing in the consolidated statement of financial position.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, canceled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognised as a gain/loss in the consolidated statement of income.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Financial assets…*continued*

Impairment of financial assets
Policy applicable from 1 January 2018
The Group recognizes loss allowances for expected credit losses (ECLs) on the following financial assets that are not measured at FVTPL:

- debt instruments measured at amortised cost and fair value through other comprehensive income;
- lease receivables;
- loan commitments; and
- financial guarantee contracts.

The measurement of expected credit loss involves increased complex judgement that includes:

Determining a significant increase in credit risk since initial recognition.

- The assessment of significant deterioration since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12 months ECL and one that is based on lifetime ECL. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition. The Group applies a three-stage approach based on the change in credit quality since initial recognition.

Expected credit loss impairment model
The Group's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either:

(i) over the following twelve months; or

(ii) over the expected life of a financial instrument depending on credit deterioration since origination.

The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

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

- Stage 1 – 12 month ECL
  The Group collectively assesses ECL on exposures where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument. An amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to the remaining term to maturity is used.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Financial assets…*continued*

Impairment of financial assets…*continued*

- Stage 2 – Lifetime ECL, not credit impaired
  The Group collectively assesses ECLs on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. For these exposures, the Bank recognises as a collective provision a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset).

- Stage 3 – Credit impaired
  The Group identifies, both collectively and individually, ECLs on those exposures that are assessed as credit impaired based on whether one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount. If the asset is no longer credit impaired, then the calculation of the interest income reverts to the gross basis.

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

ECLs are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

- For undrawn loan commitments the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life and calculates the ECL as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

- Financial guarantee contracts as the expected payments to reimburse the holder less any amounts the Group expects to recover.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Financial assets…*continued*

Measurement of expected credit loss…*continued*
The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given period of time. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The Exposure At Default is an estimate of the loss arising at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Incorporation of forward –looking information
The standard requires the incorporation of forwarding looking information in the estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward looking-looking information requires significant judgement.

Macroeconomic factors
The standard also requires incorporation of macroeconomic factors in models for ECLs. In its models, the Group conducted an assessment of a broad range of forward-looking economic information as possible inputs, such as: GDP growth, unemployment rates, and Eastern Caribbean Central Bank interest rates. There was little correlation between the overall performance of the economy and historical loss trends. It was therefore not possible to directly correlate macroeconomic expectations to adjustments within the ECL models.

The standard recognises that the inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment. The Group in an effort to make adjustments for management overlays, adjusted the stage two loans for the likelihood of migration to stage three and the severity or the extent of the provisions required when these loans migrate to stage three.

To account for the potential non-linearity in expected losses, multiple scenarios were incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is a greater risk of downside credit losses than upside gains, management overlays and exponential smoothing were incorporated into the scenarios to determine a range of reasonably possible outcomes, both in respect of determining the PDs (and where relevant, the LGD and EAD) and in determining the overall expected credit loss amounts.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Assessment of significant increase in credit risk (SICR)
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that was available.

The assessment of an increase in credit risk included macroeconomic outlook, management judgement, and delinquency and monitoring. The importance and relevance of each specific factor depends on the type of product, characteristics of the financial instruments and the borrower and the industry. With regards to delinquency and monitoring, there was a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

Some of the indicators which were incorporated included:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower’s ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the actual or expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower.

Quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime determined PD by comparing the remaining lifetime PD at reporting date with the remaining lifetime PD at the point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For loans and advances there is particular focus on assets that are included on a ‘watch list’ once there is a concern that the creditworthiness of the specific counterparty has deteriorated Events such as unemployment, bankruptcy or death are also considered.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD. Financial assets that are 30 or more days past due and are not credit impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or churn rate approach is applied to compute expected credit losses, significant increase in credit risk is primarily based on 30 days past due on the contractual payment.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

Credit impaired (or defaulted) exposures (Stage 3)
Financial assets that are credit impaired (or in default) are referred to as Stage 3 assets and represent those that are at least 90 days past due in respect of principal and/or interest. Similar to requirements of IAS 39, lifetime ECL is recognised for loans where there is objective evidence of impairment.

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

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

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

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

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

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

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

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

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

A forborne loan can only be removed from the category (cured) if the loan is performing (stage 1 or 2) and a further one year probation is met.

In order for a forbearance loan to become performing, the following criteria have to be satisfied:

- At least a year has passed with no default upon the forborne contract terms
- The customer is likely to repay its obligations in full without realising security
- The customer has no accumulated impairment against amount outstanding

Subsequent to the criteria above being met, probation continues to assess if regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

Expected life
When measuring expected credit loss, the Group considers the maximum contractual period over which the Group is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, extension and rollover options. For certain revolving credit facilities, such as credit cards, the expected life is estimated based on the period over which the Group is exposed to credit risk and how the credit losses are mitigated by Management's actions.

Presentation of allowance for credit losses in the consolidated statement of financial position

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;
- Debt instruments measured at fair value through other comprehensive income: no allowance is recognised in the consolidated statement of financial position because the carrying values of these assets is their fair values. However, the allowance determined is presented in accumulated other comprehensive income;
- Off-balance sheet credit risks include undrawn lending commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

(expressed in Eastern Caribbean dollars)

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

Financial assets...*continued*

Modified financial assets

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

- Qualitative factors such as contractual cash flows after modification are no longer SPPI, change in currency or change in counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest rate.

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

Write offs of credit impaired assets and reversal of impairment

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or source of income that could generate sufficient cash flows to repay the amounts subject to the write off. A write off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the consolidated statement of income. If, in a subsequent period, the amount of the credit impairment losses decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the provision account. The amount of reversals is recognised in the consolidated statement of income.

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial asset is impaired. A financial asset or group of financial assets is impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Financial assets…*continued*

Write offs of credit impaired assets and reversal of impairment…*continued*

(i) Loans and advances

All non-performing and performing loans and advances are individually reviewed and specific provisions made for impaired portion based on the realisable value of the loan collateral and discounted by the original effective rate of the loan. The provision made is the difference between the loan balance and the discounted value of the collateral. Previously accrued income is reversed and further interest income not accrued. Loans and advances with similar characteristics are assessed for impairment on a group basis. Where possible the Group seeks to restructure loans instead of taking possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms are renegotiated, any impairment is measured using the original effective interest rate and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and the future payments likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

When all efforts have been exhausted to recover a non performing loan, that loan is deemed uncollectible and written off against the related provision for loan losses.

(ii) Investment securities

The Group individually assesses each investment security for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to accrue at the effective interest rate on the reduced carrying amount of the asset and is recorded as part of "interest income". If the fair value of the instrument increases in a subsequent year, the impairment loss is reversed through the consolidated statement of income.

If there is objective evidence that the cost of an equity instrument may not be recovered, the instrument is considered to be impaired. Objective evidence that the cost may not be recovered includes qualitative impairment criteria as well as a significant or prolonged decline in the fair value below cost.

If an equity instrument is impaired based upon the Group's qualitative and quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognised as impairment losses. Therefore, at each reporting period, for an equity security that is determined to be impaired based on the Group's impairment criteria, an impairment loss is recognised for the difference between the fair value and the original cost, less any previously recognised impairment losses.

Any subsequent increases in value of previously impaired securities is recognised in the consolidated statement of other income.

Offsetting financial instruments

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Financial assets*…continued*

(ii) Investment securities…continued

Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Work in progress is stated at historical cost, less accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to the consolidated statement of income during the financial year in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line basis to write down their cost to their residual values over their estimated useful lives as follows:

Leasehold improvements	20%
Motor vehicles	25%
Equipment	15%
Furniture	10%
Buildings	2%
Computer equipment and software	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carry amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Investment property

Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss within other income.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Income tax

(i) Current tax

Income tax payable/recoverable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the year except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to the consolidated statement of income.

Where the Group has tax losses that can be relieved against a tax liability for a previous year, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against an existing current tax balance. Where tax losses can be relieved only by carry-forward against taxable profits of future years, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position.

The Group does not offset income tax liabilities and income tax assets.

(ii) Deferred tax

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

The rates enacted or substantively enacted at the reporting date are used to determine deferred income tax. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting, nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income using the effective interest method.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is more likely that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee benefits

The Group operates a defined contribution pension scheme. The scheme is generally funded through payments to a trustee-administered fund, as determined by the provisions of the plan. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis.

The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Guarantees and letters of credit

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

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

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

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies*…continued*

Share capital

(i) Share issue costs
Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, from the proceeds.

(ii) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Dividends for the year that are declared after the reporting date are disclosed in the subsequent events note.

Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated at fair value through profit or loss (FVTPL) are recognised in 'net interest income' as 'interest income' and 'interest expense' in the consolidated profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in the profit or loss at initial recognition.

Fees and commission income

Fees and commissions are recognised on an accruals basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of a business, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportioned basis.

Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies…*continued*

Dividend income
Dividend income is recognised when the right to receive payment is established.

Foreign currency translation

(i) Functional and presentation currency
Items in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Eastern Caribbean dollars, which is the Group's functional and presentation currency.

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

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

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

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the monetary assets. Translation differences related to changes in the amortised cost are recognised in profit and loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the other comprehensive income.

Leases
The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to operating expenses in the consolidated statement of income on a straight-line basis over the life of the lease.

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

Financial instruments
Financial instruments carried on the consolidated statement of financial position include cash resources, investment securities, loans and advances to customers, deposits with other banks, and deposits from banks, due to customers and borrowings. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

(expressed in Eastern Caribbean dollars)

3 Financial risk management

(a) Strategy in using financial instruments

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

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

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

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

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

(b) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfill their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances to customers, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit financial guarantees, letters of credit, endorsements and acceptances.

The Group's credit risk management process operates on the basis of a hierarchy delegated authorities. The Credit Committee is a sub-committee of the Board of Directors with the authority to exercise the powers of the Board on all risk management decisions.

The debt securities within the Group's investment security portfolio are exposed to credit risk and are management by investment grading or country exposure with pre-set exposure limits as approved the Board of Directors. The credit quality of each individual security is assessed based on the financial strength, reputation and market position of the issuing entity and the ability of that entity to service the debt.

The Group avoids exposure to undue concentrations of risk by placing limits on the amount of risk accepted from a number of borrowers engaged in similar business activities, or activities in the same geographic region or with similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Such risks are controlled and monitored on a revolving basis and are subject to an annual or more frequent review.

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

(b) Credit risk*…continued*

Limits on the level of credit risk by product, industry sector or geography are approved by the Board of Directors.

The Group is also exposed to other credit risks arising from balances with central bank, deposits with other banks and non-bank financial institutions, investments in debt securities, treasury bills and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

Loans and advances to customers
The Group takes on exposure to credit risk which, is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses based on an expected credit loss model using counter party probabilities of default across the various loan categories. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk.

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

Cash and balances with the ECCB
Credit risk from balances with banks and financial institutions is managed by the Group in accordance with the Group's policy. Counterparty credit limits are reviewed by the Group's Risk Department on an annual basis, and may be updated throughout the year subject to approval of the Group's Investment Committee and where necessary the Board of Directors. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

(i) Risk limit control and mitigation policies
The Group manages, limits and controls concentrations of credit risk wherever they are identified − in particular, to individual counterparties and groups, and to industries and countries.

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

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

Some other specific control and mitigation measures are outlined below.

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

(b) Credit risk*…continued*

Collateral

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

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

The Group's credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Group's credit exposure.

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

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

Credit-related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

The internal rating systems focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes an expected loss model using a three stage approach.

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…..continued*

(b) Credit risk*…continued*

Impairment and provisioning policies*…continued*
Management determines whether objective evidence of impairment exists based on the following criteria set out by the Group:

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

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

Financial instruments that are not already credit impaired are originated into stage 1 and a 12-month expected credit loss provision is recognised.

Instruments will remain in stage 1 until they are repaid, unless they experience significant credit deterioration (stage 2) or they become credit impaired (stage 3).

Instruments will transfer to stage 2 and a lifetime expected credit loss provision recognised when there has been a significant increase in credit risk compared with what was expected at origination.

The framework used to determine a significant increase in credit risk is set out above (page 29).

Stage 1	Stage 2	Stage 3
12 month expected credit loss - performing	Lifetime expected credit loss -performing but significant increase in credit risk (SICR)	Credit impaired - non-performing

Impairment losses and investment valuation (IAS 39)
Under IAS 39, financial assets were determined to be impaired when the carrying value was greater than the recoverable amount and there was objective evidence of impairment. The recoverable amount was the present value of the future cash flows.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*..continued*

(b) Credit risk…*continued*

Impairment losses and investment valuation (IAS 39)…*continued*
Collective impairment on advances (Note 10)
Inherent provisions on advances are calculated on an estimate of impairment incurred but not existing in assets as at the statement of financial position date. Estimated impairment incurred is determined by applying against performing loan balances, the average loan default rates and adjusting this balance for current economic factors that affect loan performance. An anticipated recovery rate (determined from historical average) is then applied to determine the value that is recoverable. This calculation is computed by product type.

Valuation of investment (Note 8)
The Group has applied IAS 39 in its classification of investment securities which requires measurement of securities as fair value. For unlisted securities, fair values are estimated using price/earnings of price/cash flow ratios which have been refined to accommodate the specific circumstances of the issuer.

Maximum exposure to credit risk
Credit risk exposures relating to the financial assets in the statement of financial position:

	Maximum exposure	
	2018	**2017**
	$	**$**
Deposit with ECCB	**83,260,524**	98,038,872
Treasury bills	**10,290,846**	10,401,918
Deposits with other banks	**118,850,378**	115,572,633
Loans and advances to customers:		
− Overdrafts	**53,547,954**	44,419,097
− Term loans	**87,921,057**	83,947,790
− Large corporate loans	**136,133,033**	161,576,186
− Mortgage loans	**336,139,167**	312,483,286
− Credit cards	**2,854,421**	2,603,805
Investments security at amortised cost	**9,924,905**	10,032,877
Investment securities	**61,773,961**	44,505,092
Other assets	**2,656,474**	2,801,821
	903,352,720	886,383,377
Credit risk exposures relating to off-balance sheet items		
Guarantees and letters of credit	**40,000**	40,000
Loan commitments	**7,664,002**	14,351,760
	7,704,002	14,391,760
	911,056,722	900,775,137

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*..continued*

(b) Credit risk…*continued*

Maximum exposure to credit risk*…continued*

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

As shown above 68% (2017 – 67%) of the total maximum exposure is derived from loans and advances to customers; 7% (2017 – 5%) represents investments in debt securities.

Loans and advances to customers are summarised as follows:

	2018 $	2017 $
Neither past due nor impaired	**527,475,512**	498,166,875
Past due but not impaired	**66,536,826**	79,242,295
Impaired	**39,589,589**	48,291,574
Gross	**633,601,927**	625,700,744
Less allowance for impairment losses on loans and advances to customers	**(17,006,295)**	(20,670,580)
Net	**616,595,632**	605,030,164

The total credit impairment for loans and advances to customers is $17,006,295 (2017 - $20,670,580) of which $11,332,659 (2017 - $11,507,519) represents the individually impaired loans (stage 3) and the remaining amount of $5,673,636 represents the credit impairment for stage 1 and stage 2 loans. The collective provision for 2017 was $9,163,061. Further information on the allowance for impairment losses on loans and advances to customers is provided in Notes 9 and 10.

Loans and advances to customers neither past due nor impaired (Stage 1)

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 Group.

	Overdrafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
31 December 2018	**54,508,299**	**68,515,394**	**278,787,698**	**123,001,081**	**2,663,040**	**527,475,512**
31 December 2017	43,713,728	65,287,659	255,869,636	130,933,007	2,362,845	498,166,875

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*..continued*

(b) Credit risk…*continued*

Loans and advances to customers past due but not impaired (Stage 2)
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
At 31 December 2018					
Past due up to 30 days	**10,441,494**	**34,649,413**	**2,372,192**	**189,261**	**47,652,360**
Past due 30 - 60 days	**2,359,801**	**6,967,161**	**3,650,499**	**28,256**	**13,005,717**
Past due 60 - 90 days	**1,102,505**	**3,349,622**	**1,402,422**	**24,200**	**5,878,749**
	13,903,800	**44,966,196**	**7,425,113**	**241,717**	**66,536,826**
At 31 December 2017					
Past due up to 30 days	10,527,096	39,924,787	12,695,979	180,535	63,328,397
Past due 30 - 60 days	1,125,817	6,768,817	2,533,163	90,888	10,518,685
Past due 60 - 90 days	1,074,268	2,335,587	1,972,268	13,090	5,395,213
	12,727,181	49,029,191	17,201,410	284,513	79,242,295

Loans and advances to customers individually impaired (Stage 3)

	Over -drafts $	Term Loans $	Mortgage Loans $	Large Corporate Loans $	Credit Cards $	Total $
31 December 2018	**1,215,671**	**8,223,305**	**15,283,734**	**14,793,380**	**73,499**	**39,589,589**
31 December 2017	1,991,971	8,960,378	15,002,440	22,010,158	326,627	48,291,574

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…..continued*

(b) Credit risk*…continued*

Debt securities and other eligible bills

The table below presents an analysis of debt securities, treasury bills and deposits with banks by rating agency designation at 31 December 2018 and 2017, based on Standard & Poor's and Caricris ratings:

IFRS 9 classification

	Treasury bills $	Debt securities at amortised cost $	Debt securities at FVOCI	Deposits with other banks $	Total $
At 31 December 2018					
AA- to A+	**-**	**-**	**1,620,567**	**-**	**1,620,567**
Lower than A+	**10,290,846**	**56,153,782**	**4,369,386**	**-**	**70,814,014**
Unrated	**-**	**15,545,084**	**3,845,742**	**118,850,378**	**145,645,531**
	10,290,846	**71,698,866**	**9,835,695**	**118,850,378**	**218,080,112**

IAS 39 classification

	Treasury bills $	Financial assets held-to-maturity $	Financial assets available-for-sale $	Deposits with other banks $	Loans and receivables – Bonds $	Total $
At 31 December 2017						
AA- to A+	-	-	-	-	-	-
Lower than A+	10,401,918	20,664,908	-	-	10,032,877	41,099,703
Unrated	-	23,840,184	10,520,099	115,572,633	-	149,932,916
	10,401,918	44,505,092	10,520,099	115,572,633	10,032,877	191,032,619

Concentrations of risks of financial assets with credit exposure

Geographical sectors

The Group operates primarily in Saint Vincent and the Grenadines. Based on the country of domicile of its counterparties, exposure to credit risk is concentrated in this location, except for investments that have other exposures, primarily in the other Caribbean countries.

Industry sectors

The following table breaks down the Group's credit exposure at gross amounts without taking into account any collateral held or other credit support by the industry sectors of the Group's counterparties.

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…..continued*

(b) Credit risk*…continued*

Industry and economic concentrations of assets

	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	Other Industries $	Total $
Cash and balances with ECCB	105,753,066	-	-	-	-	-	-	105,753,066
Deposits with other banks	118,850,378	-	-	-	-	-	-	118,850,378
Treasury bills	-	-	-	10,290,846	-	-	-	10,290,846
Investment securities:								
- At amortised cost	34,091,368	-	-	27,682,593	-	-	-	61,773,961
- At FVOCI	3,048,217	-	-	-	-	-	6,787,478	9,835,695
- At FVTPL	965,250	-	-	-	-	-	6,439,077	7,404,327
Loans and advances to customers:								
- Large corporate loans	-	3,614,985	8,331,758	66,353,871	10,500,218	11,126,518	36,205,683	136,133,033
- Term loans	-	-	262,720	-	170,357	86,873,622	614,358	87,921,057
- Mortgages loans	-	-	-	-	1,273,365	333,947,335	918,467	336,139,167
- Overdrafts	241,132	857,399	404,044	39,857,971	2,828,235	2,841,751	6,517,422	53,547,954
- Credit cards	-	-	11,278	2,653	2,656	2,829,033	8,801	2,854,421
Investment security at amortised cost	-	-	-	9,924,905	-	-	-	9,924,905
Other assets	-	-	-	-	-	-	2,656,474	2,656,474
At 31 December 2018	262,949,411	4,472,384	9,009,800	154,112,839	14,774,831	437,618,259	60,147,760	943,085,284
Guarantees, letters of credit, loan commitments and other credit related obligations	-	208,000	-	-	280,000	5,616,002	1,600,000	7,704,002

(expressed in Eastern Caribbean dollars)

3 Financial risk management…..*continued*

(b) Credit risk… *continued*

Industry and economic concentrations of assets

	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	Other Industries $	Total $
Cash and balances with ECCB	118,625,250	-	-	-	-	-	-	118,625,250
Deposits with other banks	115,572,633	-	-	-	-	-	-	115,572,633
Treasury bills	-	-	-	10,401,918	-	-	-	10,401,918
Investment securities:								
- Held-to-maturity	26,375,987	-	-	18,128,927	-	-	178	44,505,092
- Available-for-sale	3,952,735	-	-	-	-	-	6,567,364	10,520,099
Loans and advances to customers:								
- Large corporate loans	-	3,248,478	11,522,048	75,731,829	10,248,881	8,619,611	52,205,339	161,576,186
- Term loans	-	-	515,306	-	137,246	82,782,937	512,301	83,947,790
- Mortgages loans	-	-	-	-	1,432,467	310,609,565	441,254	312,483,286
- Overdrafts	508	2,441,071	376,514	28,647,787	2,873,780	2,766,137	7,313,300	44,419,097
- Credit cards	43,704	-	10,176	5,217	4,957	2,507,433	32,318	2,603,805
Investment security at amortised cost	-	-	-	10,032,877	-	-	-	10,032,877
Other assets	-	-	-	-	-	-	2,801,821	2,801,821
At 31 December 2017	264,570,817	5,689,549	12,424,044	142,948,555	14,697,331	407,285,683	69,873,875	917,489,854
Guarantees, letters of credit, loan commitments and other credit related obligations	-	-	1,600,000	-	40,000	12,211,760	540,000	14,391,760

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…..continued*

(c) Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group exposure to market risks arises from its non-trading portfolios. Senior management of the Group monitors and manages market through the Asset Liability Committee which advises on financial risks and assigns risk limits for the Group.

Non-trading portfolios market risk primarily arises from the interest rate management of the Group's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arising from the Group's available-for-sale investments.

(d) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.70 = US$1.00 since 1974.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…..*continued*

(d) Currency risk …*continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
Concentrations of financial assets and financial liabilities								
As at 31 December 2018								
Financial assets								
Cash and balances with ECCB	101,867,607	2,369,220	270,705	460,338	261,427	523,769	-	105,753,066
Deposit with other banks	32,985,897	82,425,437	118,797	1,418,810	659,041	762,105	480,291	118,850,378
Treasury bills	10,290,846	-	-	-	-	-	-	10,290,846
Investment securities:								
– at amortised cost	57,788,767	3,985,194	-	-	-	-	-	61,773,961
– at FVOCI	3,047,644	6,787,667	-	384	-	-	-	9,835,695
– at FVTPL	-	6,439,077	965,250	-	-	-	-	7,404,327
Loans and advances to customers	616,595,632	-	-	-	-	-	-	616,595,632
Investment security at amortised cost	9,924,905	-	-	-	-	-	-	9,924,905
Other assets	2,656,474	-	-	-	-	-	-	2,656,474
Total financial assets	**835,157,772**	**102,006,595**	**1,354,752**	**1,879,532**	**920,468**	**1,285,874**	**480,291**	**943,085,284**

(expressed in Eastern Caribbean dollars)

3 Financial risk management.….*continued*

(d) Currency risk …*continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
Concentrations of financial assets and financial liabilities								
As at 31 December 2018								
Financial liabilities								
Deposits from banks	37,863,272	-	-	-	-	-	-	37,863,272
Due to customers	738,582,627	26,975,352	-	1,295,374	305,835	2,604	-	767,161,792
Borrowings	21,306,420	16,977,604	-	-	-	-	-	38,284,024
Provisions and other liabilities	40,298,037	-	-	-	-	-	-	40,298,037
Total financial liabilities	838,050,356	43,952,956	-	1,295,374	305,835	2,604	-	883,607,125
Net (liabilities) assets	(2,892,584)	58,053,639	1,354,752	584,158	614,633	1,283,270	480,291	59,478,159
Guarantees, letters of credit, loan commitments and other credit related obligations	7,704,002	-	-	-	-	-	-	7,704,002

(expressed in Eastern Caribbean dollars)

3 Financial risk management…..*continued*

(d) Currency risk …*continued*

Concentrations of financial assets and financial liabilities	**ECD**	**USD**	**BDS**	**EURO**	**GBP**	**CAD**	**Other**	**Total**
As at 31 December 2017								
Financial assets								
Cash and balances with ECCB	115,623,240	1,645,704	308,915	423,198	190,944	433,249	-	118,625,250
Deposit with other banks	28,698,002	82,756,338	195,608	1,636,308	827,557	666,193	792,627	115,572,633
Treasury bills	10,401,918	-	-	-	-	-	-	10,401,918
Investment securities:								
– held-to-maturity	43,058,780	1,446,312	-	-	-	-	-	44,505,092
– available-for-sale	3,047,833	6,567,364	904,500	402	-	-	-	10,520,099
Loans and advances to customers	605,030,164	-	-	-	-	-	-	605,030,164
Investment security at amortised cost	10,032,877	-	-	-	-	-	-	10,032,877
Other assets	2,801,821	-	-	-	-	-	-	2,801,821
Total financial assets	818,694,635	92,415,718	1,409,023	2,059,908	1,018,501	1,099,442	792,627	917,489,854

(expressed in Eastern Caribbean dollars)

3 Financial risk management.....*continued*

(d) Currency risk …*continued*

	ECD	USD	BDS	EURO	GBP	CAD	Other	Total
Concentrations of financial assets and financial liabilities								
As at 31 December 2017								
Financial liabilities								
Deposits from banks	35,248,997	-	-	-	-	-	-	35,248,997
Due to customers	719,397,866	24,781,294	-	1,341,658	258,663	2,832	-	745,782,313
Borrowings	23,820,408	18,274,857	-	-	-	-	-	42,095,265
Provisions and other liabilities	47,136,292	-	-	-	-	-	-	47,136,292
Total financial liabilities	825,603,563	43,056,151	-	1,341,658	258,663	2,832	-	870,262,867
Net (liabilities) assets	(6,908,928)	49,359,567	1,409,023	718,250	759,838	1,096,610	792,627	47,226,987
Guarantees, letters of credit, loan commitments and other credit related obligations	14,391,760	-	-	-	-	-	-	14,391,760

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

(e) Interest rate risk

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

As at 31 December 2018	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Non-interest bearing $	Total $
Financial assets							
Cash and balances with ECCB	-	-	-	-	-	105,753,066	105,753,066
Deposits with other banks	-	2,747,723	22,949,161	-	-	93,153,494	118,850,378
Treasury bills	-	10,290,846	-	-	-	-	10,290,846
Investment securities:							
– at amortised cost	5,037,415	751,541	23,247,965	8,658,869	24,078,171	-	61,773,961
– at FVTPL	-	-	-	-	-	7,404,327	7,404,327
– at FVOCI	-	-	-	-	-	9,835,695	9,835,695
Loans and advances to customers	59,957,334	6,757,232	10,923,185	80,560,033	458,397,848	-	616,595,632
Investment security at amortised cost	-	-	9,924,905	-	-	-	9,924,905
Other assets	-	-	-	-	-	2,656,474	2,656,474
Total financial assets	64,994,749	20,547,342	67,045,216	89,218,902	482,476,019	218,803,056	943,085,284
Financial liabilities							
Deposits from banks	3,423,441	16,954,425	12,779,152	-	-	4,706,254	37,863,272
Due to customers	536,815,293	12,735,495	82,198,451	-	-	135,412,553	767,161,792
Borrowings	996,704	337,327	2,746,351	12,878,836	21,324,806	-	38,284,024
Provisions and other liabilities	7,745,947	-	-	-	-	32,552,090	40,298,037
Total financial liabilities	548,981,385	30,027,247	97,723,954	12,878,836	21,324,806	172,670,897	883,607,125
Net interest re-pricing gap	(483,986,636)	(9,479,905)	(30,678,738)	76,340,066	461,151,213	46,132,159	59,478,159

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

(e) Interest rate risk…*continued*

	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Non-interest bearing $	Total $
As at 31 December 2017							
Financial assets							
Cash and balances with ECCB	-	-	-	-	-	118,625,250	118,625,250
Deposits with other banks	39,894	-	2,497,932	-	-	113,034,807	115,572,633
Treasury bills	-	10,401,918	-	-	-	-	10,401,918
Investment securities:							
– held-to-maturity	178	-	20,821,914	14,465,173	9,217,827	-	44,505,092
– available-for-sale	-	-	-	-	-	10,520,099	10,520,099
Loans and advances to customers	25,784,161	3,509,635	37,899,593	80,614,603	457,222,172	-	605,030,164
Investment security at amortised cost	-	-	-	10,032,877	-	-	10,032,877
Other assets	-	-	-	-	-	2,801,821	2,801,821
Total financial assets	25,824,233	13,911,553	61,219,439	105,112,653	466,439,999	244,981,977	917,489,854
Financial liabilities							
Deposits from banks	-	10,011,096	22,878,260	-	-	2,359,641	35,248,997
Due to customers	523,481,948	19,493,165	88,207,455	-	-	114,599,745	745,782,313
Borrowings	1,025,096	316,670	3,184,203	14,214,016	23,355,280	-	42,095,265
Other liabilities	39,469,324	-	-	-	-	7,666,968	47,136,292
Total financial liabilities	563,976,368	29,820,931	114,269,918	14,214,016	23,355,280	124,626,354	870,262,867
Net interest re-pricing gap	(538,152,135)	(15,909,378)	(53,050,479)	90,898,637	443,084,719	120,355,623	47,226,987

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

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

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

	2018	2017
Loans and advances to customers:		
- Overdrafts	**8%-14%**	8%-14%
- Term loans	**4.5% -14%**	4.5%-14%
- Large corporate loans	**5.5% - 14%**	5.5%-14%
- Mortgage loans	**4.5% -14%**	4.5%-14%
- Credit cards	**19.50%**	19.50%
Investment security at amortised cost	**7.50%**	7.50%
Investment securities:		
Government treasury bills and bonds	**1.1% -8.5%**	4.5%-8.5%
Other securities	**2.1% -8%**	2%-8%
Deposits with banks	**0%-2.69%**	0%-1.75%
Deposits due to customers:		
Term deposits	**1.25% -3%**	1.25%-3.25%
Savings deposits	**2%-3.5%**	2%-3.5%
Demand deposits	**2.25%-3.5%**	0%-3.5%
Deposits from banks	**0%-2.75%**	0%-2.75%
Borrowings	**2.50%-6.75%**	2.50%-6.75%

Cash flow interest rate risk arises from loans and advances to customers and borrowings at variable rates. At 31 December 2018, if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been $3,082,978 (2017 - $3,025,151) higher/lower on variable rate loans.

(f) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, payment of cash requirements from contractual commitments, or other cash out flows.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

(f) Liquidity risk…*continued*

The Group is exposed to daily cash calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Group does not maintain cash resources to meet all these needs, as experience shows that a minimum level of reinvestments of maturing funds can be predicted with a high level of certainty. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowings facilities that should be in place to cover withdrawals at unexpected levels of demand.

(i) Liquidity risk management process

The matching and controlled mismatching of the contractual maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The contractual maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Funding approach: Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

Non-derivative cash flows: The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

(f) Liquidity risk…*continued*

	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Total $
As at 31 December 2018						
Financial liabilities						
Deposits from banks	8,178,932	25,257,552	4,815,617	-	-	38,252,101
Due to customers	666,818,294	18,216,858	83,619,713	-	-	768,654,865
Borrowings	996,704	595,051	4,122,992	18,539,412	23,106,893	47,361,052
Provisions and other liabilities	40,298,037	-	-	-	-	40,298,037
Total financial liabilities	716,291,967	44,069,461	92,558,322	18,539,412	23,106,893	894,566,055
Financial assets						
Cash and balances with ECCB	118,625,250	-	-	-	-	118,625,250
Deposits with other banks	93,153,495	2,766,150	23,326,542	-	-	119,246,187
Treasury bills	-	10,048,082	-	-	-	10,048,082
Investment securities:						
- at amortised cost	4,908,813	885,651	25,777,152	15,692,865	32,896,367	80,160,848
- at FVTPL		7,404,327	-	-	-	7,404,327
- at FVOCI	-			6,856,671	2,979,024	9,835,695
Loans and advances to customers	69,926,417	26,668,950	90,322,938	357,884,579	609,467,913	1,154,270,797
Investment security at amortised cost	-	-	10,717,123	-	-	10,717,123
Other assets	4,009,612	-	-	-	-	4,009,612
Total financial assets held for managing liquidity	290,623,587	47,773,160	150,143,755	380,434,115	645,343,304	1,514,317,921

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

(f) Liquidity risk...*continued*

	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Total $
As at 31 December 2017						
Financial liabilities						
Deposits from banks	2,359,640	10,036,575	23,107,708	-	-	35,503,923
Due to customers	637,057,922	19,577,711	89,519,612	-	-	746,155,245
Borrowings	1,025,096	595,051	4,464,365	19,555,785	25,590,915	51,231,212
Provision and other liabilities	47,136,292	-	-	-	-	47,136,292
Total financial liabilities	687,578,950	30,209,337	117,091,685	19,555,785	25,590,915	880,026,672
Financial assets						
Cash and balances with ECCB	118,625,250	-	-	-	-	118,625,250
Deposits with other banks	113,074,701	-	2,515,604	-	-	115,590,305
Treasury bills	-	10,048,082	-	-	-	10,048,082
Investment security at amortised cost	-	-	750,000	10,717,123	-	11,467,123
Investment securities:						
- held-to-maturity	52,897	106,247	22,429,153	17,935,794	13,542,858	54,066,949
- available-for-sale	-	10,520,099	-	-	-	10,520,099
Loans and advances to customers	33,266,215	22,915,335	86,737,294	396,676,344	638,188,769	1,177,783,957
Other assets	4,292,506	-	-	-	-	4,292,506
Total financial assets held for managing liquidity	**269,311,569**	**43,589,763**	**112,432,051**	**425,329,261**	**651,731,627**	**1,502,394,271**

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

(f) Liquidity risk…*continued*

Assets held for managing liquidity risk
The Group holds a diversified portfolio of cash and investment securities to support payment obligations.

The Group's assets held for managing liquidity risk comprise cash and balances with central banks, certificates of deposits, government bonds that are readily acceptable in repurchase agreements, treasury and other eligible bills, loans and advances to financial institutions, loans and advances to customers and other items in the course of collection.

The Group would also be able to meet unexpected net cash outflows by selling investment securities and accessing additional funding sources.

(g) Off-balance sheet items

(i) Loan commitments
The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 24), are summarised in the table below.

(ii) Financial guarantees and other financial facilities
Financial guarantees (Note 24) are also included below based on the earliest contractual maturity date.

	1 Year $	Total $
At 31 December 2018		
Loan commitments	**7,664,002**	**7,664,002**
Guarantees and letters of credit	**40,000**	**40,000**
Total	**7,704,002**	**7,704,002**
At 31 December 2017		
Loan commitments	14,351,760	14,351,760
Guarantees and letters of credit	40,000	40,000
Total	14,391,760	14,391,760

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

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

(h) Fair values of financial assets and liabilities…*continued*

The fair values of cash resources, other assets and liabilities, deposits with other banks and due from other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-balance sheet commitments is also assumed to approximate the amounts disclosed in Note 24 due to their short term nature.

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

Investment securities
Investment securities include interest bearing debt and equity securities are classified at amortised cost and at fair values through profit or loss or fair value through other comprehensive income. Assets classified for sale are measured at fair value based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

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

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

	Carrying value		**Fair value**	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Financial assets				
Loans and advances to customers:				
− Term loans	**87,921,057**	83,947,790	**81,140,982**	76,808,081
− Large corporate loans	**136,133,033**	161,576,186	**119,935,305**	140,028,147
− Mortgage loans	**336,139,167**	312,483,286	**251,074,758**	233,134,506
− Overdrafts	**53,547,954**	44,419,097	**53,547,954**	44,419,097
− Credit cards	**2,854,421**	2,603,805	**2,854,421**	2,603,805
Investment security at amortised cost	**9,924,905**	10,032,877	**9,924,905**	9,907,114
Investment securities:				
− At amortised cost	**61,773,961**	-	**52,007,860**	-
− Held-to-maturity	**-**	44,505,092	**-**	43,086,783
Financial liabilities				
Borrowings	**38,284,024**	42,095,265	**40,052,431**	43,077,998

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

(h) Fair values of financial assets and liabilities*…continued*

Management assessed that cash and short-term deposits with other banks, treasury bills, loans and advances, provisions and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values of assets and liabilities:

- The Group's interest-bearing borrowings and loans are determined by using DCF method using the discount rate that reflects the average rates at the end of the period; and
- The value of regional bonds classified as loans and receivable with evidence of open market trades at par plus accrued interest is deemed to approximate fair value.

Fair value hierarchy
IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on actively traded exchanges.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

Hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

(expressed in Eastern Caribbean dollars)

3 Financial risk management*…continued*

(h) Fair values of financial assets and liabilities*…continued*

Fair value hierarchy

The following table outlines the fair value hierarchy of instruments carried at fair value on a recurring basis and instruments not carried at fair value.

	2018				2017		
	Level 1	**Level 2**	**Level 3**	**Total**	Level 2	Level 3	Total
As at 31 December							
Financial assets carried at fair value							
Lands	**-**	**2,232,000**	**-**	**2,232,000**	2,412,000	-	2,412,000
Financial assets							
Equity securities at FVTPL	**7,404,327**	**-**	**-**	**7,404,327**	-	-	-
Debt securities at FVOCI	**6,799,573**	**-**	**-**	**6,799,573**	-	-	-
Equity securities – available-for-sale	**-**	**-**	**-**	**-**	7,471,864	-	7,471,864
Financial assets for which fair values are disclosed							
Investment securities at amortised cost	**-**	**61,932,375**	**-**	**61,932,375**	52,993,897	-	52,993,897
Loans and advances to customers	**-**	**-**	**508,553,420**	**508,553,420**	-	496,993,636	496,993,636
Total financial assets	**14,203,900**	**64,164,375**	**508,553,420**	**580,122,512**	62,877,761	496,993,636	559,871,397
Liabilities for which fair values are disclosed							
Borrowings	**-**	**40,052,431**	**-**	**40,052,431**	43,077,998	-	43,077,998

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

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

The fair value of financial instruments that are not traded in an active market is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, deal, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily DAX, FTSE 100 and Dow Jones debt securities classified as trading securities at FVTPL.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter fixed income securities) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There were no transfers between levels in the fair value hierarchy during the year.

(i) Capital management

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

- To comply with the capital requirements of the Banking Act 2015.
- To comply with the capital requirements set by the regulators of the banking markets where the Group operates;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

(i) Capital management...*continued*

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

The Authority requires each bank or banking group to hold the minimum level of the regulatory capital to the risk-weighted asset (the 'Basel capital adequacy ratio') at or above the internationally agreed minimum of 8% of Tier 1 capital.

The Group's regulatory capital as managed by its Treasury department is divided into two tiers:

- Tier 1 capital: share capital (net of any book value of the treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held at FVOCI and fixed asset revaluation reserves (limited to 50% of Tier 1 capital).

Investments in "associated companies" are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

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

The table below summarises the composition of regulatory capital and the ratios of the Group for the year ended 31 December 2018 and 2017. During those two years, the Group complied with all of the externally imposed capital requirements to which it is subject.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…*continued*

(i) Capital management…*continued*

	2018 $	2017 $
Tier 1 capital		
Share capital	**20,753,306**	20,753,306
Statutory reserves	**20,753,306**	14,912,580
General provision reserves	**3,133,354**	-
Retained earnings	**73,131,134**	66,881,100
Total qualifying Tier 1 capital	**117,771,100**	102,546,986
Tier 2 capital		
Unrealised (loss)/gain on investments	**(95,386)**	1,725,685
Collective impairment allowance	**6,278,346**	9,163,061
Total qualifying Tier 2 capital	**6,182,960**	10,888,746
Total regulatory capital	**123,954,060**	113,435,732
Risk-weighted assets:		
On-balance sheet	**488,779,995**	484,745,837
Off-balance sheet	**30,736,894**	43,849,782
Total risk-weighted assets	**519,516,889**	528,595,619
Basel capital adequacy ratio	**23.86%**	21.46%

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Going Concern
The Group's management is satisfied that it has the resources to continue in business for the foreseeable future. The Group's management is not aware of any material uncertainties that may cast significant doubt upon its ability to continue as a going concern.

Measurement of the expected credit loss allowance
The Group expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions. The significant judgements and estimates in determining expected credit loss include:

- The Group's criteria for assessing if there has been a significant increase in credit risk; and
- Development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit impairment provisions also involves expert credit judgement to be applied by the credit risk management team based upon counterparty information they receive including relationship managers and on external market information.

Impairment losses on loans and advances to customers
The Group reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated-$601,970/$562,522 (2017 - $604,901/$964,157) lower/higher respectively.

Impairment of equity investments
The Group determines that equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

The Group individually assesses equity investments for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to be accrued on the reduced carrying amount of the asset and is recorded as part of "interest income". If the carrying value of the instrument increases in a subsequent year, the impairment loss is reversed through the consolidated statement of income.

(expressed in Eastern Caribbean dollars)

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

Impairment of non-financial assets
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less cost of disposal is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental cost of disposing of the asset. The value in use calculation is based on a DCF model. The recoverable amount is sensitive to the discount rate used for DCF model as well as the future cash inflows.

Held-to-maturity investment securities
Held-to-maturity investment securities are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which do not meet the definition of a loan, are not held-for-trading, and are not designated at fair value through profit or loss or as available-for-sale. After initial measurement, held-to-maturity investment securities are carried at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. The amortization is included in interest income – securities in the consolidated statement of income.

A sale or reclassification of a more than an insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the Group has collected substantially all of the asset's original principal; or
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Fair value of financial instruments
Financial instruments for which recorded current market transactions or observable market data are not available at fair value using valuation techniques. Fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimates of the most appropriate model assumptions.

Deferred taxes
In calculating the provision for deferred taxation, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise. The deferred tax assets recognised at 31 December 2018 have been based on future profitability assumptions over a five-year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates, and judgements in applying accounting policies

Revaluation of investment property
The Group measures its investment properties at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect.

The Group engages independent valuation specialists to determine fair value of its investment properties. The valuer uses judgment in the application of valuation techniques such as replacement cost, capitalization of potential rentals and the market price of comparable properties, as applicable in each case.

Corporate income taxes
Significant estimates are required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

5 Cash and balances with Eastern Caribbean Central Bank

	2018 $	2017 $
Cash in hand	**22,492,542**	20,586,378
Balances with ECCB other than mandatory reserve deposits	**37,230,816**	53,291,933
Included in cash and cash equivalents (Note 35)	**59,723,358**	73,878,311
Mandatory reserve deposits with ECCB	**46,029,708**	44,746,939
	105,753,066	118,625,250

Pursuant to the Banking Act of 2015, Banking institutions are required to maintain in cash and deposits with the ECCB reserve balances in relation to the deposit liabilities of the institution.

Mandatory reserve deposits are not available for use in the Banking institutions' day-to-day operations. The balances with the ECCB are non-interest bearing.

(expressed in Eastern Caribbean dollars)

6 Deposits with other banks

	2018 $	2017 $
Items in the course of collection with other banks (Note 35)	**12,934,994**	7,817,963
Placements with other banks (Note 35)	**82,966,223**	105,256,738
Interest bearing deposits (more than 3 months)	**22,949,161**	2,497,932
	118,850,378	115,572,633

The weighted average effective interest rate in respect of interest bearing deposits at 31 December 2018 was 1.61% (2017 - 1.75%)

7 Treasury bills

	2018 $	2017 $
Treasury bills – Cash and cash equivalents	**10,401,918**	**10,401,918**
Less allowance for impairment losses	**(111,072)**	**-**
Treasury bills less than 90 days to maturity (Note 35)	**10,290,846**	10,401,918

Treasury bills are debt securities issued by the Government of Saint Lucia. The weighted average effective interest rate on treasury bills at 31 December 2018 was 4.5% (2017 - 4.5%)

8 Investment securities

	2018 $	2017 $
Securities held-to-maturity		
Debt securities at amortised cost		
- Unlisted	**-**	40,157,215
- Listed	**-**	5,454,712
	-	45,611,927
Less allowance for impairment losses	**-**	(1,106,835)
	-	44,505,092
Securities available-for-sale		
Unlisted	**-**	3,048,235
Listed	**-**	7,471,864
	-	10,520,099
Total investment securities	**-**	55,025,191

(expressed in Eastern Caribbean dollars)

8 Investment securities…*continued*

	2018 $	2017 $
Securities measured at amortised cost		
Debt securities at amortised cost		
- Unlisted	16,679,359	-
- Listed	46,359,391	-
	63,038,750	-
Less allowance for impairment losses	(1,264,789)	-
	61,773,961	-
Securities measured at FVOCI		
Debt securities at fair value		
- Unlisted	-	-
- Listed	6,799,573	-
	6,799,573	-
Equity securities at fair value		
- Unlisted	3,048,217	-
- Listed	-	-
	3,048,217	-
Less allowance for impairment losses	(12,095)	-
	9,835,695	-
Securities measured at FVTPL		
Equity securities at fair value		
- Unlisted	-	-
- Listed	7,404,327	-
	7,404,327	-
Total equity securities	79,013,983	-

The weighted average effective interest rate on securities stated at amortised cost at 31 December 2018 was 5.45% (2017 - 5.17%).

(expressed in Eastern Caribbean dollars)

8 Investment securities…*continued*

	2018				2017
Loss allowance - Investment securities at amortised cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	**Reported**
At beginning of year, as previously stated	-	201,708	905,127	1,106,835	1,106,835
Effects of adopting IFRS 9	386,644	15,160	-	401,804	-
At 1 January 2018, as restated	386,644	216,868	905,127	1,508,639	1,106,835
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	111,072	-	-	111,072	-
– Transfer to stage 2	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	38,954	-	-	38,954	-
– Decreases due to change in credit risk	(150,904)	(10,018)	-	(160,922)	-
Loss allowance as at 31 December 2018	**385,766**	**206,850**	**905,127**	**1,497,743**	**1,106,835**
Loss allowance - Investment securities at FVOCI					
At beginning of year as previously stated	-	-	-	-	-
Effects of adopting IFRS 9	-	-	-	-	-
At 1 January 2018, as restated	-	-	-	-	-
Changes in the loss allowance as at 1 January 2018	-	-	-	-	-
– Transfer to stage 1	-	-	-	-	-
– Transfer to stage 2	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	12,095	-	-	12,095	-
– Decreases due to change in credit risk	-	-	-	-	-
Loss allowance as at 31 December 2018	**12,095**	-	-	**12,095**	-
Total loss allowance - Investment securities					
At beginning of year, as previously stated	-	201,708	905,127	1,106,835	1,106,835
Effects of adopting IFRS 9	386,644	15,160	-	401,804	-
At 1 January 2018, as restated	386,644	216,868	905,127	1,508,639	1,106,835
Changes in the loss allowance as at 1 January 2018	-	-	-	-	-
– Transfer to stage 1	111,072	-	-	111,072	-
– Transfer to stage 2	-	-	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	51,050	-	-	51,050	-
– Decreases due to change in credit risk	(150,904)	(10,018)	-	(160,922)	-
Total loss allowance as at 31 December 2018	**397,862**	**206,850**	**905,127**	**1,509,839**	**1,106,835**

(expressed in Eastern Caribbean dollars)

8 Investment securities*…continued*

Movements of the Group's financial assets are summarised as follows:

	Debt securities at amortised cost $	Debt securities at FVOCI $	Equity securities at FVTPL $	Treasury bills at amortised cost $	Investment security at amortised cost $	Total $
At 1 January 2018	**45,611,927**	**3,048,235**	**7,472,275**	**10,401,918**	**10,032,877**	**76,567,232**
Additions	**26,892,079**	**6,895,148**	**113,676**	**-**	**32,877**	**33,933,780**
Losses from changes in fair value	**-**	**(95,593)**	**(181,624)**	**-**	**-**	**(277,217)**
Disposals (sales and redemptions)	**(9,465,256)**	**-**	**-**	**-**	**(32,877)**	**(9,498,133)**
Investment impairment recoveries	**13,911**	**-**	**-**	**-**	**-**	**13,911**
ECLs	**(1,278,700)**	**(12,095)**	**-**	**(111,072)**	**(107,972)**	**(1,509,839)**
At 31 December 2018	**61,773,961**	**9,835,695**	**7,404,327**	**10,290,846**	**9,924,905**	**99,229,734**

9 Loans and advances to customers

	2018 $	2017 $
Large corporate loans	**145,219,574**	170,144,576
Mortgage loans	**339,037,629**	319,901,267
Term loans	**90,642,499**	86,975,218
Credit cards	**2,978,255**	2,973,985
Overdrafts	**55,723,970**	45,705,698
Gross loans and advances to customers	**633,601,927**	625,700,744
Less allowance for impairment losses on loans and advances to customers (Note 10)	**(17,006,295)**	(20,670,580)
Total loans and advances to customers, net	**616,595,632**	605,030,164

The weighted average effective interest rate on loans and advances stated at amortised cost at 31 December 2018 was 8.5% (2017 - 8.5%).

(expressed in Eastern Caribbean dollars)

10 Allowance for impairment losses on loans and advances to customers

	2018				2017
Loss allowance – Loans and advances to customers at amortised cost	**Stage 1 - 12 month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**	**As Reported $**
Large corporate loans					
At beginning of year as previously stated	2,133,957	357,722	6,076,711	**8,568,390**	3,902,094
Effects of adopting IFRS 9	483,161	80,994	-	**564,155**	-
Loss allowance as at 1 January 2018, as restated	2,617,118	438,716	6,076,711	**9,132,545**	3,902,094
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	261,249	(261,249)	-	-	-
– Transfer to stage 2	(27,064)	27,064	-	-	-
– Transfer to stage 3	(10,589)	-	10,589	-	-
– Increases due to change in credit risk	230,934	177,163	2,072,204	**2,480,301**	-
– Decreases due to change in credit risk	(706,376)	(52,648)	(1,036)	**(760,060)**	-
– Write-offs	-	-	(1,766,246)	**(1,766,246)**	-
Specific provision for loan impairment	-	-	-	-	3,383,857
Collective provision for loan impairment	-	-	-	-	1,282,439
Written off during the year as uncollectible	-	-	-	-	-
Loss allowance as at 31 December 2018	**2,365,272**	**329,046**	**6,392,222**	**9,086,540**	**8,568,390**
Mortgages					
At beginning of year as previously stated	2,346,296	2,338,491	2,733,194	**7,417,981**	4,673,351
Effects of adopting IFRS 9	(2,083,336)	(2,076,406)	-	**(4,159,742)**	-
Loss allowance as at 1 January 2018, as restated	262,960	262,085	2,733,194	**3,258,239**	4,673,351
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	65,238	(65,238)	-	-	-
– Transfer to stage 2	(5,726)	5,726	-	-	-
– Transfer to stage 3	(3,252)	(25,681)	28,933	-	-
– Increases due to change in credit risk	80,702	230,270	1,182,654	**1,493,626**	-
– Decreases due to change in credit risk	(120,053)	(84,206)	(458,373)	**(662,632)**	-
– Write-offs	-	-	(1,190,772)	**(1,190,772)**	-
Specific provision for loan impairment	-	-	-	-	838,905
Collective provision for loan impairment	-	-	-	-	1,929,099
Written off during the year as uncollectible	-	-	-	-	(23,374)
Loss allowance as at 31 December 2018	**279,869**	**322,956**	**2,295,636**	**2,898,461**	**7,417,981**

(expressed in Eastern Caribbean dollars)

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

Loss allowance – Loans and advances to customers at amortised cost	2018 Stage 1 - 12 month ECL $	2018 Stage 2 Lifetime ECL $	2018 Stage 3 Lifetime ECL $	2018 Total $	2017 As Reported $
Term loans					
At beginning of year as previously stated	1,022,885	250,822	1,753,721	**3,027,428**	2,706,439
Effects of adopting IFRS 9	(395,576)	(96,999)	-	**(492,575)**	-
Loss allowance as at 1 January 2018, as restated	627,309	153,823	1,753,721	**2,534,853**	2,706,439
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	41,446	(41,446)	-	-	-
– Transfer to stage 2	(14,515)	14,515	-	-	-
– Transfer to stage 3	(4,863)	(29,164)	34,027	-	-
– Increases due to change in credit risk	501,473	169,916	570,806	**1,242,195**	-
– Decreases due to change in credit risk	(425,545)	(57,893)	(167,527)	**(650,965)**	-
– Write-offs	(27,968)	(113)	(376,559)	**(404,640)**	-
Specific provision for loan impairment	-	-	-	-	653,040
Collective provision for loan impairment	-	-	-	-	425,824
Written off during the year as uncollectible	-	-	-	-	(757,875)
Loss allowance as at 31 December 2018	**697,337**	**209,638**	**1,814,468**	**2,721,443**	**3,027,428**
Overdrafts					
At beginning of year as previously stated	152,864	516,472	617,265	**1,286,601**	1,073,874
Effects of adopting IFRS 9	116,592	393,923	-	**510,515**	-
Loss allowance as at 1 January 2018, as restated	269,456	910,395	617,265	**1,797,116**	**1,073,874**
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	46,649	(46,649)	-	-	-
– Transfer to stage 2	(54,538)	54,538	-	-	-
– Transfer to stage 3	-	-	-	-	-
– Increases due to change in credit risk	119,409	190,692	244,098	**554,199**	-
– Decreases due to change in credit risk	(51,385)	(15,669)	(8,433)	**(75,487)**	-
– Write-offs	(3,716)	-	(96,095)	**(99,811)**	-
Specific provision for loan impairment	-	-	-	-	231,829
Collective provision for loan impairment	-	-	-	-	(19,102)
Written off during the year as uncollectible	-	-	-	-	-
Loss allowance as at 31 December 2018	**325,875**	**1,093,307**	**756,835**	**2,176,017**	**1,286,601**

(expressed in Eastern Caribbean dollars)

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

	2018				2017
Loss allowance – Loans and advances to customers at amortised cost	**Stage 1 - 12 month ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**	**As Reported $**
Credit cards					
At beginning of year as previously stated	11,366	32,187	326,627	**370,180**	152,969
Effects of adopting IFRS 9	5,129	14,524	-	**19,653**	-
Loss allowance as at 1 January 2018, as restated	16,495	46,711	326,627	**389,833**	**152,969**
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	161,527	(33,235)	(128,292)	-	-
– Transfer to stage 2	(143)	143	-	-	-
– Transfer to stage 3	(91)	(5,330)	5,421	-	-
– Increases due to change in credit risk	2,283	31,836	45,803	**79,922**	-
– Decreases due to change in credit risk	(161,713)	(8,147)	(112,566)	**(282,426)**	-
– Write-offs	-	-	(63,495)	**(63,495)**	-
Specific provision for loan impairment	-	-	-	-	200,863
Collective provision for loan impairment	-	-	-	-	16,348
Written off during the year as uncollectible	-	-	-	-	-
Loss allowance as at 31 December 2018	**18,358**	**31,978**	**73,498**	**123,834**	**370,180**
Total credit provisioning					
At beginning of year as previously stated	5,667,368	3,495,694	11,507,518	**20,670,580**	12,508,727
Effects of adopting IFRS 9	(1,874,030)	(1,683,964)	-	**(3,557,994)**	-
Loss allowance as at 1 January 2018, as restated	3,793,338	1,811,730	11,507,518	**17,112,586**	**12,508,727**
Changes in the loss allowance as at 1 January 2018					
– Transfer to stage 1	576,109	(447,817)	(128,292)	-	-
– Transfer to stage 2	(101,986)	101,986	-	-	-
– Transfer to stage 3	(18,795)	(60,175)	78,970	-	-
– Increases due to change in credit risk	934,801	799,877	4,115,565	**5,850,243**	-
– Decreases due to change in credit risk	(1,465,072)	(218,563)	(747,935)	**(2,431,570)**	-
– Write-offs	(31,684)	(113)	(3,493,167)	**(3,524,964)**	-
Specific provision for loan impairment	-	-	-	-	5,308,494
Collective provision for loan impairment	-	-	-	-	3,634,608
Written off during the year as uncollectible	-	-	-	-	(781,249)
Loss allowance as at 31 December 2018	**3,686,711**	**1,986,925**	**11,332,659**	**17,006,295**	**20,670,580**

(expressed in Eastern Caribbean dollars)

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

	2018 $	2017 $
Government bonds	**10,032,877**	10,032,877
Less allowance for impairment losses	**(107,972)**	-
	9,924,905	10,032,877

Government bonds are purchased from and issued directly by the Government of Saint Vincent and the Grenadines. The weighted average effective interest rate at 31 December 2018 on Government bonds at amortised cost was 7.53% (2017 – 7.49 %).

12 Investment properties

	2018 $	2017 $
Fair value at 1 January	**2,412,000**	2,780,000
Disposal	**-**	(368,000)
Fair value loss	**(180,000)**	-
Fair value at 31 December	**2,232,000**	2,412,000

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

(expressed in Eastern Caribbean dollars)

13 Property and equipment

	Land and building $	Leasehold Improvements $	Office Furniture and Equipment $	Work in Progress $	Computer Equipment and Software $	Motor Vehicles $	Total $
Year ended 31 December 2017							
Opening net book amount	47,553,003	-	5,146,932	1,035,403	1,560,652	262,427	55,558,417
Additions	677,704	48,900	646,143	517,744	307,514	-	2,198,005
Impairment losses	(1,824,911)	-	-	-	-	-	(1,824,911)
Depreciation charge (Note 30)	(665,130)	(6,441)	(1,253,836)	-	(696,122)	(119,878)	(2,741,407)
Closing net book amount	45,740,666	42,459	4,539,239	1,553,147	1,172,044	142,549	53,190,104
At 31 December 2017							
Cost	50,006,945	48,900	16,982,925	1,553,147	10,558,609	631,677	79,782,203
Accumulated depreciation	(4,266,279)	(6,441)	(12,443,686)	-	(9,386,565)	(489,128)	(26,592,099)
Net book amount	45,740,666	42,459	4,539,239	1,553,147	1,172,044	142,549	53,190,104
Year ended 31 December 2018							
Opening net book amount	**45,740,666**	**42,459**	**4,539,239**	**1,553,147**	**1,172,044**	**142,549**	**53,190,104**
Additions	**75,793**	**-**	**992,101**	**(394,484)**	**1,431,785**	**196,796**	**2,301,991**
Impairment losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**(5,747)**	**-**	**(19)**	**(2)**	**(5,768)**
Depreciation charge (Note 30)	**(611,718)**	**(9,780)**	**(1,216,619)**	**-**	**(529,623)**	**(98,281)**	**(2,466,021)**
Closing net book amount	**45,204,741**	**32,679**	**4,308,974**	**1,158,663**	**2,074,187**	**241,062**	**53,020,306**
At 31 December 2018							
Cost	**50,082,738**	**48,900**	**17,638,096**	**1,158,663**	**11,872,185**	**563,705**	**81,364,287**
Accumulated depreciation	**(4,877,997)**	**(16,221)**	**(13,329,122)**	**-**	**(9,797,998)**	**(322,643)**	**(28,343,981)**
Net book amount	**45,204,741**	**32,679**	**4,308,974**	**1,158,663**	**2,074,187**	**241,062**	**53,020,306**

(expressed in Eastern Caribbean dollars)

14 Related party balances and transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

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

The following accounts maintained by related parties are included under investment securities, deposits with other banks and deposits from banks:

	2018 $	2017 $
Bank of Saint Lucia Limited		
Deposits with other bank	**2,017,744**	1,983,040
Deposits from banks	**(6,954,425)**	(6,834,815)
	(4,936,681)	(4,851,775)
Government of St. Vincent and the Grenadines		
Debt securities at amortised cost	**34,615,000**	24,759,375

Transactions carried out with related parties:

	2018 $	2017 $
Income		
Interest income	**2,096,513**	2,924,252
Expenses		
Interest expense	**120,214**	118,146
Management fees	-	479,670
Professional fees	438,150	-

Other related parties
A number of banking transactions are entered into with other related parties in the normal course of business. These include loans and deposits. These transactions were carried out on commercial terms and at market rates.

(expressed in Eastern Caribbean dollars)

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

Other related party balances with the Group:

	2018		2017	
	Loans $	**Deposits $**	**Loans $**	**Deposits $**
Government of St. Vincent and the Grenadines	**107,340,829**	**18,056,943**	104,007,929	33,930,078
Statutory bodies	**1,720,509**	**14,951,968**	3,082,689	28,382,057
National Insurance Services	**-**	**69,581,061**	-	57,699,630
Staff pension plan	**-**	**7,722,990**	-	8,004,189
	109,061,338	**110,312,962**	107,090,618	128,015,954
Directors and key management	**2,776,137**	**1,416,834**	3,034,776	1,434,472
	111,837,475	**111,729,796**	110,125,394	129,450,426

No provisions have been recognised in respect of loans given to related parties (2017 – nil).

The loans issued to directors and other key management personnel are repayable monthly over an average of 10.5 years and have a weighted average effective interest rates of 4.42% (2017 - 4.33%).

Interest income and interest expense with other related parties:

	2018		2017	
	Income $	**Expenses $**	**Income $**	**Expenses $**
Government of St. Vincent and the Grenadines	**8,602,580**	**575,669**	8,298,158	1,527,541
Statutory bodies	**179,547**	**344,340**	246,061	467,879
National Insurance Services	**-**	**1,991,613**	-	1,723,533
Staff pension plan	**-**	**275,502**	-	262,288
Directors and key management	**121,131**	**26,998**	133,727	25,658
	8,903,258	**3,214,122**	8,677,946	4,006,899

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

	2018 $	**2017 $**
Salaries and other short-term benefits	**1,514,768**	1,644,709
Pension cost	**52,947**	59,818
	1,567,715	1,704,527

(expressed in Eastern Caribbean dollars)

15 Deferred tax (asset)/liability

The movement on the deferred tax (asset)/liability is as follows:

	2018 $	2017 $
At beginning of year	**47,105**	297,527
Prior year release to deferred tax (Note 33)	**(1,812,536)**	(19,352)
Current year charge/(release) (Note 33)	**173,320**	(231,070)
At end of year	**(1,592,111)**	47,105

The deferred tax (asset)/liability account is detailed below:

	2018 $	2017 $
Temporary differences on capital assets	**(1,592,111)**	47,105
	(1,592,111)	47,105

Deferred income taxes and liabilities are offset when there are legally enforceable rights to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

16 Other assets

	2018 $	2017 $
Other receivables	**2,656,474**	2,801,821
Prepaid expenses	**1,353,138**	1,490,685
	4,009,612	4,292,506

17 Deposits from banks

	2018 $	2017 $
Deposits from other banks	**37,863,272**	35,248,997

Interest rates range from 0% to 2.75% (2017 - 1.75% to 2.50%).

(expressed in Eastern Caribbean dollars)

18 Due to customers

	2018 $	2017 $
Term deposits	**113,072,006**	118,234,077
Savings deposits	**397,467,209**	391,511,533
Demand deposits	**256,622,577**	236,036,703
	767,161,792	745,782,313

The weighted average effective interest rate of customers' deposits at 31 December 2018 was 1.77% (2017 - 1.87%).

19 Borrowings

	Due	Average Interest Rate %	2018 $	Average Interest Rate %	2017 $
Caribbean Development Bank	**2018 – 2029**	**3.95%**	**21,306,420**	3.24%	23,820,408
National Insurance Services	**2018 – 2025**	**6.38%**	**16,977,604**	6.14%	18,274,857
			38,284,024		42,095,265

Security
The borrowings from the Caribbean Development Bank are guaranteed by the Government of St. Vincent and the Grenadines. Borrowings from the National Insurance Services are secured by property valued at $29,763,045 (2017 - $29,763,045) owned by the Bank of St. Vincent and the Grenadines.The Group has not had any defaults of principal, interest or other breaches with respect to borrowings during the year.

As at 31 December 2018, the Group had no undrawn facilities with either of the above mentioned institutions. Undrawn amounts with the Caribbean Development Bank at 31 December 2017, was $2,093,309.

20 Provisions and other liabilities

	2018 $	2017 $
Managers' cheques outstanding	**2,373,610**	2,495,263
Other payables	**14,810,477**	13,175,894
ECL on undrawn commitments	**18,311**	-
Customers' security deposits	**23,095,639**	31,465,135
	40,298,037	47,136,292

(expressed in Eastern Caribbean dollars)

21 Share capital

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

	2018 $	2017 $
Issued and fully paid – 14,999,844 (2017: 14,999,844)	**20,753,306**	20,753,306

During the year ended December 31, 2017, a stock dividend was issued which increased the number of shares in issue by 4,999,844 and increased paid up capital by $6,000,000.

22 Statutory reserves

	2018 $	2017 $
Balance at beginning of the year	**14,912,580**	14,753,306
Transfer from profit after taxation	**5,840,726**	159,274
Balance at end of the year	**20,753,306**	14,912,580

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

The Board of Directors agreed to fully fund the short fall in the reserve as at 31 December 2018.

23 General provision reserves

Following the adoption of IFRS 9, a general contingency reserve totalling $3,133,354 as a voluntary appropriation from retained earnings was created. This reserve will be funded on an annual basis at a rate to be decided by the Board of Directors.

24 Contingent liabilities and commitments

Commitments

The following table indicates the contractual amounts of the Group's financial instruments that commit it to extend credit to customers.

	2018 $	2017 $
Loan commitments	**7,664,002**	14,351,760
Guarantees and letters of credit	**40,000**	40,000
	7,704,002	14,391,760

(expressed in Eastern Caribbean dollars)

25 Net interest income

	2018 $	2017 $
Interest income		
Loans and advances	**46,744,525**	46,109,090
Treasury bills and investment securities	**4,061,871**	3,509,787
Deposits with banks	**158,624**	40,124
	50,965,020	49,659,001
Interest expense		
Savings deposits	**10,734,566**	11,797,004
Time deposits	**3,064,334**	3,548,002
Other borrowed funds	**1,925,368**	1,984,684
Correspondent banks	**53,049**	52,345
	15,777,317	17,382,035
Net interest income	**35,187,703**	32,276,966

26 Net fee and commission income

	2018 $	2017 $
Credit related fees and commissions	**10,494,188**	7,215,615

27 Dividend income

	2018 $	2017 $
Investments: equity securities	**380,475**	179,850

(expressed in Eastern Caribbean dollars)

28 Net foreign exchange trading income

	2018 $	2017 $
Net realized gains	**5,286,088**	4,973,641
Net unrealized (losses)/gains	**(78,473)**	234,755
	5,207,615	5,208,396

29 Other gains/(losses)

	2018 $	2017 $
Gain from disposal of fixed asset	**60,232**	-
Fair value loss on investment properties	**(180,000)**	-
Loss on disposal of investment properties	**-**	(183,484)
	(119,768)	(183,484)

30 Operating expenses

	2018 $	2017 $
Depreciation (Note 13)	**2,466,021**	2,741,407
Employee benefit expense (Note 31)	**11,647,235**	9,641,719
Interest levy expense	**4,835,151**	4,575,432
Rent	**292,357**	287,126
Audit and accounting fees	**252,000**	274,374
Directors' fees	**302,283**	294,585
Computer expense	**64,158**	109,459
Insurance	**653,062**	641,078
Repairs and maintenance	**446,777**	422,056
Subscription and donations	**141,141**	157,165
Commission and fees	**2,028,754**	1,856,308
Utilities	**2,404,862**	2,324,176
Credit card expenses	**2,023,330**	1,749,494
Management fees	**-**	479,670
Advertisement and sponsorship	**374,298**	312,855
Legal and professional fees	**850,973**	783,370
Postage and stationery	**832,375**	815,596
Bank and other licences	**2,280,037**	1,548,483
Security	**371,796**	375,108
Other expenses	**2,259,844**	2,606,036
	34,526,454	31,995,497

(expressed in Eastern Caribbean dollars)

31 Employee benefit expense

	2018 $	2017 $
Wages and salaries	**9,613,709**	7,491,888
Other staff costs	**1,676,148**	1,802,436
Pension cost	**357,378**	347,395
	11,647,235	9,641,719

32 Impairment losses on loans and advances to customers and other credit risk provisions

	2018 $	2017 $
Credit impairment against profit for the year on loans and advances to customers	**(3,653,325)**	(8,943,101)
Credit impairment against profit for the year relating to debt securities	**(1,200)**	-
Credit impairment against profit for the year on other non-financial assets	**-**	(1,824,911)
Reversal of credit impairment relating to financial guarantees and loan commitments	**4,525**	-
Amounts written off during the year as uncollectible	**(18,737)**	(13,687)
Recoveries of amounts previously written off	**1,095,663**	453,754
Recovery of impairment on investment securities	**13,911**	415,974
	(2,559,163)	(9,911,971)

33 Income tax expense

	2018 $	2017 $
Current tax	**2,788,764**	2,243,925
Prior year release to deferred tax (Note 15)	**(1,812,536)**	(19,352)
Deferred tax charge/(credit) (Note 15)	**173,320**	(231,070)
	1,149,548	1,993,503

(expressed in Eastern Caribbean dollars)

33 Income tax expense*…continued*

Tax on the Group's profit before taxation differs from the theoretical amount that would arise using the statutory tax rate of 30% (2017 - 32.5%) as follows:

	2018 $	2017 $
Profit before income tax	**14,064,596**	2,789,875
Tax calculated at the applicable tax rate of 30% (2017: 32.5%)	**4,219,379**	906,710
Tax effect of exempt income	**(4,926,546)**	(3,625,545)
Tax effect of expenses not deductible for tax purposes	**3,637,696**	4,731,690
Prior year under statement of deferred tax	**(1,812,536)**	-
Other differences	**31,555**	(19,352)
	1,149,548	1,993,503

34 Earnings per share

Earnings per share (EPS) are calculated by dividing the profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year. The EPS calculated for 2018 was $0.86 (2017 - $0.05).

35 Cash and cash equivalents

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

	2018 $	2017 $
Cash in hand and balances with ECCB (Note 5)	**59,723,358**	73,878,311
Treasury bills (Note 7)	**10,290,846**	10,401,918
Items in the course of collection with banks (Note 6)	**12,934,994**	7,817,963
Placements with other banks (Note 6)	**82,966,223**	105,256,739
	165,915,421	197,354,931

36 Dividends

A final dividend of $0.43 per share was approved for the year ended 31 December 2018 (2017 - $0.17) subsequent to year end. These dividends have not been paid or recorded as at the date of approval of these financial statements and will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2019 once ratified.

(expressed in Eastern Caribbean dollars)

37 Transition disclosures

As at 1 January 2018	IAS 39 Category	IAS 39 Carrying Amount	Reclassification	Remeasurement ECL	IFRS 9 Carrying Amount	IFRS 9 Category
Financial assets						
Cash and balances with ECCB	Amortised cost	118,625,250	-	-	118,625,250	Amortised cost
Treasury bills	Amortised cost	10,401,918	-	-	10,401,918	Amortised cost
Deposits with other banks	Amortised cost	115,572,633	-	-	115,572,633	Amortised cost
Investment securities						
Held-to-maturity	Amortised cost	44,505,092	-	(332,786)	44,172,306	Amortised cost
Available-for-sale	FVOCI	10,520,099	(10,520,099)	-	-	FVOCI
Equity securities designated at FVOCI	AFS	-	3,048,235	-	3,048,235	FVOCI
Equity securities designated at FVTPL	AFS	-	7,471,864	-	7,471,864	FVTPL
Loans and advances to customers	Loans and receivables					Amortised cost
- Overdrafts		45,705,698	-	-	45,705,698	
- Term loans		86,975,218	-	-	86,975,218	
- Large corporate loans		170,144,576	-	-	170,144,576	
- Mortgage loans		319,901,267	-	-	319,901,267	
- Credit cards		2,973,985	-	-	2,973,985	
		925,325,736	**-**	**(332,786)**	**924,992,950**	
Allowance for credit losses	Loans and receivables	(20,670,580)	-	3,557,994	(17,112,586)	Loans and advances to customers
		904,655,156	-	3,225,208	907,880,364	
Investment security at amortised cost	Amortised cost	10,032,877	-	(69,018)	9,963,859	Amortised cost
Total Financial Assets		**914,688,033**	-	**3,156,190**	**917,844,223**	
Non-financial assets						
Property and equipment	Cost	53,190,104	-	-	53,190,104	Cost
Investment properties	FVTPL	2,412,000	-	-	2,412,000	FVTPL
Other assets	Cost	4,292,506	-	-	4,292,506	Cost
		59,894,610	-	**-**	**59,894,610**	
Total Assets		**974,582,643**	-	**3,156,190**	**977,738,833**	

(expressed in Eastern Caribbean dollars)

37 Transition disclosures*….continued*

As at 1 January 2018	IAS 39 Category	IAS 39 Carrying Amount	Reclassification	Remeasurement ECL	Remeasurement Other	IFRS 9 Carrying Amount	IFRS 9 Category
Credit commitments		14,391,760	-	(22,836)	-	**14,368,924**	
Financial Liabilities							
Deposits from banks	Amortised cost	35,248,997	-	-	-	35,248,997	Amortised cost
Due to customers	Amortised cost	745,782,313	-	-	-	745,782,313	Amortised cost
Borrowings	Amortised cost	42,095,265	-	-	-	42,095,265	Amortised cost
Provisions and other liabilities	Amortised cost	47,136,292	-	22,837	-	47,159,129	Amortised cost
Total Financial Liabilities		**870,262,867**	**-**	**22,837**	**-**	**870,285,704**	
Non-Financial Liabilities							
Deferred tax liability		47,105	-	-	-	47,105	
Total Liabilities		**870,309,972**	**-**	**22,837**	**-**	**870,332,809**	
Equity							
Share capital		20,753,306	-	-	-	20,753,306	
Statutory reserve		14,912,580	-	-	-	14,912,580	
Other reserves		1,725,685	-	(1,725,685)	-	-	
Retained earnings		66,881,100	-	4,859,039	-	71,740,139	
Total equity		104,272,671	-	3,133,354	-	107,406,025	
Total Liabilities and Equity		**974,582,643**	**-**	**3,156,191**	**-**	**977,738,834**	

(expressed in Eastern Caribbean dollars)

37 Transition disclosures*….continued*

(i) As of 1 January 2018, the Group classified all its previously held-to-maturity debt instruments totaling $44,505,092 at amortised cost based on its business model and because their cash flows were solely related to the payment of principal and interest (SPPI). Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

(ii) The Group has elected to classify a portion of its previously held AFS equity portfolio at fair value through profit or loss (FVTPL) based on its business model; these amounted to $7,471,864. The other portion amounting to $3,048,235 of the AFS equity portfolio were classified as fair value through other comprehensive income (FVOCI). These instruments are strategic investments in a number of sub-regional institutions.

(iii) IAS 39 categories include Loans and Receivables, Available-for-Sale (AFS), Held-to-Maturity (HTM) and Fair Value through Profit or Loss (FVTPL). IFRS 9 categories include Amortised cost (AC), Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI).

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	Statutory Reserves $	Unrealized Gain $	Retained Earnings $	Total $
Closing balance under IAS 39 (31 December 2017)	14,912,580	1,725,685	66,881,100	83,519,365
Initial recognition of IFRS 9 ECLs	-	-	3,133,354	3,133,354
Reclassification of unrealized gains on AFS securities now classified as FVTPL	-	(1,725,685)	1,725,685	-
Opening balance under IFRS 9 (1 January 2018)	**14,912,580**	**-**	**71,740,139**	**86,652,719**

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Impairment allowance under IAS 39 as at 31 December 2017	Remeasurement	Impairment allowance under IFRS 9 as at 1 January 2018
Loans and advances to customers			
- Overdrafts	1,286,601	510,515	**1,797,116**
- Term loans	3,027,428	(492,575)	**2,534,853**
- Large corporate loans	8,568,390	564,155	**9,132,545**
- Mortgage loans	7,417,981	(4,159,742)	**3,258,239**
- Credit cards	370,180	19,653	**389,833**
- Undrawn	-	22,836	**22,836**
Investment securities	1,106,835	401,804	**1,508,639**
	21,777,415	(3,133,354)	**18,644,061**