Consolidated Financial Statements of

NATIONAL BANK OF DOMINICA LTD.

June 30, 2020
(Expressed in Eastern Caribbean dollars)

NATIONAL BANK OF DOMINICA LTD.

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204 Johnsons Centre
No. 2 Bella Rosa Road
P.O. Box GI 2171
Gros-Islet LC01 101
Saint Lucia

Telephone: (758) 453-5764
Email: ecinfo@kpmg.lc

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of National Bank of Dominica Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of National Bank of Dominica Ltd. (the "Bank") and its subsidiary (collectively, the "Group"), which comprise the consolidated statement of financial position as at June 30, 2020, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2020, 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Eastern Caribbean, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Annual Report for 2020, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of National Bank of Dominica Ltd.

Other Information, continued

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 Annual Report for 2020, 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.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholders of National Bank of Dominica Ltd.

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

- 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 auditor's 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

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.

KPMG

Chartered Accountants
Castries, Saint Lucia
December 15, 2020

National Bank of Dominica Ltd.

Consolidated Statement of Financial Position

As at June 30, 2020

(Expressed in Eastern Caribbean Dollars)

	Notes	2020 $	2019 $
Assets			
Cash and balances with Central Bank	7(a)	**107,472,227**	86,760,340
Treasury bills	8	**28,181,240**	34,372,032
Due from other banks	9	**244,010,266**	333,746,855
Deposits with non-bank financial institutions	10	**26,900,409**	9,971,536
Loans and advances to customers	11	**695,525,032**	666,512,040
Investment securities	12	**245,291,726**	259,195,894
Other assets	13	**11,754,758**	16,888,480
Property and equipment	14	**11,567,008**	11,638,831
Right-of-use assets		**44,708**	-
Intangible assets	15	**518,688**	322,502
Total Assets		**1,371,266,062**	1,419,408,510
Liabilities			
Deposits from customers	16	**1,202,389,712**	1,268,509,176
Other liabilities	17	**27,268,033**	27,717,282
Lease liability		**47,213**	-
Commercial paper	18	**30,369,802**	35,042,560
Income tax liability		**-**	109,445
Provision		**232,262**	379,626
Total Liabilities		**1,260,307,022**	1,331,758,089
Equity			
Share capital	19	**20,000,000**	20,000,000
Statutory reserve	20	**18,633,672**	13,968,918
Loan loss reserve	21	**1,109,521**	5,831,164
Fair value through OCI reserve	22	**867,734**	861,768
Retained earnings		**70,348,113**	46,988,571
Total Equity		**110,959,040**	87,650,421
Total Liabilities and Equity		**1,371,266,062**	1,419,408,510

The consolidated financial statements were approved on December 15, 2020 by the Board of Directors for issue and signed on its behalf by:

Ellingworth Edwards
Managing Director

Linda Toussaint Peter
Chief Financial Officer

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

National Bank of Dominica Ltd.

Consolidated Statement of Changes in Equity

For the year ended June 30, 2020

(Expressed in Eastern Caribbean Dollars)

	Notes	Share capital $	Statutory reserve $	Fair value through OCI reserve $	Loan loss reserve $	Retained earnings $	Total $
Restated Balance at July 1, 2018		20,000,000	11,334,909	575,400	9,000,000	33,283,699	74,194,008
Net income for the year		-	-	-	-	13,170,045	13,170,045
Transfer to reserve		-	-	-	5,831,164	(5,831,164)	-
Transfer to retained earnings		-	-	-	(9,000,000)	9,000,000	-
Allocation to statutory reserve		-	2,634,009	-	-	(2,634,009)	-
Change in fair value of FVOCI investment securities	22	-	-	286,368	-		286,368
Balance at June 30, 2019		**20,000,000**	**13,968,918**	**861,768**	**5,831,164**	**46,988,571**	**87,650,421**
Balance at July 1 2019		**20,000,000**	**13,968,918**	**861,768**	**5,831,164**	**46,988,571**	**87,650,421**
Impact of initial application of IFRS 16	3(u)	**-**	**-**	**-**	**-**	**(21,116)**	**(21,116)**
Restated balance at July 1, 2019		**20,000,000**	**13,968,918**	**861,768**	**5,831,164**	**46,967,455**	**87,629,305**
Net income for the year		-	-	-		**23,323,769**	**23,323,769**
Transfer to retained earnings	21	-	-	-	**(4,721,643)**	**4,721,643**	**-**
Allocation to statutory reserve	20	-	**4,664,754**	-	**-**	**(4,664,754)**	**-**
Change in fair value of FVOCI investment securities	22	-	-	**5,966**	**-**	**-**	**5,966**
Balance at June 30, 2020		**20,000,000**	**18,633,672**	**867,734**	**1,109,521**	**70,348,113**	**110,959,040**

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

National Bank of Dominica Ltd.
Consolidated Statement of Income
For the year ended June 30, 2020

(Expressed in Eastern Caribbean Dollars)

	Notes	2020 $	2019 $
Interest income	23	**57,691,237**	56,735,224
Interest expense	23	**(21,661,130)**	(23,277,945)
Net interest income		**36,030,107**	33,457,279
Net foreign exchange trading income		**6,689,367**	9,190,186
Net commission and other income	24	**9,515,171**	10,387,083
Net interest, commission and other income		**52,234,645**	53,034,548
Net income from investment securities at fair value through profit or loss	12	**1,478,596**	5,156,452
Net impairment recovery (loss) on loans and advances to customers	11	**2,098,273**	(18,016,330)
Impairment losses on investment securities	12	**(1,649,394)**	(2,214,386)
Impairment recovery on investment securities	12, 25	**10,114**	1,129,304
ECL adjustment on treasury bills, due from other banks, non-bank financial institutions and other assets	8, 9, 10, 13	**(7,219,371)**	112,114
Operating expenses	26	**(23,629,094)**	(26,031,657)
Net income before taxation		**23,323,769**	13,170,045
Income tax expense	29	**-**	-
Net income for the year after taxation		**23,323,769**	13,170,045
Earnings per share attributable to equity holders of the Group			
Basic and diluted		**0.97**	0.55

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

(Expressed in Eastern Caribbean Dollars)

	Notes	2020 $	2019 $
Net income for the year		**23,323,769**	13,170,045
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Net fair value gains on investments at FVOCI	12, 22	**5,966**	286,368
Total comprehensive income for the year		**23,329,735**	13,456,413

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

National Bank of Dominica Ltd.

Consolidated Statement of Cash Flows

For the year ended June 30, 2020

(Expressed in Eastern Caribbean Dollars)

	Notes	2020 $	2019 $
Cash flows from operating activities			
Net income for the year		**23,323,769**	13,170,045
Adjustments for:			
Depreciation and amortization	14, 15	**1,463,663**	1,350,947
Depreciation on right-of-use assets		**536,501**	-
Interest income		**(11,057,332)**	(15,327,165)
Interest expense		**743,053**	1,168,292
Interest on lease liability		**13,220**	-
Loss on disposal of property and equipment		**-**	24,826
Tax (recoverable) expense		**(111,609)**	109,445
Unrealized gain on investment securities at FVTPL	12	**(1,478,596)**	(5,156,452)
Impairment recovery on investment securities	12, 25	**(10,114)**	(1,129,304)
Net impairment loss on investment securities	12	**1,649,394**	2,214,386
ECL adjustment on other assets	13	**6,195,898**	502,838
Dividends on investment securities at FVTPL		**-**	(408,491)
Net impairment (recovery) loss on loans and advances	11(i)	**(2,098,273)**	18,016,330
Cash flows before changes in operating assets and liabilities		**19,169,574**	14,535,697
Change in mandatory deposits with Central Bank		**3,926,681**	11,320,211
Change in loans and advances		**(21,477,614)**	(149,378,628)
Change in other assets		**(950,567)**	850,965
Change in accrued interest		**(1,828,983)**	21,973,115
Change in deposits from customers and commercial paper		**(73,467,004)**	(198,162,276)
Change in other liabilities		**(449,249)**	(9,692,376)
Change in provisions		**(147,364)**	199,877
Cash used in operations		**(75,224,526)**	(308,353,415)
Interest received		**10,141,765**	13,957,307
Interest paid		**(760,826)**	(1,118,910)
Income tax paid		**(109,445)**	(296,229)
Net cash used in operating activities		**(65,953,032)**	(295,811,247)
Cash flows from investing activities			
Proceeds from maturity of treasury bills		**445,900**	1,249,276
Purchase of investment securities	12	**(12,729,106)**	(23,133,449)
Proceeds from disposal of investment securities	12	**26,478,556**	16,460,436
Purchase of property and equipment	14	**(1,263,977)**	(1,633,935)
Purchase of intangible assets	15	**(324,049)**	(295,425)
Net cash generated from (used in) investing activities		**12,607,324**	(7,353,097)
Cash flows from financing activities			
Payment of lease liabilities		**(568,332)**	-
Net cash used in financing activities		**(568,332)**	-
Net decrease in cash and cash equivalents		**(53,914,040)**	(303,164,344)
Cash and cash equivalents – beginning of year		**375,663,651**	678,827,995
Cash and cash equivalents – end of year	7(b)	**321,749,611**	375,663,651

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

1. Reporting entity

The National Bank of Dominica Ltd. (the "Bank") and its subsidiary (collectively, the "Group") are domiciled in the Commonwealth of Dominica. The Group's registered office and principal place of business are both located at 64 Hillsborough Street, Roseau, Commonwealth of Dominica. These consolidated financial statements comprise the financial statements of the Group.

The Group was established by Act of Parliament No. 27 of 1976 and commenced operations on March 15, 1978. The Group is subject to the provisions of the Banking Act No. 4 of 2015 and the Companies Act of 1994 of the Commonwealth of Dominica.

The Eastern Caribbean Securities Exchange acts as a registrar and the transfer agent for the Group's shares.

The Group provides retail, corporate and investment banking services in the Commonwealth of Dominica and the rest of the Eastern Caribbean region.

The National Investment Corporation Ltd. (NIC) is a wholly owned subsidiary of the Group, and was incorporated in the Commonwealth of Dominica under the Companies Act 1994. In August 2012, NIC was amalgamated with the National Mortgage & Finance Corporation, then another wholly owned subsidiary of the Group. NIC is in the process of reviewing its mandate and is currently non-operational. However, it is proposed that it engages in capital market services, focusing initially on brokerage and trade execution services to institutions and individual clients wishing to invest funds in various securities offered in the regional capital market.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standard Board (IASB) as at June 30, 2020 (the reporting date).

(b) Basis of measurement

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

- financial instruments designated and measured at fair value through profit or loss,
- equity investments designated at fair value through other comprehensive income

2. Basis of preparation (cont'd)

(c) Functional and presentation currency

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

(d) Estimates critical to reported amounts, and judgements in applying accounting policies

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, based on assumptions and judgements. Management also makes judgements, other than those involving estimations, in the process of applying the accounting policies. The estimates and judgements affect (1) the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended, and (2) the carrying amounts of assets and liabilities in the next financial year.

The estimates, and the assumptions underlying them, as well as the judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made in the application of IFRS that have a significant effect on the amounts recognised in the consolidated financial statements, and estimates that can cause a significant adjustment in the next financial year to the carrying amounts of assets and liabilities at the reporting date are outlined below:

Classification of financial assets - Notes 3(h), 3(h)(iii) and 12
Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are SPPI on the principal amount outstanding.

Expected Credit Losses - Notes 3(h)(vi), 11 and 12
Establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of the ECL and selection and approval of models used to measure ECL.

2. Basis of preparation (cont'd)

(d) *Estimates critical to reported amounts, and judgements in applying accounting policies (cont'd)*

(i) *Key sources of estimation uncertainty*

1. Allowance for impairment losses on financial assets

   In determining amounts, if any, to be recorded for impairment of financial assets, management makes assumptions in assessing whether certain facts and circumstances, such as repayment default and adverse economic conditions, are indicators that there may be a measurable decrease in the estimated future cash flows from outstanding balances. Management also makes estimates of the amount of future cash flows from balances determined to be impaired, as well as the timing of such cash flows. If the balances are individually significant, the amount and timing of cash flows are estimated for each receivable individually. Where indicators of impairment are not observable on individually significant receivables, or on a group or portfolio of receivables that are not individually significant, management estimates the impairment by classifying each receivable or group of receivables according to their characteristics, such as credit risks, and applying appropriate factors, such as historical loss experience, to each class with similar characteristics. The use of assumptions makes uncertainty inherent in such estimates.

2. Residual values and useful lives of property and equipment

   The residual value and the useful life of each asset are reviewed at least at each financial year-end, and, if expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. The useful life of an asset is defined in terms of the asset's expected utility to the Group.

3. Income taxes

   In the ordinary course of the Group's business, it undertakes transactions, and is subject to events, the tax effects of which are uncertain. In the face of such uncertainty, the Group makes estimates and judgements in determining the provision for income taxes.

   The final tax outcome attributable to matters subject to such estimates and judgements may be materially different from that which was initially recognised. Any such difference will impact the current and deferred income tax provision in the period in which such determination is made.

2. Basis of preparation (cont'd)

(d) Estimates critical to reported amounts, and judgements in applying accounting policies (cont'd)

(i) Key sources of estimation uncertainty (cont'd)

4. Fair value of financial instruments

There are no quoted market prices for a significant portion of the Group's financial assets and liabilities. Accordingly, fair values of several financial assets are estimated using a variety of means, including quotes published by broker/dealers and the book value of the entity, approaches in which there is inherent significant uncertainty that has resulted in these instruments being categorized as Level 2 and Level 3 in the fair value hierarchy. The estimates of fair value arrived at from these sources may be significantly different from the actual price of the instruments in an actual arm's length transaction.

(ii) Critical accounting judgements in applying the Group's accounting policies

For the purpose of these consolidated financial statements, prepared in accordance with IFRS, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS.

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances, and the Group exercises judgement in carrying out such designation.

The following are relevant to these consolidated financial statements:

IFRS 9 classifies all financial assets within the scope of IAS 39 into just two main classifications namely, those measured at amortised cost and those measured at fair value. Fair value measurements can either be fair value through other comprehensive income (FVOCI), or fair value through profit and loss (FVTPL). The decision on classification is taken at initial recognition and restatement of any previously recognised gains, losses, or interest is not required.

- For a debt instrument to be recognised at amortised cost, it must satisfy the requirements of the cash flow test and be managed such that it is held to maturity. A debt instrument can be measured at FVOCI only if it passes the cash flow test and if the assets are managed to achieve the business model objectives of both the collection of contractual cash flows and selling. There is also the option to designate a debt instrument as FVTPL with some conditions.

2. Basis of preparation (cont'd)

(d) Estimates critical to reported amounts, and judgements in applying accounting policies (cont'd)

(ii) Critical accounting judgements in applying the Group's accounting policies (cont'd)

- All equity investments are measured at fair value, with changes recognized in profit or loss (i.e. FVTPL). However, if an equity investment is not held for trading, at initial recognition an entity may choose to measure the investment at FVOCI, but when the instrument is sold the gain or loss on sale will not be "recycled" from other comprehensive income to profit and loss as in the case of debt instruments classified as FVOCI. Instead, the cumulative gain or loss is transferred to a separate retained earnings bucket (Accumulated Other Comprehensive Income (AOCI)).

3. Significant accounting policies

(a) Basis of consolidation

The financial statements of the subsidiaries used to prepare the consolidated financial statements were prepared as of the Parent Company's reporting date. 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 as of June 30, 2020.

(b) Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, 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, 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

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; and
- The Group's voting rights and potential voting rights.

3. Significant accounting policies (cont'd)

(b) Subsidiaries (cont'd)

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 profit or loss 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 into 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.

(c) Loss of control

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; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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 profit or loss.

3. Significant accounting policies (cont'd)

(d) Transactions eliminated on consolidation

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.

(e) Adoption of new standards, and interpretations of and amendments to existing standards that became effective during the year

The Group applied for the first-time certain standards and amendments, which are effective for annual reporting periods beginning on or after January 1, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Of these new standards and amendments applied for the first time in 2019, only IFRS 16 had an impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

- **IFRS 16 Leases**

  In January 2016, the IASB issued IFRS 16 Leases, the standard that replaced IAS 17 for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted. The Group did not early adopt IFRS 16. IFRS 16 specifies how leases will be recognised, measured, presented and disclosed. IFRS 16 does not significantly change the accounting for leases for Lessors. However; the standard does require lessees to recognise most leases on their consolidated statement of financial position as lease liabilities with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases but will have the option not to recognise "short-term" leases and leases of "low-value" assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to finance lease accounting under the predecessor standard IAS 17, with interest and depreciation expense recognised separately in the consolidated statement of income. The impact of IFRS 16 is disclosed in note 3(u).

- **Amendments to IAS 12 Income Taxes – Annual Improvements to IFRS Standards 2015-2017**

  The IASB issued an amendment to IAS 12 in December 2017. The amendment clarified the recognition and measurement of current and deferred taxes on dividends. The amendment clarified the recognition of income tax consequences of dividends where the transactions or events that generated distributable profits are recognised, apply to all income tax consequences of dividends. This amendment is effective for annual reporting periods beginning on or after January 1, 2019 and did not have a significant impact on the consolidated financial statements of the Group.

3. Significant accounting policies (cont'd)

(e) Adoption of new standards, and interpretations of and amendments to existing standards that became effective during the year (cont'd)

- **Amendments to IAS 19 Employee Benefits**

  In February 2018, through issuing amendments to IAS 19, the IASB made changes relating to defined benefit plan to include Plan Amendment, Curtailment and Settlement as follows:

  I. If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement.
  II. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

  The amendments to standard are applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019 and did not have significant impact on the consolidated financial statements of the Group.

- **Amendments to IAS 23 Borrowing Costs - Annual Improvements to IFRS Standards 2015-2017**

  The amendment to IAS 23 clarified that when a qualifying asset is ready for its intended use or sale, any outstanding borrowings made specifically to obtain that qualifying asset, becomes part of general borrowings. It therefore means that an organization should calculate the capitalization rate on general borrowings taking into account the specific borrowing on completed assets if outstanding.

  The amendment was issued in December 2017 and is applicable for annual reporting periods beginning on or after January 1, 2019. The amendment to the standard did not have a significant impact on the consolidated financial statements of the Group.

- **Amendments to IAS 28 Investments in Associates and Joint Ventures**

  The IASB published Long-Term Interests in Associates and Joint Ventures (Amendments to IAS 28) to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in associates or joint ventures that form part of the net investment in the associate or joint venture but to which the equity method is applied.

  The amendments are effective for reporting periods beginning on or after January 1, 2019 and did not have significant impact on the consolidated financial statements of the Group.

3. Significant accounting policies (cont'd)

(e) Adoption of new standards, and interpretations of and amendments to existing standards that became effective during the year (cont'd)

- **Amendments to IFRS 9 – Financial Instruments**

  The IASB issued "Prepayment Features with Negative Compensation (Amendments to IFRS 9)" to address the concerns about how IFRS 9 – Financial Instruments classifies particular pre-payable financial assets. Under the current standard, financial assets are classified as at amortized cost only when the business model test and the contractual cash flow characteristics (SPPI) test are met. However, when financial institutions generate loans with prepayment features with negative compensation, the cash flows from such loans might not represent solely payments of principal and interest and as such, the contractual cash flow test is not met. As a result, all the loans with similar prepayment features could not be classified at amortized cost. Prepayment Features with Negative Compensation 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.

  Besides changes related to classification of financial assets with prepayment options, this amendment also clarified accounting for modification or exchange of financial liabilities measured at amortised cost that does not result in derecognition of the financial liability. The adjustment arising from a modification or exchange should be recognised in profit or loss at the date of the modification or exchange.

  The amendments are applicable for reporting periods beginning on or after January 1, 2019 with early adoption permitted. The changes in the standard have not had a material impact on the consolidated financial statements.

- **IFRS 3 - Business Combinations – Annual Improvements to IFRS standards 2015 - 2017**

  The amendments to IFRS 3 clarified that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments are effective for reporting periods beginning on or after January 1, 2019 and did not have significant impact on the consolidated financial statements of the Group.

- **IFRS 11 – 'Joint Arrangements (Annual Improvements to IFRS Standards 2015-2017 cycle)**

  IFRS 11 clarified that when an entity obtains control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

  The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier adoption is permitted.

3. Significant accounting policies (cont'd)

(e) Adoption of new standards, and interpretations of and amendments to existing standards that became effective during the year (cont'd)

- **IFRIC Interpretation 23**

IFRIC 23 clarifies the accounting for uncertainties in income taxes. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item under IAS 12, including taxable profit or loss, the tax bases of assets and liabilities, unused tax losses and credits and tax rates.

<u>Determination of taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates</u>

- A company has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing.
- If the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.
- If the entity concludes that it is not probable that a particular tax treatment is accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty.

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019 and did not have a significant impact on the consolidated financial statements of the Group.

Transition
The requirements are applied by recognising the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight.

3. Significant accounting policies (cont'd)

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

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

- **IFRS 17 Insurance Contracts**

  IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. An entity shall apply IFRS 17 to:
  - Insurance contracts including reinsurance contracts, it issues;
  - Reinsurance contracts it holds; and
  - Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

  The standard is effective for reporting periods beginning on or after January 1, 2023. The standard is not expected to have a material impact on the consolidated financial statements of the Group.

- **IFRS 3 Definition of A Business (Amendments to IFRS 3)**

  The amendments to the definition of a business aims at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.

  The amendments are changes to Appendix A, defined terms, the application guidance and the illustrative examples of IFRS 3 only and include:

  - Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
  - Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
  - Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
  - Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
  - Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisition that occur on or after the beginning of that period. Earlier adoption is permitted.

3. Significant accounting policies (cont'd)

(g) Cash and cash equivalents

Cash comprises cash on hand and demand deposits at banks and includes unrestricted balances with the Eastern Caribbean Central Bank (ECCB). Cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and held for short-term operating, rather than investment, purposes. They comprise treasury bills with less than three months maturity from the date of acquisition, term deposits with other banks, term deposits with non-bank financial institutions, and other highly liquid short-term securities.

(h) Financial instruments

(i) Recognition and initial measurement

The Group initially recognizes loans and advances, deposits and debt securities on the date that they are originated. The Group uses trade date accounting for regular way contracts when recording financial asset transactions. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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

(ii) Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial assets expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain ownership of the financial asset.

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

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities.

Financial liabilities

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

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(iii) Classification

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

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

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL. For financial assets held at initial application, the business model assessment is based on facts and circumstances at that date. Also, IFRS 9 permits net elective designations at FVTPL or FVOCI to be made on the date of initial application and permits or requires revocation of previous FVTPL elections at the date of initial application depending on the facts and circumstances at that date.

Financial assets are measured at initial recognition at amortised cost and are classified and subsequently measured at amortised cost if they meet both of the following conditions (the SPPI test) 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 on the principal amount outstanding.

In order for debt instruments to be recognised at amortised cost, they must satisfy the requirements of the cash flow test and be managed such that they are held to maturity. An asset will be measured at FVOCI only if it passes the cash flow test and if the assets are managed to achieve the business model objectives of both the collection of contractual cash flows and selling. The Group also has the option to designate a debt instrument as FVTPL with some conditions.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(iii) Classification (cont'd)

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

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

All equity investments held for trading are measured at fair value, with changes recognized in profit or loss (i.e. FVTPL). However, if an equity investment is not held for trading, at initial recognition the Group may choose to measure the investment at FVOCI, but when the instrument is sold the gain or loss on sale cannot be "recycled" from other comprehensive income to profit and loss as in the case of debt instruments classified as FVOCI. Instead, the cumulative gain or loss is transferred to a separate retained earnings bucket (Accumulated Other Comprehensive Income (AOCI)).

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

For the financial year 2019, the Group elected to classify some of its equity instruments at FVOCI with subsequent changes to be presented in FVOCI. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

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

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(iii) Classification (cont'd)

Business Model Assessment

IFRS 9 requires that financial assets are classified on the basis of the Group's business model for managing such assets unless it makes an irrevocable election to designate the asset at fair value through profit or loss. The business model assessment includes determining how financial assets are managed in order to generate cash flows. The Group is guided by its strategic objective and uses judgement in determining its business models. This is supported by relevant, objective evidence including:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How performance of the business model and the financial assets held within the model are evaluated and reported to key management personnel; and
- The significant risks affecting the performance of the business model to include, market risk and credit risk and the activities undertaken to manage those risks.

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

The business model for the Group's loans and receivables remains the same as under IAS 39 being to hold to collect contractual cash flows to the maturity of the instrument. As a result, the Group intends to classify loans and advances at amortised cost. There is no change in classification from the previous standard (IAS 39).

The outcome of the SPPI and Business Model tests determines whether the financial instrument is accounted for:

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

IFRS 9 has a single impairment model for all financial assets, but only for those classified as amortized cost or FVOCI. Financial assets classified as FVTPL do not need to be impaired as the others as they are already marked to market and are, therefore, outside of the IFRS 9's scope.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(iii) Classification (cont'd)

Business Model Assessment (cont'd)

The Group's business model assessment falls into two main categories:

1. *Hold to collect contractual cash flows*
   Under this model, loans and investments securities are held to collect contractual cash flows and they satisfy the SPPI test of the cash flows consisting solely of principal and interest payments.

2. *Hold to collect contractual cash flows and selling of the financial asset*
   Under this model, which comprises solely investment securities, the objective is to collect cash flow, but the security can be sold to meet liquidity requirements as required.

Reclassifications

Due from banks, treasury bills, loans and advances

The Group maintained its classification for treasury bills, due from banks, loans and advances previously carried at amortised cost. These securities were therefore measured at amortised cost on the basis that they satisfied the required conditions under IFRS 9 as follows:

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

Investment securities

The Group has classified its investment instruments as amortised cost, fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVOCI). The business model for these instruments vary where some are held to collect contractual cash flows and others are held to collect contractual cash flows but also to sell. Debt securities held to collect contractual cash flows are recognized at amortised cost while debt securities for which the intention is to sell are measured at fair value with changes recognized in profit or loss. Impairment on debt instruments measured at amortised cost is calculated using the expected credit loss approach. Unrealized gain or loss from changes in fair value on debt securities carried at FVTPL are recognised in profit or loss.

All equity securities are measured at fair value. If an equity instrument is not held for trading, at initial recognition, the investment is measured at fair value through profit and loss (FVTPL) with changes recognized in profit or loss or an election is made to designate that equity instrument at fair value through other comprehensive income (FVOCI) but when the instrument is sold/ derecognized the gain or loss on sale cannot be recycled from other comprehensive income to profit or loss. Dividends received are reported in the consolidated statement of income.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(iv) Offsetting

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

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

(v) Fair value measurement

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

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

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

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(v) Fair value measurement (cont'd)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group evaluates the leveling at each reporting period on an instrument basis and reclassifies instruments when necessary based on the facts at the end of the reporting period. The Group recognises transfers between levels of the fair value hierarchy (see note 6) as of the end of the reporting period during which the change has occurred.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(vi) Impairment

The Group recorded the allowance for expected credit losses for the following categories of financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments
- Loan commitments;
- Financial guarantee contracts.

No impairment loss is recognised on equity investments. The Group had no debt instruments measured at fair value through other comprehensive income.

The recognition of ECL could be either 12-months (12mECLs) or lifetime (LTECL) for each financial asset, depending on the impairment stage of the asset.

The impairment model under IFRS 9 makes use of a three-stage approach in determining credit losses:

Stage 1 - at origination or purchase, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established. 12 Months ECL are done for exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination. The portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised. For these financial assets, interest revenue is calculated on the gross carrying amount (i.e. without adjustment for expected credit losses).

Stage 2 - If the credit risk increases significantly and the resulting credit quality is no longer considered to be low credit risk, full lifetime expected credit losses are recognised.

Lifetime expected credit losses are only recognised if the credit risk increases significantly from when the entity originates or purchases the financial instrument. The calculation of interest revenue on financial assets remains the same as for stage 1.

Facilities restructured, due to the financial impediment of the borrower will also initially be recognised at stage 2 impairment. These facilities will be monitored for a period of time (12 months) until which a formal review will be conducted to see whether it is performing as normal. Subsequently, once the Group is satisfied, these facilities can return to the stage 1 bucket.

Stage 3 - If the credit risk of a financial asset increases to the point that it is considered credit-impaired, interest revenue is calculated based on the amortised cost (i.e. the gross carrying amount adjusted for the loss allowance). Lifetime expected credit losses are still recognised on these financial assets.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(vi) Impairment (cont'd)

The Group utilises qualitative and quantitative criteria in its assessment.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance).

Twelve (12) month ECLs are the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months

Currently, such facilities identified as:

- Those with a credit risk rating of between 1 to 3 inclusive;
- Loan repayments current or not more than 30 days past due;
- Loans rescheduled and up to date for more than 12 months; and
- Deposits on overdraft facilities over the last 30 days equal to, or in excess of the interest accrued on the facility.

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition based on the defined criteria set out below, but that do not have objective evidence of impairment. This however excludes (non-restructured) loans assessed as having a low credit risk at the reporting date. Low credit risk refers to specific situations based on the Group's knowledge of the customer which indicates credit risk has not increased significantly. The standard states that a financial instrument is considered to have low credit risk if:

1. The financial instrument has a low risk of default.
2. The borrower has a strong capacity to meet its contractual cash flow obligations in the near term.
3. Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations

A financial instrument is not considered to have low credit risk simply because it has a low risk of loss (e.g., for a collateralised loan), if the value of the collateral is more than the amount lent or it has lower risk of default compared with the entity's other financial instruments or relative to the credit risk of the jurisdiction within which the entity operates. According to Basel credit risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(vi) Impairment (cont'd)

For Stage 2 assets assessed as having low credit risk, lifetime ECLs are recognized, but interest, revenue is still calculated on the gross carrying amount of the asset. At this stage, the expected credit losses are calculated over the lifetime of the loan.

Currently, such loans are identified as those displaying any one or more of the following:

- Loan repayments in arrears between 30 - 89 days;
- Credit facilities with a risk rating of 4;
- Rescheduled or restructured loans which have been guaranteed by the Government of Dominica
- Rescheduled or restructured loans due to deterioration which are up to date and adequately secured, for less than 1 year after rescheduling; and
- Deposits on overdraft facilities over the last 30 to 90 days equal to, or in excess of the interest accrued on the facility.

Stage 3 - Financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECLs are recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance). The standard requires management, when determining whether the credit risk on a financial instrument has increased significantly, to consider reasonable and supportable information available, in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument. The Group intends to utilise qualitative and quantitative criteria in its assessment of default of financial assets. The determination is based on whether the borrower is unable or unlikely to pay his/her obligations.

These criteria include any one or more of the following:

- Loans at least 90 days and more in arrears (non-performing loans);
- Credit facilities with a risk rating 5 or higher;
- Delinquent restructured loans;
- Credit cards 90 days past due converted to a loan; and
- Deposits on overdraft facilities over the last 90 days insufficient to cover the interest accrued thereon.

The calculation for all Stage 3 facilities mirrors the IAS 39 calculation for specific provisioning performed by management prior to IFRS 9. After a preliminary analysis, management has opted to perform the calculation for Stage 3 using this approach since the calculation of expected credit losses (ECL) using the 5-year LGD average results in a much lower ECL across all portfolios and does not reasonably represent the best estimate for losses in Stage 3. Management has deemed this approach as appropriate given that the calculation factors the net exposure for those facilities which have defaulted rather than using the estimated portfolio LGD which is based on historical losses over 5 years.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(vi) Impairment (cont'd)

Under IFRS 9, the Group recognise expected credit losses (ECL) based on the financial instruments' stage allocation.

- For instruments allocated to Stage 1, a 12-month ECL is required which is the portion of lifetime ECLs resulting from default events that are possible within 12 months after the reporting date - 12 Months Probability of Default (PD).

- For instruments allocated to Stage 2, a lifetime ECL is required which is the ECL that results from all possible default events over the expected life of the financial instruments - Lifetime Probability of Default (PD).

  ECL is estimated based on the calculation of PD*LGD*EAD*Discount rate over the life of the instrument.

- For instruments allocated to Stage 3, which include loans which have defaulted and are over 90 days past due and loans considered to be credit impaired based its Credit Risk Rating, lifetime ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, that is, the difference between:

  – The cash flows that are <u>contractually</u> due to the Group under the contract and,
  – The cash flows that are <u>expected</u> to be received by the Group which is expected to equate the present value of the discounted collateral value.

The application of Stage 3 ECL remains mostly unchanged from what existed under the previous IAS 39.

The expected credit loss model applies to debt instruments recorded at amortised cost, such as loans, debt securities and loan commitments and financial guarantee contracts.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(vi) Impairment (cont'd)

Measurement of expected credit loss (ECL)

In calculating ECL, the Group considered the unbiased and probability-weighted estimates of expected loss which was determined by evaluating a range of possible outcomes to include the amount and timing of the cash flows for particular outcome and the estimated probability of these outcomes. The calculation of ECL also took into account time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions. Expected credit losses 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 flow discounted by the effective interest rate.

- Undrawn loan commitment: as the expected portion of the loan commitment that will be drawn down over the next twelve months (Stage 1) since the Group has the right to withdraw the commitment that has not yet been disbursed based on any perceived or material changes in the customer's risk profile 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.

- Revolving facilities including credit cards and overdraft facilities.

The inputs used to estimate the expected credit losses are as follows:

The Group selected the following general model for measurement of ECLs:

ECL = PD x LGD x EAD x DR, discounted to the financial reporting date where,

- PD - Probability of Default – Estimate of the likelihood of default over a given time horizon. The Group uses the borrower's probability of default as the naturally fitting metrics for estimating the risk of default occurring.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(vi) Impairment (cont'd)

Measurement of expected credit loss (ECL) (cont'd)

- LGD - Loss Given Default – Estimate of the loss arising in case a default occurs at a given time.
- EAD – The estimated pay off balance at the time of future default, this being the sum of the current balance and interest accrued or the higher of the assigned limits or absolute value of the drawn balance for revolving facilities.

Credit impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. The Group carries no debt instruments at FVOCI as at reporting date. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data

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

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

Presentation of allowance for expected credit losses

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Debt instruments measured at FVOCI: no loss allowance is recognized in the consolidated statement of profit or loss since their carrying amount is considered their fair value. The loss allowance is disclosed and recognized in the fair value reserve.
- Loan commitments and financial guarantee contracts: as a provision.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(vi) Impairment (cont'd)

Assessment of significant increase in credit risk

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages and 12 month expected credit loss to lifetime credit losses as asset quality deteriorates. If, in a subsequent period, asset quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's best credit rating criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL.

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in profit or loss.

The Group assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors. The determination of whether there has been a significant increase in credit risk is the key contributing factor in the staging process.

The key factors the Group considers are:

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

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(vi) Impairment (cont'd)

Renegotiated loans

The Group frequently renegotiates or otherwise modifies the terms and conditions of loans to its customers. The treatment of these would have been covered under IAS 39. Similarly, under IFRS 9, the Group will need to assess whether the modified terms are "substantially" different from the original terms. Based on discussions with Management, assessment considerations may include:

- Any introduction of significant new terms
- Significant change in loan's interest rate
- Significant extension in loan's term
- Significant change in credit risk from inclusion of collateral or other credit enhancements

When terms are substantially different, the Group will derecognise the original loan and recognises a 'new' loan at fair value, recalculating the new EIR. For the calculation of ECL, the new origination date is used.

Write offs

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

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

Forward Looking Information

Based on certain guidance on IFRS 9, the Group has decided on the following:

- The Group will not be required to incorporate detailed forecasts of future conditions over the entire expected life of a financial instrument.
- The Group will not perform or attempt to gather detailed economic estimates for periods that are far in the future, that is, longer than three years. When necessary, the Group will assume that those economic metrics selected as having stronger correlations with the Group's performance will revert to long-term averages beyond three years.
- The Group may choose to extrapolate projections from available, more detailed information, such as information provided by the Statistical Division of the Central Bank, the International Monetary Fund, the World Bank, or other credible sources. The Group will make every attempt to consistently utilise the information researched.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(vi) Impairment (cont'd)

Forward Looking Information (cont'd)

- The degree of judgement utilised by the Group will depend on the availability of detailed information and the factors other than macro-economic factors that have affected and may have a future effect on the performance of the Group's financial assets.

Researching estimates of future economic performance is only the first step in the process of incorporating forward looking information. The Group will then analyse and determine which macroeconomic factors, again such unemployment and GDP growth, have affected defaults in the past.

The Group will use its historical information and that of credible sources as identified above as the starting point of its analysis. Adjustments to historical information/results will be based on reasonable and supportable information that incorporates both current and forward-looking information:

The Group continues to research and evaluate its options to incorporate adjustments to its historical metrics to reflect current conditions and forecasts of future economic conditions. To date, the Group is aware of the follow options:-

1. Econometric/Statistical modelling - current and future expectations are used as direct inputs into a forecasting model that relies on historical relationships between loss and macroeconomic factors such as unemployment and GDP growth.

2. Management Overlays - Using a base-case scenario based on historical information and, subsequently, adding a management estimate overlay to adjust the historical data to reflect current expectations.

In the absence of information to support, the Group selected four macro-economic variables as likely having a direct impact on the quality of the credit portfolio; being GDP, Inflation and Fiscal Deficit. The chosen strategy was to assess the relationship between these variables and the NPL ratios. The preferred option was to compute a 'multiplier' for each macro variable based on the macroeconomic expectation or 'outlook'. In deriving an appropriate multiplier, it would have been necessary to observe the trends in the NPL over three different economic periods of positive, negative and stable.

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(vi) Impairment (cont'd)

Forward Looking Information (cont'd)

However, this assessment, was impeded by the lack of sufficient years of NPL information against which the macro-economic variables would be compared so as to obtain a meaningful correlation/relationship. Specifically, the six (6) years of NPL information available did not allow for the assessment of the three economic periods needed to continue with the strategy for incorporating the FLIs into the computation of PD.

A simplified approach of computing this correlation of the macro-economic variables and the NPL information over the entire period available. However, whilst the correlation to model was constructed for the other three economic variables, 'unemployment' information is not available for Dominica. Additionally, the absence of NPL information for both Sovereign and NBFIs over the limited period available also served to diminish the effectiveness of the approach.

Given the challenges faced with incorporating the FLI into the computation of PD, the Group has used management estimate overlay as the primary driver of the FLIs, leaving the use of macro-economic information as a future refinement that may be revisited when the available information allows for that high level approach.

Management Overlay Option (Scalar Approach):

It is the Group's intention to utilize the 'Management Overlay' option for estimating FLI until the statistical information for a more statistically comprehensive alternative is available. The Scalar approach is used as a simplified method to incorporate forward looking information in the ECL calculation for compliance with IFRS 9. The approach is generally used when there is a challenge in correlating Macroeconomic data with the company's performance of the company's portfolio. The output of the approach is a multiple which is applied to the ECL calculation. The multiple is determined as follows:

1. **Select -** Management determines and select the external economic factors that will potentially affect its portfolio in the future.

2. **Weighting -** Management weights the factors based on their significance and impact on NBD's portfolio.

3. **Outlook -** For each Macroeconomic variable an outlook, either negative, stable or positive, needs to be determined. The economic outlook of each variable was determined based on data from multiple sources (IMF, ECCB etc.).

3. Significant accounting policies (cont'd)

(h) Financial instruments (cont'd)

(vi) Impairment (cont'd)

Management Overlay Option (Scalar Approach) (cont'd)

4. **Multiplier -** The multiplier effect of each variable is determined based on management's assessment. For e.g. management can determine that the multiplier is a consistent twenty five percent (25%) decrease (1 less 25% = 0.75) or 25% increase (1 plus 25% =1.25). depending on whether the outlook for the macroeconomic variable was determined to be positive or negative respectively. If the outlook was determined to be stable the multiplier would be 1.

5. **Scenario Weighting**: A percentage weighting is determined based on management's judgement. These percentage scenario weightings (probability weighted scenarios) represent the likelihood of each scenario occurring when evaluating the current and future macroeconomic conditions at a high level. The sum product of each scenario weight and macroeconomic multiple is then considered in the calculation of the ECLs.

6. **Score -** The product of the weighting and multiplier determines the score for each macroeconomic variable. The sum of the all the probability weighted scores determine the factor that will be applied to the portfolio.

In addition, a COVID-19 overlay utilizing historical portfolio performance during periods of weak economic indicators was applied to the tourism portfolio since it was projected that the tourism sector will be the most impacted by the COVID-19 pandemic.

(i) Property and equipment

(i) Recognition and measurement

Items of property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. The cost of self-constructed assets includes:

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

3. Significant accounting policies (cont'd)

(i) Property and equipment (cont'd)

(i) Recognition and measurement (cont'd)

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

(ii) Subsequent costs

Subsequent expenditures are included in the asset's carrying amount or are recognized 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 reliably measured. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(iii) Depreciation

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

Building	3%
Leasehold improvements	20%
Computer equipment	14% - 33%
Furniture and equipment	14% - 20
Motor vehicles	20%

Depreciation methods, residual values and useful lives are reviewed at each reporting date, and adjusted if appropriate. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is then written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in profit or loss.

3. Significant accounting policies (cont'd)

(j) Intangible assets

Intangible assets comprise separately identifiable intangible items arising from computer software licenses and other intangible assets. Intangible assets are recognized at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortized. Generally, the identified intangible assets of the Group have a definite useful life.

At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. The Group chooses to use the cost model for measurement after recognition.

Computer software licenses

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits of the relevant asset. Software costs are amortized on the straight-line basis in profit or loss from the date it is available for use. The estimated useful lives of software range from three (3) to five (5) years. Amortization methods, useful lives and residual values are reviewed annually and adjusted if necessary. Costs associated with maintaining computer software programs are recognized as an expense when incurred.

(k) Impairment of other non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists for any asset, then that asset's recoverable amount is estimated. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset or cash generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present vale using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Impairment losses are recognised in profit or loss.

3. Significant accounting policies (cont'd)

(l) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case they are recognised in equity or other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any tax adjustment to tax payable in respect of previous years. Income tax payable is calculated on the basis of the applicable tax laws in the Commonwealth of Dominica and is recognized as an expense (income) for the period, except to the extent that current tax relates to items that are charged or credited in other comprehensive income; in these circumstances, current tax is charged or credited to other comprehensive income. Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position.

(ii) Deferred tax

Deferred income tax is provided on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. The principal temporary differences arise from the difference between the carrying amounts of property and equipment and intangible assets and their tax bases and unutilized tax losses.

Deferred income tax is determined using tax rates 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.

However, deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit or loss;
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

3. Significant accounting policies (cont'd)

(l) Income tax (cont'd)

(ii) Deferred tax *(cont'd)*

The measurement of deferred tax assets reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Borrowings

Borrowings are recognized initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred and measured at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(n) 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 with the reimbursement from the customers. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience with similar transactions and history of past losses, supplemented by the judgment of management. The fee income earned is recognized on a straight-line basis over the life of the guarantee.

Any increase in the liability relating to guarantees is reported in the profit or loss within other operating expenses.

3. Significant accounting policies (cont'd)

(o) Equity and reserves

Stated capital represents the issue price multiplied by the number of shares that have been issued. Any transaction costs associated with the issuing of shares are shown in equity as a deduction, net of any related income tax benefits.

Other components of equity include the following:

- Other reserves – comprises statutory and regulatory reserves as stipulated by the Banking Act and the Eastern Caribbean Central Bank (see note 20 and 21); and
- Retained earnings, which includes all current and prior period retained profits.

Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are declared. Dividends for the year that are declared after the reporting date are, however, disclosed in the notes to the consolidated financial statements.

(p) Interest income and expense

Interest income and expense are recognized in profit or loss for all financial instruments using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial assets or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation of the effective interest rate includes all transaction costs and fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(q) Fee and commission income

Fee and commission income is generally recognized on the accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of a business, are recognized on completion of the underlying transaction. For financial planning and custody services that are continuously provided over an extended period of time, fees are recognized based on the applicable service contracts, usually on a time apportioned basis.

3. Significant accounting policies (cont'd)

(r) Dividend income

Dividend income is recognized in profit or loss when the Group's right to receive payment is established. Dividends are presented in net interest, commission and other income in the consolidated statement of income.

(s) Employee benefits

(i) Short-term employee benefits:

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans:

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(t) Foreign currency

Foreign currency transactions that are denominated, or that require settlement, in a foreign currency are translated into the Group's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with the closing rates as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Foreign currency differences arising on translation are generally recognized in profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity instruments are recognised in other comprehensive income.

3. Significant accounting policies (cont'd)

(u) Leases

Impact on Transition

The Group applied IFRS 16 *Leases* using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at July 1, 2019. Accordingly, the comparative information presented for the year ended June 30, 2018 is not restated; it is presented, as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. Lease liability was measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the date of initial application. The Group applied an incremental rate of 4%.

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application.

The effect of adoption of IFRS 16 as at July 1, 2019 is as follows:

	$
Assets	
Right-of use assets	581,209
Liabilities	
Lease liabilities	602,325
Total adjustment on equity	
Retained earnings	(21,116)

Policy applicable from July 1, 2019

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

- The Group is the lessee

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

3. Significant accounting policies (cont'd)

(u) Leases (cont'd)

Policy applicable from July 1, 2019 (cont'd)

- The Group is the lessee (cont'd)

(i) Right-of-use assets

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

(ii) Lease liabilities

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

(iii) Short-term leases and leases of low-value assets

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

- The Group is the lessor

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

3. Significant accounting policies (cont'd)

(v) Leases (cont'd)

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Policy applicable before July 1, 2019

(i) Leased assets

Assets held under leases are classified as operating leases and are not recognised in the Group's consolidated statement of financial position (see note 34).

(ii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made by the lessor by way of penalty is recognised as an expense in the period in which termination takes place (see note 34).

4. Segment analysis

Segment reporting by the Group is done in accordance with IFRS 8, 'Operating segments'.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Group's Board of Directors (the chief operating decision-maker), which is responsible for allocating resources to its two reportable segments and assessing their performance.

The Group's segment operations are all financial with a majority of revenues being derived from interest income. The Group's Board of Directors relies primarily on net interest income to assess the performance of the segment, therefore the total interest income and expense for all reportable segments is presented on a net basis.

The revenue from external parties reported to the Group's Board of Directors is measured in a manner consistent with that in consolidated statement of income.

Revenue from external customers is recorded as such and can be directly traced to each business segment.

The Group's management reporting is based on a measure of operating profit comprising net interest income, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as legal expenses and audit fees.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Group's Board of Directors.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position. Transactions between business segments are on an arms- length basis and are eliminated on consolidation and reflected in the consolidation entries. There were no revenues derived from transactions with a single external customer that amount to 10% or more of the Group's revenue.

4. Segment analysis *(cont'd)*

	NBD	NIC	Total
	$	$	$
At June 30, 2020			
Net interest income	**35,890,148**	**139,959**	**36,030,107**
Net commission and other income	**16,119,900**	**84,638**	**16,204,538**
Fair value gain on investment securities	**1,478,596**	**-**	**1,478,596**
Impairment loss on investment securities	**(8,854,872)**	**(3,779)**	**(8,858,651)**
Net impairment recovery on loans and advances	**2,098,273**	**-**	**2,098,273**
Operating expenses	**(23,624,070)**	**(5,024)**	**(23,629,094)**
Profit before taxation	**23,107,975**	**215,794**	**23,323,769**
Income tax expenses	**-**	**-**	**-**
Profit for the year	**23,107,975**	**215,794**	**23,323,769**
Total assets	**1,360,340,433**	**10,925,629**	**1,371,266,062**
Total liabilities	**1,258,694,975**	**1,612,047**	**1,260,307,022**

	NBD	NIC	Total
	$	$	$
At June 30, 2019			
Net interest income	33,311,635	145,644	33,457,279
Net commission and other income	19,521,596	55,673	19,577,269
Fair value gain on investment securities	5,156,452	-	5,156,452
Impairment recovery on investment securities	(963,400)	(9,568)	(972,968)
Net impairment loss on loans and advances	(18,016,330)	-	(18,016,330)
Operating expenses	(25,967,001)	(64,656)	(26,031,657)
Profit before taxation	13,042,952	127,093	13,170,045
Income tax expenses	-	-	-
Profit for the year	13,042,952	127,093	13,170,045
Total assets	1,408,479,036	10,929,474	1,419,408,510
Total liabilities	1,329,926,401	1,831,688	1,331,758,089

5. Financial risk management

(a) Risk management framework

This note presents information about the Group's objectives, policies, and processes for measuring and managing risk. 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 retail banking, and 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 minimize potential adverse effects on the Group's 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 mainly by the Finance Department under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides oversight for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks that arise from the use of financial instruments are:

- Credit risk
- Liquidity risk
- Market risk (includes currency risk, interest rate risk, and equity price risk)
- Operational risk

(b) Credit risk

Credit risk is the risk of the Group suffering financial loss should a customer or a counterparty to a financial instrument fail to meet its contractual obligations to the Group, and arises principally from loans and advances, which includes commercial and customer loans, credit cards, loan commitments arising from such lending activities. It can also arise from credit enhancement provided, such as credit financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from balances with central bank, deposits with non-financial institutions, other assets, investments in debt securities and other exposures arising from its trading activities ("trading exposures"), including non-equity trading portfolio assets. For risk management purposes, the Group considers and consolidates all elements of credit risk exposure - e.g. individual obligor default risk, country and sector risk.

5. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Loans and advances

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 made for losses that have been incurred at the reporting date. 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.

Probability of default

The Group assesses the probability of default of individual counterparties using an internal rating tool tailored to the various categories of counterparty. They have been developed based on the East Caribbean Central Bank prudential guidelines. Borrowing customers of the Group are segmented into five rating classes as follows:

(i) Pass
(ii) Special mention
(iii) Sub-standard
(iv) Doubtful
(v) Loss

This rating scale reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

The rating tool is kept under review and upgraded as necessary.

Debt securities and other bills

For debt securities and other bills, external rating agencies such as Standard & Poor's, Moody's and Caricris or their equivalents are used by the Asset and Liability Committee (ALCO) for the management 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 requirements at the same time.

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 related borrowers, and to the industry segments. Such risks are monitored on a revolving basis and subject to an annual or, when considered necessary by the Board of Directors, more frequent review. 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.

5. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Some other specific control and mitigation measures are outlined below.

(i) 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 premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured, while revolving individual credit facilities are generally unsecured.

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

(ii) Credit-related commitments

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

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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.

5. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(iii) Impairment and provisioning policies

The Group's internal rating system focuses more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes. The impairment provision shown in the consolidated statement of financial position at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom three grades.

5. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(iii) Impairment and provisioning policies (cont'd)

The table below shows the percentage of the Group's loans and advances and the associated impairment provision for each of the Group's internal rating categories:

	Loans to Customers		Impairment Provision		Net Total
	$	%	$	%	$
At June 30, 2020					
Pass	**303,175,538**	**41**	**-**	**-**	**303,175,538**
Special mention	**289,199,079**	**40**	**-**	**-**	**289,199,079**
Substandard	**54,164,412**	**7**	**5,416,441**	**15**	**48,747,971**
Doubtful	**29,244,120**	**4**	**14,622,060**	**40**	**14,622,060**
Loss	**16,098,022**	**2**	**16,098,022**	**45**	**-**
Inherent risk provision	**374,781**	**-**	**3,748**	**-**	**371,033**
Gross loans to customers	**692,255,952**	**95**	**36,140,271**	**100**	**656,115,681**
Interest receivable	**38,340,002**	**5**	**-**	**-**	**38,340,002**
Total	**730,595,954**	**100**	**36,140,271**	**100**	**694,455,683**

	Loans to Customers		Impairment Provision		Net Total
	$	%	$	%	$
At June 30, 2019					
Pass	324,202,384	46	-	-	324,202,384
Special mention	101,559,031	15	-	-	101,559,031
Substandard	203,367,435	29	20,336,744	53	183,030,691
Doubtful	34,808,269	5	17,404,135	45	17,404,134
Loss	707,773	-	707,773	2	-
Inherent risk provision	1,452,103	-	14,521	-	1,437,582
Gross loans to customers	666,096,995	95	38,463,173	100	627,633,822
Interest receivable	33,088,622	5	-	-	33,088,622
Total	699,185,617	100	38,463,173	-	660,722,444

5. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(iii) Impairment and provisioning policies (cont'd)

The internal rating tool assists management to determine whether objective evidence of impairment exists under IFRS 9 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 thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

The table below represents a worst-case scenario of credit risk exposure to the Group at June 30, 2020 and 2019 without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

As shown below 56% (2019 - 51%) of the total maximum exposure is derived from loans and receivables whilst 20% (2019 - 20%) represents investment securities.

- Management is confident in its ability to continue to control and sustain minimal exposure to credit risk to the Group resulting from its loans and advances portfolio based on the following:

- 36% (2019 - 38%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;

- Large corporate customer loans, which represent the biggest group in the portfolio, are backed by collateral;

- 75% (2019 - 59%) of the loans and advances portfolio are considered to be neither past due nor impaired;

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(iii) Impairment and provisioning policies (cont'd)

Maximum exposure to credit risk is as follows:

	Notes	2020 $	2019 $
Treasury bills		**28,181,240**	34,372,032
Due from other banks		**244,010,266**	333,746,855
Deposits with non-bank financial institutions		**26,900,409**	9,971,536
Loans and advances to customers		**695,525,032**	666,512,040
Investments:			
Financial assets at fair value through profit or loss		**107,892,679**	121,546,388
Investment securities			
- Amortised cost		**121,518,778**	121,771,034
- FVOCI		**15,880,269**	15,878,472
Other assets		**-**	5,746,631
		1,239,908,673	1,309,544,988
Loan commitments	33	**60,634,798**	70,017,807
Financial guarantees and other financial facilities	33	**1,808,288**	3,033,618
		62,443,086	73,051,425
		1,302,351,759	1,382,596,413

5. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(iv) Concentration of risk by location

Loans and advances to customers	**2020** **$**	**2019** **$**
Domestic	**641,413,073**	609,191,602
ECCU area	**34,575,654**	41,328,691
Non-ECCU area	**19,536,305**	15,991,747
Total loans and advances	**695,525,032**	666,512,040

Investment and debts securities	**2020** **$**	**2019** **$**
Domestic- primarily in Dominica	**95,894,734**	94,319,770
ECCU area	**41,504,313**	43,329,736
Non-ECCU area	**107,892,679**	121,546,388
	245,291,726	259,195,894

Lending commitments and financial guarantees	**2020** **$**	**2019** **$**
Domestic- primarily in Dominica	**62,443,086**	73,051,425
	62,443,086	73,051,425

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(iv) Concentration of risk by location (cont'd)

Concentration of risks of financial assets with credit exposure

2020	Financial institutions	Construction & Land Development	Real Estate Activities	Public Administration	Utilities	Transport & Storage	Wholesale & Retail	Information & Communication	Private Household	Other Industries	Total
	$		$	$	$	$	$	$	$	$	$
Cash and balances with central bank	**107,472,227**	-	-	-	-	-	-	-	-	-	**107,472,227**
Treasury bills	-	-	-	**28,181,240**	-	-	-	-	-	-	**28,181,240**
Due from banks	**244,010,266**	-	-	-	-	-	-	-	-	-	**244,010,266**
Deposits with non-bank financial institution	**26,900,409**	-	-	-	-	-	-	-	-	-	**26,900,409**
Loans and advances	**51,962,482**	**77,937,586**	**182,437,913**	**206,183,539**	**57,607,305**	**27,926,225**	**27,785,441**	**20,512,398**	**14,948,974**	**28,223,169**	**695,525,032**
Investment securities	**131,857,399**	-	-	**113,434,327**	-	-	-	-	-	-	**245,291,726**
Other assets	-	-	-	-	-	-	-	-	-	-	-
Total	**562,202,783**	**77,937,586**	**182,437,913**	**347,799,106**	**57,607,305**	**27,926,225**	**27,785,441**	**20,512,398**	**14,948,974**	**28,223,169**	**1,347,380,900**
Loan commitments	**91,188**	**37,998,164**	**2,706,896**	-	**2,529,468**	-	**7,720,455**	**266,090**	**830,517**	**8,492,020**	**60,634,798**
Financial guarantees	-	**1,808,288**	-	-	-	-	-	-	-	-	**1,808,288**
Total	**91,188**	**39,806,452**	**2,706,896**	-	**2,529,468**	-	**7,720,455**	**266,090**	**830,517**	**8,492,010**	**62,443,086**

5. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(iv) Concentration of risk by location (cont'd)

Concentration of risks of financial assets with credit exposure

2019	Financial institutions	Construction & Land Development	Real Estate Activities	Public Administration	Utilities	Transport & Storage	Wholesale & Retail	Information & Communication	Private Household	Other Industries	Total
	$	$	$	$	$	$	$	$	$	$	$
Cash and balances with central bank	86,760,340	-	-	-	-	-	-	-	-	-	86,760,340
Treasury bills	-	-	-	34,372,032	-	-	-	-	-	-	34,372,032
Due from banks	333,746,855	-	-	-	-	-	-	-	-	-	333,746,855
Deposits with non-bank financial institution	9,971,536	-	-	-	-	-	-	-	-	-	9,971,536
Loans and advances	58,183,429	58,421,592	172,567,839	171,523,993	58,980,275	28,853,073	47,192,723	20,915,938	16,909,934	32,963,244	666,512,040
Investment securities	145,420,003	-	-	113,194,947	-	580,944	-	-	-	-	259,195,894
Other assets	5,746,631	-	-	-	-	-	-	-	-	-	5,746,631
Total	639,828,794	58,421,592	172,567,839	319,090,972	58,980,275	29,434,017	47,192,723	20,915,938	16,909,934	32,963,244	1,396,305,328
Loan commitments	2,115,588	32,512,903	11,578,813	-	11,500,000	-	6,444,021	-	2,576,561	3,289,921	70,017,807
Financial guarantees	-	1,128, 300	-	-	-	-	1,007,959	-	-	897,359	3,033,618
Total	2,115,588	33,641,203	11,578,813	-	11,500,000	-	7,451,980	-	2,576,561	4,187,280	73,051,425

Other industries include professional services, education, accommodation and food services

5. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(v) Loans and advances to customers

Loans and advances to customers are summarized as follows:

	2020 $	2019 $
Loans and advances to customers		
Neither past due nor impaired	**548,817,137**	412,968,391
Past due but not impaired	**110,084,616**	210,331,681
Impaired	**71,694,201**	75,885,545
	730,595,954	699,185,617
Less: unearned interest	**(40,172)**	(41,569)
Gross	**730,555,782**	699,144,048
Less: impairment provision	**(35,030,750)**	(32,632,008)
Net	**695,525,032**	666,512,040

The total impairment provision for losses on loans and advances is $35,030,750 (2019 - $32,632,008) of which $30,279,032 (2019 - $29,258,237) relates to the individually impaired loans and the remaining amount of $4,751,718 (2019 - $3,373,771) is the portfolio provision. Further information on impairment is included in note 11.

5. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(vi) Loans and advances neither past due nor impaired

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

	Overdrafts $	Term loans $	Credit card $	Mortgages $	Large Corporate customers $	Total loans and advances $
June 30, 2020						
Loans and advances to customers						
Pass	**66,555,490**	**37,666,581**	**2,587,019**	**153,662,910**	**288,345,138**	**548,817,138**
June 30, 2019						
Loans and advances to customers						
Pass	3,473,575	36,433,663	2,643,641	139,594,345	230,823,167	412,968,391

5. Financial risk management (cont'd)

(b) *Credit risk (cont'd)*

(vii) Loans and advances past due but not impaired

Loans and advances past due but not impaired are those for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group. The gross amount of loans and advances by class to customers that were past due but not impaired, net of unearned interest, were as follows:

	Overdrafts $	Term loans $	Credit Cards $	Mortgages $	Large Corporate customers $	Total loans and advances to customers $
June 30, 2020						
Past due up to 30 days	**2,247,063**	**49,591**	**329,725**	**1,462,069**	**50,523,864**	**54,612,312**
Past due 30 – 60 days	**110,700**	**43,885**	**67,476**	**294,365**	**-**	**516,426**
Past due 60 – 90 days	**2,362,436**	**-**	**33,854**	**-**	**-**	**2,396,290**
Over 90 days	**1,371,760**	**5,467,822**	**-**	**13,094,690**	**32,625,316**	**52,559,588**
Gross	**6,091,959**	**5,561,298**	**431,055**	**14,851,124**	**83,149,180**	**110,084,616**
Less unearned interest in discount loans	**-**	**(40,172)**	**-**	**-**	**-**	**(40,172)**
Net	**6,091,959**	**5,521,126**	**431,055**	**14,851,124**	**83,149,180**	**110,044,444**
June 30, 2019						
Past due up to 30 days	148,944,474	2,660,783	413,832	9,138,218	902,821	162,060,128
Past due 30 – 60 days	39,848	742,132	91,990	284,073	-	1,158,043
Past due 60 – 90 days	15,306	-	200,967	24,074	-	240,347
Over 90 days	3,558,646	4,683,535	-	12,222,678	26,408,304	46,873,163
Gross	152,558,274	8,086,450	706,789	21,669,043	27,311,125	210,331,681
Less unearned interest in discount loans	-	(41,569)	-	-	-	(41,569)
Net	152,558,274	8,044,881	706,789	21,669,043	27,311,125	210,290,112

5. Financial risk management (cont'd)

(b) Credit risk (cont'd)

(viii) Loans and advances individually impaired

The individually impaired loans and advances to customers, before taking into consideration the cash flows from collateral held and unearned interest on discount loans is $71,694,201 (2019 - $75,885,545). The breakdown of the gross amount of individually impaired loans and advances by class is as follows:

	Overdrafts $	Term loans $	Credit Card $	Mortgages $	Large Corporate customers $	Total loans and advances to customers $
June 30, 2020						
Individually impaired loans	**2,558,993**	**4,136,102**	**105,320**	**39,039,759**	**25,854,027**	**71,694,201**
June 30, 2019						
Individually impaired loans	2,371,251	4,513,001	195,111	38,437,133	30,369,049	75,885,545

(ix) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These accounts are kept under continual review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired at June 30, 2020 amounted to $31,626,488 (2019 - $29,159,424).

(x) Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at June 30, 2020, based on Standard & Poor's ratings or their equivalent.

5. Financial risk management (cont'd)

(b) *Credit risk (cont'd)*

(x) *Debt securities, treasury bills and other eligible bills (cont'd)*

	Financial assets at fair value through profit or loss	**Treasury bills**	**Investment securities**	**Total**
	$	**$**	**$**	**$**
June 30, 2020				
BB- to AA+	**85,613,059**	**-**	**-**	**85,613,059**
Un-rated	**-**	**28,181,240**	**121,518,778**	**149,700,018**
	85,613,059	**28,181,240**	**121,518,778**	**235,313,077**
June 30, 2019				
BB- to AA+	76,342,849	-	-	76,342,849
Un-rated	-	34,372,032	121,771,034	156,143,066
	76,342,849	34,372,032	121,771,034	232,485,915

	2020	**2019**
	$	**$**
Treasury bills	**28,181,240**	34,372,032
Investment securities	**207,131,837**	198,113,883
	235,313,077	232,485,915

(c) *Market risk*

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

The Group's exposure to market risks arises from its non-trading portfolios. Non-trading portfolios primarily arise 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 fair value investments.

5. Financial risk management (cont'd)

(c) Market risk (cont'd)

Management of market risk

The Group's policies, processes and controls for trading activities are designed to achieve a balance between pursuing profitable trading opportunities and managing earnings volatility within a framework of sound and prudent practices. Trading activities are primarily customer focused, but also include a proprietary component.

Market risk arising from the Group's trading activities is managed in accordance with Board-approved policies and limits.

(i) *Currency risk*

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total 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. The Group's exposure to various currencies at June 30, 2020 is depicted in the following table. Included in the table are the Group's financial instruments at carrying amounts, categorized by currency.

5. Financial risk management (cont'd)

(c) Market risk (cont'd)

(i) Currency risk (cont'd)

	XCD $	USD $	BDS $	EURO $	GBP $	CAN $	Other $	Total $
As at June 30, 2020								
Assets								
Cash and balances with ECCB	**105,079,465**	**754,961**	**122,965**	**1,102,210**	**246,600**	**166,026**	**-**	**107,472,227**
Treasury bills	**28,181,240**	**-**	**-**	**-**	**-**	**-**	**-**	**28,181,240**
Due from other banks	**21,178,534**	**204,516,281**	**122,965**	**1,970,010**	**2,031,969**	**749,935**	**13,440,572**	**244,010,266**
Deposits with non-bank financial institutions	**613,799**	**24,584,119**	**-**	**-**	**-**	**-**	**1,702,491**	**26,900,409**
Loans and advances to customers	**692,549,073**	**2,975,959**	**-**	**-**	**-**	**-**	**-**	**695,525,032**
Investment securities:								
Amortised cost	**117,916,757**	**3,602,021**	**-**	**-**	**-**	**-**	**-**	**121,518,778**
FVOCI	**15,880,269**		**-**	**-**	**-**	**-**	**-**	**15,880,269**
At fair value through profit or loss	**-**	**106,389,654**	**-**	**-**	**-**	**-**	**1,503,025**	**107,892,679**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total financial assets	**981,399,137**	**342,822,995**	**245,930**	**3,072,220**	**2,278,569**	**915,961**	**16,646,088**	**1,347,380,900**

5. Financial risk management (cont'd)

(c) Market risk (cont'd)

(i) Currency risk (cont'd)

	XCD $	USD $	BDS $	EURO $	GBP $	CAN $	Other $	Total $
As at June 30, 2020 (cont'd)								
Liabilities								
Deposits from customers	**1,112,191,597**	**84,448,831**	**-**	**5,429,167**	**900**	**319,217**	**-**	**1,202,389,712**
Commercial paper	**30,369,802**	**-**	**-**	**-**	**-**	**-**	**-**	**30,369,802**
Other liabilities	**17,527,875**	**9,740,158**	**-**	**-**	**-**	**-**	**-**	**27,268,033**
Total financial liabilities	**1,160,089,274**	**94,188,989**	**-**	**5,429,167**	**900**	**319,217**	**-**	**1,260,027,547**
Net currency exposure	**(178,690,137)**	**248,634,006**	**245,930**	**(2,356,947)**	**2,277,669**	**596,744**	**16,646,088**	**87,353,353**
Loan commitments and financial guarantees	**62,443,086**	**-**	**-**	**-**	**-**	**-**	**-**	**62,443,086**

5. Financial risk management (cont'd)

(c) Market risk (cont'd)

(i) Currency risk (cont'd)

	XCD $	USD $	BDS $	EURO $	GBP $	CAN $	Other $	Total $
As at June 30, 2019								
Assets								
Cash and balances with ECCB	85,163,603	890,798	71,222	439,786	105,164	89,767	-	86,760,340
Treasury bills	34,372,032	-	-	-	-	-	-	34,372,032
Due from other banks	24,559,741	291,635,480	71,222	3,457,605	1,529,312	421,668	12,071,827	333,746,855
Deposits with non-bank financial institutions	618,963	7,680,301	-	-	-	-	1,672,272	9,971,536
Loans and advances to customers	663,220,789	3,291,251	-	-	-	-	-	666,512,040
Investment securities:								
Amortised cost	118,129,734	3,641,300	-	-	-	-	-	121,771,034
FVOCI	15,878,472	-	-	-	-	-	-	15,878,472
At fair value through profit or loss	-	120,085,447	-	-	-	-	1,460,941	121,546,388
Other assets	5,746,631	-	-	-	-	-	-	5,746,631
Total financial assets	947,689,965	427,224,577	142,444	3,897,391	1,634,476	511,435	15,205,040	1,396,305,328

5. Financial risk management (cont'd)

(b) Market risk (cont'd)

(i) Currency risk (cont'd)

	XCD $	USD $	BDS $	EURO $	GBP $	CAN $	Other $	Total $
As at June 30, 2019 (cont'd)								
Liabilities								
Deposits from customers	1,221,597,126	45,103,026	-	1,479,444	930	328,650	-	1,268,509,176
Commercial paper	35,042,560	-	-	-	-	-	-	35,042,560
Other liabilities	22,017,673	5,699,609	-	-	-	-	-	27,717,282
Total financial liabilities	1,278,657,359	50,802,635	-	1,479,444	930	328,650	-	1,331,269,018
Net currency exposure	(330,967,394)	376,421,942	142,444	2,417,947	1,633,546	182,785	15,205,040	65,036,310
Loan commitments and financial guarantees	73,051,425	-	-	-	-	-	-	73,051,425

5. Financial risk management (cont'd)

(b) Market risk (cont'd)

(ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows 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. The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's interest- bearing financial assets and financial liabilities at carrying amounts, categorized by the earlier of contractual re-pricing and maturity dates.

5. Financial risk management (cont'd)

(*b*) *Market risk (cont'd)*

(ii) *Interest rate risk (cont'd)*

	Up to 1 year $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
As at June 30, 2020					
Assets					
Cash and balances with ECCB	**-**	**-**	**-**	**107,472,227**	**107,472,227**
Treasury bills	**28,181,240**	**-**	**-**		**28,181,240**
Due from other banks	**145,350,605**	**-**	**-**	**98,659,661**	**244,010,266**
Deposits with non-bank financial institutions	**613,799**	**-**	**-**	**26,286,610**	**26,900,409**
Loans and advances to customers	**98,717,421**	**244,780,299**	**352,027,312**	**-**	**695,525,032**
Investment securities:					
- Amortised cost	**17,465,225**	**17,472,537**	**86,581,016**	**-**	**121,518,778**
- FVOCI	**-**	**-**	**-**	**15,880,269**	**15,880,269**
Other assets	-	-	-	-	-
Total financial assets	**290,328,290**	**262,252,836**	**438,608,328**	**248,298,767**	**1,239,488,221**
Liabilities					
Deposits from customers	**760,797,407**	**187,825,691**	**648,755**	**253,117,859**	**1,202,389,712**
Other liabilities	**-**	**-**	**-**	**27,268,033**	**27,268,033**
Commercial paper	**28,351,926**	**2,017,876**	**-**	**-**	**30,369,802**
Total financial liabilities	**789,149,333**	**189,843,567**	**648,755**	**280,385,892**	**1,260,027,547**
Interest sensitivity gap	**(498,821,043)**	**72,409,269**	**437,959,573**	**(32,087,125)**	**(20,539,326)**

(Expressed in Eastern Caribbean Dollars)

5. Financial risk management (cont'd)

(*b*) *Market risk (cont'd)*

(ii) *Interest rate risk (cont'd)*

	Up to 1 year $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
As at June 30, 2019					
Assets					
Cash and balances with ECCB	-	-	-	86,760,340	86,760,340
Treasury bills	34,372,032	-	-	-	34,372,032
Due from other banks	300,837,144	-	-	32,909,711	333,746,855
Deposits with non-bank financial institutions	618,963	-	-	9,352,573	9,971,536
Loans and advances to customers	168,733,132	114,840,354	382,938,554	-	666,512,040
Investment securities:					
- Amortised cost	16,979,149	32,139,266	72,652,619	-	121,771,034
- FVOCI	-	-	-	15,878,472	15,878,472
Other assets				5,746,631	5,746,631
Total financial assets	521,540,420	146,979,620	455,591,173	150,647,727	1,274,758,940
Liabilities					
Deposits from customers	834,486,619	96,630,035	53,414,400	283,978,122	1,268,509,176
Other liabilities	-	-	-	27,717,282	27,717,282
Commercial paper	23,271,238	11,771,322	-	-	35,042,560
Total financial liabilities	857,757,857	108,401,357	53,414,400	311,695,404	1,331,269,018
Interest sensitivity gap	(336,217,437)	38,578,263	402,176,773	(161,047,677)	(56,510,078)

5. Financial risk management (cont'd)

(*b*) *Market risk (cont'd)*

(iii) *Equity price risk*

Equity price risk is the possibility that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The Group is exposed to equity security price risk because of investments held by the Group that are classified on the consolidated statement of financial position as fair value through other comprehensive income and at fair value through profit or loss. The primary exposure to equity prices arises from trading activities. The Group manages its non-trading equity investments in response to changing market conditions and limits the risk by maintaining a diversified portfolio.

Sensitivity analysis – Equity price risk

If market rates at June 30, 2020 had been 1% higher, with all other variables held constant, consolidated comprehensive income for the year would have been $60 (2019 - $2,864) higher as a result of the increase in the fair value equity securities. An equivalent decrease would have resulted in an equivalent amount stated above but with opposite impact. For such investments classified as fair value through profit or loss, the impact on consolidated profit or loss and equity would have been an increase or decrease of $14,786 (2019 - $51,565).

(c) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting its payment obligations associated with its financial liabilities when they fall due or upon demand. The Group is exposed to daily cash calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, and guarantees. The Group does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment 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 inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

5. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

Management of liquidity risk

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

Daily and weekly monitoring to ensure that requirements are met. This includes the replenishment of funds as they mature or as borrowed by customers. The Group ensures that sufficient funds are held in the one to thirty day maturity bucket to satisfy liquidity requirements.

- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against any unforeseen liquidity problems. Additionally, the investment portfolio is fairly diversified by currency, geography, issuer, product and term.
- Weekly monitoring of the balance sheet liquidity ratios against internal and regulatory requirements.
- Managing the concentration and profile of debt maturities.
- Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

5. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

Management of liquidity risk (cont'd)

Maturities of financial liabilities

The tables below disclose the contractual undiscounted cashflows of the Group's financial liabilities whereas the Group manages liquidity risk based on expected discounted cashflows.

June 30, 2020	**Up to 1 year $**	**1 to 5 years $**	**Over 5 years $**	**Total $**
Liabilities				
Deposits from customers	**1,036,157,572**	**205,095,172**	**667,505**	**1,241,920,249**
Other liabilities	**27,268,033**	**-**	**-**	**27,268,033**
Commercial paper	**29,027,720**	**2,075,000**	**-**	**31,102,720**
Total financial liabilities	**1,092,453,325**	**207,170,172**	**667,505**	**1,300,291,002**

June 30, 2019				
Liabilities				
Deposits from customers	1,142,237,793	160,538,425	6,949,041	1,309,725,259
Other liabilities	27,826,723	-	-	27,826,723
Commercial paper	23,732,000	12,224,071	-	35,956,071
Total financial liabilities	1,193,796,516	172,762,496	6,949,041	1,373,508,053

5. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

Residual contractual maturities relating to off-balance sheet items

Loan commitments
The dates of the contractual amounts of the Group's off-balance sheet instruments that commit it to extend credit to customers and other facilities (note 33) are summarized in the table below:

Financial guarantees and other financial facilities
Financial guarantee facilities, which are included in other liabilities (note 17) are also included in the table below, based on the earliest contractual maturity date.

	1 year $	**1 – 5 years $**	**Total $**
June 30, 2020			
Loan commitments	**21,321,657**	**39,313,141**	**60,634,798**
Financial guarantees and other financial facilities	**1,808,288**	**-**	**1,808,288**
	23,129,945	**39,313,141**	**62,443,086**
June 30, 2019			
Loan commitments	40,251,427	29,766,380	70,017,807
Financial guarantees and other financial facilities	3,033,618	-	3,033,618
	43,285,045	29,766,380	73,051,425

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors.

5. Financial risk management (cont'd)

(d) Operational risk (cont'd)

This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas. These standards address the following requirements:

- appropriate segregation of duties, including the independent authorization of transactions;
- the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- the periodic assessment of operational risk faced and the adequacy of controls and procedures to address the risks identified;
- the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective.

Compliance with the Group's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and the Board of Directors.

(e) Capital management

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

- to comply with the capital requirements set by the Eastern Caribbean Central Bank ("ECCB");
- 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.

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 ECCB for supervisory purposes. The required information is filed with the ECCB on a quarterly basis.

A new Banking Act, No. 4 of 2015, was assented to on June 12, 2015 and commenced on November 12, 2015. Under this new Act, the ECCB requires each bank or banking group to:

(a) hold the minimum level paid up share capital of EC$20,000,000; this is an increase from the previous level of EC$5,000,000 and;

(b) maintain a ratio of total regulatory capital to the risk weighted assets ("the Basel ratio") at or above the minimum 8% indicated in the ECCB Prudential Guidelines. There has been no change in this regard under the new Act.

5. Financial risk management (cont'd)

(e) Capital management (cont'd)

The Group is in compliance with the minimum capital requirement as per the new Banking Act. No. 4 of 2015 by way of a transfer from retained earnings done in the financial year 2017. The Group will also be seeking injections of new capital in the medium term.

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

- Tier 1 capital: share capital (net of any book values of the treasury shares), retained earnings and reserves created by appropriations of retained earnings; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment losses, and unrealized gains arising on the fair valuation of equity instruments held as available-for-sale (limited to 20% of Tier 1 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 summarizes the composition of regulatory capital and the ratios of the Group for the years ended June 30, 2020 and 2019. During those two years, the Group complied with all of the externally imposed capital requirements to which it was subject.

	Notes	**2020 $**	**2019 $**
Tier 1 capital			
Share capital	19	**20,000,000**	20,000,000
Statutory reserve	20	**18,633,672**	13,968,918
Retained earnings		**70,348,113**	46,988,571
Total tier 1 capital		**108,981,785**	80,957,489
Tier 2 capital			
Collective impairment allowance		**-**	-
Loan loss reserve	21	**1,109,521**	5,831,164
Unrealised gain on FVOCI investments	22	**867,734**	861,768
Total qualifying tier 2 capital		**1,977,255**	6,692,932
Total regulatory capital		**110,959,040**	87,650,421
Risk weighed assets		**614,727,288**	604,772,236
Capital adequacy ratio			
- Required		**8%**	8.0%
- Actual		**18.1%**	14.5%

6. Fair values of financial instruments

Fair value is defined in note 3(h)(v). The following methods and assumptions were used to estimate the fair value of financial instruments.

The fair values of cash and cash equivalents, other assets and other liabilities and due to 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 33 due to their short-term nature.

The fair values of listed securities are assumed to be equal to their quoted market values. The fair values of unlisted securities are estimated at book value.

The estimated fair values of loans reflect changes in interest rates that have occurred since the loans originated and are determined by discounting contractual future cash flows, over the remaining term to maturity, at market interest rates prevailing at the reporting date. The estimated fair values of loans are not significantly different from their carrying values.

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 considered to have fair values which approximate carrying values.

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 exchanges such as Luxembourg, New York and Trinidad and Tobago.

- 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.

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

6. Fair values of financial instruments (cont'd)

Fair value hierarchy (cont'd)

Financial instruments not measured at fair value:

Accounting classifications and fair values
The following table shows the carrying amounts and fair values of financial assets and financial liabilities including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

As at June 30, 2020	Notes	Designated at fair value	Amortised cost	FVOCI	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at amortised cost										
Cash and cash equivalent	7	-	321,749,611	-	-	321,749,611	-	-	-	-
Treasury bills		-	13,198,423	-	-	13,198,423	-	13,198,423	-	13,198,423
Loans and advances to customers	11	-	695,525,032	-	-	695,525,032	-	-	695,525,032	695,525,032
Investment securities:										
Unquoted securities	12	-	121,518,778	-	-	121,518,778	-	121,518,778	-	121,518,778
Financial assets measured at FVOCI										
Quoted securities		-	-	5,752,683	-	5,752,683	-	5,752,683	-	5,752,683
Unquoted		-	-	10,127,586	-	10,127,586	-	10,127,586	-	10,127,586
Financial assets measured at fair value										
Corporate bonds		24,134,497	-	-	-	24,134,497	24,134,497	-	-	24,134,497
Quoted equity securities		22,279,620	-	-	-	22,279,620	22,279,620	-	-	22,279,620
Debt securities		61,478,562	-	-	-	61,478,562	61,478,562	-	-	61,478,562
Asset-backed securities		-	-	-	-	-	-	-	-	-
Total assets		107,892,679	1,151,991,844	15,880,269	-	1,275,764,792	107,892,679	150,597,470	695,525,032	954,015,181
Deposit from customers	16	-	1,202,389,712	-	-	1,202,389,712	-	-	-	-
Trading liabilities	17	-	-	-	27,268,033	27,268,033	-	-	-	-
Commercial paper	18	-	30,369,802	-	-	30,369,802	-	-	-	-
Total liabilities		-	1,232,759,514	-	27,268,033	1,260,027,547	-	-	-	-

6. Fair values of financial instruments (cont'd)

Fair value hierarchy (cont'd)

Financial instruments not measured at fair value (cont'd)

As at June 30, 2019	**Notes**	**Designated at fair value**	**Amortised cost**	**FVOCI**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at amortised cost										
Cash and cash equivalent	7	-	375,663,651	-	-	375,663,651	-	-	-	-
Treasury bills		-	13,644,323	-	-	13,644,323	-	13,644,323	-	13,644,323
Loans and advances to customers	11	-	666,512,040	-	-	666,512,040	-	-	666,512,040	666,512,040
Investment securities:										
Unquoted securities	12	-	121,771,034	-	-	121,771,034	-	121,771,034	-	121,771,034
Financial assets measured at FVOCI										
Quoted securities		-	-	5,746,717		5,746,717	-	5,746,717	-	5,746,717
Unquoted		-	-	10,131,755		10,131,755	-	10,131,755	-	10,131,755
Financial assets measured at fair value										
Corporate bonds		26,526,827	-	-	-	26,526,827	26,526,827	-	-	26,526,827
Quoted equity securities		45,203,539	-	-	-	45,203,539	45,203,539	-	-	45,203,539
Debt securities		49,808,838	-	-	-	49,808,838	49,808,838	-	-	49,808,838
Asset-backed securities		7,184	-	-	-	7,184	7,184	-	-	7,184
Total assets		121,546,388	1,177,591,048	15,878,472	-	1,315,015,908	121,546,388	151,293,829	666,512,040	939,352,257
Deposit from customers	16	-	1,268,509,176	-	-	1,268,509,176	-	-	-	-
Trading liabilities	17	-	-	-	27,717,282	27,717,282	-	-	-	-
Commercial paper	18	-	35,042,560	-	-	35,042,560	-	-	-	-
Total liabilities		-	1,303,551,736	-	27,717,282	1,331,269,018	-	-	-	-

7. Cash and balances with Central Bank

(a) Cash and balances with Central Bank

	Note	2020 $	2019 $
Cash in hand		**17,714,698**	13,515,026
Cash at ECCB other than mandatory deposits		**18,141,421**	(2,297,475)
Included in cash and cash equivalents	7(b)	**35,856,119**	11,217,551
Mandatory deposits		**71,616,108**	75,542,789
		107,472,227	86,760,340

The weighted average effective interest rate on deposits with ECCB at June 30, 2020 was 0% (2019 - 0%). Deposits with the ECCB are non-interest bearing.

Mandatory deposits

Section 45 of the Dominica Banking Act No. 4 of 2015, and the Eastern Caribbean Central Bank Agreement Act of 1983, prescribes the maintenance of a reserve, including marginal required reserves, against deposits and other similar liabilities specified for that purpose. Such reserves shall be maintained either by way of notes and coins, cash holdings with other financial institutions or by way of deposits with the ECCB. Such mandatory deposits are not available to finance the Group's day-to-day operations.

(b) Cash and cash equivalents

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

	Notes	2020 $	2019 $
Cash and balances with ECCB	7(a)	**35,856,119**	11,217,551
Treasury bills	8	**14,982,817**	20,727,709
Due from other banks	9	**244,010,266**	333,746,855
Deposits with non-bank financial institutions	10	**26,900,409**	9,971,536
		321,749,611	375,663,651

Treasury bills of $14,982,817 (2019 - $20,727,709) comprise bills with less than three months' maturity from the date of acquisition and forms part of the total of $28,181,240 (2019 - $34,372,032) in note 8.

8. Treasury bills

	Notes	2020 $	2019 $
Treasury bills issued by domestic and regional governments	7(b)	**28,181,240**	34,372,032

The weighted average effective interest rate in respect of treasury bills for the year was 4.36% (2019 – 3.96%).

During the year, the Group recognized additional ECL on treasury bills of $447,215 (2019 - $179,896) for a total ECL allowance of $627,111 (2019 - $179,896) at year end

9. Due from other banks

	Notes	2020 $	2019 $
Items in the course of collection		**38,738**	230,065
Placements with other banks		**99,652,595**	32,682,077
Interest bearing deposits		**144,318,933**	300,834,713
	7(b)	**244,010,266**	333,746,855

The weighted average effective interest rate in respect of interest-bearing deposits for the year was 0.62% (2019 – 1.95%). Placements with other banks include the amount of $8,842,824 (2019 - $12,714,385) received on behalf of customers that was in the process of clearing at end of year. These funds are not available for the Bank's use in its normal operations until processed. Interest-bearing deposits have been adjusted for additional ECL of $570,072 (2019 – $461,600) for a total ECL on due from banks of $1,031,672 (2019 – $461,600).

10. Deposits with non-bank financial institutions

	Notes	2020 $	2019 $
Interest bearing deposits		**613,799**	618,963
Held by broker		**26,286,610**	9,352,573
	7(b)	**26,900,409**	9,971,536

The weighted average effective interest rate in respect of interest-bearing deposits for the year was 2% (2019 - 2%). During the year, the Group recognized additional ECL on deposits with non-bank financial institutions of $6,186 (2019 - $3,711) for a total ECL allowance of $9,897 (2019 - $3,711) at year end.

11. Loans and advances to customers

	Notes	2020 $	2019 $
Mortgage loans		**207,553,793**	199,700,521
Large corporate customers		**397,348,344**	288,503,341
Overdrafts		**75,206,442**	158,403,100
Credit Cards		**3,123,394**	3,545,541
Term loans	5(a)	**47,363,981**	49,033,114
Gross balance		**730,595,954**	699,185,617
Unearned interest on discount loans		**(40,172)**	(41,569)
Provision for loan impairment		**(35,030,750)**	(32,632,008)
Net balance		**695,525,032**	666,512,040
Current		**98,744,020**	168,733,132
Non-current		**596,781,012**	497,778,908
		695,525,032	666,512,040

The weighted average effective interest rate on productive loans and overdraft stated at amortized cost at June 30, 2020 was 6.01% (2019 – 6.61%) and productive overdrafts stated at amortized cost was 7.01% (2019 – 7.45%).

The Group, as part of its strategic initiatives has entered into syndicated arrangements for the funding of loan facilities domestically where the exposure exceeds the Tier I requirement. These loans are backed by commercial paper. The Group's exposure net of syndicated arrangements is therefore $35,689,542 (2019: $32,445,927).

The weighted average effective interest rate for the year in respect of syndicated loans at amortized cost was 5.2% (2019 – 5.4%).

(i) Charges against profits

	2020 $	2019 $
Increase in provision for impairment	**(2,553,850)**	(18,212,891)
Impairment recoveries on loans and advances	**4,652,123**	196,561
Net impairment charged in profit or loss	**2,098,273**	(18,016,330)

(Expressed in Eastern Caribbean Dollars)

11. Loans and advances to customers (cont'd)

(ii) Provision for impairment of loans and advances to customers

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

	Large corporate	Term loans	Mortgage loans	Overdraft	Total
	$	$	$	$	$
Balance at July 1, 2019	13,554,642	2,031,186	15,979,460	1,066,720	32,632,008
Provision for expected credit loss	1,407,228	184,680	666,046	295,896	2,553,850
Loans written off during the year	-	(4,473)	(150,635)	-	(155,108)
Balance at June 30, 2020	14,961,870	2,211,393	16,494,871	1,362,616	35,030,750
Balance at July 1, 2018	50,719,647	4,176,692	23,934,992	2,125,996	80,957,327
Effect of adopting IFRS 9 at July 1, 2018	4,344,501	(664,412)	381,907	438,378	4,500,374
Provision for expected credit loss	23,703,424	1,253,376	(6,037,782)	(706,127)	18,212,891
Loans written off during the year	(65,212,930)	(2,734,470)	(2,299,657)	(791,527)	(71,038,584)
Balance at June 30, 2019	13,554,642	2,031,186	15,979,460	1,066,720	32,632,008

11. Loans and advances to customers (cont'd)

(ii) Provision for impairment of loans and advances to customers(cont'd)

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

	Large corporate $	Term Loans $	Mortgage Loans $	Overdraft $	Total $
June 30, 2020					
Gross Loans and advances to customers	**397,348,344**	**50,487,375**	**207,553,793**	**75,206,442**	**730,595,954**
Stage 1: 12 months ECL	**(1,668,747)**	**(309,342)**	**(558,815)**	**(5,465)**	**(2,542,369)**
Stage 2: Lifetime ECL	**(1,982,381)**	**(52,123)**	**(173,197)**	**(1,647)**	**(2,209,348)**
Stage 3: Credit impaired	**(11,310,742)**	**(1,849,928)**	**(15,762,859)**	**(1,355,504)**	**(30,279,033)**
Financial Assets - Lifetime ECL	**382,386,474**	**48,275,982**	**191,058,922**	**73,843,826**	**695,565,204**

	Large corporate	Term loans	Mortgage loans	Overdraft	Total
July 1, 2019	**$**	**$**	**$**	**$**	**$**
Gross Loans and advances to customers	288,503,341	52,578,655	199,700,521	158,403,100	699,185,617
Provision for expected credit loss	(13,554,643)	(2,031,185)	(15,979,460)	(1,066,720)	(32,632,008)
Net loans and advances to customers	274,948,698	50,547,470	183,721,061	157,336,380	666,553,609

(Expressed in Eastern Caribbean Dollars)

11. Loans and advances to customers (cont'd)

(ii) Provision for impairment of loans and advances to customers(cont'd)

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

	Large corporate	Term loans	Mortgage loans	Overdraft	Total
	$	$	$	$	$
Gross loans at July 1, 2019	288,503,341	52,578,655	199,700,521	158,403,100	699,185,617
Stage 1: 12 months ECL	(1,880,799)	(274,290)	(572,119)	(45,072)	(2,772,280)
Stage 2: Lifetime ECL	(325,882)	(82,436)	(180,751)	(12,422)	(601,491)
Stage 3: Credit impaired	(11,347,962)	(1,674,459)	(15,226,590)	(1,009,226)	(29,258,237)
Financial Assets - Lifetime ECL	274,948,698	50,547,470	183,721,061	157,336,380	666,553,609
Stage 1: 12 months ECL					
ECL allowance at July 1, 2019	1,880,799	274,290	572,119	45,072	2,772,280
Credit loss movement (new loans, repayment etc.)	(212,052)	35,052	(13,304)	(39,607)	(229,911)
As at June 30, 2020	1,668,747	309,342	558,815	5,465	2,542,369
Stage 2: Life ECL					
ECL allowance at July 1, 2019	325,882	82,436	180,751	12,422	601,491
Credit loss movement (new loans, repayment etc.)	1,656,499	(30,313)	(7,554)	(10,775)	1,607,857
As at June 30, 2020	1,982,381	52,123	173,197	1,647	2,209,348
Stage 3: Credit impaired					
ECL allowance at July1, 2019	11,347,962	1,674,459	15,226,590	1,009,226	29,258,237
Credit loss experience	(37,220)	179,942	686,904	346,278	1,175,904
Write - offs	-	(4,473)	(150,635)	-	(155,108)
As at June 30, 2020	11,310,742	1,849,928	15,762,859	1,355,504	30,279,033
Total	**14,961,870**	**2,211,393**	**16,494,871**	**1,362,616**	**35,030,750**

12. Investment securities

	2020 $	2019 $
Amortized cost	**121,518,778**	121,771,034
FVOCI	**15,880,269**	15,878,472
FVTPL	**107,892,679**	121,546,388
	245,291,726	259,195,894

A. Amortized cost

	2020 $	2019 $
Government bonds	**111,164,906**	109,373,011
Corporate bonds	**20,600,224**	21,174,436
Asset-backed securities	**7,340,716**	7,161,261
	139,105,846	137,708,708
Less allowance for impairment	**(17,587,068)**	(15,937,674)
Debt securities	**121,518,778**	121,771,034

B. FVOCI

	2020 $	2019 $
Equity securities	**5,752,683**	5,746,717
Less: impairment	-	-
Unquoted equity securities	**23,882,467**	23,896,750
Less: impairment	**(13,754,881)**	(13,764,995)
	15,880,269	15,878,472

C. Investment securities measured at fair value through profit or loss

	2020 $	2019 $
Corporate bonds	**24,134,497**	26,526,827
Debt securities	**61,478,562**	49,808,838
Asset-backed securities	-	7,184
Equities	**22,279,620**	45,203,539
	107,892,679	121,546,388

12. Investment securities (cont'd)

	Stage1 12 Month ECL	Lifetime ECL Not Credit-Impaired	Credit Impaired Financial Assets Lifetime ECL	Total
	$	$	$	$
Debt investment securities at amortised cost				
Balance as at July 1, 2018	1,688,413	146,981	14,816,222	16,651,616
Net remeasurement of loss allowance	52,655	153,604	-	206,259
Recoveries	-	-	(920,201)	(920,201)
Balance as at July 1, 2019	1,741,068	300,585	13,896,021	15,937,674
Net remeasurement of loss allowance	542,491	(22,374)	1,129,277	1,649,394
Recoveries	-	-	-	-
Balance as at June 30, 2020	**2,283,559**	**278,211**	**15,025,298**	**17,587,068**

	Stage 1 12 Month ECL	Stage 2 Lifetime ECL Not Credit-Impaired	Stage 3 Credit Impaired Financial Assets Lifetime ECL	Total
	$	$	$	$
Investment securities at FVOCI				
Balance as at July 1, 2018	-	-	17,443,500	17,443,500
Net remeasurement of loss allowance	-	-	2,008,125	2,008,125
Recoveries	-	-	(209,105)	(209,105)
Reclassifications	-	-	(3,435,994)	(3,435,994)
Write-offs	-	-	(2,041,531)	(2,041,531)
Balance as at July 1, 2019	-	-	13,764,995	13,764,995
Net remeasurement of loss allowance	-	-	-	-
Recoveries	-	-	(10,114)	(10,114)
Balance as at June 30, 2020	-	-	**13,754,881**	**13,754,881**

12. Investment securities (cont'd)

	FVOCI Listed $	FVOCI Unlisted $	FVOCI Total $	Amortised Cost $	FVTPL $	TOTAL $
Restated balance at July 1, 2018	6,319,629	11,280,600	17,600,229	99,616,062	130,540,361	247,756,652
Additions	-	-	-	23,133,449	-	23,133,449
Disposals	-	(209,105)	(209,105)	(1,692,415)	(14,558,916)	(16,460,436)
Unrealised gain from changes in fair value	286,368	-	286,368	-	5,156,452	5,442,820
Dividend received	-	-	-	-	408,491	408,491
Allowance for expected credit losses	-	(2,008,125)	(2,008,125)	(206,261)	-	(206,261)
Impairment recovery on investment	-	209,105	209,105	920,199	-	1,129,304
Balance at July 1, 2019	6,605,997	9,272,475	15,878,472	121,771,034	121,546,388	259,195,894
Additions	-	-	-	2,899,864	9,829,242	12,729,106
Disposals	-	(14,283)	(14,283)	(1,502,726)	(24,961,547)	(26,478,556)
Unrealised gain from changes in fair value	5,966	-	5,966	-	1,478,596	1,484,562
Allowance for expected credit losses	-	-	-	(1,649,394)	-	(1,649,394)
Impairment recovery on investment	-	10,114	10,114	-	-	10,114
Balance at June 30, 2020	**6,611,963**	**9,268,306**	**15,880,269**	**121,518,778**	**107,892,679**	**245,291,726**

The weighted average effective interest rate for the year in respect of fair value through other comprehensive income was 0% (2019 - 0%). The weighted average effective interest rate for the year in respect of securities at amortized cost was 4.07% (2019 - 3.75%).

Impairment loss on investment securities at amortized cost comprises of expected credit loss of $2,561,770 (2019: $2,041,653) and provisioning on fully impaired assets $15,025,298 (2019: $13,896,021).

13. Other assets

	2020 $	2019 $
Prepayments and advances	**1,552,137**	1,407,072
Clearings	**1,241,933**	5,929,690
Stationery	**974,472**	756,709
Merchant settlements	**7,874,607**	3,048,378
Income tax recoverable	**111,609**	-
Other receivables	**-**	5,746,631
	11,754,758	16,888,480

The amounts classified as "Other receivables" relate to (1) amounts (net of provisioning) due from another financial institution, which was placed in receivership in November 2015 and (2) amounts due on insurance claim. The Group continues to work with the relevant stakeholders for repayment arrangements. However, on the basis that these receivables are credit impaired, an impairment provision of $6,195,898 (2019 - $7,023,657) was made in the financial year representing 100% provisioning on both facilities for a total of $13,219,556 (2019 - $7,023,657).

14. Property and equipment

Under Section 55 of the Banking Act No. 4 of 2015, the Group is required to dispose of all immoveable property surplus to its operational needs within three (3) years from November 12, 2015. Consequently, freehold land was previously reclassified as "Property held for sale". In the prior year this amount was reclassified to property and equipment as it is unlikely that sale will be realized within the next year. The Group continues to seek to effect this sale to be in line with statutory requirements.

(Expressed in Eastern Caribbean Dollars)

14. Property and equipment (cont'd)

	Land $	Building $	Leasehold improvement $	Computer equipment $	Furniture & equipment $	Motor vehicles $	Total $
COST							
Balance at July 1, 2018	4,256,683	8,743,167	1,209,337	8,584,095	16,002,852	1,001,650	39,797,784
Additions	-	-	-	592,757	913,178	128,000	1,633,935
Transfer to held for sale	-	255,781	(255,781)	31,715	(31,715)	-	-
Disposals	-	-	(339,562)	(103,695)	(476,402)	-	(919,659)
Balance at June 30, 2019	4,256,683	8,998,948	613,994	9,104,872	16,407,913	1,129,650	40,512,060
Additions	-	25,272	-	586,811	651,894	-	1,263,977
Transfer from held for sale	-	-	-	72,008	(72,008)	-	-
Disposals	-	-	-	(27,400)	(7,224)	-	(34,624)
Balance at June 30, 2020	**4,256,683**	**9,024,220**	**613,994**	**9,736,291**	**16,980,575**	**1,129,650**	**41,741,413**
ACCUMULATED DEPRECIATION							
Balance at July 1, 2018	-	(4,565,610)	(949,846)	(7,536,705)	(14,690,357)	(792,299)	(28,534,817)
Charge for the period	-	(250,821)	-	(400,221)	(465,011)	(117,192)	(1,233,245)
Transfers	-	-	-	-	-	-	-
Depreciation eliminated on disposals	-	-	335,852	-	558,981	-	894,833
Balance at June 30, 2019	-	(4,816,431)	(613,994)	(7,936,926)	(14,596,387)	(909,491)	(28,873,229)
Charge for the period	-	(229,323)		(478,392)	(523,635)	(104,450)	(1,335,800)
Transfers		-	-	(6,401)	6,401	-	-
Depreciation eliminated on disposals	-	-	-	27,400	7,224	-	34,624
Balance at June 30, 2020	**-**	**(5,045,754)**	**(613,994)**	**(8,394,319)**	**(15,106,397)**	**(1,013,941)**	**(30,174,405)**
CARRYING VALUES							
Balance as at June 30, 2020	**4,256,683**	**3,978,466**	**-**	**1,341,972**	**1,874,178**	**115,709**	**11,567,008**
Balance as at June 30, 2019	4,256,683	4,182,517	-	1,167,946	1,811,526	220,159	11,638,831

15. Intangible assets

	Total
	$
COST	
Balance at July 1, 2018	7,785,289
Additions	295,425
Disposal	-
Balance at June 30, 2019	8,080,714
Additions	**324,049**
Disposal	-
Balance at June 30, 2020	**8,404,763**
ACCUMULATED DEPRECIATION	
Balance at July 1, 2018	7,640,510
Charge for the year	117,702
Disposal	-
Balance at June 30, 2019	7,758,212
Changes for the year	**127,863**
Balance at June 30, 2020	**7,886,075**
CARRYING VALUES	
Balance at June 30, 2020	**518,688**
Balance as at June 30, 2019	322,502

(Expressed in Eastern Caribbean Dollars)

16. Deposits from customers

	2020 $	2019 $
Demand deposits	**270,226,126**	322,446,127
Savings accounts	**659,029,103**	661,846,112
Term deposits	**273,134,483**	284,216,937
	1,202,389,712	1,268,509,176
Current	**1,019,405,898**	1,125,015,323
Non-current	**182,983,814**	143,493,853
	1,202,389,712	1,268,509,176

The weighted average effective interest rate for the year in respect of customers' deposits was 1.69% (2019 - 1.72%).

17. Other liabilities

	2020 $	2019 $
Manager's cheques	**2,287,820**	2,405,890
Bankers' payments	**1,975,415**	1,538,977
Provision for staff gratuities	**3,733,017**	3,674,062
Unclaimed dividends	**309,884**	529,668
Uncleared funds	**8,842,824**	12,714,385
Other accounts payable and accrued liabilities	**10,119,073**	6,854,300
	27,268,033	27,717,282

The provision for staff gratuities is pursuant to a union agreement to provide employees with a gratuity upon termination. The gratuity is provided by the Group to staff with a minimum of 10 years of service. The funds are being held by the Group. Uncleared funds represent amounts received on behalf of customers which were in the process of clearing at year end. These funds are not available for the Group's use in its normal operations until processed.

(Expressed in Eastern Caribbean Dollars)

18. Commercial paper

The Group entered into syndicated loan arrangements for which funding exceeded the statutory Tier 1 requirement. To comply with this requirement, the Group issued commercial paper in order to fund these facilities. The commercial paper is issued for a maximum period of three years with the option of renewal. As at the reporting date, the Group had commercial paper of $30,369,802 (2019 - $35,042,560).

The effective interest rates are 3.74% (2019 - 3.35%).

19. Share capital

	Number of shares	2020 $	2019 $
Authorized			
40,000,000 ordinary shares of no par value			
Issued and fully paid			
Ordinary shares at the beginning and end of year	24,000,000	**20,000,000**	20,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group.

In 2018, to meet the requirements of the Banking Act No. 4 of 2015, which requires that the Bank hold a minimum level of paid up capital of $20,000,000, the shareholders approved an 11 for 1 bonus issue, which resulted in the issue of 2,000,000 ordinary shares to qualifying shareholders. Issued share capital subsequently increased by $9,000,000. It is the Bank's intention to raise new capital in the medium term.

20. Statutory reserve

Pursuant to Section 45 of the Banking Act No. 4 of 2015, the Group shall, out of its net profits of each year, transfer to a reserve "not less than 20% of the annual net earnings of the Group to a reserve fund whenever the fund is less than one hundred percent of the issued and paid-up capital of the Group". At the reporting date, the Group's reserve $18,633,672 (2019: $13,968,918) was less than the issued and paid-up capital. Therefore, 20% or $4,664,754 (2019: $2,634,209) of net earnings was transferred to statutory reserve.

21. Loan loss reserve

In 2014, the Directors declared the creation of a loan loss reserve as a transfer from retained earnings. The declaration of this reserve was in anticipation of the adoption of IFRS 9, *Financial Instruments,* in future years. In 2020, the financial statements reflect the impact of IFRS 9 and therefore the Group has transferred the amount previously set aside as a loan loss reserve back to retained earnings. Further, in 2020, regulatory reserve was in excess of expected credit loss. Therefore, at the reporting date, the Group's loan loss reserve was $1,109,521 (2019: $5,831,164).

(Expressed in Eastern Caribbean Dollars)

22. Unrealised gain on FVOCI

Unrealized gains or losses on investment securities reflect the difference between the fair value through OCI at cost and their fair value.

	2020 $	2019 $
Balance at beginning of year	**861,768**	575,400
Gain on changes in fair values	**5,966**	286,368
Balance at end of year	**867,734**	861,768

23. Net interest income

	2020 $	2019 $
Interest income		
Loans and overdrafts	**46,633,905**	41,408,034
Treasury bills, investment securities and bonds	**7,254,145**	6,320,751
Deposits with banks	**3,803,187**	9,006,439
	57,691,237	56,735,224
Interest expense		
Time deposits, commercial paper and syndicated arrangements	**9,201,998**	10,006,376
Saving deposits	**12,260,122**	13,008,072
Demand deposits	**172,189**	226,682
Correspondent banks	**13,601**	36,815
Lease interest	**13,220**	-
	21,661,130	23,277,945
Net interest income	**36,030,107**	33,457,279

24. Net commission and other income

	2020 $	2019 $
Dividend income	**1,359,585**	1,198,117
Foreign currency account commission	**780,544**	850,495
Loan fees	**1,238,873**	1,288,270
Net credit card revenue	**827,056**	1,432,484
Others	**3,881,399**	4,308,830
Services charges	**1,427,714**	1,308,887
	9,515,171	10,387,083

25. Impairment (recovery of) loss on investment securities

	2020 $	2019 $
Impairment on investments at amortised cost (2019 – FVOCI)	**1,129,277**	2,008,125
Expected credit loss on amortised cost investment securities	**520,117**	206,261
Impairment loss on investment securities	**1,649,394**	2,214,386
Investment recovered during the year on FVOCI	**(10,114)**	(1,129,304)

Impairment losses are reflected in the consolidated statement of income for the year ended June 30, 2020 and represent management's assessment of impairment of investment securities classified as FVOCI based on the existence of objective evidence of impairment at that date and expected credit loss for investment securities classified at amortised cost under IFRS 9.

See note 12 for the effect of the impairment on the consolidated statement of financial position.

(Expressed in Eastern Caribbean Dollars)

26. Operating expenses

	Notes	2020 $	2019 $
Audit fees and expenses		**229,172**	268,200
Depreciation and amortization		**2,000,163**	1,350,947
Directors' expenses		**68,730**	68,303
Directors' fees	28	**255,069**	290,740
Directors' training and development		**118,367**	85,565
Employee benefit expenses	28	**11,552,287**	11,401,804
Insurance		**447,025**	630,571
Legal and other professional fees		**660,124**	748,701
Office expenses		**896,565**	1,082,356
Other expenses	27	**2,716,714**	5,316,669
Rental of premises and equipment		**147,897**	761,353
Repairs and maintenance:			
Building		**1,025,223**	942,921
Computer		**1,920,322**	1,342,934
Other		**317,725**	406,037
Utilities			
Electricity and water		**715,208**	803,506
Telephone		**558,503**	531,050
		23,629,094	26,031,657

27. Other expenses

	Notes	2020 $	2019 $
Advertising and promotions		**571,083**	756,190
Agency fees		**1,098,112**	1,187,395
Collateral revaluation		**6,181**	62,883
Meetings and conferences		**104,917**	87,637
Miscellaneous		**519,497**	264,058
Scholarships expenses		**6,377**	9,448
Security – cash in transit		**99,072**	109,794
Subscription and levies		**193,585**	326,897
Sundry losses		**117,890**	2,512,367
	26	**2,716,714**	5,316,669

(Expressed in Eastern Caribbean Dollars)

28. Compensation

	Note	2020 $	2019 $
Employees			
Wages and salaries		**9,228,909**	8,738,912
Other staff costs		**345,701**	433,675
Training		**260,508**	256,364
Social security cost		**577,506**	515,809
Retirement benefit and gratuity		**739,778**	879,982
Group insurance		**339,522**	348,329
Staff uniform		**60,363**	228,733
	26	**11,552,287**	11,401,804
Key management compensation			
Salaries and other short-term benefits		**1,159,110**	1,137,005
Post-employment benefits		**249,265**	232,896
		1,408,375	1,369,901
Directors' fees	26	**255,069**	290,740

29. Income tax expense

	2020 $	2019 $
Current tax	-	-
Deferred tax	-	-
	-	-

The tax on the operating profit differs from the theoretical amount that would arise by applying the basic tax rate of 25% to the consolidated loss, as follows:

	2020 $	2019 $
Profit before tax	**23,323,769**	13,170,045
Tax credit calculated at the applicable tax rate of 25% (2018 – 25%)	**5,830,942**	3,292,511
Tax impact of non-deductible expenses	**1,569,009**	1,626,399
Tax impact of exempt income	**(5,934,645)**	(5,945,421)
Deferred taxes not recognized	**614,262**	(3,820,929)
Tax impact of current year tax losses	**(2,079,568)**	4,847,440

30. Income tax losses

At the end of the year, the Group had income tax losses of $11,071,485 (2019 – $19,389,758) to carry forward against future tax liabilities. These losses, which have not been confirmed or agreed by the Inland Revenue Department, will expire as follows if not utilised:

Income Year	Expiry year	(Profit)/ Losses arising $	Losses expired/utilised $	Losses b/f $	Accumulated losses c/f $
2015	2020	5,797,325	9,039,586	13,605,175	10,362,914
2016	2021	10,645,186	(141,266)	10,362,914	21,149,366
2017	2022	(9,291,404)	1,988,644	21,149,366	9,869,318
2018	2023	(11,839,473)	9,869,318	-	-
2019	2024	19,389,758	-	-	19,389,758
2020	2025	(8,318,273)	-	19,389,758	11,071,485

31. Basic and diluted profit/(loss) per share

The calculation of earnings per share is based on the net income attributable to ordinary shareholders for the year ended June 30, 2020 of $23,323,769 (2019 – $13,170,045) divided by 24,000,000 (2019 - 24,000,000), being the weighted average number of ordinary shares in issue during the year.

(Expressed in Eastern Caribbean Dollars)

32. Related party transactions and balances

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

A party is related to the Group, if:

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

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

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

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

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

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

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

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

(Expressed in Eastern Caribbean Dollars)

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

Interest income and interest expense with related parties were as follows:

	2020		2019	
	Income	**Expense**	**Income**	**Expense**
	$	**$**	**$**	**$**
Government of Dominica	**11,843,945**	**670,371**	9,238,509	545,998
Statutory bodies	**731,655**	**3,365,475**	1,174,440	4,096,705
Directors and related entities	**526,744**	**230,721**	810,152	169,434
Key management	**85,996**	**24,133**	63,533	22,657

At June 30, 2020, related parties had the following balances with the Group:

	2020		2019	
	Loans	**Deposits**	**Loans**	**Deposits**
	$	**$**	**$**	**$**
Government of Dominica	**207,649,296**	**143,856,248**	170,040,285	128,488,717
Statutory bodies	**13,851,681**	**81,336,783**	14,450,141	119,379,671
Directors and related entities	**12,737,727**	**16,349,482**	13,208,417	9,914,694
Key management	**1,630,469**	**1,181,365**	1,240,071	1,142,979

As at the reporting date, the Group's single largest shareholder was the Government of the Commonwealth of Dominica holding directly 48.89% (2019 - 48.89%) of the issued share capital, and 55.05% (2019 - 55.05%) when considered in concert with other shareholding entities owned and controlled by the Government. In addition, the loan balances of the Government of Dominica at $207,649,296 (2019 - $170,040,285) constituted 29% (2019 –25%) of the loans and advances outstanding from customers at June 30, 2020.

Directors' shareholdings as at the end of the financial year are as follows: 16,608 shares or 0.07% (2019 – 16,608 shares or 0.07%).

33. Commitments and contingencies

	2020 $	2019 $
Loan commitments	**60,634,798**	70,017,807
Financial guarantees and other financial facilities	**1,808,288**	3,033,618
	62,443,086	73,051,425

Loan commitments for the year amounted to $60,583,823 (2019- $70,397,433) Expected credit loss on commitments amounted to $219,025 (2019 - $379,626).

Acceptances, guarantees and letters of credit that remain open at the year-end amounted to $1,821,526 (2019 - $3,063,789). Expected credit loss on guarantees totaled $13,238 (2019 - $30,171).

34. Future lease commitments

There were no commitments for capital works or real properties at the reporting date as a result of the Group's adoption of IFRS 16. However, there were operating lease commitments in 2019 in respect of which the minimum future payments were as per below. See note 3(u) with respect to accounting for leases applicable from July 1, 2019.

	2020 $	2019 $
Within one year	-	683,000
Within two to five years	-	893,004
	-	1,576,004

35. Human capital management

The following data serves as a selection of the Group's performance measurement indicators for the last two years:

	2020 $	2019 $
Number of employees	**138**	142
Staff costs/total revenue	**14.59%**	13.14%
Interest revenue per employee	**418,052**	399,544
Assets per employee	**9,936,711**	9,995,835

36. Impact of the COVID-19 pandemic on the financial statements

From January 2020, the novel corona virus ("COVID-19") began impacting the world economies. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic As at October 22, 2020, Dominica reported total confirmed COVID-19 cases of 57 with 22 active cases.

Forecasts indicate global growth contracting by 4.9% in 2020 with some level of rebound in 2021. Commentaries have pointed to the likelihood of global economies taking some time to recover. Given the annihilation of the tourism industry in the Caribbean, projections have reflected downward forecast revisions for several Caribbean countries. The ECCU region is expected to contract between 12% to 15%. Growth in commercial banks is expected to decelerate while lower earnings have been forecasted. In the IMF's October 2020 update, it was reiterated that the impact of COVID-19 on the lives and livelihood in the Caribbean has been severe. The shutdown of the tourism sector which accounts for between 50% to 90% of output and employment has had severe impact on economies.

The Dominica economy is considered to be less reliant on the tourism industry in comparison to many of the other Caribbean islands. Thus, there is the possibility that the impact of COVID-19 is likely to be less severe than that predicted for the entire region.

The ECCB and the ECCU Bankers Association have agreed that banks can extend moratorium to customers up to September 30, 2021 without an increase in the number of days past due on that facility. As such, the ECCB has issued regulatory guidance to its ECCU banks which includes guidance on the temporary waiver for specified regulatory requirements specific to the Prudential Credit Guidelines. The International Accounting Standards Board (IASB) on March 27, 2020 published guidance notes on the impact of COVID-19 on the application of IFRS 9.

Some of our customers has been extended moratoria on repayment in line with the agreement between the ECCB and the ECCU Bankers Association. The impact on customers' earnings and businesses and the Bank's revenue streams will be continuously assessed. However, as at reporting date, the Group is unable to quantify the potential impact, if any, this pandemic will have on its financial statements. The gravity of the impact will depend on the duration of the pandemic and the timeframe economies will take to rebound / recover. The Bank has, however. applied a COVID-19 overlay to the tourism portfolio in the calculation of the ECL for the year ended June 30, 2020.