Consolidated Financial Statements of

ANTIGUA COMMERCIAL BANK LTD.

September 30, 2019

(Expressed in Eastern Caribbean dollars)

ANTIGUA COMMERCIAL BANK LTD.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Antigua Commercial Bank Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Antigua Commercial Bank Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at September 30, 2019, the consolidated statements of income, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Annual Report 2019 but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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.

INDEPENDENT AUDITORS' REPORT *(cont'd)*

To the Shareholders of Antigua Commercial Bank Ltd.

Other Information *(cont'd)*

When we read the Group's 2019 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

INDEPENDENT AUDITORS' REPORT *(cont'd)*

To the Shareholders of Antigua Commercial Bank Ltd.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements *(cont'd)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

KPMG

Chartered Accountants
January 10, 2020

Antigua and Barbuda

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Financial Position

As at September 30, 2019
with comparative figures for 2018

(Expressed in Eastern Caribbean Dollars)

	Notes		2019	2018
Assets				
Cash and balances with the Central Bank	8	$	169,110,446	214,760,039
Due from other banks	9		97,482,109	71,838,547
Treasury bills	10		89,836,565	90,223,743
Statutory deposit	11		5,965,440	5,874,812
Loans and advances	12		674,762,574	659,077,207
Other assets	13		15,434,041	22,221,662
Investment securities	14		184,810,677	113,625,445
Property and equipment	15		34,529,550	32,611,807
Pension asset	16		7,561,763	8,109,502
Total Assets		$	1,279,493,165	1,218,342,764
Liabilities and Equity				
Liabilities				
Income tax payable	20	$	3,826,505	1,173,830
Deposits due to customers	17		1,008,480,032	972,880,583
Provisions and other liabilities	18		16,793,189	18,620,392
Deferred tax liability	20		5,775,417	7,277,536
Total Liabilities			1,034,875,143	999,952,341
Equity				
Stated capital	22		36,000,000	36,000,000
Statutory reserve	23		26,059,962	23,459,372
Other reserves	24		75,160,350	58,623,186
Retained earnings			107,397,710	100,307,865
Total Equity			244,618,022	218,390,423
Total Liabilities and Equity		$	1,279,493,165	1,218,342,764

Approved for issue by the Board of Directors on January 10, 2020 and signed on its behalf by:

Rachann **Chairman** Sharon A-Pathos Edwards **Director**

Director

The notes are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Income

For the year ended September 30, 2019
with comparative figures for 2018

(Expressed in Eastern Caribbean Dollars)

	Notes		2019	2018
Interest income				
Income from loans and advances		$	52,366,010	44,082,198
Income from deposits with other banks and investments			12,237,396	9,244,418
			64,603,406	53,326,616
Interest expense				
Savings accounts			10,117,888	10,439,998
Time deposits and current accounts			4,393,344	4,943,057
Investment expenses			28,777	30,224
			14,540,009	15,413,279
Net interest income			50,063,397	37,913,337
Other operating income	25		16,927,728	14,518,845
Total income			66,991,125	52,432,182
Operating expenses				
General and administrative expenses	27		28,923,335	26,006,330
Depreciation	15		2,198,204	1,995,345
Directors' fees and expenses	21		944,182	999,304
Provision for loan impairment	12		10,874,896	190,880
Provision for impairment of other financial assets			7,790	118,699
Property – revaluation adjustment	15		(1,300,392)	-
			41,648,015	29,310,558
Profit before tax			25,343,110	23,121,624
Taxation				
Current tax expense			3,888,538	1,075,173
Deferred tax expense			719,141	2,329,293
	20		4,607,679	3,404,466
Profit for the year		$	20,735,431	19,717,158
Earnings per share	26	$	2.07	1.97

The notes are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended September 30, 2019
with comparative figures for 2018

(Expressed in Eastern Caribbean Dollars)

	Notes		2019	2018
Profit for the year		$	20,735,431	19,717,158
Other comprehensive income:				
Items net of tax that are or may be reclassified to profit or loss in the future:				
Increase in fair value of AFS equity securities, net of taxes of $nil (2018: $211,293)	24		-	628,502
			-	628,502
Items net of tax that will never be reclassified subsequently to profit or loss:				
Increase in fair value of FVOCI equity securities, net of taxes of $1,979	24		5,934	-
Revaluation surplus due to increase in fair value of property	15		585,000	-
Actuarial loss for the year, net of taxes of $280,844 (2018: $170,869)	16		(842,534)	(512,607)
Other comprehensive (loss)/income for the year		$	(251,600)	115,895
Total comprehensive income for the year		$	20,483,831	19,833,053

The notes are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Cash Flows

For the year ended September 30, 2019
with comparative figures for 2018

(Expressed in Eastern Caribbean Dollars)

	Notes		2019	2018
Cash flows from operating activities				
Profit for the year		$	20,735,431	19,717,158
Items not affecting cash:				
Provision for loan impairment	12		10,874,896	190,880
Provision for impairment of other financial assets			7,790	118,699
Depreciation	15		2,198,204	1,995,345
Pension income	16		(173,144)	(156,679)
Property revaluation adjustment	15		(1,300,392)	-
Interest income			(64,603,406)	(53,326,616)
Interest expense			14,540,009	15,413,279
Tax expense			4,607,679	3,404,466
Cash flows used in operating activities before changes in operating assets and liabilities			(13,112,933)	(12,643,468)
Change in statutory deposit			(90,628)	(29,263)
Change in other receivables and other assets			6,219,102	(3,009,381)
Change in loans and advances			(31,519,633)	(9,337,375)
Change in deposits due to customers			35,585,840	33,343,196
Change in provisions and other liabilities			(3,320,181)	1,035,191
Cash flows (used in)/from operating activities before interest, taxes and pension contributions			(6,238,433)	9,358,900
Interest received			63,123,298	52,777,444
Interest paid			(14,526,400)	(14,722,141)
Taxes paid			(1,184,051)	(3,835,757)
Pension contributions paid			(402,495)	(384,505)
Net cash flows provided by operating activities			40,771,919	43,193,941
Cash flows from investing activities				
Redemption of investment securities			19,843,110	5,903,908
Purchase of short-term investments			(25,000,000)	(65,477,912)
Purchase of property and equipment	15		(2,230,555)	(3,347,494)
Purchase of investment securities			(52,292,708)	(13,941,022)
Net cash flows used in investing activities			(59,680,153)	(76,862,520)
Cash flows from financing activities				
Dividends paid	19		(4,000,000)	(4,000,000)
Net cash flows used in financing activities			(4,000,000)	(4,000,000)
Net decrease in cash and cash equivalents			(22,908,234)	(37,668,579)
Cash and cash equivalents, beginning of year			226,101,952	263,770,531
Cash and cash equivalents, end of year	28	$	203,193,718	226,101,952

The notes are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Changes in Equity

For the year ended September 30, 2019
with comparative figures for 2018

(Expressed in Eastern Caribbean Dollars)

	Notes		Stated Capital	Statutory Reserves	Revaluation Reserve: FVOCI	Capital Reserve	Revaluation Reserve – PPE	Pension Reserve	Regulatory Loan Loss Reserve	Retained Earnings	Total
Balance at September 30, 2018 as previously stated		$	36,000,000	23,459,372	2,736,004	7,461,949	5,317,922	8,109,502	34,997,809	100,307,865	218,390,423
Changes on initial application of IFRS 9	31		-	-	16,493,969	-	-	-	-	(6,750,201)	9,743,768
Restated balance at October 1, 2018			36,000,000	23,459,372	19,229,973	7,461,949	5,317,922	8,109,502	34,997,809	93,557,664	228,134,191
Profit for the year			-	-	-	-	-	-	-	20,735,431	20,735,431
Other comprehensive income			-	-	5,934	-	585,000	-	-	(842,534)	(251,600)
Total comprehensive income			-	-	5,934	-	585,000	-	-	19,892,897	20,483,831
Transfer to reserve fund	23		-	2,600,590	-	-	-			(2,600,590)	-
Decrease in pension reserve	24		-	-	-	-	-	(547,739)	-	547,739	-
Transactions with owners											
Dividends paid	19		-	-	-	-	-	-	-	(4,000,000)	(4,000,000)
Balance September 30, 2019		$	36,000,000	26,059,962	19,235,907	7,461,949	5,902,922	7,561,763	34,997,809	107,397,710	244,618,022

The notes are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Changes in Equity *(cont'd)*

For the year ended September 30, 2019
with comparative figures for 2018

(Expressed in Eastern Caribbean Dollars)

	Notes		Stated Capital	Statutory Reserves	Revaluation Reserve: FVOCI	Capital Reserve	Revaluation Reserve – PPE	Pension Reserve	Regulatory Loan Loss Reserve	Retained Earnings	Total
Balance at September 30, 2017		$	36,000,000	20,768,281	2,107,502	7,461,949	5,317,922	8,251,792	16,438,353	106,211,571	202,557,370
Profit for the year			-	-	-	-	-	-	-	19,717,158	19,717,158
Other comprehensive income			-	-	628,502	-	-	-	-	(512,607)	115,895
Total comprehensive income			-	-	628,502	-	-	-	-	19,204,551	19,833,053
Transfer to reserve fund	23		-	2,691,091	-	-	-	-	-	(2,691,091)	-
Increase in reserve for loan loss	24		-	-	-	-	-	-	18,559,456	(18,559,456)	-
Decrease in pension reserve	24		-	-	-	-	-	(142,290)	-	142,290	-
Transaction with owners											
Dividends paid	19		-	-	-	-	-	-	-	(4,000,000)	(4,000,000)
Balance at September 30, 2018		$	36,000,000	23,459,372	2,736,004	7,461,949	5,317,992	8,109,502	34,997,809	100,307,865	218,390,423

The notes are an integral part of these consolidated financial statements.

(Expressed in Eastern Caribbean Dollars)

1. Nature of operations

The principal activity of Antigua Commercial Bank Ltd. and its subsidiaries ("the Group"), is the provision of commercial banking services. The Bank is licensed to carry on banking business in Antigua and Barbuda and is regulated by the Eastern Caribbean Central Bank in accordance with the Banking Act No. 10 of 2015 and the Eastern Caribbean Central Bank Act No. 10 of 1983.

2. General information and statement of compliance with IFRS

Antigua Commercial Bank Ltd. the Group's ultimate parent company is a limited liability company incorporated on October 19, 1955 in Antigua and Barbuda and continued under the provisions of the Antigua Companies Act 1995. The Group's registered office is located at St. Mary's and Thames Streets, St. John's, Antigua.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

These consolidated financial statements were approved for issuance on January 10, 2020.

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

- Debt and equity investments measured at fair value through profit or loss (applicable for 2019 only)
- Equity investments designated at fair value through other comprehensive income (applicable for 2019 only)
- Available-for-sale quoted financial assets (applicable for 2018 only)
- Land and buildings measured at revalued amounts
- Net defined benefit asset, which is measured at the fair value of plan assets less the present value of the defined benefit obligation.

3. Changes in accounting policies

3.1 Adoption of new or revised standards, amendments to standards and interpretations

The Group has adopted IFRS 9 and IFRS 15 from October 1, 2018.

Of these new standards and amendments applied for the first time in 2019, only IFRS 9 had a material impact on the annual financial statements of the Group.

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

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

- an increase in impairment losses recognized on financial assets
- additional disclosures related to IFRS 9

3. Changes in accounting policies *(cont'd)*

3.1 Adoption of new or revised standards, amendments to standards and interpretations (*cont'd)*

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

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

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

The nature and the impact of each new standard or amendment are described below:

IFRS 9 *Financial Instruments*

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

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

New or amended disclosures have been provided for the current period, where applicable.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below:

Changes to classification and measurement of financial assets and financial liabilities

The standard eliminates the previous categories under IAS 39 of available-for-sale, held-to-maturity and loans and receivables.

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.

3. Changes in accounting policies *(cont'd)*

3.1 Adoption of new or revised standards, amendments to standards and interpretations (*cont'd)*

Changes to classification and measurement of financial assets and financial liabilities *(cont'd)*

IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Equity instruments that are not held for trading may be irrevocably designated as at FVOCI, with no subsequent reclassification of gains or losses to profit or loss.

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).

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.

Impairment of financial assets

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

Transition disclosures

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

- As permitted by the transition provisions of IFRS 9, the Group elected not to restate comparative financial information for 2018 for financial instruments within the scope of IFRS 9. As such, the comparative financial information for 2018 is reported under IAS 39 and is not comparable to the information presented in 2019 under IFRS 9. Adjustments to carrying amounts of financial assets and liabilities arising from the adoption of IFRS 9 have been recognized in opening retained earnings and other components of equity as at October 1, 2018.

3. Changes in accounting policies *(cont'd)*

3.1 Adoption of new or revised standards, amendments to standards and interpretations *(cont'd)*

Transition disclosures *(cont'd)*

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

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

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

The quantitative impact of applying IFRS 9, as at October 1, 2018, is disclosed in the transition disclosures in Note 31.

IFRS 15 *Revenue from Contracts with Customers*

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

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

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

3. Changes in accounting policies *(cont'd)*

3.2 Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after October 1, 2018. The Group has not early adopted the following new or amended standards in preparing these separate financial statements.

Effective January 1, 2019

IFRS 16 Leases

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

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

The Group is assessing the impact that this standard will have on its 2020 financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatments*

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

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

Amendments to IFRS 9 *Financial Instruments*

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

The Group anticipates that these standards and amendments will be adopted in the initial period when they become mandatorily effective.

The impact of these are currently being assessed by the Group.

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies

4.1 Overall considerations

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

4.2 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-mandatory deposits with the ECCB and other banks, treasury bills, and other short-term highly liquid instruments with original maturities of three months of less.

4.3 Financial instruments

Recognition, initial measurement and derecognition
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Subsequent measurement of financial assets and financial liabilities is described below.

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

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

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

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

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

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

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

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Classification and subsequent measurement of financial assets *(cont'd)*

Policy applicable from October 1, 2018 *cont'd*
A debt instrument is measured at initial recognition at fair value and is classified and subsequently measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

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 refers to how financial assets are managed in order to generate cash flows. The Group determines its business model at the level that best reflects how it manages its portfolios of financial assets to achieve its business objectives. Judgment is used in determining the Group's business models that is supported by relevant, objective evidence including:

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

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Classification and subsequent measurement of financial assets *(cont'd)*

Policy applicable from October 1, 2018 *(cont'd)*
Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

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

- Other business model - the objective of this business model is neither to hold assets in order to collect contractual cash flows, nor both collect contractual cash flows and to sell. Under this model collecting contractual cash flows is incidental to the objective of the model and sales may be significant in value and frequent. The Group holds certain debt and equity investments under this model.

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

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

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

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

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Classification and subsequent measurement of financial assets *(cont'd)*

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

Classification and Measurement under IFRS 9 – Applicability to the Group

Debt instruments measured at amortised cost

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

Impairment on debt instruments measured at amortised cost is calculated using the expected credit loss approach. The Group has loans and certain debt securities in this category, which are measured at amortised cost. These are presented net of the allowance for expected credit losses in the statement of financial position.

Debt instruments measured at Fair Value through Other Comprehensive Income

Investments in debt instruments are measured at fair value through other comprehensive income where they meet the following two conditions and they have not been designated at FVTPL:

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

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognised in profit or loss. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss (ECL) approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the statement of financial position, which remains at its fair value.

The Group does not have any financial assets in this category.

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Classification and subsequent measurement of financial assets *(cont'd)*

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

Debt instruments measured at FVTPL
Debt instruments are measured at FVTPL if assets:

i) Are held for trading purposes;
ii) Are held as part of a portfolio managed on a fair value basis; or
iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the statement of financial position, with transaction costs recognized immediately in profit or loss. Realized and unrealized gains and losses are recognized in profit or loss.

The Group has certain investments in this category.

Equity instruments measured at FVTPL
Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognized immediately in profit or loss. Subsequent to initial recognition the changes in fair value are recognized in profit or loss. Equity instruments at FVTPL are primarily assets held for trading.

The Group has certain equity investments in this category.

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

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

The Group has certain equity investments in this category.

Policy applicable before October 1, 2018
For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables;
- held-to-maturity (HTM) investments; and
- available-for-sale (AFS) financial assets.

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Classification and subsequent measurement of financial assets *(cont'd)*

Policy applicable before October 1, 2018 *(cont'd)*
All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within "interest income" and "interest expense", except for impairment of loans and advances which is presented separately in the statement of income.

(a) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, loans and advances, and some investment securities fall into this category of financial instruments.

(b) *Held-to-maturity investments*
HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Group has the intention and ability to hold them until maturity. HTM investments are measured subsequently at amortised cost using the effective interest method. The Group currently does not have investments designated into this category.

(c) *Available-for-sale financial assets*
AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group's AFS financial assets include listed and unlisted equity securities. Unlisted equity investments in various entities are measured at cost less any impairment charges, where their fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the AFS reserve within equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss is reclassified from the equity reserve to profit or loss. Interest is calculated using the effective interest method and dividends are recognised in profit or loss under "other operating income".

AFS financial assets are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Impairment of financial assets

Policy applicable from October 1, 2018

The Group recognizes loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

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

No impairment loss is recognized on equity investments.

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

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

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1' financial instruments. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

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

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 (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- Significant financial difficulty of the borrower or issuer, including an inability to satisfy the debt because of decreased or no cash flow (negative debt service ratio), inability to work or where the customer is unemployed in excess of 6 months;
- A breach of contract such as a default or past due event, including a history of chronic arrears;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise, or if a loan has been restructured more than three times in five years;
- Measurable decrease in the estimated future cash flows from the underlying assets that secure the loan;
- Default or delinquency in interest or principal payments;
- 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.

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Impairment of financial assets *(cont'd)*

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, the Group considers that default has occurred and classifies a retail loan as credit impaired when it is more than 90 days past due.

Loans classified as 'doubtful' or 'loss' based on the regulatory definition and those placed on a watch list are also considered to be in default and hence are classified as credit impaired.

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience and credit risk assessment.

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

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

The Group considers as a backstop that significant increase in credit risk occurs when an asset is more than 30 days past due and also maintains a loan watch list to assist in the assessment.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months.

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

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

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

- *Undrawn loan commitments:* 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; and

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

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Impairment of financial assets *(cont'd)*

Measurement of ECL *(cont'd)*
The inputs used to estimate the expected credit losses are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

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

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

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

- Discount rate – The standard requires the ECL to be discounted using the effective interest rate (EIR).

The above five parameters are modelled and estimated independently and combined to obtain the ECL of loans.

To incorporate forward-looking macroeconomic sensitivity as required per the IFRS 9 guidance, the Group developed an economic scorecard model based on qualitative rationale and management judgment to calculate a "Forward Looking Factor" (FLF).

The Group applied experienced judgement in selecting macroeconomic factors that would most likely impact credit risk and leveraged various third party macroeconomic forecasts when determining the forward looking factors. The macroeconomic projections considered by the Group were:

- Gross Domestic Product (GDP)
- Inflation
- Unemployment rate
- Lending rates

The Group then employed a Forward Looking Factor Scorecard approach to compute adjustment factors applied to the final PD estimates used to calculate the ECLs. This approach also considered various economic scenarios (negative, neutral, positive) and their estimated impacts to the ECL.

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

<u>Impairment of financial assets</u> *(cont'd)*

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

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

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

In assessing whether the modified terms are "substantially" different from the original terms, the following factors are considered:

- 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.

Expected life
For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. For certain revolving facilities such as credit cards and overdrafts, the expected credit life is estimated based on the period over which the Group's exposure to credit losses is not mitigated by normal credit risk management actions.

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

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

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

<u>Impairment of financial assets</u> *(cont'd)*

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the 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.

Policy applicable before October 1, 2018

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

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

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the portfolio

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Impairment of financial assets *(cont'd)*

(a) Assets carried at amortised cost (cont'd)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The carrying amount is then reduced to the recoverable amount as at the reporting date. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude).

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Impairment of financial assets *(cont'd)*

(a) Assets carried at amortised cost (cont'd)
The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in "loan impairment charges" whilst impairment charges relating to investment securities (loans and receivables categories) are classified in "provision for impairment of investment securities" in profit or loss.

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

(b) Assets classified as available-for-sale
The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through operating profit within the statement of income. Any subsequent changes in fair value are recognised in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through operating profit within the statement of income.

(c) Renegotiated loans
Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due, but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

Classification and subsequent measurement of financial liabilities
The Group's financial liabilities include customers' deposits and other liabilities and accrued expenses. Financial liabilities are measured subsequently at amortised cost using the effective interest method. All interest-related charges are included within "interest expense" in the statement of income.

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

Offsetting financial instruments

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

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 such as in the Group's trading activity.

Amortised cost measurement

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

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.

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

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

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

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

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

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

<u>Modifications of financial assets and financial liabilities</u>

Policy applicable from October 1, 2018

Financial assets

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

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

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

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

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

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

Financial liabilities

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

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

4. Summary of significant accounting policies *(cont'd)*

4.3 Financial instruments *(cont'd)*

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

Policy applicable before October 1, 2018

Financial assets

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

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

Financial liabilities

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

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

4.4 Provisions, contingent assets and contingent liabilities

Provisions for legal disputes or other claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

A provision for Group levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group is virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised. Such situations are disclosed as contingent liabilities unless the outflow of resource is remote.

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies *(cont'd)*

4.5 Property and equipment and depreciation

Property and equipment are stated at historical cost or revalued amount, less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on the straight-line method at rates estimated to write down the cost or valuation of such assets to their residual values over their estimated useful lives, as follows:

Buildings	40 years
ATM buildings and building improvements	10 years
Car park	10 years
Furniture and fixtures	$6^{2/3}$ years
Equipment	10 years
Motor vehicles	5 years
Computer hardware	5 years
Computer software	3 years

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to profit or loss when the expenditure is incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Property and equipment are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised within "other operating income" in profit or loss.

Revaluations of property and equipment are carried out every 3 to 5 years based on independent valuations.

4.6 Impairment of non-financial assets

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

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment losses are recognised in profit or loss.

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies *(cont'd)*

4.6 Impairment of non-financial assets *(cont'd)*

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.7 Dividends on ordinary shares and dividend income

Dividends on ordinary shares are recognised in equity in the period in which they are approved by shareholders. Dividends for the year which are approved after the reporting date are disclosed as a subsequent event (note 19).

Dividend income is recognised in "other operating income" in profit or loss when the entity's right to receive payment is established.

4.8 Interest income and expense and revenue recognition

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the statement of income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees 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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest on loans and advances and fee income

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

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

4. Summary of significant accounting policies *(cont'd)*

4.9 Fee and commission income and revenue recognition

Fees and commissions are generally recognised on the accrual basis when the service has been provided. Loan origination fees are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan.

Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the acquisition of shares or other securities, are recognised on completion of the underlying transaction.

4.10 Foreign currency translation

Functional and presentation currency
The Consolidated Financial Statements are presented in Eastern Caribbean Dollars, which is also the functional currency of the Group.

Foreign currency transactions and balances
Foreign currency transactions are translated into Eastern Caribbean Dollars using the closing rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the statement of income.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

4.11 Post-employment benefits

The Group provides post-employment benefits through a defined benefit plan. Under this plan, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The legal obligation for any benefits remains with the Group, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

The liability recognised in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the reporting date less the fair value of plan assets.

Management estimates the DBO annually with the assistance of independent actuaries. This is based on assumed rates of inflation, medical cost trends and mortality. It also takes into account the Group's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Service cost on the Group's defined benefit plan is included in employee benefits expense. Employee contributions, all of which are independent of the number of years of service, are treated as a reduction of service cost. Net interest expense on the net defined benefit liability is included in salaries and related costs in profit or loss. Actuarial gains and losses resulting from re-measurements of the net defined benefit liability are included in other comprehensive income.

(Expressed in Eastern Caribbean Dollars)

4. Summary of significant accounting policies *(cont'd)*

4.12 Leased assets

Operating leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All of the Group's leases are treated as operating leases and the Group is a lessee. All payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

4.13 Repurchase agreements

Securities sold subject to repurchase agreements are included in loans and receivables. These securities are not secured by collateral. The counterparty liability is included in 'due under repurchase agreements' and is recorded at amortised cost. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

4.14 Current and deferred income taxes

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current tax
Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the Consolidated Financial Statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in Antigua and Barbuda.

Deferred tax
Deferred income taxes are calculated on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided those rates are enacted or substantively enacted by the end of the reporting period

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax assets 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.

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

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

4. Summary of significant accounting policies *(cont'd)*

4.15 Other liabilities

Other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

4.16 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

4.17 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:

- Regulatory reserve for loan loss – additional provision as required by the Eastern Caribbean Central Bank and interest on loans not recognised for regulatory purposes
- Pension reserve – comprises a reserve equivalent to the calculated pension plan asset
- Revaluation reserve: property – comprises unrealised gains and losses from the revaluation of land and buildings
- Revaluation reserve for AFS financial assets – comprises unrealised gains and losses relating to these types of financial instruments
- Retained earnings – includes all current and prior period retained profits or losses

See note 24 for details on each component of other reserves.

4.18 Basis of consolidation

Our consolidated financial statements include the assets and liabilities and results of operations of the parent company, Antigua Commercial Bank Ltd., and its subsidiaries, after elimination of intercompany transactions, balances, revenues and expenses.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

5. Financial instrument 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 the financial business, and the operational risks are an inevitable consequence of being in business. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

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

Risk management is carried out by the Group's Asset and Liability Management Committee (ALCO) and Investment Committee under policies approved by the Board of Directors. The ALCO and Investment Committee identify, evaluate and hedge financial risks in close co-operation with the Group's operating departments. The Board provides guidance 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 arising from financial instruments to which the Group is exposed are credit risk, liquidity risk, market risk (which are discussed below) and other operational risk.

5.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancements provided, such as financial guarantees and letters of credit. The Group is also exposed to other credit risks arising from investments in debt securities.

Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control including risk on debt securities, cash, loans and advances, credit cards and loan commitments are monitored by the ALCO and Investment Committees, which report to the Board of Directors regularly. Cash deposits with other banks and short-term investments are placed with reputable regional and international financial institutions and Governments.

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.1 Credit risk management

(a) Loans and advances

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of the counterparty. These have been developed based on the Eastern Caribbean Central Bank guidelines. Customers of the Group are segmented into five rating classes. The Group's rating scale, which is shown below, 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 tools are reviewed and upgraded as necessary.

Group's rating	Description of the grade
1	Pass
2	Special mention
3	Sub-standard
4	Doubtful
5	Loss

(b) Debt securities and other bills

The Group's portfolio of debt securities and other bills consists of St. Kitts and Nevis Government, St. Lucia Government and Antigua and Barbuda Government ninety-one day treasury bills, and other debt obligations by regional banking and non-banking financial institutions, all of which are unrated. The Group assesses the risk of default on these obligations by regularly monitoring the performance of the Governments through published government data, information received directly from government departments and information published by international agencies such as the International Monetary Fund (IMF) and the World Bank. The risk of default on regional corporate debt is assessed by continuous monitoring of the performance of these companies through published financial information, and other data gleaned from various sources.

(c) Credit card receivables

The risk related to the Bank's credit card portfolio is significantly covered by the interest charged to customers at a rate of 19.5% per annum. Historically, the risk of loss has been on average less than 1% per annum over the past seven years. The portfolio is closely monitored by a third party and the Group on a daily basis to minimize the risk of default.

5.1.2 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.

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

The exposure to any one borrower, including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposure. Actual exposures against limits are monitored on an ongoing basis.

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. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Lending limits are reviewed in light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

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

The following specific control and mitigation measures are also utilised:

(a) 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 and commercial properties.
- Charges over business assets such as equipment, inventory and accounts receivable.
- Charges over financial instruments such as cash and short-term deposits.
- Government and personal guarantees.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities may be secured or unsecured. In addition, the Group seeks to proactively minimize credit loss by taking pledges of collateral from the counterparty as part of its general risk mitigation strategy.

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

(b) Financial guarantees (for credit related commitments and loan books)

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, 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 (often referred to as financial covenants).

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 instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.3 Impairment and provisioning policies

The internal rating systems described in Note 5.1.1 focus more on credit quality mapping from the inception of the lending and investment activities. In contrast, from October 1, 2018, impairment provisions for financial reporting purposes are provided for losses based on an expected credit loss model using a three stage approach across the various loan categories.

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

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

Instruments will transfer to stage 2 and a lifetime expected credit loss provision recognised when there has been a significant increase in credit risk compared with what was expected at origination. An overview of this is provided below:

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

Prior to October 1, 2018, impairment provisions were recognised for financial reporting purposes only for losses that had been incurred at the reporting date based on objective evidence of impairment.

Prior to October 1, 2018, due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements was usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes. From October 1, 2018, the amount of expected credit losses provided for in the financial statements is in excess of the amount determined for banking regulation purposes.

The loan impairment provision shown in the statement of financial position at year end is derived from each of the five rating grades. However, the majority of the impairment provision comes from the substandard, doubtful and loss grades. The table below shows the percentage of the Group's on and off-balance sheet items relating to loans and advances and the associated impairment provision for each of the Group's internal rating categories:

	2019		**2018**	
Group's rating	**Credit risk exposure**	**Impairment allowance**	**Credit risk exposure**	**Impairment allowance**
	(%)	**(%)**	**(%)**	**(%)**
Pass	30	5	33	4
Special mention	48	5	45	6
Sub-standard	9	16	11	14
Doubtful	13	74	11	72
Loss	-	-	-	4
	100	100	100	100

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.3 Impairment and provisioning policies *(cont'd)*

The mortgage subsidiary company had, on average 91% of its loan portfolio at a pass rating for the financial year ended September 30, 2019 (2018: 91%).

The internal rating tool assists management to determine whether objective evidence indicates that a facility has become credit impaired (prior to October 1, 2018: objective evidence of impairment exists under IAS 39), 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
- 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. Expected credit losses are determined for these accounts based on a combination of the probability of default, loss given default and the exposure at default (2018: Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case by case basis, and are applied to all individually significant accounts). The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

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

		Maximum Exposure	
		2019	**2018**
Credit risk exposures relating to on-balance sheet assets			
Due from other banks	$	97,482,109	71,838,547
Treasury bills		89,836,565	90,223,743
Statutory deposits		5,965,440	5,874,812
Loans and advances to customers		674,762,574	659,077,207
Investment securities:			
Loans and receivables- debt securities		-	46,893,850
Held-to-maturity		-	51,596,134
Amortised cost		104,342,357	-
FVTPL		42,166,783	-
Other assets		13,966,051	20,732,209
	$	1,028,521,879	946,236,502
Credit risk exposures relating to off-balance sheet assets			
Loan commitments and other credit related obligations		61,370,469	53,286,818
At September 30	$	1,089,892,348	999,523,320

The above table represents a worse-case scenario of credit risk exposure to the Group at September 30, 2019 and 2018, 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 above, 66% of the total maximum exposure is derived from loans and advances to customers (2018: 70%); 10% represents investments in debt securities (2018: 10%).

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

- Business loans, which represents the biggest group in the portfolio, are backed by collateral; and
- 74% of loans and advances portfolio are considered to be neither past due nor impaired (2018: 74%).

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.5 Loans and advances

Loans and advances are summarised as follows:

		Loans and advances to customers	
		2019	**2018**
Neither past due nor impaired	$	520,668,163	492,938,251
Past due but not impaired		111,901,348	110,154,258
Individually impaired		60,260,837	59,128,486
Gross		692,830,348	662,220,995
Interest receivable		17,201,729	16,537,216
Deferred interest income		(3,357,430)	(3,314,766)
Deferred fees		(2,162,758)	(2,026,118)
Less: allowance for impairment		(29,749,315)	(14,340,120)
Net		674,762,574	659,077,207
Allowance for impairment:			
Individually impaired		-	11,189,030
Portfolio allowance		-	3,151,090
Expected credit losses		29,749,314	-
Total	$	29,749,314	14,340,120

Further information about the impairment allowance for loans and advances to customers is provided in note 12.

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.5 Loans and advances *(cont'd)*

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

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

		Loans and advances to customers					
		Individual (retail customers)			Corporate entities		
		Overdrafts	Term Loans	Mortgages	Large Corporate Customers	SMEs	Total
September 30, 2019							
Grades							
Standard monitoring	$	90,080	41,652,312	126,652,596	287,787,058	11,611,827	467,793,873
Special monitoring		436,577	2,156,897	-	43,651,358	6,629,458	52,874,290
Total	$	526,657	43,809,209	126,652,596	331,438,416	18,241,285	520,668,163
September 30, 2018							
Grades							
Standard monitoring	$	46,976,527	32,343,836	149,968,344	178,456,220	11,240,688	418,985,615
Special monitoring		13,940,244	4,707,669	-	51,656,859	3,647,864	73,952,636
Total	$	60,916,771	37,051,505	149,968,344	230,113,079	14,888,552	492,938,251

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.5 Loans and advances *(cont'd)*

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances by class to customers that were past due but not impaired were as follows:

		Individual (retail customers)			Corporate entities		
		Overdrafts	Term Loans	Mortgages	Large Corporate Customers	SMEs	Total
September 30, 2019							
Past due up to 30 days	$	-	2,196,370	29,251,275	742,087	-	32,189,732
Past due 31 – 60 days		-	897,249	3,104,992	36,149,612	1,197,646	41,349,499
Past due 61 – 90 days		-	448,269	3,708,325	5,820,854	-	9,977,448
Past due 90 days and over		1,105,295	1,757,960	7,744,686	16,632,292	1,144,436	28,384,669
Total	$	1,105,295	5,299,848	43,809,278	59,344,845	2,342,082	111,901,348
September 30, 2018							
Past due up to 30 days	$	-	1,297,299	38,002,485	8,900,158	2,038,101	50,238,043
Past due 31 – 60 days		-	183,972	4,118,550	-	450,965	4,753,487
Past due 61 – 90 days		-	70,630	3,421,250	-	753,582	4,245,462
Past due 90 days and over		2,504,865	854,849	11,345,443	30,702,658	5,509,451	50,917,266
Total	$	2,504,865	2,406,750	56,887,728	39,602,816	8,752,099	110,154,258

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.5 Loans and advances *(cont'd)*

(c) *Loans and advances individually impaired*

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held amounts to $60,260,837 (2018: $59,128,486).

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

		Individual (retail customers)			Corporate entities			
		Overdrafts	Credit Cards	Term Loans	Mortgages	Large Corporate Customers	SMEs	Total
September 30, 2019								
Gross amount	$	1,728,932	1,691,656	2,237,764	5,239,705	47,007,904	2,354,876	60,260,837
Amount provided	$	1,728,932	1,223,039	1,444,720	254,347	14,001,909	862,499	19,515,446
September 30, 2018								
Gross amount	$	2,760,192	1,548,058	985,929	852,340	50,351,007	2,630,960	59,128,486
Amount provided	$	767,711	1,223,039	718,734	295,494	7,688,553	495,499	11,189,030

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.5 Loans and advances *(cont'd)*

(d) *Loans and advances renegotiated*
Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue 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 judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

		2019	2018
Renegotiated loans and advances to individuals	$	4,173,034	-
Renegotiated loans and advances to corporations		6,905,841	13,094,789
	$	11,078,875	13,094,789

5.1.6 Debt securities, treasury bills and other eligible bills

There is no formal rating of the credit quality of bonds, treasury bills and equity investments. A number of qualitative and quantitative factors are considered in assessing the risk associated with each investment. However, there is no hierarchy of ranking. There are no external ratings of securities at the year-end. The tables below present an analysis of debt securities, treasury bills and other eligible bills at September 30, 2019 and 2018:

	Treasury Bills	Amortised cost	FVTPL	Total
	$	$	$	$
At September 30, 2019				
Rated	-	55,810,167	42,166,783	97,976,950
Unrated	90,209,901	52,752,281	-	142,962,182
	90,209,901	108,562,448	42,166,783	240,939,132

	Treasury Bills	Available-for-sale	Held-to-maturity	Loans and receivables	Total
At September 30, 2018					
Rated	-	-	51,596,134	-	51,596,134
Unrated	90,223,743	15,135,461	-	46,893,850	152,253,054
	90,223,743	15,135,461	51,596,134	46,893,850	203,849,188

See note 14 for provision for impairment of investment securities.

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.7 Concentration of risk of financial assets with credit risk exposure

(a) Geographical concentration of assets and off-balance sheet items

The Group's exposure to credit risk is concentrated as detailed below. Antigua and Barbuda is the home country of the Group where the predominant activity is commercial banking services.

As a major indigenous, bank in Antigua and Barbuda, the Bank accounts for a significant share of credit exposure to many sectors of the economy. However, credit risk is spread over a diversity of personal and commercial customers.

The following table analyses the Group's main credit exposures at their carrying amounts, without taking into account any collateral held or other credit support as categorised by geographical region. For all classes of assets, the Group has allocated exposure to regions based on the country of domicile of the counterparties.

		Antigua and Barbuda	Other Caribbean	Non-Caribbean	Total
2019:					
Credit risk exposures relating to on-balance sheet assets:					
Due from other banks	$	14,207,569	16,569,288	66,705,252	97,482,109
Statutory deposits		5,965,440	-	-	5,965,440
Treasury bills		22,944,551	61,531,966	5,360,048	89,836,565
Investment Securities:					
Amortised Cost		35,331,793	20,520,353	48,490,211	104,342,357
FVTPL		-	-	42,166,783	42,166,783
Loans and advances		671,387,178	2,661,644	713,752	674,762,574
Other assets		13,966,051	-	-	13,966,051
		763,802,582	101,283,251	163,436,046	1,028,521,879
Credit risk exposures relating to off-balance sheet assets:					
Loan commitments and other credit related facilities		61,370,469	-	-	61,370,469
September 30, 2019	$	825,173,051	101,283,251	163,436,046	1,089,892,348

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.7 Concentration of risk of financial assets with credit risk exposure *(cont'd)*

(a) Geographical concentration of assets and off-balance sheet items (cont'd)

		Antigua and Barbuda	Other Caribbean	Non-Caribbean	Total
2018:					
Credit risk exposures relating to on-balance sheet assets:					
Due from other banks	$	15,091,979	25,366,862	31,379,706	71,838,547
Statutory deposits		5,874,812	-	-	5,874,812
Treasury bills		15,577,396	69,347,042	5,299,305	90,223,743
Loans and Receivables					
Debt Securities		36,859,510	11,637,134	49,993,340	98,489,984
Loans and advances		655,630,734	2,661,644	784,829	659,077,207
Other assets		20,732,209	-	-	20,732,209
		749,766,640	109,012,682	87,457,180	946,236,502
Credit risk exposures relating to off-balance sheet assets:					
Loan commitments and other credit related facilities		53,286,818	-	-	53,286,818
September 30, 2018	$	803,053,458	109,012,682	87,457,180	999,523,320

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.7 Concentration of risk of financial assets with credit risk exposure *(cont'd)*

(b) Industry risk concentration of assets and off-balance sheet items

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

	Financial institutions $'000	Tourism $'000	Real estate $'000	Wholesale and retail trade $'000	Public sector $'000	Other industries $'000	Individuals $'000	Total $'000
Due from other banks	97,482	-	-	-	-	-	-	97,482
Treasury bills	-	-	-	-	89,837	-	-	89,837
Statutory deposits	-	-	-	-	5,965	-	-	5,965
Loans and advances	-	72,620	25,150	98,372	121,437	299,784	57,400	674,763
Investment securities:								
- Amortised Cost	9,127	-	-	-	87,162	8,053	-	104,342
- FVTPL - Bonds	42,167	-	-	-	-	-	-	42,167
Other assets	-	-	-	-	-	13,966	-	13,966
As of September 30, 2019	148,776	72,620	25,150	98,372	304,401	321,803	57,400	1,028,522

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.7 Concentration of risk of financial assets with credit risk exposure *(cont'd)*

(b) Industry risk concentration of assets and off-balance sheet items (cont'd)

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

	Financial institutions $'000	Tourism $'000	Real estate $'000	Wholesale and retail trade $'000	Public sector $'000	Other industries $'000	Individuals $'000	Total $'000
Due from other banks		-	-	-	-	-	-	71,839
Treasury bills	-	-	-	-	90,224	-	-	90,224
Statutory deposits	-	-	-	-	5,875	-	-	5,875
Loans and advances	-	51,023	36,091	107,079	117,160	89,198	258,526	659,077
Investment securities:								
- Debt securities	-	-	-	-	-	98,490	-	98,490
Other assets	-	-	-	-	-	20,732	-	20,732
As of September 30, 2018	71,839	51,023	36,091	107,079	213,259	208,420	258,526	946,237

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.1 Credit risk *(cont'd)*

5.1.7 Concentration of risk of financial assets with credit risk exposure *(cont'd)*

(b) Industry risk concentration of assets and off-balance sheet items (cont'd)

	Financial institutions $'000	Tourism $'000	Real estate $'000	Wholesale and retail trade $'000	Public sector $'000	Other industries $'000	Individuals $'000	Total $'000
Loan commitments and other credit related obligations	-	3,295	-	3,345	9,124	33,988	11,618	61,370
As of September 30, 2019	-	3,295	-	3,345	9,124	33,988	11,618	61,370
Loan commitments and other credit related obligations	-	25,047	-	3,848	5,925	3,319	15,148	53,287
As of September 30, 2018	-	25,047	-	3,848	5,925	3,319	15,148	53,287

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.2 Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Non trading portfolio market risks primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolio market risks also include foreign exchange risks and risks associated with the change in equity prices arising from the Group's available-for-sale investment securities.

5.2.1 Price risk

The Group's investment portfolio includes securities that are quoted on the Eastern Caribbean Securities Exchange. The Group is exposed to equities price risk because of investments held and classified on the statement of financial position as available-for-sale. To manage this price risk arising from investments in equity securities, the Group diversifies its portfolio. The Group does not hold securities that are quoted on the world's major securities markets.

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.2 Market risk *(cont'd)*

5.2.2 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 level of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the ALCO Committee.

The following table summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.2 Market risk *(cont'd)*

5.2.2 Interest rate risk *(cont'd)*

		0 – 3 months	3 – 6 months	6 months – 1 year	1 – 3 years	3 – 5 years	Over 5 years	Non-interest bearing	Total
As of September 30, 2019									
Assets									
Cash and balances with the Central Bank	$	-	-	-	-	-	-	169,110,446	169,110,446
Statutory deposits		-	-	-	-	-	-	5,965,440	5,965,440
Due from other banks		30,258,569	8,600,000	13,332,500	14,079,000	526,500	-	30,685,540	97,482,109
Treasury bills		41,632,689	29,245,039	18,958,837	-	-	-	-	89,836,567
Investment securities:									
- Amortised cost		5,103,351	9,321,833	30,594,427	21,226,968	38,095,778	-	-	104,342,357
- FVTPL		1,624,238	3,281,574	2,273,214	4,546,455	3,080,268	-	27,361,034	42,166,783
Loans and advances		91,675,914	6,943,079	5,702,999	55,827,980	35,085,185	479,437,848	89,569	674,762,574
Other assets		-	-	-	-	-	6,079,861	7,886,190	13,966,051
Total financial assets	$	170,294,761	57,391,525	70,861,977	95,680,403	76,787,731	485,517,709	241,098,219	1,197,632,325
Liabilities									
Deposits due to customers	$	719,405,505	43,759,333	75,612,015	96,831,457	-	69,896,329	2,975,393	1,008,480,032
Other liabilities and accrued expenses		470,726	-	-	-	1,248,038	-	15,074,425	16,793,189
Total financial liabilities		719,876,231	43,759,333	75,612,015	96,831,457	1,248,038	69,896,329	18,049,818	1,025,273,221
Total interest repricing gap	$	(549,581,470)	13,632,192	(4,750,038)	(1,151,054)	75,539,693	415,621,380	223,048,401	172,359,104

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.2 Market risk *(cont'd)*

5.2.2 Interest rate risk *(cont'd)*

		0 – 3 months	3 – 6 months	6 months – 1 year	1 – 3 years	3 – 5 years	Over 5 years	Non-interest bearing	Total
As of September 30, 2018									
Assets									
Cash and balances with the Central Bank	$	-	-	-	-	-	-	214,760,039	214,760,039
Statutory deposits		-	-	-	-	-	-	5,874,812	5,874,812
Due from other banks		21,579,603	10,800,000	39,234,450	-	-	-	224,494	71,838,547
Treasury bills		42,234,619	32,090,964	15,898,160	-	-	-	-	90,223,743
Investment securities:									
- Debt securities		2,363,618	-	-	41,113,870	10,482,264	44,530,232	-	98,489,984
- Equity securiies		-	-	-	-	-	-	15,135,461	15,135,461
Loans and advances		116,158,055	5,637,627	23,523,856	41,884,310	62,330,453	408,169,089	1,373,817	659,077,207
Other assets		-	-	-	-	-	-	20,732,209	20,732,209
Total financial assets	$	182,335,895	48,528,591	78,656,466	82,998,180	72,812,717	452,699,321	258,100,832	1,176,132,002
Liabilities									
Deposits due to customers	$	685,526,456	37,427,267	83,643,960	92,531,456	-	70,810,152	2,941,292	972,880,583
Other liabilities and accrued expenses		341,267	-			1,299,150		16,979,975	18,620,392
Total financial liabilities		685,867,723	37,427,267	83,643,960	92,531,456	1,299,150	70,810,152	19,921,267	991,500,975
Total interest repricing gap	$	(503,531,828)	11,101,324	(4,987,494)	(9,533,276)	71,513,567	381,889,169	238,179,565	184,631,027

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.2 Market risk *(cont'd)*

5.2.3 Foreign exchange 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 ALCO 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 following table summarises the Group's exposure to foreign currency exchange rate risk.

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.2 Market risk *(cont'd)*

5.2.3 Foreign exchange risk *(cont'd)*

		XCD	USD	EUR	GBP	Others	Total
As of September 30, 2019							
Assets							
Cash and balances with the Central Bank	$	168,423,169	629,667	5,707	17,269	34,634	169,110,446
Statutory deposits		5,965,440	-	-	-	-	5,965,440
Deposits from other banks		44,737,663	52,513,095	28,315	83,801	119,235	97,482,109
Treasury bills		84,476,514	5,360,051	-	-	-	89,836,565
Investment securities:							
Amortised cost		17,179,683	87,162,674	-	-	-	104,342,357
FVTPL		-	47,432,688	-	-	-	47,432,688
Loans and advances		650,895,572	23,867,002	-	-	-	674,762,574
Other assets		13,966,051	-	-	-	-	13,966,051
Total financial assets	$	985,644,092	216,965,177	34,022	101,070	153,869	1,202,898,230
Liabilities							
Deposits due to customers	$	954,433,203	54,046,829	-	-	-	1,008,480,032
Provisions and other liabilities		16,793,189	-	-	-	-	16,793,189
Total financial liabilities	$	971,226,392	54,046,829	-	-	-	1,025,273,221
Net on-balance sheet position	$	14,417,700	162,918,348	34,022	101,070	153,869	177,625,009

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.2 Market risk *(cont'd)*

5.2.3 Foreign exchange risk *(cont'd)*

		XCD	USD	EUR	GBP	Others	Total
As of September 30, 2018							
Assets							
Cash and balances with the Central Bank	$	214,416,095	285,260	12,323	25,428	20,933	214,760,039
Statutory deposits		5,874,812	-	-	-	-	5,874,812
Deposits from other banks		54,288,739	17,361,418	35,033	91,285	62,072	71,838,547
Treasury bills		84,924,439	5,299,304				90,223,743
Investment securities:							
Available-for-sale (equity securities)		15,135,461	-	-	-	-	15,135,461
Loans and receivables – debt securities		46,893,850	-	-	-	-	46,893,850
Held-to-maturity		-	51,596,134	-	-	-	51,596,134
Loans and advances		653,606,707	5,470,500	-	-	-	659,077,207
Other assets		20,732,209	-	-	-	-	20,732,209
Total financial assets	$	1,095,872,312	80,012,616	47,356	116,713	83,005	1,176,132,002
Liabilities							
Deposits due to customers	$	923,252,608	49,627,975	-	-	-	972,880,583
Other liabilities and accrued expenses		18,620,392	-	-	-	-	18,620,392
Total financial liabilities	$	941,873,000	49,627,975	-	-	-	991,500,975
Net on-balance sheet position	$	153,999,312	30,384,641	47,356	116,713	83,005	184,631,027

5. Financial instrument risk *(cont'd)*

5.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations associated with its financial liabilities when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts and maturing deposits. Management 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.

The 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 risk management process

The Group's liquidity risk management processes are carried out by the Group's senior management and monitored by the finance team and include the following:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in regional markets to enable this to happen;

- Maintaining the liquidity ratios of the statement of financial position against internal and regulatory requirements; and

- Managing the concentration and profile of debt maturities.

Monitoring and reporting takes the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.3 Liquidity risk *(cont'd)*

Funding approach

Sources of liquidity are regularly reviewed by management and the Board of Directors in order to maintain a wide diversification by currency, geography, provider, product and term.

Assets held for management of liquidity risk

The Group's assets held for managing liquidity risk comprise:

- Cash and balances with other banks;
- Unimpaired loans and advances;
- Certificates of deposit;
- Treasury and other eligible bills; and
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks.

In the normal course of business, a proportion of customers' loans contractually repayable in one year will be extended. In addition, debt securities and treasury and other eligible bills can be pledged to secure liabilities. The Group would also be able to meet unexpected net cash requirements by selling securities. The Group can also access alternative funds for short-term borrowing needs via the Inter-bank market, lines of credit with international banks and repurchase agreements.

(Expressed in Eastern Caribbean Dollars)

5. Financial Instrument risk *(cont'd)*

5.3 Liquidity risk *(cont'd)*

Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by and payable to the Group with respect to non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages liquidity risk based on a different basis (see Liquidity risk management process), not resulting in a significantly different analysis.

		0 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Total
As at September 30, 2019							
Liabilities							
Deposits due to customers	$	719,405,505	43,759,333	75,612,015	99,806,851	69,896,328	1,008,480,032
Other liabilities and accrued expenses		501,930	-	529,912	15,761,347	-	16,793,189
Total liabilities (contractual maturity dates)	$	719,907,435	43,759,333	76,141,927	115,568,198	69,896,328	1,025,273,221
Assets held for managing liquidity risk	$	194,258,585	53,947,774	76,187,688	705,011,535	229,099,278	1,258,504,860
As at September 30, 2018							
Liabilities							
Deposits due to customers	$	686,996,442	37,555,488	84,595,553	93,759,135	70,810,152	973,716,770
Other liabilities and accrued expenses		2,541,820	-	399,890	15,678,681	-	18,620,391
Total liabilities (contractual maturity dates)	$	689,538,262	37,555,488	84,995,443	109,437,816	70,810,152	992,337,161
Assets held for managing liquidity risk	$	222,562,024	49,015,741	91,685,599	629,746,762	185,620,142	1,178,630,268

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.4 Fair value

'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.

The table below summarises the carrying amounts and fair values of the Group's financial assets and liabilities:

	Carrying value		Fair value	
	2019	2018	2019	2018
Financial Assets				
Statutory deposits	$ 5,965,440	5,874,812	5,965,440	5,874,812
Treasury bills	89,836,565	90,223,743	89,896,522	90,273,138
Due from other banks	97,482,109	71,838,547	97,482,109	71,838,547
Loans and advances	674,762,574	659,077,207	681,306,780	661,866,378
Investment securities	184,810,677	113,625,445	184,401,770	118,110,577
Other assets	13,966,051	20,732,209	13,981,808	20,732,209
	$ 1,066,823,396	961,371,963	1,073,034,429	968,695,661
Financial Liabilities				
Deposits due to customers	$ 1,008,480,032	972,880,583	1,006,111,525	971,211,419
Other liabilities and accrued expenses	16,793,189	18,620,392	16,793,173	18,620,392
	$ 1,025,273,221	991,500,975	1,022,904,698	989,831,811

The following methods and assumptions have been used to estimate the fair value of each class of financial instrument for which it is practical to estimate a value:

- *Short-term financial assets and liabilities*
  The carrying value of these assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets are comprised of cash resources and short term investments, fixed deposits, interest receivable, and other assets. Short-term financial liabilities are comprised of demand deposits, interest payable and certain other liabilities.

- *Loans and advances to customers*
  Loans and advances are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Except for the staff loans, the interest rates on all other loans reflect the market rates, hence the carrying values generally approximate the fair values.

5. Financial instrument risk *(cont'd)*

5.4 Fair value *(cont'd)*

- *Deposits from banks and due to customers*
  The estimated fair value of deposits with no stated maturity, which include non-interest-bearing deposits, is the amount repayable on demand.

  The estimated fair value of fixed-interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The interest rates on these financial liabilities reflect the market interest rates, hence the carrying values generally approximate the fair values.

- *Investment securities*
  The fair value for loans and receivables and held-to-maturity assets are based on market prices or broker/dealer price quotations. Where this information is not available, fair value is based on cost less any impairment recognised.

5.4.1 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; and unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes listed debt instruments listed on exchanges.

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

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

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.4 Fair value *(cont'd)*

5.4.1 Fair value hierarchy *(cont'd)*

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

	Level 1	Level 2	Level 3	Total
	$	$	$	$
As at September 30, 2019				
Financial Assets				
Investment Securities:				
FVTPL	47,432,688	-	-	47,432,688
FVOCI	-	9,365,345	23,670,287	33,035,632
Total Assets	47,432,688	9,365,345	23,670,287	80,468,320

	Level 2	Total
	$	$
As at September 30, 2018		
Financial Assets		
Investment Securities:		
Available-for-sale investments – quoted	9,357,431	9,357,431

If the market price on the available-for-sale investment were to change by +/- 10%, the impact on other comprehensive income would be an increase of $935,743 or a decrease of $935,743.

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.4 Fair value *(cont'd)*

5.4.2 Financial instruments not measured at fair value

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

September 30, 2019 **$'000**		**Level 2**	**Total fair values**	**Total carrying amount**
Assets				
Cash and balances with the Central Bank	$	169,110	169,110	169,110
Due from other banks		97,482	97,482	97,482
Treasury bills		89,837	89,837	89,837
Loans and advances		681,307	681,307	674,763
Amortised cost investment securities		103,934	103,934	104,342
Liabilities				
Deposits due to customers	$	1,006,111	1,006,111	1,008,480

September 30, 2018 **$'000**		**Level 2**	**Total fair values**	**Total carrying amount**
Assets				
Cash and balances with the Central Bank	$	214,760	214,760	214,760
Due from other banks		71,839	71,839	71,839
Treasury bills		90,273	90,273	90,223
Loans and advances		661,867	661,867	659,077
Loans and receivables		49,972	49,972	49,972
Held-to-maturity investments		56,187	56,187	51,151
Liabilities				
Deposits due to customers	$	971,211	971,211	972,881

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.5 Financial assets and liabilities by category

The table below analyses the Group's financial assets and liabilities by category.

	Amortised cost	FVOCI	FVTPL	Total
	$	$	$	$
As of September 30, 2019				
Assets				
Due from banks and other financial institutions	265,838,010	-	-	265,838,010
Investment securities	107,085,725	33,035,632	47,432,688	187,554,045
Loans and advances	663,081,033	-	-	663,081,033
Other financial assets	13,966,051	-	-	13,966,051
Treasury bills	88,475,828	-	-	88,475,828
Total financial assets	1,138,446,647	33,035,632	47,432,688	1,218,914,967

	Financial Liabilities at amortised cost	Total
Liabilities		
Deposits due to customers	$ 1,004,614,397	1,004,614,397
Other liabilities and accrued expenses	1,733,802	1,733,802
Total financial liabilities	$ 1,006,348,199	1,006,348,199

(Expressed in Eastern Caribbean Dollars)

5. Financial instrument risk *(cont'd)*

5.5 Financial assets and liabilities by category *(cont'd)*

	Loans and receivables	Held-to-maturity	Available-for-sale	Total
	$	$	$	$
As of September 30, 2018				
Assets				
Due from banks and other financial institutions	286,191,437	-	-	286,191,437
Investment securities	45,971,741	51,151,192	15,135,461	112,258,394
Loans and advances	647,880,875	-	-	647,880,875
Other financial assets	20,732,209	-	-	20,732,209
Treasury bills	89,148,017	-	-	89,148,017
Total financial assets	1,089,924,279	51,151,192	15,135,461	1,156,210,932

		Financial Liabilities at amortised cost	Total
Liabilities			
Deposits due to customers	$	969,028,557	969,028,557
Other liabilities and accrued expenses		4,187,520	4,187,520
Total financial liabilities	$	973,216,077	973,216,077

(Expressed in Eastern Caribbean Dollars)

6. Capital management policies and procedures

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

- To comply with the capital requirements set by its regulator - the Eastern Caribbean Central Bank;
- 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 quarterly by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and as implemented by the Group's management for supervisory purposes. The required information is filed with the Eastern Caribbean Central Bank (ECCB) quarterly.

The regulatory capital requirements are strictly observed when managing economic capital. The Group's regulatory capital is managed by senior management and comprises two tiers:

- Tier 1 capital: share capital (net of any book values of treasury shares), general bank reserves, statutory reserve, non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill (if applicable) is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

Investments in associates (of which there are none) are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

(Expressed in Eastern Caribbean Dollars)

6. Capital management policies and procedures *(cont'd)*

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended September 30, 2019 and 2018. During those two years, the Group complied with all of the externally imposed capital requirements to which they are subject.

		2019	2018
Tier 1 capital			
Stated capital (net of treasury shares)	$	36,000,000	36,000,000
Statutory reserve		26,059,962	23,459,372
Capital reserves		7,461,949	7,461,949
Retained earnings		107,397,710	100,307,865
Total qualifying Tier 1 capital	$	176,919,621	167,229,186
Tier 2 capital			
Revaluation reserve: FVOCI investments	$	19,235,907	2,736,004
Reserves for loan loss		21,531,276	21,531,276
Total qualifying Tier 2 capital	$	40,767,183	24,267,280
Total regulatory capital	$	217,686,804	191,496,466
Risk-weighted assets:			
On-balance sheet	$	775,538,400	683,049,000
Off-balance sheet		61,370,469	53,286,818
Total risk-weighted assets	$	836,908,869	736,335,818
Basel ratio		26.0%	26.0%
Mandatory minimum		8%	8%

Capital adequacy and the use of regulatory capital for the mortgage company are managed based on the following.

The Financial Institutions (Non-Banking) Act requires a reserve fund into which no less than ten per cent of the net profit of the institution after deduction of taxes shall be transferred each year until the amount standing to the credit of the reserve fund is equal at least to the paid up capital of that institution. There are no further capital and reserve requirements by the regulators and no external monitoring of the capital base is conducted. The subsidiary was compliant with these requirements as of September 30, 2019 and September 30, 2018.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

7. Significant management judgement in applying accounting policies and estimation uncertainty

When preparing financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Judgements made by management in the application of IFRS and information about estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses, and estimation uncertainties that have a significant risk of resulting in a material adjustment in these financial statements is provided below. Actual results may be substantially different.

(a) *<u>Impairment losses on loans and advances</u>*

Applicable to 2019 only

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is detailed in note 4.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- The Group's criteria for determining if there has been a significant increase in credit risk and hence whether impairment allowances for financial assets should be measured on a lifetime expected credit loss (ECL) basis
- Choosing appropriate models and assumptions for the measurement of expected credit losses
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Establishing the number and relative weightings of forward-looking macroeconomic scenarios for each type of product or market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

To the extent that the net present value of estimated cash flows differs by +/-10%, the provision would be estimated $4,669,825 lower or $8,228,900 higher.

Applicable to 2018 only

The Group reviews its loan portfolios to assess impairment on an annual basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

To the extent that the net present value of estimated cash flows differs by +/-10%, the provision would be estimated $3,561,706 lower or $5,594,021 higher.

7. Significant management judgement in applying accounting policies and estimation uncertainty *(cont'd)*

(b) *Impairment of available-for-sale equity investments*

Applicable to 2018 only

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, for unquoted available-for-sale equity investments, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Where observable impairment factors are identified, this may give rise to an uncertainty regarding the recoverability of the carrying value in the subsequent period and/or the eventual recoverability of the amounts invested in full. The Group recognized $nil (2018: $118,699) for impairment of available-for-sale equity investments during the year.

(c) *Classification of financial assets*

Applicable to 2019 only

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

(d) *Classification of investments as held-to-maturity*

Applicable to 2018 only

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement about the Group's intention and ability to hold the security to maturity. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in specific circumstances - for example, selling an insignificant amount close to maturity - it will reclassify the entire class as available-for-sale. The investments would thereafter be measured at fair value not amortised cost.

(e) *Estimate of pension benefits*

Applicable to 2019 and 2018

The present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of Government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 16.

(Expressed in Eastern Caribbean Dollars)

7. Significant management judgement in applying accounting policies and estimation uncertainty *(cont'd)*

(f) *Impairment of non-financial assets*

Applicable to 2019 and 2018

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

(g) *Fair value of financial instruments*

Applicable to 2019 and 2018

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

(h) *Revaluation of land and buildings*

Applicable to 2019 and 2018

The Group measures its land and buildings at revalued amounts with changes in fair value being recognized in other comprehensive income. The Group engages independent valuation specialists to determine fair value of its land and buildings. The valuer uses judgment in the application of valuation techniques such as replacement cost and the market price of comparable properties, as applicable in each case.

(i) *Current and deferred taxes*

Applicable to 2019 and 2018

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

In calculating the deferred tax asset, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise.

(Expressed in Eastern Caribbean Dollars)

8. Cash and balances with the Central Bank

	Note		2019	2018
Cash on hand		$	8,433,692	7,816,981
Balances with the ECCB other than mandatory reserve deposits			112,491,165	159,325,984
Included in cash and cash equivalents	28		120,924,857	167,142,965
Mandatory reserve deposits with the ECCB			48,185,589	47,617,074
Total cash and balances with the Central Bank		$	169,110,446	214,760,039

Commercial banks operating in member states of the Organization of the Eastern Caribbean States are required to maintain a reserve with the ECCB equivalent to 6% of their total deposit liabilities (excluding inter-bank deposits and foreign currencies). This reserve deposit is not available for use in the Group's day-to-day operations, and is non-interest bearing.

9. Due from other banks

	Note		2019	2018
Term deposits and operating accounts with other banks with original maturities of 3 months or less		$	35,694,964	12,746,014
Items in the course of collection from other banks			2,594,489	3,978,354
Included in cash and cash equivalents	28		38,289,453	16,724,368
Term deposits and operating accounts with other banks with original maturities greater than 3 months			58,538,000	54,666,450
Less: Provision for expected credit loss			(99,889)	-
			96,727,564	71,390,818
Interest receivable			754,545	447,729
Total due from other banks		$	97,482,109	71,838,547

The movement in expected credit losses is as follows:		2019	2018
Balance at the beginning of the year under IAS 39		**-**	-
Amounts restated through opening retained earnings on initial application of IFRS 9	$	198,250	-
Restated opening balance under IFRS 9 at October 1, 2018		198,250	-
Expected credit losses		(98,361)	-
Balance at the end of the year	$	99,889	-

(Expressed in Eastern Caribbean Dollars)

10. Treasury bills

	Note	Nominal Value 2019	Cost 2019	Nominal Value 2018	Cost 2018
Treasury bills at amortised cost- OECS Government with original maturities of 3 months or less and interest rates ranging from 3.5% to 7%		$ 44,700,000	43,979,408	42,700,000	42,234,619
Included in cash and cash equivalents	28	44,700,000	43,979,408	42,700,000	42,234,619
Treasury bills at amortised cost- OECS Government with original maturities of more than 3 months and interest rates ranging from 5% to 6.34%		45,400,000	44,869,756	47,579,039	46,913,398
Interest receivable		-	1,360,737	-	1,075,726
Total treasury bills - gross		$ 90,100,000	90,209,901	90,279,039	90,223,743
Less: Provision for expected credit losses		-	(373,336)	-	-
Total treasury bills – net		$ 90,100,000	89,836,565	90,279,039	90,223,743

		2019	2018
The movement in expected credit losses is as follows:			
Balance at the beginning of the year under IAS 39	$	-	-
Amounts restated through opening retained earnings on initial application of IFRS 9		351,477	-
Restated opening balance under IFRS 9 at October 1, 2018		351,477	-
Expected credit losses		21,859	-
Balance at the end of the year	$	373,336	-

11. Statutory deposit

		2019	2018
Statutory reserve deposit with the Government of Antigua and Barbuda	$	5,965,440	5,874,812

A subsidiary company has placed a statutory deposit with the Government of Antigua and Barbuda equivalent to 2½% of its deposit liabilities. The statutory reserve deposit is a statutory requirement as per section 17(a) of the Financial Institutions (Non-Banking) Act, 1985. This reserve is non-interest bearing and is not available for the Group's day-to-day operations.

(Expressed in Eastern Caribbean Dollars)

12. Loans and advances

		2019	2018
Mortgage loans	$	168,608,978	188,334,219
Commercial loans		394,192,844	354,284,413
Personal loans		66,047,455	51,812,734
Overdrafts		62,289,416	66,241,572
Credit card advances		1,691,654	1,548,057
		692,830,347	662,220,995
Less: Allowance for loan impairment		(29,749,314)	(14,340,120)
		663,081,033	647,880,875
Add:			
Interest receivable		17,201,729	16,537,216
Deferred interest income		(3,357,430)	(3,314,766)
Deferred fees		(2,162,758)	(2,026,118)
Total loans and advances	$	674,762,574	659,077,207

		2019	2018
Current	$	104,411,562	146,693,357
Non-current		570,351,012	512,383,850
	$	674,762,574	659,077,207

Allowance for loan impairment

The movement in expect credit losses is as follows:

Balance, beginning of year	$	14,340,120	14,149,240
Impact of IFRS 9 adoption		5,608,449	-
Restated opening balance under IFRS 9 at October 1, 2018		19,948,569	14,149,240
Provision for loan impairment		10,874,896	190,880
Write off of impaired loan balances		(1,074,151)	-
Balance, end of year	$	29,749,314	14,340,120

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $32,648,430 (2018: $35,871,398) and the difference between this figure and the loan loss provision under IFRS 9 has been set aside as a specific reserve through equity. The gross carrying value of impaired loans at the year-end was $60,260,837 (2018: $59,128,486). Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $13,954,159 (2018: $13,466,531) and is also included in the specific regulatory reserve (note 24).

(Expressed in Eastern Caribbean Dollars)

12.1. Provision for impairment of loans and advances

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

	Personal	Commercial	Mortgage	Credit Cards	Overdraft	Total
	$	$	$	$	$	$
Balance at September 30, 2018	2,331,236	9,507,374	322,921	1,223,039	955,550	14,340,120
Effect of adopting IFRS 9 at October 1, 2018	531,215	4,669,932	390,413	-	16,889	5,608,449
Provision (Change in assumptions)	1,501,680	8,557,256	(244,271)	-	2,216,755	12,031,420
Recovery of provision	-	(1,840,401)	-	-	(128,289)	(1,968,690)
Provision for ECL	120,216	703,138	35,407	-	(46,595)	812,166
Loans written off during the year	-	(1,074,151)	-	-	-	(1,074,151)
At September 30, 2019	4,484,347	20,523,148	504,470	1,223,039	3,014,310	29,749,314
Balance at October 1, 2017	2,508,210	9,190,594	-	1,223,039	934,476	13,856,319
Provision for loan impairment	197,945	2,789,179	457,921	-	24,014	3,469,059
Recovery of provision	(374,919)	(2,472,399)	(135,000)	-	(2,940)	(2,985,258)
At September 30, 2018	2,331,236	9,507,374	322,921	1,223,039	955,550	14,340,120

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

	Personal	Commercial	Mortgage	Credit Cards	Overdraft	Total
	$	$	$	$	$	$
September 30, 2019						
Net loans before provision	66,047,455	394,192,844	168,608,978	1,691,656	62,289,414	692,830,347
Stage 1: 12 month ECL	(603,692)	(4,808,973)	(376,656)	-	(151,916)	(5,941,237)
Stage 2: Lifetime ECL	(74,566)	(3,402,854)	(49,163)	-	-	(3,526,583)
Stage 3: Credit Impaired	(3,706,278)	(12,427,666)	-	(1,223,039)	(2,924,511)	(20,281,494)
	61,662,919	373,553,351	168,183,159	468,617	59,212,987	663,081,033

(Expressed in Eastern Caribbean Dollars)

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

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

	Personal	Commercial	Mortgages	Credit Cards	Overdraft	Total
	$	$	$	$	$	$
Gross loans as at October 1, 2018	52,144,215	377,326,153	164,960,998	1,548,057	66,241,572	662,220,995
Stage 1: 12 month ECL	(487,573)	(3,808,856)	(255,510)	-	(198,511)	(4,750,450)
Stage 2: Lifetime ECL	(70,468)	(3,621,183)	(134,903)	-	-	(3,826,554)
Stage 3: Credit impaired	(2,305,516)	(6,747,267)	(322,921)	(1,223,038)	(772,823)	(11,371,565)
	49,280,658	363,148,847	164,247,664	325,019	65,270,238	642,272,426
Stage 1: 12 month ECL						
ECL allowance as at:						
October 1, 2018 under IFRS 9	487,573	3,808,856	255,510	-	198,511	4,750,450
Credit loss movements, new	257,656	1,462,264	159,614	-	-	1,879,534
Loans repayments, etc.	(141,538)	(462,147)	(38,467)	-	(46,595)	(688,747)
As at September 30, 2019	603,691	4,808,973	376,657	-	151,916	5,941,237
Stage 2: Lifetime ECL						
ECL allowance as at:						
October 1, 2018 under IFRS 9	70,468	3,621,183	134,903	-	-	3,826,554
Credit loss movements, new	27,024	19,051	1,509	-	-	47,584
Loans repayments, etc.	(22,926)	(237,380)	(87,249)	-	-	(347,555)
As at September 30, 2019	74,566	3,402,854	49,163	-	-	3,526,583
Stage 3: Lifetime ECL						
ECL allowance as at:						
October 1, 2018 under IFRS 9	2,305,516	7,070,188	-	1,223,038	772,823	11,371,565
Credit loss expense	1,501,680	6,393,933	-	-	2,088,467	9,984,080
Charge-offs and write-offs	-	(1,074,151)	-	-	-	(1,074,151)
As at September 30, 2019	3,807,196	12,389,970	-	1,223,038	2,861,290	20,281,494
Total	4,485,453	20,601,797	425,820	1,223,038	3,013,206	29,749,314

(Expressed in Eastern Caribbean Dollars)

13. Other assets

		2019	2018
Depositor Protection Trust	$	7,699,520	11,174,168
Credit card receivables		6,123,928	9,408,628
Prepayments		1,467,990	1,489,453
Miscellaneous receivables		-	110,775
Suspense accounts		253,871	38,638
Total other assets – gross		15,545,309	22,221,662
Less: provision for expected credit losses		(111,268)	-
Total other assets – net	$	15,434,041	22,221,662
Current	$	7,845,790	12,643,804
Non-current		7,588,251	9,577,858
	$	15,434,041	22,221,662

The amounts classified as Depositor Protection Trust represent amounts formerly held on deposit with ABI Bank Ltd. which were previously classified as Due from Banks. The amounts are now held in a trust and will be repaid in line with an agreed payment schedule, scheduled to be completed by 2025 earning interest at a rate of 2% per annum.

		2019	2018
The movement in expected credit losses is as follows:			
Balance at the beginning of the year under IAS 39	$	-	-
Amounts restated through opening retained earnings on initial application of IFRS 9		101,146	-
Restated opening balance under IFRS 9 at October 1, 2018		101,146	-
Expected credit losses		10,122	-
Balance at the end of the year	$	111,268	-

(Expressed in Eastern Caribbean Dollars)

14. Investment securities

	2019 $	2018 $
Securities measured at amortised cost		
Debt securities at amortised cost		
- Unlisted	51,792,721	-
- Listed	55,293,004	-
Interest receivable	1,476,723	-
Less allowance for impairment	(4,220,091)	-
Total securities at amortised cost	104,342,357	-
Securities measured at fair value through OCI		
Equity securities at fair value		
- Unlisted	23,670,287	-
- Listed	9,365,345	-
Total equity securities	33,035,632	-
Total securities at fair value through OCI	33,035,632	-
Securities measured at fair value through P&L		
Equity securities:		
- Unlisted	-	-
- Listed	5,265,905	-
Total equity securities	5,265,905	-
Debt securities at fair value		
- Unlisted	-	-
- Listed	42,052,689	-
Interest receivable	114,094	-
Total debt securities	42,166,783	-
Total securities measured at fair value through P&L	47,432,688	-
Total investment securities	184,810,677	-

All debt securities have fixed interest rates.

(Expressed in Eastern Caribbean Dollars)

14. Investment securities *(cont'd)*

		2019	2018
Held-to-maturity			
Debt securities (listed)	$	-	51,151,192
Interest receivable		-	444,942
Total held-to-maturity	$	-	51,596,134
Available-for-sale - unquoted			
Equity securities	$	-	6,768,030
Available-for-sale - quoted			
Equity securities	$	-	9,357,431
Loans and receivables			
Government securities	$	-	1,500,000
Corporate securities		-	48,471,741
Interest receivable	$	-	922,109
Total loans and receivables	$	-	50,893,850
Total investment securities before impairment	$	-	118,615,445
Allowance for impairment – available for sale unquoted		-	(990,000)
Allowance for impairment – available for sale quoted		-	-
Allowance for impairment – loans and receivables	$	-	(4,000,000)
Total allowance for impairment	$	-	(4,990,000)
Total investment securities	$	-	113,625,445

(Expressed in Eastern Caribbean Dollars)

14. Investment securities *(cont'd)*

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

	Fair value through OCI	Fair value through P & L	Amortized cost	Available-for-sale	Held-to-maturity	Loans and receivables
	$	$	$	$	$	$
At September 30, 2018	-	-	-	15,135,461	51,596,134	46,893,849
Impact of adopting IFRS 9 - classification	15,135,461	-	98,489,983	(15,135,461)	(51,596,134)	(46,893,849)
Impact of adopting IFRS 9 – ECL remeasurement	17,892,258	-	(276,761)	-	-	
Restated balance at October 1, 2018	33,027,719	-	98,213,222	-	-	-
Additions	-	54,214,042	8,313,835	-	-	-
Reclassified to cash	-	(6,748,217)	-	-	-	-
Disposals (sales and redemptions)	-	-	(92,010)	-	-	-
Movement in accrued interest	-	114,094	(2,149,360)	-	-	-
Change in fair value	7,913	(147,231)	-	-	-	-
Allowance for expected credit losses	-	-	56,670	-	-	-
At September 30, 2019	33,035,632	47,432,688	104,342,357	-	-	-
At October 1, 2017	-	-	-	14,414,365	-	51,473,591
Additions	-	-	-	-	48,160,942	-
Movement in accrued interest	-	-	-	-	444,942	(39,453)
Disposals (sales and redemptions)	-	-	-	-	-	(1,280,646)
Impairment recorded	-	-	-	(118,699)	-	-
Increase in fair value	-	-	-	839,795	-	-
Reclassification	-	-	-	-	2,990,250	(3,259,643)
At September 30, 2018	**-**	-	-	15,135,461	51,596,134	46,893,849

(Expressed in Eastern Caribbean Dollars)

14. Investment securities *(cont'd)*

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

	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets Lifetime ECL	Total
	$	$	$	$
September 30, 2019				
Gross exposure	104,562,448	-	-	104,562,448
ECL	(220,091)	-	-	(220,091)
Net exposure	104,342,357	-	-	104,342,357

	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets Lifetime ECL	Total
	$	$	$	$
October 1, 2018				
Gross exposure	98,489,983	-	-	98,489,983
ECL	(276,761)	-	-	(276,761)
Net exposure	98,213,222	-	-	98,213,222
ECL allowance as at October 1, 2018 under IFRS 9	276,761	-	4,000,000	4,276,761
ECL on new instruments issued during the year	(54,038)	-	-	(54,038)
Repayments and maturities	(2,632)	-	-	(2,632)
At September 30, 2019	220,091	-	4,000,000	4,220,091

(Expressed in Eastern Caribbean Dollars)

15. Property and equipment

		Land	Buildings & building improvements	Furniture and fixtures	Equipment	Motor vehicles	Computer hardware	Computer software	Leasehold improvements	Work in progress	Total
At September 30, 2018											
Cost or valuation	$	8,880,000	16,570,500	5,884,217	11,196,832	729,034	14,097,761	8,241,759	246,318	3,975,854	69,822,275
Accumulated depreciation		-	(1,953,876)	(5,468,247)	(8,764,775)	(621,790)	(12,095,963)	(8,171,732)	(134,085)	-	(37,210,468)
Net book amount	$	8,880,000	14,616,624	415,970	2,432,057	107,244	2,001,798	70,027	112,233	3,975,854	32,611,807
Year ended September 30, 2019											
Opening net book amount	$	8,880,000	14,616,624	415,970	2,432,057	107,244	2,001,798	70,027	112,233	3,975,854	32,611,807
Additions		-	134,470	27,983	90,433	173,175	274,272	171,462	62,242	1,296,518	2,230,555
Disposals		-	-	-	-	-	-	-	-	-	-
Transfers		-	117,343	-	94,802	-	160,295	579,540	-	(951,980)	-
Property revaluation adjustment		585,000	1,300,392	-	-	-	-	-	-	-	1,885,392
Depreciation charge		-	(559,084)	(93,636)	(397,138)	(80,141)	(831,578)	(213,784)	(22,843)	-	(2,198,204)
Closing net book amount	$	9,465,000	15,609,745	350,317	2,220,154	200,278	1,604,787	607,245	151,632	4,320,392	34,529,550
At September 30, 2019											
Cost or valuation	$	9,465,000	15,609,745	5,912,171	11,095,634	785,878	14,512,765	8,992,765	280,283	4,320,392	70,974,633
Accumulated depreciation		-	-	(5,561,854)	(8,875,480)	(585,600)	(12,907,978)	(8,385,520)	(128,651)	-	(36,445,083)
Net book amount	$	9,465,000	15,609,745	350,317	2,220,154	200,278	1,604,787	607,245	151,632	4,320,392	34,529,550

(Expressed in Eastern Caribbean Dollars)

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

		Land	Buildings & building improvements	Furniture and fixtures	Equipment	Motor vehicles	Computer hardware	Computer software	Leasehold improvements	Work in progress	Total
At September 30, 2017											
Cost or valuation	$	8,880,000	15,511,445	5,819,553	10,651,031	729,034	13,450,794	8,146,079	170,187	3,116,658	66,474,781
Accumulated depreciation		-	(1,419,359)	(5,382,067)	(8,294,080)	(516,951)	(11,383,313)	(8,102,282)	(117,071)	-	(35,215,123)
Net book amount	$	8,880,000	14,092,086	437,486	2,356,951	212,083	2,067,481	43,797	53,116	3,116,658	31,259,658
Year ended September 30, 2018											
Opening net book amount	$	8,880,000	14,092,086	437,486	2,356,951	212,083	2,067,481	43,797	53,116	3,116,658	31,259,658
Additions		-	102,502	51,014	63,094	-	415,796	-	29,598	2,685,490	3,347,494
Transfers		-	956,553	13,650	482,707	-	231,171	95,680	46,533	(1,826,294)	-
Depreciation charge		-	(534,517)	(86,180)	(470,695)	(104,839)	(712,650)	(69,450)	(17,014)	-	(1,995,345)
Closing net book amount	$	8,880,000	14,616,624	415,970	2,432,057	107,244	2,001,798	70,027	112,233	3,975,854	32,611,807
At September 30, 2018											
Cost or valuation	$	8,880,000	16,570,500	5,884,217	11,196,832	729,034	14,097,761	8,241,759	246,318	3,975,854	69,822,275
Accumulated depreciation		-	(1,953,876)	(5,468,247)	(8,764,775)	(621,790)	(12,095,963)	(8,171,732)	(134,085)	-	(37,210,468)
Net book amount	$	8,880,000	14,616,624	415,970	2,432,057	107,244	2,001,798	70,027	112,233	3,975,854	32,611,807

(Expressed in Eastern Caribbean Dollars)

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

As of September 30, 2019, all of the Group's land and buildings and improvements were revalued based on the appraisal performed by an independent firm of professional appraisers. The revaluation resulted in a gain amounting to $1,300,392 which is included in profit or loss. The remaining revaluation surplus of $585,000 is within 'other reserves' in shareholders' equity (note 24).

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of September 30, 2019.

		Land	Buildings	Total
Cost	$	3,562,078	31,608,727	35,170,805
Accumulated depreciation		-	(15,646,051)	(15,646,051)
Net book value	$	3,562,078	15,962,676	19,524,754

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of September 30, 2018.

		Land	Buildings	Total
Cost	$	3,562,078	31,608,727	35,170,805
Accumulated depreciation		-	(15,086,967)	(15,086,967)
Net book value	$	3,562,078	16,521,760	20,083,838

The following is the analysis of property and equipment revaluation surplus as of September 30, 2019.

		Land	Buildings	Total
Net book value	$	8,880,000	14,295,736	23,175,736
Market value		(9,465,000)	(15,596,128)	(25,061,128)
Revaluation surplus	$	(585,000)	(1,300,392)	(1,885,392)

16. Pension plan

Eligible employees are enrolled in a defined benefit pension scheme which commenced October 1, 1991. The assets of the plan are held in a seven member trustee administered fund. The Board of Trustees comprises four trustees appointed by the Board of Directors and three appointed by the employees. The funds of the scheme are invested solely under the control of the trustees and may be used only for the purposes of the scheme.

The Plan is valued every three years by an independent qualified actuary. The latest available valuation was performed at September 30, 2017 using the projected unit credit method. At September 30, 2017, the actuarial valuation showed that the Plan is overfunded with net assets available for benefits representing 101% of accrued projected plan benefits, and indicated a required contribution rate by the Group, for the next three years, of less than 5% of pensionable salaries.

In respect of the defined benefit plan operated by the Group, the amounts recognised in the statement of financial position are as follows:

		2019	2018
Pension plan asset			
Present value of funded obligations	$	(18,144,779)	(17,639,500)
Fair value of plan assets		25,706,542	25,749,002
Net asset – end of year	$	7,561,763	8,109,502

The movement in the fair value of plan assets over the year are as follows:

		2019	2018
Fair value of plan assets – beginning of year	$	25,749,002	24,684,972
Contributions – employer and employees		810,788	774,032
Benefits paid		(1,281,449)	(691,687)
Plan administration expenses		(68,770)	(107,379)
Actuarial loss		(1,288,986)	(641,766)
Interest on plan assets		1,785,957	1,730,830
Fair value of plan assets – end of year	$	25,706,542	25,749,002

The movement in the present value of funded obligations over the year are as follows:

		2019	2018
Present value of funded obligations – beginning of year	$	17,639,500	16,433,180
Current service cost		712,544	682,416
Interest cost		1,239,792	1,173,883
Benefits paid		(1,281,449)	(691,687)
Actuarial (gain)/loss		(165,608)	41,708
Present value of funded obligations – end of year	$	18,144,779	17,639,500

(Expressed in Eastern Caribbean Dollars)

16. Pension plan *(cont'd)*

The movements in the net asset recognized in the statement of financial position are as follows:

		2019	2018
Net asset – beginning of year	$	8,109,502	8,251,792
Net pension income included in the statement of income		173,144	156,679
Actuarial losses included in other comprehensive income		(1,123,378)	(683,474)
Contributions paid - employer		402,495	384,505
Net asset – end of year	$	7,561,763	8,109,502

The amounts recognized in the statement of income are as follows:

		2019	2018
Current service cost	$	(304,251)	(292,889)
Net interest income on the net defined benefit asset		546,165	556,947
Plan administration expenses		(68,770)	(107,379)
Net gain recognized in the statement of income	$	173,144	156,679

The amounts recognized in other comprehensive income are as follows:

		2019	2018
Actuarial gain/(loss) for the year – obligation	$	165,608	(41,708)
Actuarial loss for the year - plan assets		(1,288,986)	(641,766)
Actuarial loss recognized in other comprehensive income	$	(1,123,378)	(683,474)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2019	2018
Cash and cash equivalents	54%	55%
Debt securities	8%	8%
Equity securities	20%	19%
Property	18%	18%

The pension plan assets include ordinary shares issued by the Bank with a value of $75,851 (2018: $85,333). Plan assets include deposits held with the Bank with a fair value of $2,313,992 (2018: $4,387,026).

16. Pension plan *(cont'd)*

Amounts for the current period and previous four periods are as follows:

		2019	2018	2017	2016	2015
Defined benefit obligation	$	(18,144,779)	(17,639,500)	(16,433,180)	(15,667,965)	(13,651,036)
Plan assets		25,706,542	25,749,002	24,684,972	23,590,647	22,973,880
Surplus	$	7,561,763	8,109,502	8,251,792	7,922,682	9,322,844

Principal actuarial assumptions used for accounting purposes were as follows:

	2019	2018
Discount rate	7.0%	7.0%
Future promotional salary increases	3.5%	3.5%

Contributions to the pension scheme for the year ended September 30, 2019 amounted to $402,495, being Antigua Commercial Bank Ltd: $358,269; ACB Mortgage & Trust Limited: $44,226 (2018: $384,505), being Antigua Commercial Bank Ltd: $340,839; ACB Mortgage & Trust Limited: $43,666. The Bank's contributions are adjusted according to the actuary's recommendations. Contributions expected to be paid to the plan for the subsequent period are budgeted at $436,682, being Antigua Commercial Bank Ltd: $388,182; ACB Mortgage & Trust Limited: $48,500.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	2019 Impact on defined benefit obligation				
	Change in assumption		Increase in assumption		Decrease in assumption
Discount rate	1%	$	(2,176,933)	$	2,578,763
Salary growth rate	1%		934,319		(823,281)
Life expectancy	1 year		18,451,094		-

	2018 Impact on defined benefit obligation				
	Change in assumption		Increase in assumption		Decrease in assumption
Discount rate	1%	$	(2,144,443)	$	2,716,233
Salary growth rate	1%		935,743		(825,571)
Life expectancy	1 year		299,663		-

The duration of the benefit obligation is 13.6 years (2018: 13.6 years).

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

(Expressed in Eastern Caribbean Dollars)

16. Pension plan *(cont'd)*

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the year) has been applied as when calculating the pension plan liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

17. Deposits due to customers

		2019	2018
Savings accounts	$	400,013,306	497,239,137
Time deposits		253,213,816	242,855,140
Current accounts		227,553,360	210,679,858
Other deposits		123,833,915	18,254,422
		1,004,614,397	969,028,557
Interest payable		3,865,635	3,852,026
Total deposits due to customers	$	1,008,480,032	972,880,583
Current	$	841,752,246	809,538,974
Non-current		166,727,786	163,341,609
	$	1,008,480,032	972,880,583

18. Provisions and other liabilities

		2019	2018
Trade payables and accrued expenses	$	12,076,122	12,956,316
Manager's cheques		1,733,802	4,187,520
Provisions		1,492,978	-
Escrow accounts		1,248,022	1,299,150
Other sundry payables		86,761	177,406
Miscellaneous payable		155,504	-
Total other liabilities and accrued expenses	$	16,793,189	18,620,392
Current	$	15,545,166	17,321,242
Non-current		1,248,023	1,299,150
	$	16,793,189	18,620,392

(Expressed in Eastern Caribbean Dollars)

19. Dividends

During the year, a dividend in respect of the 2018 financial year end of $4,000,000 was recorded and paid (2018: $4,000,000 in respect of the 2017 financial year).

The dividend proposed in respect of the 2019 financial year end is $0.50 for each unit of paid up share capital, or EC$5,000,000 (2018: $0.40 or EC$4,000,000). The consolidated financial statements for the year ended September 30, 2019 do not reflect this proposed dividend which, if ratified, will be accounted for in equity as an appropriation of retained earnings in the year ending September 30, 2020.

20. Taxation

Income tax payable

		2019	2018
Income tax payable, beginning of year	$	1,173,830	3,934,414
Current tax expense		3,888,538	1,075,173
Prior year under/(over) accrual		(51,812)	-
Payments made during the year		(1,184,051)	(3,835,757)
Income tax payable, end of year	$	3,826,505	1,173,830

Income tax expense

		2019	2018
Profit before tax	$	25,343,110	23,121,625
Income tax expense at statutory rates	$	6,320,679	5,808,101
Effect of interest income not subject to tax		(1,770,838)	(1,923,879)
Effect of dividend income not subject to tax		(667,050)	(579,625)
Effect of untaxable income		(316,261)	-
Prior year over accrual		-	(109,659)
Effect of deferred taxes		(577,260)	-
Effect of other permanent differences		1,530,692	209,528
Others		87,717	-
Actual income tax expense	$	4,607,679	3,404,466

The statutory tax rate for Antigua Commercial Bank is 25% (2018: 25%) and for ACB Mortgage and Trust is 20% (2018: 20%).

(Expressed in Eastern Caribbean Dollars)

20. Taxation *(cont'd)*

Deferred tax liability (asset), net

		2019	2018
Balance, beginning of year	$	7,277,536	4,907,819
Deferred tax on IFRS 9 ECL opening adjustment		(1,940,415)	-
Charge for the year		719,141	2,329,293
Movement on revaluation of available-for-sale securities		-	211,293
Actuarial loss		(280,845)	(170,869)
Balance, end of year	$	5,775,417	7,277,536

The components of the deferred tax liability (net of deferred tax assets) are as follows:

		2019	2018
Statutory loan loss reserve	$	8,621,553	8,588,722
Revaluation of available-for-sale securities		875,394	912,126
Pension asset		1,890,441	2,027,376
Deferred commission		(501,755)	(424,311)
Decelerated capital allowances		(592,531)	(1,025,541)
Tax losses carried forward		(1,504,841)	(2,800,836)
Expected credit losses – Stage 1 and 2		(2,127,973)	-
Capital Allowances		(884,871)	-
Balance, end of year	$	5,775,417	7,277,536

The income tax payable does not represent amounts agreed with the tax authority. The amount is reflective of the Group's position concerning its tax balance with the Inland Revenue Department (IRD) on the basis of its records. However, as the Group's tax return for the year of assessment 2020 has not been finalised with the IRD, there is uncertainty as to the eventual liability. Additionally, the following still remains in dispute. A credit balance of $2,573,846 was available as per Inland Revenue Department correspondence dated September 14, 2006. However, the balance as per the Bank's separate audited financial statements as of September 30, 2004 was $3,708,771 resulting in a difference of $1,134,925, which to date has not been agreed with the Inland Revenue Department.

(Expressed in Eastern Caribbean Dollars)

21. Related party balances and transactions

Related party definition

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

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, or of a parent 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 part, provides key management personnel services to the Group or its parent.

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

A number of banking transactions were entered into with related parties in the normal course of business. These include loans, deposits and other transactions. With the exception of the amounts due to subsidiary, these transactions were carried out on commercial terms and at market rates.

(Expressed in Eastern Caribbean Dollars)

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

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

		2019	2018
Loans to directors and key members of management			
Loans outstanding at beginning of year	$	1,958,363	3,903,354
Change in status		(898,372)	(702,834)
Loans reassigned from Director		(898,073)	
Loans issued during the year		962,996	247,761
Loan repayments during the year		(234,807)	(1,489,918)
Loans outstanding at end of year	$	890,107	1,958,363

No provisions have been recognised in respect of loans given to related parties (2018: nil).

Interest income earned on directors' and key members of management's loans and advances during the year is $159,823 (2018: $259,684). The interest rates on these loans range from 7% to 8.5% (2018: 7% to 8.5%) and they are granted on an arm's length basis.

		2019	2018
Deposits by directors and key members of management			
Deposits at beginning of year	$	6,679,275	6,301,920
Deposits received during the year		4,785,349	9,788,967
Deposits repaid/reclassified during the year		(4,724,831)	(9,685,806)
Change in status		274,086	274,194
Deposits at end of year	$	7,013,879	6,679,275

Interest expense paid on directors' and key members of management's deposits during the year is $205,945 (2018: $147,728). Interest rates on directors' deposits range from 2% to 2.25% (2018: 2% to 4%) and they are accepted on an arm's length basis.

Remuneration of key management personnel

During the year, salaries and related benefits were paid to key members of management allocated as follows:

		2019	2018
Salaries and wages	$	1,015,915	871,004
Directors' fees and expenses		944,182	999,302
Other staff costs		244,481	202,112
Pension costs		24,638	26,918
	$	2,229,216	2,099,336

(Expressed in Eastern Caribbean Dollars)

22. Stated capital

		2019	2018
Authorised share capital:			
150,000,000 shares at nil par value	$	150,000,000	150,000,000
Issued and fully paid:			
10,000,000 shares at nil par value	$	36,000,000	36,000,000

23. Statutory reserve

		2019	2018
Balance at beginning of year	$	23,459,372	20,768,281
Transfer from profit after taxation		2,600,590	2,691,091
Balance at end of year	$	26,059,962	23,459,372

Section 45 of the Antigua and Barbuda Banking Act No. 10 of 2015 provides that not less than 20% of each year's net earnings shall be set aside to a reserve fund whenever the fund is less than the paid-up capital of the Group.

24. Other reserves

		2019	2018
Capital reserve	$	7,461,949	7,461,949
Regulatory reserve for loan loss		34,997,809	34,997,809
Revaluation reserve – FVOCI securities		19,235,907	2,736,004
Revaluation reserve – property		5,902,922	5,317,922
Pension reserve		7,561,763	8,109,502
Total other reserves	$	75,160,350	58,623,186

(a) *Capital reserve*

Included in this balance is an amount of $6,171,428 recorded in prior years for share premium recognised.

(b) *Regulatory reserve for loan loss and interest recognised*

		2019	2018
Balance at beginning of year	$	34,997,809	16,438,353
Increase in reserve for regulatory purposes		-	18,559,456
Balance at end of year	$	34,997,809	34,997,809

This reserve represents the additional loan loss provision required by the Eastern Caribbean Central Bank's prudential guidelines as compared to the provision measured in accordance with International Financial Reporting Standards, together with a reserve for interest on loans not recognised for regulatory purposes.

(Expressed in Eastern Caribbean Dollars)

24. Other reserves *(cont'd)*

(c) Revaluation reserve for FVOCI securities

		2019	2018
Balance at beginning of year	$	2,736,004	2,107,502
Changes on initial application of IFRS 9		16,493,969	-
Increase in market value of investment securities, net of tax of $1,979 (2018: $211,293)		5,934	628,502
Balance at end of year	$	19,235,907	2,736,004

(d) Revaluation reserve - Property

		2019	2018
Balance at beginning of year	$	5,317,922	5,317,922
Increase in revaluation reserve - property		585,000	-
	$	5,902,922	5,317,922

A revaluation of land and buildings was conducted in 2019 (note 15).

(e) Pension reserve

		2019	2018
Balance at beginning of year	$	8,109,502	8,251,792
Decrease in pension reserve		(547,739)	(142,290)
Balance at end of year	$	7,561,763	8,109,502

The Board of Directors has decided to appropriate annually out of net profits the amounts necessary to maintain a pension reserve equivalent to the pension asset.

25. Other operating income

		2019	2018
Fees and commissions	$	10,186,191	8,865,011
Foreign exchange		5,319,874	4,701,236
Dividend income		682,206	325,561
Rental income		144,576	144,576
Recovery of loans written off		315,544	128,189
Unrealised loss on FVTPL		(147,231)	-
Miscellaneous income		426,568	354,272
Total other operating income	$	16,927,728	14,518,845

(Expressed in Eastern Caribbean Dollars)

26. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

		2019	2018
Net profit attributable to shareholders	$	20,735,431	19,717,158
Weighted average number of ordinary shares in issue		10,000,000	10,000,000
Basic and diluted earnings per share	$	2.07	1.97

27. General and administrative expenses

	Notes		2019	2018
Salaries and related costs	29	$	13,970,640	13,605,072
Software operating expenses			2,170,313	1,755,525
Non-credit losses			2,075,870	98,244
Service charge for corresponding banks			1,289,999	1,343,995
Telephone and data charges			776,825	690,619
Utilities			705,352	770,487
Advertising and promotion			605,061	755,631
Subscriptions and fees			542,555	514,610
Insurance expense			533,555	477,159
Security services			504,993	503,877
Printing and stationery expenses			498,977	491,434
Audit fees and expenses			498,372	397,750
Rent			461,790	431,143
Legal and other professional fees			432,717	562,379
Cleaning expenses			432,220	428,754
Repairs and maintenance			402,916	410,185
Night depository expenses			381,797	377,480
Four C’s operating expenses			370,025	256,830
Licenses and taxes			359,888	366,264
Cash purchases expenses			324,200	471,000
Strategic Planning Exercise			271,143	-
ECCB and foreign exchange expenses			269,256	226,309
Shareholders’ meeting expenses			213,788	224,408
ECACH Charges			202,186	93,844
Wire services expense			108,444	105,977
Vehicle expenses			95,074	77,192
Scholarship fund			94,127	120,607
Agency expenses			76,935	80,413
Travel and entertainment			62,516	38,519
Donations			43,566	162,539
Commission			40,678	-
Hospitality Suite			6,250	25,000
Bank Charges			5,487	5,559
Securities Brokerage commission expenses			-	61,500
Miscellaneous expenses			95,820	76,025
Total general and administrative expenses		$	28,923,335	26,006,330

(Expressed in Eastern Caribbean Dollars)

28. Cash and cash equivalents

	Notes		2019	2018
Due from other banks	9	$	38,289,453	16,724,368
Cash balances with the Central Bank	8		120,924,857	167,142,965
Treasury bills	10		43,979,408	42,234,619
Total cash and cash equivalents		$	203,193,718	226,101,952

29. Salaries and related costs

		2019	2018
Salaries, wages and allowances	$	11,246,076	10,811,065
Statutory deduction costs		943,690	921,835
Other benefits		682,261	813,214
Staff incentive scheme		628,082	573,531
Training and education		360,076	402,061
Group health and life		235,237	240,045
Pension credit		(124,782)	(156,679)
Total salaries and related costs	$	13,970,640	13,605,072

30. Contingencies and commitments

Pending litigation

Various actions and legal proceedings may arise against the Group during the normal course of business. The Group is currently involved in certain employee-related legal matters for which the outcome cannot be presently determined. The amount of the liability, if any, will be contingent on the eventual outcome of court proceedings and will be recognised at that time.

Credit related commitments

The contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers are listed below:

		2019	2018
Undrawn commitments to extend advances	$	61,370,469	53,286,818

(Expressed in Eastern Caribbean Dollars)

30. Contingencies and commitments *(cont'd)*

Off-balance sheet items

The maturity profile of off-balance sheet items is as follows:

		Up to 1 year	Total
As of September 30, 2019			
Loan commitments (undrawn)	$	61,370,469	61,370,469

		Up to 1 year	Total
As of September 30, 2018			
Loan commitments (undrawn)	$	53,286,818	53,286,818

31. Transition to IFRS 9

Reconciliation of IAS 39 to IFRS 9

The table below provides the impact from the transition to IFRS 9 on the Statement of Financial Position at the transition date of October 1, 2018. The impact consists primarily of reclassifications and re-measurements:

(Expressed in Eastern Caribbean Dollars)

31. Transition to IFRS 9 *(cont'd)*

Reconciliation of IAS 39 to IFRS 9

The table below provides the impact from the transition to IFRS 9 on the Statement of Financial Position at the transition date of October 1, 2018. The impact consists primarily of reclassifications and re-measurements:

	IAS 39 Category	IAS 39 measurement at 30.9.18	Reclassification	Remeasurement ECL	IFRS 9 carrying amount at 1.10 2018	Category
Financial assets						
Cash and balances with the Central Bank	Amortised cost	214,760,039	-	-	214,760,039	Amortised cost
Due from other banks	Amortised cost	71,838,547	-	(198,250)	71,640,297	Amortised cost
Treasury bills	Amortised cost	90,223,743	-	(351,477)	89,872,266	Amortised cost
Loans and advances	Amortised cost	659,077,207	-	(5,608,449)	653,468,758	Amortised cost
Statutory deposit	Amortised cost	5,874,812	-	-	5,874,812	Amortised cost
Investment securities - available-for-sale	AFS	15,135,461	(15,135,461)	-	-	FVOCI
Equity securities designated at FVOCI	AFS	-	15,135,461	-	15,135,461	FVOCI
Investment securities – debt	L&R / HTM	98,489,984	-	(276,761)	98,213,223	Amortised cost
Other assets	Amortised cost	20,582,796	-	(101,146)	20,481,650	Amortised cost
Total Financial Assets		1,175,982,589	-	(6,536,083)	1,169,446,506	
Non-financial assets						
Property, plant and equipment		32,611,807	-	-	32,611,807	
Pension asset		8,109,502	-	-	8,109,502	
Other assets		1,638,866	-	-	1,638,866	
Total Non-Financial Assets		42,360,175	-	-	42,360,175	
Total Assets		1,218,342,764	-	(6,536,083)	1,211,806,681	

(Expressed in Eastern Caribbean Dollars)

31. Transition to IFRS 9 *(cont'd)*

	IAS 39 Category	IAS 39 measurement at 30.9.18	Reclassification	Remeasurement ECL	IFRS 9 carrying amount at 1.10.2018	Category
Financial and other liabilities						
Deposits due to customers	Amortised cost	972,880,583	-	-	972,880,583	Amortised cost
Provision and other liabilities	Amortised cost	18,620,392	-	1,361,839	19,982,231	Amortised cost
Income tax payable		1,173,830	-	-	1,173,830	
Deferred tax liability		7,277,536	-	(1,940,414)	5,337,122	
Total Liabilities		999,952,341	-	(578,575)	999,373,766	
Equity						
Stated capital		36,000,000	-	-	36,000,000	
Statutory reserve		23,459,372	-	-	23,459,372	
Other reserves		58,623,186	-	-	58,623,186	
Retained earnings		100,307,865	-	(5,957,508)	94,350,357	
Total Equity		218,390,423	-	(5,957,508)	212,432,915	
Total Liabilities and Equity		1,218,342,764	-	(6,536,083)	1,211,806,681	

(i) As of October 1, 2018, the Group classified all its previously held-to-maturity debt instruments totaling $51,596,134 at amortised cost based on its business model and because their cash flows were solely related to the payment of principal and interest (SPPI). Given that the measurement basis remained the same, there was no remeasurement adjustment on transition.

(ii) As of October 1, 2018, the Group's debt instruments classified as loans and receivables totaling $46,893,850 were classified at amortised cost based on its business model and because their cash flows were solely related to the payment of principal and interest (SPPI). Given that the measurement basis remained the same, there was no remeasurement adjustment on transition.

(Expressed in Eastern Caribbean Dollars)

31. Transition to IFRS 9 *(cont'd)*

(iii) The Group elected to classify all of its previously held available for sale (AFS) equity portfolio amounting to $15,135,461 at fair value through other comprehensive income (FVOCI). These instruments, which comprise both quoted and unquoted holdings, are strategic investments in a number of local and regional institutions. Given the requirements of IFRS 9, the Group obtained a fair value for the unquoted securities at the transition date using available data. This led to a remeasurement increase of $17,892,259 which increased the carrying value of the unquoted equity portfolio with a corresponding increase in the revaluation reserve on FVOCI investments within equity. Furthermore, based on the requirements of IFRS 9, an amount of $1,398,290 which represents impairment that had previously been recorded on the quoted securities, was reclassified from opening retained earnings at October 1, 2018 to the revaluation reserve on FVOCI investments within equity. The amounts within this reserve account will never be reclassified to profit of loss.

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

(v) Due to the new expected credit loss (ECL) requirements for measuring impairment on the Group's financial assets, at the transition date of October 1, 2018, there was a net increase in ECL of $7,897,922 and a corresponding decrease in opening retained earnings. After incorporating the impact of deferred taxes of $1,940,414, the net impact was $5,957,508. The allocation of the gross change in ECL at the transition date to the Group's financial assets is shown below.

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

		Revaluation reserve: FVOCI investments	Retained Earnings
Closing balance under IAS 39 (September 30, 2018)	$	2,736,004	100,307,865
Initial recognition of IFRS 9 ECLs		-	(5,957,508)
Reversal of impairment on FVOCI - Equity investments		(1,398,290)	1,398,290
Fair value adjustments on FVOCI - Equity investments (unquoted)		17,892,259	-
Fair Value adjustment of financial asset		-	(2,190,983)
Net impact	$	16,493,969	(6,750,201)
Opening balance under IFRS 9 (October 1, 2018)	$	19,229,973	93,557,664

(Expressed in Eastern Caribbean Dollars)

31. Transition to IFRS 9 *(cont'd)*

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

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

		Impairment allowance under IAS 39 as at September 30, 2018	Remeasurement	Impairment allowance under IFRS 9 as at October 1, 2018
Due from other banks	$	-	198,250	198,250
Treasury bills		-	351,477	351,477
Loans and advances		14,340,120	5,608,449	19,948,569
Investment securities – debt		4,000,000	276,761	4,276,761
Other assets		-	101,146	101,146
Provision for credit cards		-	1,361,839	1,361,839
Gross provision		18,340,120	7,897,922	26,238,042
Tax effect	$	-	(1,940,414)	(1,940,414)
	$	18,340,120	5,957,508	24,297,628

32. Subsequent Event

On December 12, 2019, the Bank announced that it had entered into a definitive agreement to purchase from the Royal Bank of Canada (RBC), all of its banking operations in Antigua. The transaction is subject to regulatory approval and other customary closing conditions and is expected to be finalized in the coming months.