Consolidated Financial Statements of

ANTIGUA COMMERCIAL BANK LTD.

September 30, 2018

(Expressed in Eastern Caribbean dollars)

ANTIGUA COMMERCIAL BANK LTD.

Table of Contents

KPMG
2nd Floor, ABI Financial Centre
156 Redcliffe Street
P.O. Box W388
St. John's
Antigua
Telephone (268) 562-9172
Email: ecinfo@kpmg.ag

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, 2018, 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, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in 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 Annual Report 2018, but does not include the consolidated financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT *(cont'd)*

To the Shareholders of Antigua Commercial Bank Ltd.

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.

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

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)*

- 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
December 7, 2018

Antigua and Barbuda

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Financial Position

As at September 30, 2018
with comparative figures for 2017

(Expressed in Eastern Caribbean Dollars)

	Notes		2018	2017
Assets				
Cash and balances with the Central Bank	8	$	214,760,039	238,303,738
Due from other banks	9		71,838,547	49,740,690
Treasury bills	10		90,223,743	96,728,323
Statutory deposit	11		5,874,812	5,845,549
Loans and advances	12		659,077,207	649,685,295
Other assets	13		22,221,662	22,128,051
Investment securities	14		113,625,445	65,887,957
Property and equipment	15		32,611,807	31,259,658
Pension asset	16		8,109,502	8,251,792
Total Assets		$	1,218,342,764	1,167,831,053
Liabilities and Equity				
Liabilities				
Income tax payable	20	$	1,173,830	3,934,414
Deposits due to customers	17		972,880,583	938,846,249
Other liabilities and accrued expenses	18		18,620,392	17,585,201
Deferred tax liability	20		7,277,536	4,907,819
Total Liabilities			999,952,341	965,273,683
Equity				
Stated capital	22		36,000,000	36,000,000
Statutory reserve	23		23,459,372	20,768,281
Other reserves	24		58,623,186	39,577,518
Retained earnings			100,307,865	106,211,571
Total Equity			218,390,423	202,557,370
Total Liabilities and Equity		$	1,218,342,764	1,167,831,053

Approved for issue by the Board of Directors on December 7, 2018 and signed on its behalf by:

_______________ **Chairman** _______________ **Director**

_______________ **Director**

The notes on pages 10 to 82 are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Income

For the year ended September 30, 2018
with comparative figures for 2017

(Expressed in Eastern Caribbean Dollars)

	Notes		2018	2017
Interest income				
Income from loans and advances		$	44,082,198	45,936,514
Income from deposits with other banks and investments			9,244,418	8,765,636
			53,326,616	54,702,150
Interest expense				
Savings accounts			10,439,998	9,735,433
Time deposits and current accounts			6,287,052	6,763,488
Investment expenses			30,224	36,520
			16,757,274	16,535,441
Net interest income			36,569,342	38,166,709
Other operating income	25		14,518,845	11,927,790
Total income			51,088,187	50,094,499
Operating expenses				
General and administrative expenses	27		24,662,335	22,726,094
Depreciation	15		1,995,345	2,183,116
Directors' fees and expenses	21		999,304	906,933
Provision for/(recovery of) loan impairment	12		190,880	(1,462,484)
Provision for impairment of investments	14		118,699	789,822
			27,966,563	25,143,481
Profit before tax			23,121,624	24,951,018
Taxation				
Current tax expense			1,075,173	3,955,873
Deferred tax expense			2,329,293	732,677
	20		3,404,466	4,688,550
Profit for the year		$	19,717,158	20,262,468
Earnings per share	26	$	1.97	2.03

The notes on pages 10 to 82 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, 2018
with comparative figures for 2017

(Expressed in Eastern Caribbean Dollars)

	Notes		2018	2017
Profit for the year		$	19,717,158	20,262,468
Other comprehensive income: *Items net of tax that are or may be reclassified to profit or loss in the future:*				
Increase/(decrease) in fair value of investment securities, net of taxes of $211,293 (2017: $3,333)	24		628,502	(5,000)
			628,502	(5,000)
Items net of tax that will never be reclassified subsequently to profit or loss:				
Actuarial loss for the year, net of taxes of $170,869 (2017: $44,215)	16		(512,607)	(132,648)
Other comprehensive income/(loss) for the year			115,895	(137,648)
Total comprehensive income for the year		$	19,833,053	20,124,820

The notes on pages 10 to 82 are an integral part of these consolidated financial statements.

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Cash Flows

For the year ended September 30, 2018
with comparative figures for 2017

(Expressed in Eastern Caribbean Dollars)

	Notes		2018	2017
Cash flows from operating activities				
Profit for the year		$	19,717,158	20,262,468
Items not affecting cash:				
Provision for/(recovery of) loan impairment	12		190,880	(1,462,484)
Provision for impairment of investment securities	14		118,699	789,822
Depreciation	15		1,995,345	2,183,116
Pension income	16		(156,679)	(139,244)
Interest income			(53,326,616)	(54,702,150)
Interest expense			16,757,275	16,535,441
Tax expense			3,404,466	4,688,550
Cash flows used in operating activities before changes in operating assets and liabilities			(11,299,472)	(11,844,481)
Change in statutory deposit			(29,263)	(81,035)
Change in other receivables and other assets			(3,009,381)	(5,652,990)
Change in loans and advances			(9,337,375)	(17,617,293)
Change in deposits due to customers			33,343,196	1,942,399
Change in other liabilities and accrued expenses			1,035,191	2,354,282
Cash flows from/(used in) operating activities before interest, taxes and pension contributions			10,702,896	(30,899,118)
Interest received			52,777,444	54,028,854
Interest paid			(16,066,137)	(16,668,091)
Taxes paid			(3,835,757)	(5,546,518)
Pension contributions paid			(384,505)	(366,729)
Net cash flows provided by operating activities			43,193,941	548,398
Cash flows from investing activities				
Redemption of investment securities			5,903,908	35,159,009
Purchase of short-term investments			(65,477,912)	(29,160,972)
Purchase of property and equipment	15		(3,347,494)	(2,762,975)
Purchase of investment securities			(13,941,022)	-
Net cash flows (used in)/provided by investing activities			(76,862,520)	3,235,062
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			(37,668,579)	(216,540)
Cash and cash equivalents, beginning of year			263,770,531	263,987,071
Cash and cash equivalents, end of year	28	$	226,101,952	263,770,531

The notes on pages 10 to 82 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, 2018
with comparative figures for 2017

(Expressed in Eastern Caribbean Dollars)

	Notes	Stated capital	Statutory reserve	Revaluation reserve: available for sale investments	Capital reserve	Revalation reserve: property	Pension reserve	Loan loss reserve	Retained earnings	Total
Balance, 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	-
Transactions with owners										
Dividends paid	19	-	-	-	-	-	-	-	(4,000,000)	(4,000,000)
Balance, September 30, 2018		$ 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

The notes on pages 10 to 82 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, 2018
with comparative figures for 2017

(Expressed in Eastern Caribbean Dollars)

	Notes	Stated capital	Statutory reserve	Revaluation reserve: available for sale investments	Capital reserve	Revalation reserve: property	Pension reserve	Loan loss reserve	Retained earnings	Total
Balance, September 30, 2016		$ 36,000,000	18,013,557	2,112,502	7,461,949	5,317,922	7,922,682	14,028,439	95,575,499	186,432,550
Profit for the year		-	-	-	-	-	-	-	20,262,468	20,262,468
Other comprehensive loss		-	-	(5,000)	-	-	-	-	(132,648)	(137,648)
Total comprehensive income		-	-	(5,000)	-	-	-	-	20,129,820	20,124,820
Transfer to reserve fund	23	-	2,754,724	-	-	-	-	-	(2,754,724)	-
Increase in reserve for loan loss	24	-	-	-	-	-	-	2,409,914	(2,409,914)	-
Increase in pension reserve	24	-	-	-	-	-	329,110	-	(329,110)	-
Transactions with owners										
Dividends paid	19	-	-	-	-	-	-	-	(4,000,000)	(4,000,000)
Balance, 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

The notes on pages 10 to 82 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 December 7, 2018.

These consolidated financial statements are prepared on the historical cost basis except for available-for-sale quoted securities and land and buildings which are stated at fair value, and pension asset, which is stated 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 the following amendments to standards and new interpretations effective from October 1, 2017. Except as otherwise indicated, the adoption of these amendments to standards and interpretations did not have any significant impact on the Group's financial statements.

Effective January 1, 2017

- Amendments to IAS 7*, Disclosure Initiative* - The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

- Amendments to IAS 12*, Recognition of Deferred Tax Assets for Unrealised Losses* - The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

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, 2017. The Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

Effective January 1, 2018

IFRS 9 Financial Instruments
IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted; the Group is therefore required to adopt IFRS 9 from October 1, 2018. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) IFRS 9 Implementation Strategy
The Group's IFRS 9 implementation process is governed by a Committee whose members include representatives from risk, finance, operations and IT functions. The Committee meets on a regular basis to challenge key assumptions, approve decisions and monitor the progress of the implementation work across the Group, including evaluation of whether the project has sufficient resources.

The Group is in the process of completing a detailed impact assessment including most of the accounting analysis and has commenced work on the design and build of models, systems, processes and controls.

Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in a significant increase in the overall level of impairment allowances.

(ii) Classification – Financial assets
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

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). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

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

3.2 Standards issued but not yet adopted *(cont'd)*

Effective January 1, 2018 *(cont'd)*

IFRS 9 Financial Instruments (cont'd)

(ii) Classification – Financial assets (cont'd)
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at 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 financial assets 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.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

3.2 Standards issued but not yet adopted *(cont'd)*

***Effective January 1, 2018** (cont'd)*

IFRS 9 Financial Instruments (cont'd)

(ii) Classification – Financial assets (cont'd)

Preliminary impact assessment
Based on its preliminary high-level assessment of possible changes to the classification and measurement of financial assets held, the Group's current expectation is that:

- loans and advances that are classified as loans and receivables and measured at amortised cost under IAS 39 would in general also be measured at amortised cost under IFRS 9;
- debt securities that are classified as available for sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances;
- equity securities classified as available for sale under IAS 39 that are held for long-term strategic purposes would generally be designated as measured at FVOCI.

The Group's assessment is however on-going and will include a detailed review of the contractual terms of all financial assets. At that stage, the final impact will be determined.

(iii) Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to 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 will be recognised on equity investments.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events on a financial instrument within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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

3.2 Standards issued but not yet adopted *(cont'd)*

Effective January 1, 2018 *(cont'd)*

IFRS 9 Financial Instruments (cont'd)

(iii) Impairment of financial assets (cont'd)
Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements in implementing the impairment model of IFRS 9. When assessing this, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

Measurement of ECL
ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: 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*: the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: 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.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Preliminary impact assessment
The most significant impact on the Group's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. The Group is not yet able to provide quantitative information about the expected impact, since the Group is in the process of building and testing models, assembling data and calibrating the impairment stage transfer criteria. However, the Group expects loss allowances under IFRS 9 to be larger and more volatile than under IAS 39.

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

3.2 Standards issued but not yet adopted *(cont'd)*

Effective January 1, 2018 *(cont'd)*

IFRS 9 Financial Instruments (cont'd)

(iv) Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities as at FVTPL and it has no current intention to do so. The Group's preliminary assessment did not indicate any material impact regarding the classification of financial liabilities under IFRS 9.

(v) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

(vi) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at October 1, 2018.
- *The following assessments have to be made on the basis of the facts and* circumstances that exist at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

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

3.2 Standards issued but not yet adopted *(cont'd)*

Effective January 1, 2018 *(cont'd)*

IFRS 15 Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers*, replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes,* IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers,* and SIC-31, *Revenue – Barter Transactions Involving Advertising Services.* It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties.

The Group will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 15 Revenue from Contracts with Customers (Amendment)

Amendment to IFRS 15, 'Revenue from contracts with customers' (effective for annual reporting periods beginning on or after 1 January 2018) comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. It is expected that the adoption of this standard will not have a significant impact on the Group.

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

3.2 Standards issued but not yet adopted *(cont'd)*

Effective January 1, 2019

IFRS 16 Leases

IFRS 16*, Leases,* 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; 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 expected to adopt IFRS 16 from October 1, 2019 and is therefore assessing the impact that this standard will have on its 2020 financial statements.

Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers,* is also adopted.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

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 adjusted for transaction costs. 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. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

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

4.3 Financial instruments *(cont'd)*

Classification and subsequent measurement of financial assets
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.

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 securities and debentures, and equity investments in various entities that 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

(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 reorganization;
(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.

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.

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 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).

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.

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

4.3 Financial instruments *(cont'd)*

Impairment of financial assets *(cont'd)*

(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.

Classes of financial instruments

The Group classifies its financial instruments into classes that reflect the nature of the instrument and take into account the characteristics of those financial instruments. The classifications made can be seen in the table below:

(Expressed in Eastern Caribbean Dollars)

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

4.3 Financial instruments *(cont'd)*

Classes of financial instruments *(cont'd)*

<table>
<tr><td rowspan="23">Financial assets</td><td rowspan="19">Loans and receivables</td><td colspan="2" rowspan="3">Due from banks and other financial institutions</td><td>Deposits with the Central Bank</td></tr>
<tr><td>Correspondent bank accounts</td></tr>
<tr><td>Fixed deposits</td></tr>
<tr><td rowspan="12">Loans and advances to customers</td><td rowspan="6">Loans and advances to individuals</td><td>Demand loans</td></tr>
<tr><td>Mortgage loans</td></tr>
<tr><td>Non-performing loans and advances</td></tr>
<tr><td>Rebate Loans</td></tr>
<tr><td>Overdrafts</td></tr>
<tr><td>Credit Card advances</td></tr>
<tr><td rowspan="4">Loans and advances to corporate entities</td><td>Demand Loans</td></tr>
<tr><td>Mortgage loans</td></tr>
<tr><td>Non-performing loans and advances</td></tr>
<tr><td>Overdrafts</td></tr>
<tr><td rowspan="2">Loans and advances to government and statutory bodies</td><td>Demand Loans</td></tr>
<tr><td>Overdrafts</td></tr>
<tr><td rowspan="3">Investment securities</td><td>Treasury bills</td><td>Local and regional treasury bills</td></tr>
<tr><td rowspan="2">Debt instruments</td><td>Quoted</td></tr>
<tr><td>Unquoted</td></tr>
<tr><td colspan="3">Other assets</td></tr>
<tr><td rowspan="4">Available-for-sale financial assets</td><td rowspan="4">Investment securities</td><td rowspan="2">Debt instruments</td><td>Quoted</td></tr>
<tr><td>Unquoted</td></tr>
<tr><td rowspan="2">Equity securities</td><td>Quoted</td></tr>
<tr><td>Unquoted</td></tr>
<tr><td rowspan="2">Financial liabilities</td><td rowspan="2">Other financial liabilities</td><td colspan="3">Deposits due to customers</td></tr>
<tr><td colspan="3">Other liabilities and accrued expenses</td></tr>
</table>

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.

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

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.

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.

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

4.5 Property and equipment and depreciation *(cont'd)*

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.

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

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.

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

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.

4.12 Leased assets

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

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.

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

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.

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

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.

5.1.1 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

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

5.1 Credit risk *(cont'd)*

5.1.1 Credit risk management *(cont'd)*

(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 Groupimplements 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)*

5.2 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, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the Consolidated Financial Statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The 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:

	2018		2017	
Group's rating	Credit risk exposure	Impairment allowance	Credit risk exposure	Impairment allowance
	(%)	(%)	(%)	(%)
Pass	33	4	26	7
Special mention	45	6	56	16
Sub-standard	11	14	17	47
Doubtful	11	72	1	21
Loss	-	4	-	9
	100	100	100	100

The mortgage subsidiary company had, on average 91% of its loan portfolio at a pass rating for the financial year ended September 30, 2018 (2017: 86%).

The internal rating tool assists management to determine whether 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 (eg. 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

(Expressed in Eastern Caribbean Dollars)

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

5.1 Credit risk *(cont'd)*

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

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

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

		Maximum Exposure 2018	2017
Credit risk exposures relating to on-balance sheet assets			
Due from other banks	$	71,838,547	49,740,690
Treasury bills		90,223,743	96,728,323
Statutory deposits		5,874,812	5,845,549
Loans and advances			
Loans and advances to individuals:			
Overdrafts		8,107,573	8,882,930
Term loans		40,330,772	36,502,939
Mortgages		210,087,365	204,700,469
Loans and advances to corporate entities		400,551,497	399,598,957
Investment securities			
Loans and receivables- debt securities		46,893,850	51,473,592
Held-to-maturity		51,596,134	-
Other assets		20,732,209	21,030,962
	$	946,236,502	874,504,411
Credit risk exposures relating to off-balance sheet assets			
Loan commitments and other credit related obligations	$	53,286,818	38,053,415
At September 30	$	999,523,320	912,557,826

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 *(cont'd)*

The above table represents a worse-case scenario of credit risk exposure to the Group at September 30, 2018 and 2017, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

As shown above, 70% of the total maximum exposure is derived from loans and advances to customers (2017: 74%); 10% represents investments in debt securities (2017: 6%).

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 (2017: 72%).

5.1.5 Loans and advances

Loans and advances are summarised as follows:

	2018	2017
	Loans and advances to customers	Loans and advances to customers
Neither past due nor impaired	$ 492,938,251	466,926,755
Past due but not impaired	110,154,258	132,300,497
Individually impaired	59,128,486	53,700,436
Gross	662,220,995	652,927,688
Interest receivable	16,537,216	16,291,799
Deferred interest income	(3,314,766)	(3,314,766)
Deferred fees	(2,026,118)	(2,070,186)
Less: allowance for impairment	(14,340,120)	(14,149,240)
Net	659,077,207	649,685,295
Allowance for impairment:		
Individually impaired	11,189,030	10,887,765
Portfolio allowance	3,151,090	3,261,475
	$ 14,340,120	14,149,240

The total impairment provision for loans and advances is $14,340,120 (2017: $14,149,240) of which $11,189,030 (2017: $10,887,765) represents the individually impaired loans and the remaining amount of $3,151,090 (2017: $3,261,475) represents the portfolio allowance. 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, 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
	$	60,916,771	37,051,505	149,968,344	230,113,079	14,888,552	492,938,251
September 30, 2017							
Grades							
Standard monitoring	$	52,534,819	29,747,671	147,445,382	202,578,932	19,779,854	452,086,658
Special monitoring		13,450,715	561,816	-	349,749	477,817	14,840,097
	$	65,985,534	30,309,487	147,445,382	202,928,681	20,257,671	466,926,755

(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, 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
September 30, 2017							
Past due up to 30 days	$	-	1,609,164	26,285,475	2,469,888	1,735,536	32,100,063
Past due 31 – 60 days		-	253,601	8,763,065	6,130,451	441,453	15,588,570
Past due 61 – 90 days		-	495,902	9,277,260	12,822,509	3,463,030	26,058,701
Past due 90 days and over		2,220,776	1,229,656	11,903,618	33,355,228	9,843,885	58,553,163
Total	$	2,220,776	3,588,323	56,229,418	54,778.076	15,483,904	132,300,497

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 $59,128,486 (2017: $53,700,436).

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, 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
September 30, 2017								
Gross amount	$	1,933,352	1,584,087	1,208,387	728,803	35,623,195	12,622,612	53,700,436
Amount provided	$	752,855	1,223,039	618,839	135,067	5,010,572	3,147,393	10,887,765

(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.

		2018	2017
Renegotiated loans and advances to individuals	$	-	726,512
Renegotiated loans and advances to corporations	$	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 presents an analysis of debt securities, treasury bills and other eligible bills at September 30, 2018 and 2017:

	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
At September 30, 2017					
Unrated	96,728,323	14,414,365	-	51,473,592	162,616,280

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
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)*

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

		Antigua and Barbuda	Other Caribbean	Non-Caribbean	Total
2017:					
Credit risk exposures relating to on balance sheet assets:					
Due from other banks	$	11,134,959	30,559,343	8,046,388	49,740,690
Statutory deposits		5,845,549	-	-	5,845,549
Treasury bills		23,275,866	73,452,457	-	96,728,323
Loans and Receivables					
Debt securities		51,204,199	-	269,393	51,473,592
Loans and advances		645,776,457	2,661,644	1,247,194	649,685,295
Other assets		21,030,962	-	-	21,030,962
		758,267,992	106,673,444	9,562,975	874,504,411
Credit risk exposures relating to off balance sheet assets:					
Loan commitments and other credit related facilities		38,053,415	-	-	38,053,415
September 30, 2017	$	796,321,407	106,673,444	9,562,975	912,557,826

(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	$ 71,839	-	-	-	-	-	-	71,839
Treasury bills	-	-	-	-	90,224	-	-	90,224
Statutory deposits	-	-	-	-	5,875	-	-	5,875
Loans and advances to customers:								
Loans to individuals:								
- Overdrafts	-	-	-	-	-	-	8,108	8,108
- Term loans	-	-	-	-	-	-	40,331	40,331
- Mortgages	-	-	-	-	-	-	210,087	210,087
Loans to corporate entities:								
- Large corporate customers	-	51,023	36,091	107,079	117,160	89,198	-	400,551
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)*
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	$	49,741	-	-	-	-	-	-	49,741
Statutory deposits		-	-	-	-	96,728	-	-	96,728
Treasury bills		-	-	-	-	5,846	-	-	5,846
Loans and advances to customers:									
Loans to individuals:									
- Overdrafts		-	-	-	-	-	-	8,883	8,883
- Term loans		-	-	-	-	-	-	36,503	36,503
- Mortgages		-	-	-	-	9,446	39,125	156,129	204,700
Loans to corporate entities:									
- Large corporate customers		143	46,214	37,681	114,164	117,924	83,473	-	399,599
Investment securities:									
- Debt securities		-	-	-	-	-	51,474	-	51,474
Other assets		-	-	-	-	-	21,031	-	21,031
As of September 30, 2017	$	49,884	46,214	37,681	114,164	229,944	195,103	201,515	874,505

(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	$ -	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
Loan commitments and other credit related obligations	$ -	475	-	19,276	7,413	3,621	7,268	38,053
As of September 30, 2017	$ -	475	-	19,276	7,413	3,621	7,268	38,053

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.

5.2.2 Interest rate risk

The Group advances loans and receives deposits as a part of its normal course of business from both related and third parties. The interest rates on loans generally reflect interest based on market rates. Investment securities and customer deposits generally attract fixed interest rates. The table below analyses the effective interest rates of each class of financial asset and financial liability:

	2018	2017
Loans and advances:		
Demand loans	8 - 13%	8 - 13%
Discount loans	11 - 22%	11 - 22%
Mortgage loans	8 - 12%	8 - 12%
Advances and overdrafts	8 - 12%	8 - 12%
Other	19.50%	19.50%
Investment securities:		
Government treasury bills & bonds	2 - 7%	3.5 - 7%
Other securities	1.75 - 9%	1.75 - 9%

(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)*

	2017	2016
Deposits due to customers		
Demand deposits	0.0%	0.0%
Savings deposits	2.00%	2.00%
Time deposits	1.0-1.40%	1.0-2.25%
Other thrift, pension	2.0- 3.75%	2.0- 3.75%

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 the financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

The table below 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, 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 securities		-	-	-	-	-	-	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
As of September 30, 2018	$	(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)*

5.2.2 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, 2017									
Assets									
Cash and balances with the Central Bank	$	-	-	-	-	-	-	238,303,738	238,303,738
Statutory deposits		-	-	-	-	-	-	5,845,549	5,845,549
Due from other banks		34,515,432	-	15,225,258	-	-	-	-	49,740,690
Treasury bills		73,571,282	-	23,157,041	-	-	-	-	96,728,323
Investment securities:									
- Debt securities		2,403,071	-	-	-	-	49,070,521	-	51,473,592
- Equity securities		-	-	-	-		-	14,414,365	14,414,365
Loans and advances		118,651,903	4,595,571	23,759,637	32,722,431	74,418,741	394,074,748	1,462,264	649,685,295
Other assets		-	-	-	-	-	-	21,030,962	21,030,962
Total financial assets	$	229,141,688	4,595,571	62,141,936	32,722,431	74,418,741	443,145,269	281,056,878	1,127,222,514
Liabilities									
Deposits due to customers		682,272,491	48,001,096	61,647,944	76,937,832	-	67,998,449	1,988,437	938,846,249
Other liabilities and accrued expenses		420,548	-	-	-	1,264,355	-	15,900,298	17,585,201
Total financial liabilities	$	682,693,039	48,001,096	61,647,944	76,937,832	1,264,355	67,998,449	17,888,735	956,431,450
As of September 30, 2017	$	(453,551,351)	(43,405,525)	493,992	(44,215,401)	73,154,386	375,146,820	263,168,143	170,791,064

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.

Substantially all of the Group's transactions and assets and liabilities are denominated in Eastern Caribbean dollars or United States dollars. Therefore, the Group's exposure to currency risk is considered minimal.

The exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.7 = US$1.00 since 1974. The table below summarises the Group's exposure to foreign currency exchange risk at September 30, 2017. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

(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

(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, 2017							
Assets							
Cash and balances with the Central Bank	$	237,746,616	428,004	74,259	31,359	23,500	238,303,738
Statutory deposits		5,845,549	-	-	-	-	5,845,549
Deposits from other banks		41,941,848	7,634,372	20,759	76,033	67,678	49,740,690
Treasury bills		96,728,323	-	-	-	-	96,728,323
Investment securities:							
Available-for-sale (equity securities)		14,414,365	-	-	-	-	14,414,365
Loans and receivables – debt securities		51,204,199	269,393	-	-	-	51,473,592
Loans and advances		649,685,295	-	-	-	-	649,685,295
Other assets		21,030,962	-	-	-	-	21,030,962
Total financial assets	$	1,118,597,157	8,331,769	95,018	107,392	91,178	1,127,222,514
Liabilities							
Deposits due to customers	$	857,359,109	81,487,140	-	-	-	938,846,249
Other liabilities and accrued expenses		17,585,201	-	-	-	-	17,585,201
Total financial liabilities	$	874,944,310	81,487,140	-	-	-	956,431,450
Net on-balance sheet position	$	243,652,847	(73,155,371)	95,018	107,392	91,178	170,791,064

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.

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 agreenents 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, 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
As at September 30, 2017							
Liabilities							
Deposits due to customers	$	683,528,143	48,364,505	62,293,785	77,716,935	67,998,449	939,901,817
Other liabilities and accrued expenses		15,751,460	-	569,384	1,264,357	-	17,585,201
Total liabilities (contractual maturity dates)	$	699,279,603	48,364,505	62,863,169	78,981,292	67,998,449	957,487,018
Assets held for managing liquidity risk		267,629,824	16,613,651	77,494,835	615,474,167	150,648,593	1,127,861,070

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	
		2018	**2017**	**2018**	**2017**
Financial Assets					
Statutory deposits	$	5,874,812	5,845,549	5,874,812	5,845,549
Treasury bills		90,223,743	96,728,323	90,273,138	96,728,323
Due from other banks		71,838,547	49,740,690	71,838,547	49,740,690
Loans and advances		659,077,207	649,685,295	661,866,378	665,440,681
Investment securities		113,625,445	65,887,957	118,110,577	65,887,957
Other assets		20,732,209	21,030,962	20,732,209	21,030,962
	$	961,371,963	888,918,776	968,695,661	904,674,162
Financial Liabilities					
Deposits due to customers	$	972,880,583	938,846,249	971,211,419	937,453,063
Other liabilities and accrued expenses		18,620,392	17,585,201	18,620,392	17,585,201
	$	991,500,975	956,431,450	989,831,811	955,038,264

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.

  $5.8 million (2017: $5.8 million) of available-for-sale unquoted equity investment securities for which fair values cannot be reliably determined were stated at cost less impairment. All other quoted available-for-sale assets are already measured and carried at fair value, less impairment, if any.

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.

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

	Level 2	Total
	$	$
As at September 30, 2017		
Financial assets		
Investment securities:		
Available-for-sale investments – quoted	8,636,336	8,636,336

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.

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, 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

September 30, 2017 **$'000**	**Level 2**	**Total fair values**	**Total carrying amount**
Assets			
Cash and balances with the Central Bank	238,304	238,304	238,304
Due from other banks	49,741	49,741	49,741
Treasury bills	96,728	96,728	96,728
Loans and advances	665,441	665,441	649,685
Loans and receivables	54,510	54,510	54,510
Liabilities			
Deposits due to customers	937,334	937,334	938,846

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.

	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

	Loans and Receivables	Available-for-sale	Total
As of September 30, 2017			
Assets			
Due from banks and other financial institutions	$ 314,502,396	-	314,502,396
Treasury bills	95,412,546	-	95,412,546
Loans and advances	638,778,448	-	638,778,448
Investment securities	50,510,406	14,414,365	64,924,771
Other financial assets	21,030,962	-	21,030,962
Total financial assets	$ 1,120,234,758	14,414,365	1,134,649,123

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

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

		Financial Liabilities at amortised cost	Total
Liabilities			
Deposits due to customers	$	935,685,361	935,685,361
Other liabilities and accrued expenses		4,855,441	4,855,441
Total financial liabilities	$	940,540,802	940,540,802

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.

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, 2018 and 2017. During those two years, the Group complied with all of the externally imposed capital requirements to which they are subject.

		2018	2017
Tier 1 capital			
Stated capital (net of treasury shares)	$	36,000,000	36,000,000
Statutory reserve		23,459,372	20,768,281
General banking and other reserves		7,461,949	7,461,949
Retained earnings		100,307,865	106,211,571
Total qualifying Tier 1 capital	$	167,229,186	170,441,801
Tier 2 capital			
Revaluation reserve: available-for-sale investments	$	2,736,004	2,107,502
Reserves for loan loss		21,531,276	2,881,209
Total qualifying Tier 2 capital	$	24,267,280	4,988,711
Total regulatory capital	$	191,496,466	175,430,512

		2018	2017
Risk-weighted assets:			
On-balance sheet	$	683,049,000	626,746,000
Off-balance sheet		53,286,818	38,053,415
Total risk-weighted assets	$	736,335,818	664,799,415
Basel ratio		26.0%	26.4%
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, 2018 and September 30, 2017.

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

The Group's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgements, which necessarily have to be made in the course of preparation of the financial statements.

Accounting policies and management's judgements for certain items are especially critical for the Group's results and financial situation due to their materality.

Estimation uncertainty

(a) *Impairment losses on loans and advances*

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.

(b) *Impairment on investment securities*

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 $118,699 provision (2017: $789,822) for impairment of available-for-sale equity investments during the year.

(c) *Estimate of pension benefits*

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)

8. Cash and balances with the Central Bank

	Note		2018	2017
Cash on hand		$	7,816,981	8,518,272
Balances with the ECCB other than mandatory reserve deposits			159,325,984	185,084,162
Included in cash and cash equivalents	28		167,142,965	193,602,434
Mandatory reserve deposits with the ECCB			47,617,074	44,701,304
Total cash and balances with the Central Bank		$	214,760,039	238,303,738

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		2018	2017
Term deposits and operating accounts with other banks with original maturities of 3 months or less		$	12,746,014	16,343,328
Items in the course of collection from other banks			3,978,354	4,364,316
Included in cash and cash equivalents	28		16,724,368	20,707,644
Term deposits and operating accounts with other banks with original maturities greater than 3 months			54,666,450	28,725,258
Interest receivable			447,729	307,788
Total due from other banks		$	71,838,547	49,740,690

(Expressed in Eastern Caribbean Dollars)

10. Treasury bills

	Note	Nominal Value 2018	Cost 2018	Nominal Value 2017	Cost 2017
Treasury bills at amortised cost-OECS Government with original maturities of 3 months or less and interest rates ranging from 1.9% to 7%		$ 42,700,000	42,234,619	49,700,000	49,191,060
Included in cash and cash equivalents	28	42,700,000	42,234,619	49,700,000	49,191,060
Treasury bills at amortised cost-OECS Government with original maturities of more than 3 months and interest rates ranging from 4% to 5.5%		47,579,039	46,913,398	46,834,000	46,221,486
Interest receivable		-	1,075,726	-	1,315,777
Total treasury bills		$ 90,279,039	90,223,743	96,534,000	96,728,323

11. Statutory deposit

		2018	2017
Statutory reserve deposit with the Government of Antigua and Barbuda	$	5,874,812	5,845,549

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.

12. Loans and advances

		2018	2017
Mortgage loans	$	288,704,868	309,777,149
Business loans		299,835,627	266,385,801
Personal loans		51,753,111	48,700,636
Bridging Loans		12,215,089	18,787,862
Staff loans		6,894,253	6,255,036
Credit card advances		1,548,057	1,584,087
Central Housing and planning Authority (CHAPA) loans		962,793	1,010,758
Directors' loans		307,197	426,359
		662,220,995	652,927,688
Less: Allowance for loan impairment		(14,340,120)	(14,149,240)
		647,880,875	638,778,448
Add:			
Interest receivable		16,537,216	16,291,799
Deferred interest income		(3,314,766)	(3,314,766)
Deferred fees		(2,026,118)	(2,070,186)
Total loans and advances	$	659,077,207	649,685,295

Allowance for loan impairment

The movement in allowance for loan impairment is as follows:

Balance, beginning of year	$	14,149,240	16,480,405
Write-off of impaired loan balances		-	(868,681)
Provision for/(recovery of) loan impairment		190,880	(1,462,484)
Balance, end of year	$	14,340,120	14,149,240

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $35,871,398 (2017: $17,030,449) and the difference between this figure and the loan loss provision under IAS 39 has been set aside as a specific reserve through equity. The gross carrying value of impaired loans at the year-end was $59,128,486 (2017: $53,700,436). Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $13,466,531 (2017: $13,557,144), and is also included in the specific regulatory reserve (note 24).

		2018	2017
Current	$	146,693,357	148,469,376
Non-current		512,383,850	501,215,919
	$	659,077,207	649,685,295

(Expressed in Eastern Caribbean Dollars)

13. Other assets

		2018	2017
Depositor Protection Trust	$	11,174,168	12,756,511
Credit card receivables		9,408,628	8,148,912
Prepayments		1,489,453	1,097,089
Miscellaneous receivables		110,775	86,010
Suspense accounts		38,638	39,529
Total other assets	$	22,221,662	22,128,051
Current	$	12,643,804	10,967,850
Non-current		9,577,858	11,160,201
	$	22,221,662	22,128,051

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.

14. Investment securities

		2018	2017
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	6,768,030
Available-for-sale - quoted			
Equity securities		9,357,431	9,426,158
Loans and receivables			
Government securities	$	1,500,000	1,500,000
Corporate securities		48,471,741	53,010,405
Interest receivable		922,109	963,186
Total loans and receivables		50,893,850	55,473,591
Total investment securities before impairment	$	118,615,445	71,667,779
Allowance for impairment – available for sale unquoted		(990,000)	(990,000)
Allowance for impairment – available for sale quoted		-	(789,822)
Allowance for impairment – loans and receivables		(4,000,000)	(4,000,000)
Total allowance for impairment	$	(4,990,000)	(5,779,822)
Total investment securities	$	113,625,445	65,887,957

14. Investment securities *(cont'd)*

The movement in investment securities may be summarised as follows:

		2018	2017
Available-for-sale			
Beginning of year	$	14,414,365	15,212,520
Unrealised gains/(losses) from changes in fair value		839,795	(688,873)
Impairment loss		(118,699)	(109,282)
End of year	$	15,135,461	14,414,365

All available-for-sale securities are non-current.

		2018	2017
Loans and receivables			
Beginning of year	$	51,473,592	39,687,518
Additions		-	13,037,336
Disposals (sale and redemption)		(1,280,646)	(1,251,262)
Reclassification		(3,259,643)	-
Accrued interest		(39,453)	-
End of year	$	46,893,850	51,473,592
Held-to-maturity			
Beginning of year	$	-	-
Additions		48,160,942	-
Reclassification		2,990,250	-
Movement in accrued interest		444,942	-
End of year	$	51,596,134	-

All loans and receivables, except for the cash and cash equivalents, are non-current.

Loans and receivables include $nil (2017: $269,393) classified under cash and cash equivalents (note 28).

The total impairment on investments for the year was $118,699 (2017: $789,822). This amount was reclassified from other comprehensive income to profit of loss during 2017 and taken directly to profit or loss in the current year.

(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, 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

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, 2016											
Cost or valuation	$	8,880,000	14,166,342	5,555,274	10,383,119	677,444	13,027,051	8,146,079	170,187	2,706,310	63,711,806
Accumulated depreciation		-	(918,473)	(5,174,675)	(7,862,600)	(400,190)	(10,620,807)	(7,952,383)	(102,879)	-	(33,032,007)
Net book amount		8,880,000	13,247,869	380,599	2,520,519	277,254	2,406,244	193,696	67,308	2,706,310	30,679,799
Year ended September 30, 2017											
Opening net book amount	$	8,880,000	13,247,869	380,599	2,520,519	277,254	2,406,244	193,696	67,308	2,706,310	30,679,799
Additions		-	128,048	1,440	267,912	51,590	301,212	-	-	2,012,773	2,762,975
Transfers		-	1,217,055	262,839	-	-	122,531	-	-	(1,602,425)	-
Depreciation charge		-	(500,886)	(207,392)	(431,480)	(116,761)	(762,506)	(149,899)	(14,192)	-	(2,183,116)
Closing 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
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

(Expressed in Eastern Caribbean Dollars)

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

As of September 30, 2014, 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 an impairment loss amounting to $5,234,360. The remaining revaluation surplus net of applicable deferred income taxes, 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, 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 historical cost carrying amount of land and buildings carried at revalued amounts as of September 30, 2017.

		Land	Buildings	Total
Cost	$	3,562,078	31,608,727	35,170,805
Accumulated depreciation		-	(14,396,317)	(14,396,317)
Net book value	$	3,562,078	17,212,410	20,774,488

The following is the analysis of property and equipment revaluation (surplus)/impairment loss as of September 30, 2014

		Land	Buildings	Total
Net book value	$	3,562,078	19,284,360	22,846,438
Accumulated depreciation		(8,880,000)	(14,050,000)	(22,930,000)
Net book value	$	5,317,922	5,234,360	(83,562)

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:

		2018	2017
Pension plan asset			
Present value of funded obligations	$	(17,639,500)	(16,433,180)
Fair value of plan assets		25,749,002	24,684,972
Net asset – end of year	$	8,109,502	8,251,792

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

		2018	2017
Fair value of plan assets – beginning of year	$	24,684,972	23,590,647
Contributions – employer and employees		774,032	738,266
Benefits paid		(691,687)	(558,716)
Plan administration expenses		(107,379)	(55,103)
Actuarial loss		(641,766)	(687,752)
Interest on plan assets		1,730,830	1,657,630
Fair value of plan assets – end of year	$	25,749,002	24,684,972

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

		2018	2017
Present value of funded obligations – beginning of year	$	16,433,180	15,667,965
Current service cost		682,416	708,054
Interest cost		1,173,883	1,126,766
Benefits paid		(691,687)	(558,716)
Actuarial loss/(gain)		41,708	(510,889)
Present value of funded obligations – end of year	$	17,639,500	16,433,180

(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:

		2018	2017
Net asset – beginning of year	$	8,251,792	7,922,682
Net pension income included in the statement of income		156,679	139,244
Actuarial losses included in other comprehensive income		(683,474)	(176,863)
Contributions paid - employer		384,505	366,729
Net asset – end of year	$	8,109,502	8,251,792

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

		2018	2017
Current service cost	$	(292,889)	(336,516)
Net interest income on the net defined benefit asset		556,947	530,863
Plan administration expenses		(107,379)	(55,103)
Net gain recognized in the statement of income	$	156,679	139,244

The amounts recognized in other comprehensive income are as follows:

		2018	2017
Actuarial (loss)/gain for the year – obligation	$	(41,708)	510,889
Actuarial loss for the year - plan assets		(641,766)	(687,752)
Actuarial loss recognized in other comprehensive income	$	(683,474)	(176,863)

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

	2018	2017
Cash and cash equivalents	55%	53%
Debt securities	8%	9%
Equity securities	19%	20%
Property	18%	18%

The pension plan assets include ordinary shares issued by the Bank with a value of $85,333 (2017: $75,852). Plan assets include deposits held with the Bank with a fair value of $4,387,026 (2017: $3,960,073).

16. Pension plan *(cont'd)*

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

		2018	2017	2016	2015	2014
Defined benefit obligation	$	(17,639,500)	(16,433,180)	(15,667,965)	(13,651,036)	(13,544,517)
Plan assets		25,749,002	24,684,972	23,590,647	22,973,880	22,244,699
Surplus	$	8,109,502	8,251,792	7,922,682	9,322,844	8,700,182

Principal actuarial assumptions used for accounting purposes were as follows:

	2018	2017
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, 2018 amounted to $384,505, being Antigua Commercial Bank Ltd: $340,839; ACB Mortgage & Trust Limited: $43,666 (2017: $366,729, being Antigua Commercial Bank Ltd: $320,438; ACB Mortgage & Trust Limited: $46,291). 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 $434,685, being Antigua Commercial Bank Ltd: $386,585; ACB Mortgage & Trust Limited: $48,100.

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

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	-

2017

	Impact on defined benefit obligation			
	Change in assumption		Increase in assumption	Decrease in assumption
Discount rate	1%	$	(2,042,235)	2,590,270
Salary growth rate	1%		928,150	(822,003)
Life expectancy	1 year		280,701	-

The duration of the benefit obligation is 13.6 years (2017: 14.1 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.

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

		2018	2017
Savings accounts	$	497,239,137	448,098,513
Time deposits		242,855,140	253,392,495
Current accounts		210,679,858	198,858,528
Other deposits		18,254,422	35,335,825
		969,028,557	935,685,361
Interest payable		3,852,026	3,160,888
Total deposits due to customers	$	972,880,583	938,846,249
Current	$	809,538,974	793,909,969
Non-current		163,341,609	144,936,280
	$	972,880,583	938,846,249

18. Other liabilities and accrued expenses

		2018	2017
Trade payables and accrued expenses	$	12,956,316	11,181,993
Manager's cheques		4,187,520	4,855,441
Escrow accounts		1,299,150	1,264,357
Other sundry payables		177,406	283,410
Total other liabilities and accrued expenses	$	18,620,392	17,585,201
Current	$	17,321,242	16,320,846
Non-current		1,299,150	1,264,355
	$	18,620,392	17,585,201

19. Dividends

During the year, a dividend in respect of the 2017 financial year end of $4,000,000 was recorded and paid (2017: $4,000,000 in respect of the 2016 financial year).

The dividend proposed in respect of the 2018 financial year end is $0.40 for each unit of paid up share capital, or EC$4,000,000 (2017: $0.40 or EC$4,000,000). The consolidated financial statements for the year ended September 30, 2018 do not reflect this proposed dividend which, if ratified, will be accounted for in equity as an appropriation of retained earnings in the year ending September 30, 2019.

20. Taxation

Income tax payable

		2018	2017
Income tax payable, beginning of year	$	3,934,414	5,525,059
Current tax expense		1,075,173	3,955,040
Withholding tax			833
Payments made during the year		(3,835,757)	(5,546,518)
Income tax payable, end of year	$	1,173,830	3,934,414

Income tax expense

		2018	2017
Profit before tax	$	23,121,625	24,951,018
Income tax expense at statutory rates	$	5,808,101	6,248,138
Effect of interest income not subject to tax		(1,923,879)	(1,168,400)
Effect of dividend income not subject to tax		(579,625)	(599,932)
Prior year over accrual		(109,659)	-
Effect of other permanent differences		209,528	204,036
Others		-	4,708
Actual income tax expense	$	3,404,466	4,688,550

The statutory tax rate for Antigua Commercial Bank is 25% (2017: 25%) and for ACB Mortgage and Trust is 20% (2017: 20%).

(Expressed in Eastern Caribbean Dollars)

20. Taxation *(cont'd)*

Deferred tax liability (asset), net

		2018	2017
Balance, beginning of year	$	4,907,819	4,222,690
Charge for the year		2,329,293	732,677
Movement on revaluation of available-for-sale securities		211,293	(3,333)
Actuarial loss		(170,869)	(44,215)
Balance, end of year	$	7,277,536	4,907,819

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

		2018	2017
Statutory loan loss reserve	$	8,588,722	3,917,696
Deferred tax on revaluation of available-for-sale securities		912,126	700,835
Pension asset		2,027,376	2,062,948
Deferred commission		(424,311)	(452,098)
Decelerated capital allowances		(1,025,541)	(1,321,562)
Tax losses carried forward		(2,800,836)	-
Balance, end of year	$	7,277,536	4,907,819

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 2019 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.

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.

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:

		2018	2017
Loans to directors and key members of management			
Loans outstanding at beginning of year	$	3,903,354	3,956,883
Change in status		(702,834)	-
Loans issued during the year		247,761	286,304
Loan repayments during the year		(1,489,918)	(339,833)
Loans outstanding at end of year	$	1,958,363	3,903,354

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

Interest income earned on directors' and key members of management's loans and advances during the year is $259,684 (2017: $318,095). The interest rates on these loans range from 7% to 8.5% (2017: 7% to 11.5%) and they are granted on an arm's length basis.

		2018	2017
Deposits by directors and key members of management			
Deposits at beginning of year	$	6,301,920	4,754,820
Deposits received during the year		9,788,967	4,871,625
Deposits repaid/reclassified during the year		(9,685,806)	(3,870,852)
Change in status		274,194	546,327
Deposits at end of year	$	6,679,275	6,301,920

Interest expense paid on directors' and key members of management's deposits during the year is $147,728 (2017: $103,632). Interest rates on directors' deposits range from 2% to 4% (2017: 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:

		2018	2017
Salaries and wages	$	871,004	834,120
Directors' fees and expenses		999,302	906,933
Other staff costs		202,112	174,668
Pension costs		26,918	23,706
	$	2,099,336	1,939,427

(Expressed in Eastern Caribbean Dollars)

22. Stated capital

		2018	2017
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

		2018	2017
Balance at beginning of year	$	20,768,281	18,013,557
Transfer from profit after taxation		2,691,091	2,754,724
Balance at end of year	$	23,459,372	20,768,281

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

		2018	2017
Capital reserve	$	7,461,949	7,461,949
Regulatory reserve for loan loss		34,997,809	16,438,353
Revaluation reserve – available-for-sale securities		2,736,004	2,107,502
Revaluation reserve – property		5,317,922	5,317,922
Pension reserve		8,109,502	8,251,792
Total other reserves	$	58,623,186	39,577,518

(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*

		2018	2017
Balance at beginning of year	$	16,438,353	14,028,439
Increase in reserve for regulatory purposes		18,559,456	2,409,914
Balance at end of year	$	34,997,809	16,438,353

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 available-for-sale securities

		2018	2017
Balance at beginning of year	$	2,107,502	2,112,502
Increase/(decrease) in market value of investment securities, net of tax of $211,293 (2017: $3,333)		628,502	(5,000)
Balance at end of year	$	2,736,004	2,107,502

Certain available-for-sale securities are stated at market value with the unrealised gains (losses) reflected in equity until realised.

(d) Revaluation reserve - Property

		2018	2017
Balance at beginning and end of year	$	5,317,922	5,317,922

A revaluation of land and buildings was conducted in 2014 (note 15).

(e) Pension reserve

		2018	2017
Balance at beginning of year	$	8,251,792	7,922,682
(Decrease)/increase in pension reserve		(142,290)	329,110
Balance at end of year	$	8,109,502	8,251,792

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

		2018	2017
Fees and commissions	$	8,865,011	7,131,533
Foreign exchange		4,701,236	3,843,827
Dividend income		325,561	402,924
Rental income		144,576	101,100
Recovery of loans written off		128,189	184,581
Miscellaneous income		354,272	263,825
Total other operating income	$	14,518,845	11,927,790

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.

		2018	2017
Net profit attributable to shareholders	$	19,717,158	20,262,468
Weighted average number of ordinary shares in issue		10,000,000	10,000,000
Basic and diluted earnings per share	$	1.97	2.03

27. General and administrative expenses

	Notes		2018	2017
Salaries and related costs	29	$	13,605,072	12,684,650
Software operating expenses			1,755,525	930,573
Utilities			770,487	799,258
Advertising and promotion			755,631	714,315
Telephone and data charges			690,619	784,372
Legal and other professional fees			562,379	378,839
Printing and stationery expenses			535,548	497,130
Subscriptions and fees			514,610	528,039
Security services			503,877	519,402
Insurance expense			477,159	494,086
Cash purchases expenses			471,000	135,800
Rent			431,143	502,470
Cleaning expenses			428,754	417,988
Repairs and maintenance			410,185	420,712
Audit fees and expenses			397,750	397,750
Licenses and taxes			366,264	357,126
Night depository security			333,366	324,296
Four C's operating expenses			256,830	222,978
ECCB and foreign exchange expenses			226,309	131,864
Shareholders' meeting expenses			224,408	171,786
Donations			162,539	44,439
Scholarship fund			120,607	108,845
Wire services expense			105,977	101,539
Non-credit losses			98,244	401,962
ECACH Charges			93,844	129,369
Agency expenses			80,413	216,724
Vehicle expenses			77,192	65,054
Securities Brokerage commission expenses			61,500	101,185
Travel and entertainment			38,519	23,979
Hospitality Suite			25,000	25,000
Bank Charges			5,559	-
Miscellaneous expenses			76,025	94,563
Total general and administrative expenses		$	24,662,335	22,726,094

(Expressed in Eastern Caribbean Dollars)

28. Cash and cash equivalents

	Notes		2018	2017
Due from other banks	9	$	16,724,368	20,707,644
Cash balances with the Central Bank	8		167,142,965	193,602,434
Treasury bills	10		42,234,619	49,191,060
Investments	14		-	269,393
Total cash and cash equivalents		$	226,101,952	263,770,531

29. Salaries and related costs

		2018	2017
Salaries, wages and allowances	$	10,811,065	10,484,089
Statutory deduction costs		921,835	848,588
Other benefits		813,214	667,515
Training and education		402,061	309,765
Staff incentive scheme		573,531	279,990
Group health and life		240,045	233,947
Pension credit		(156,679)	(139,244)
Total salaries and related costs	$	13,605,072	12,684,650

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:

		2018	2017
Undrawn commitments to extend advances	$	53,286,818	38,053,415

(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, 2018			
Loan commitments (undrawn)	$	53,286,818	53,286,818

		Up to 1 year	Total
As of September 30, 2017			
Loan commitments (undrawn)	$	38,053,415	38,053,415