Consolidated Financial Statements of

ANTIGUA COMMERCIAL BANK LTD.

September 30, 2020

(Expressed in Eastern Caribbean dollars)

ANTIGUA COMMERCIAL BANK LTD.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Antigua Commercial Bank Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Antigua Commercial Bank Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at September 30, 2020, 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, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Information

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

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

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

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Other Information *(cont'd)*
When we read the Group's 2020 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT *(cont'd)*

To the Shareholders of Antigua Commercial Bank Ltd.

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

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

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

KPMG

Chartered Accountants
February 19, 2021

Antigua and Barbuda

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Financial Position

As at September 30, 2020
with comparative figures for 2019

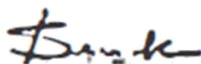
(Expressed in Eastern Caribbean Dollars)

	Notes		2020	2019
Assets				
Cash and balances with the Central Bank	8	$	133,128,669	169,110,446
Due from other banks	9		184,531,368	97,482,109
Treasury bills	10		95,694,151	89,836,565
Statutory deposit	11		6,869,059	5,965,440
Loans and advances	12		659,165,380	674,762,574
Other assets	13		21,428,477	15,434,041
Investment securities	14		153,813,115	184,810,677
Property and equipment	15		34,739,303	34,529,550
Right-of-use asset	16		516,351	-
Pension asset	17		7,128,904	7,561,763
Total Assets		$	1,297,014,777	1,279,493,165
Liabilities and Equity				
Liabilities				
Income tax payable	21	$	1,335,016	3,826,505
Deposits due to customers	18		1,033,687,159	1,008,480,032
Lease liability	16		518,599	-
Provisions and other liabilities	19		19,295,397	16,793,189
Deferred tax liability	21		3,589,557	5,775,417
Total Liabilities			1,058,425,728	1,034,875,143
Equity				
Stated capital	23		36,000,000	36,000,000
Statutory reserve	24		26,059,962	26,059,962
Other reserves	25		70,978,497	75,160,350
Retained earnings			105,550,590	107,397,710
Total Equity			238,589,049	244,618,022
Total Liabilities and Equity		$	1,297,014,777	1,279,493,165

Approved for issue by the Board of Directors on February 19, 2021 and signed on its behalf by:

Chairman

Director



Director

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

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Income

For the year ended September 30, 2020
with comparative figures for 2019

(Expressed in Eastern Caribbean Dollars)

	Notes		2020	2019
Interest income				
Income from loans and advances		$	45,325,045	52,366,010
Income from deposits with other banks and investments			9,855,992	12,237,396
			55,181,037	64,603,406
Interest expense				
Savings accounts			10,643,060	10,117,888
Time deposits and current accounts			4,138,411	4,393,344
Investment expenses			48,624	28,777
			14,830,095	14,540,009
Net interest income			40,350,942	50,063,397
Other operating income	26		18,767,525	16,927,728
Total income			59,118,467	66,991,125
Operating expenses				
General and administrative expenses	29		28,648,511	28,923,335
Depreciation	15		2,263,820	2,198,204
Depreciation on right-of-use asset	16		309,811	-
Directors' fees and expenses	22		949,437	944,182
Provision for loan impairment	12		22,609,895	10,874,896
Provision for impairment of other financial assets	32		1,861,576	7,790
Property – revaluation adjustment	15		-	(1,300,392)
			56,643,050	41,648,015
Profit before tax			2,475,417	25,343,110
Taxation				
Current tax expense			990,667	3,888,538
Deferred tax (credit) expense			(1,945,628)	719,141
	21		(954,961)	4,607,679
Profit for the year		$	3,430,378	20,735,431
Earnings per share	27	$	0.34	2.07

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

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended September 30, 2020
with comparative figures for 2019

(Expressed in Eastern Caribbean Dollars)

	Notes		2020	2019
Profit for the year		$	3,430,378	20,735,431
Other comprehensive income:				
Items net of tax that will never be reclassified subsequently to profit or loss:				
Increase in fair value of FVOCI equity securities, net of taxes of $1,980 (2019: $1,979)	25		3,336,529	5,934
Revaluation surplus due to increase in fair value of property	15		-	585,000
Actuarial loss for the year, net of taxes of $236,786 (2019: $280,844)	17		(710,357)	(842,534)
Other comprehensive income/(loss) for the year		$	2,626,172	(251,600)
Total comprehensive income for the year		$	6,056,550	20,483,831

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

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Cash Flows

For the year ended September 30, 2020
with comparative figures for 2019

(Expressed in Eastern Caribbean Dollars)

	Notes		2020	2019
Cash flows from operating activities				
Profit for the year		$	3,430,378	20,735,431
Items not affecting cash:				
Provision for loan impairment	12		22,609,895	10,874,896
Provision for impairment of other financial assets	32		1,861,577	7,790
Depreciation	15, 16		2,573,631	2,198,204
Loss on disposal of PPE			34,213	-
Pension income	17		(114,757)	(173,144)
Property revaluation adjustment	15		-	(1,300,392)
Interest income			(55,181,037)	(64,603,406)
Interest expense			14,830,095	14,540,009
Tax (credit) expense	21		(954,961)	4,607,679
Cash flows used in operating activities before changes in operating assets and liabilities			(10,910,966)	(13,112,933)
Change in statutory deposit			(903,619)	(90,628)
Change in other receivables and other assets			(11,383,390)	6,219,102
Change in loans and advances			(4,116,442)	(31,519,633)
Change in deposits due to customers			25,018,302	35,585,840
Change in provisions and other liabilities			2,252,946	(3,320,181)
Cash flows from/(used in) operating activities before interest, taxes and pension contributions			(43,169)	(6,238,433)
Interest received			52,767,394	63,123,298
Interest paid			(14,641,270)	(14,526,400)
Taxes paid			(3,482,156)	(1,184,051)
Pension contributions paid			(399,527)	(402,495)
Net cash flows provided by operating activities			34,201,272	40,771,919
Cash flows from investing activities				
Redemption of investment securities			39,908,997	19,843,110
Redemption (Purchase) of short-term investments			10,000,000	(25,000,000)
Purchase of property and equipment	15		(2,507,786)	(2,230,555)
Purchase of investment securities			(49,045,890)	(52,292,708)
Net cash flows used in investing activities			(1,644,679)	(59,680,153)
Cash flows from financing activities				
Payment of lease liabilities	16		(320,811)	-
Dividends paid	20		(5,000,000)	(4,000,000)
Net cash flows used in financing activities			(5,320,811)	(4,000,000)
Net increase (decrease) in cash and cash equivalents			27,235,782	(22,908,234)
Cash and cash equivalents, beginning of year			203,193,718	226,101,952
Cash and cash equivalents, end of year	28	$	230,429,500	203,193,718

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

ANTIGUA COMMERCIAL BANK LTD.

Consolidated Statement of Changes in Equity

For the year ended September 30, 2020
with comparative figures for 2019

(Expressed in Eastern Caribbean Dollars)

	Notes	Stated Capital	Statutory Reserve	Revaluation Reserve: FVOCI Investments	Capital Reserve	Revaluation Reserve-PPE	Pension Reserve	Regulatory Loan Loss Reserve	Retained Earnings	Total
Balance at September 30, 2019		$ 36,000,000	26,059,962	19,235,907	7,461,949	5,902,922	7,561,763	34,997,809	107,397,710	244,618,022
Profit for the year		-	-	-	-	-	-	-	3,430,378	3,430,378
Other comprehensive income		-	-	3,336,529	-	-		-	(710,357)	2,626,172
Total comprehensive income		-	-	3,336,529	-	-		-	2,720,021	6,056,550
Transfer to reserve fund	24	-	-	-	-	-	-	-	-	-
Decrease in reserve for loan loss	25	-	-	-	-	-	-	(7,085,523)	-	(7,085,523)
Decrease in pension reserve	25	-	-	-	-	-	(432,859)	-	432,859	-
Transactions with owners										
Dividends paid	20	-	-	-	-	-	-	-	(5,000,000)	(5,000,000)
Balance at September 30, 2020		$ 36,000,000	26,059,962	22,572,436	7,461,949	5,902,922	7,128,904	27,912,286	105,550,590	238,589,049

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

ANTIGUA COMMERCIAL BANK LTD.

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

For the year ended September 30, 2020
with comparative figures for 2019

(Expressed in Eastern Caribbean Dollars)

	Notes		Stated Capital	Statutory Reserve	Revaluation Reserve: FVOCI Investments	Capital Reserve	Revaluation Reserve- PPE	Pension Reserve	Regulatory Loan Loss Reserve	Retained Earnings	Total
Balance at September 30, 2018 as previously stated		$	36,000,000	23,459,372	2,736,004	7,461,949	5,317,922	8,109,502	34,997,809	100,307,865	218,390,423
Changes on initial application of IFRS 9			-	-	16,493,969	-	-	-	-	(6,750,201)	9,743,768
Restated balance at October 1, 2018			36,000,000	23,459,372	19,229,973	7,461,949	5,317,922	8,109,502	34,997,809	93,557,664	228,134,191
Profit for the year			-	-	-	-	-	-	-	20,735,431	20,735,431
Other comprehensive income			-	-	5,934	-	585,000	-	-	(842,534)	(251,600)
Total comprehensive income			-	-	5,934	-	585,000	-	-	19,892,897	20,483,831
Transfer to reserve fund	24		-	2,600,590	-	-	-			(2,600,590)	-
Decrease in pension reserve	25		-	-	-	-	-	(547,739)	-	547,739	-
Transactions with owners											
Dividends paid	20		-	-	-	-	-	-	-	(4,000,000)	(4,000,000)
Balance at September 30, 2019		$	36,000,000	26,059,962	19,235,907	7,461,949	5,902,922	7,561,763	34,997,809	107,397,710	244,618,022

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

1. Nature of operations

The principal activity of Antigua Commercial Bank Ltd. ("the Bank") and its subsidiaries (together "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.

The significant subsidiary of the Group along with the ownership interest as at 2020 and 2019 is as follows:

- ACB Mortgage and Trust Company Limited – 100% interest

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 February 19, 2021.

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

- Debt and equity investments measured at fair value through profit or loss
- Equity investments designated at fair value through other comprehensive income
- Land and buildings measured at revalued amounts
- Net defined benefit asset, which is measured at the fair value of plan assets less the present value of the defined benefit obligation.

3. Changes in accounting policies

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

IFRS 16 *Leases*

The Group has initially applied IFRS 16 *Leases* from October 1, 2019.

The Group applied IFRS 16 using the modified retrospective approach, under which the right-of-use assets are equivalent to the lease liabilities, thereby no adjustment was recognised in retained earnings at October 1, 2019. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

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

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

IFRS 16 *Leases* *(cont'd)*

(a) *Definition of a lease*
Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*, issued by IFRS Interpretations Committee (IFRIC). The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 4.12.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after October 1, 2019.

(b) *As a lessee*
As a lessee, the Group leases commercial space. The Group previously classified leases as operating based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property, the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17
Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at October 1, 2019. The Group opted for the measurement of the right-of-use assets equivalent to the lease liabilities at transition date as permitted by IFRS 16 transition options.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

– did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
– did not recognise right-of-use assets and liabilities for leases of low value assets;
– excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
– used hindsight when determining the lease term.

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

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

IFRS 16 *Leases* *(cont'd)*

(c) As a lessor

The Group leases out its own property (ground and 2nd floors). The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group does not sub-lease any of its properties.

The Group has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

(d) Impact on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, at the same amount, thereby, no adjustment was made to the retained earnings at transition. The impact on transition is summarised below.

		October 1, 2019
Right-of-use assets	$	826,162
Lease liabilities		826,162
Retained earnings	$	-

For the impact of IFRS 16 on profit or loss for the year, see note 16. For the details of accounting policies under IFRS 16 and IAS 17, see note 4.12.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at October 1, 2019. The weighted average rate applied is 2%.

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

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

IFRS 16 ***Leases*** *(cont'd)*

(d) Impact on transition (cont'd)

		October 1, 2019
Operating lease commitments as at September 30, 2019	$	472,087
Weighted average incremental borrowing rate as at October 1, 2019		2%
Discounted operating lease commitments at October 1, 2019		431,433
Add: Lease payments relating to renewal periods not included in operating lease commitments as at September 30, 2019		394,729
Less: Commitments relating to short-term leases or low value assets		-
Lease liabilities as at October 1, 2019	$	826,162

IFRIC 23 ***Uncertainty over Income Tax Treatments***

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

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

There was no impact on the Group's financial statements from the adoption of this interpretation.

Amendments to IFRS 9 ***Financial Instruments***

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

There was no impact on the Group's financial statements from the adoption of this amendment.

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, 2019 and earlier application is permitted; however, the Group has not early adopted these new or amended standards in preparing these consolidated financial statements.

None of these is expected to have a significant impact on the Group's financial statements.

4. Summary of significant accounting policies

4.1 Overall considerations

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

4.2 Cash and cash equivalents

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

4.3 Financial instruments

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

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

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

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

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

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

4.3 Financial instruments *(cont'd)*

Classification and subsequent measurement of financial assets

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

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

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

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

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

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

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

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

4.3 Financial instruments *(cont'd)*

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

Business model assessment
IFRS 9 requires that financial assets are classified on the basis of the Group's business model for managing such assets unless it makes an irrevocable election to designate the asset at fair value through profit or loss. The business model refers to how financial assets are managed in order to generate cash flows. The Group determines its business model at the level that best reflects how it manages its portfolios of financial assets to achieve its business objectives. Judgment is used in determining the Group's business models that is supported by relevant, objective evidence including:

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

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

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

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

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

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

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

4.3 Financial instruments *(cont'd)*

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

Assessment of whether contractual cash flows are solely payments of principal and interest - SPPI assessment

For classification purposes the Group first reviews the terms of the instruments to determine whether they give rise on specified dates to cash flows that meet the SPPI test.

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

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

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

Classification and Measurement under IFRS 9 – Applicability to the Group

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

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

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

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

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

4.3 Financial instruments *(cont'd)*

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

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

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

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

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

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

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

The Group has certain investments in this category.

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

The Group has certain equity investments in this category.

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

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

The Group has certain equity investments in this category.

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

4.3 Financial instruments *(cont'd)*

<u>Impairment of financial assets</u>

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

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

No impairment loss is recognized on equity investments.

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

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

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

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

Credit impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

4.3 Financial instruments *(cont'd)*

Impairment of financial assets *(cont'd)*

Credit impaired financial assets *(cont'd)*
A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, the Group considers that default has occurred and classifies a retail loan as credit impaired when it is more than 90 days past due.

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

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

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

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

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

The Group considers that significant increase in credit risk occurs for debt investments when investments with investment grade rating at acquisition moves to a non-investment grade but above a default grade. For debt investments with a non-investment grade at acquisition, a significant increase in credit risk occurs when there is an unfavorable movement in the ratings relative to the rating at initial recognition, including movement to a lower end of non-investment grade.

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

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

4.3 Financial instruments *(cont'd)*

Impairment of financial assets *(cont'd)*

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

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

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

- *Undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and

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

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

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

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

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

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

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

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

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

(Expressed in Eastern Caribbean Dollars)

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

4.3 Financial instruments *(cont'd)*

Impairment of financial assets *(cont'd)*

Measurement of ECL *(cont'd)*
The Group applied experienced judgement in selecting macroeconomic factors that would most likely impact credit risk and leveraged various third party macroeconomic forecasts when determining the forward looking factors. The macroeconomic projections considered by the Group were:

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

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

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

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

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

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

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

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

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

4.3 Financial instruments *(cont'd)*

Impairment of financial assets *(cont'd)*

Presentation of allowance for ECL

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

- *Financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *Loan commitments and financial guarantee contracts:* generally, as a provision;
- *Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component:* The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

Write-off

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

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

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.

Offsetting financial instruments

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

Income and expenses are presented on a net basis only when permitted under IFRS or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Amortised cost measurement

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

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

4.3 Financial instruments *(cont'd)*

Fair value measurement

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

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

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

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

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

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

Modifications of financial assets and financial liabilities

Financial assets

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

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

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

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

4.3 Financial instruments *(cont'd)*

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

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

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

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

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

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

(Expressed in Eastern Caribbean Dollars)

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.

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.

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

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

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 20).

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

Effective interest rate
Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount
The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense
The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 4.3.

(Expressed in Eastern Caribbean Dollars)

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

4.8 Interest income and expense *(cont'd)*

Presentation
Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

– interest on financial assets and financial liabilities measured at amortised cost

Interest expense presented in the statement of profit or loss and OCI includes:

– financial liabilities measured at amortised cost; and

– interest expense on lease liabilities.

4.9 Fee and commission income and revenue recognition

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission income – including account servicing fees and syndication fees – is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

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

Policy applicable from October 1, 2019
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after October 1, 2019.

As a lessee
At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term.

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

4.12 Leased assets *(cont'd)*

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately in the statement of financial position.

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

4.12 Leased assets *(cont'd)*

As a lessor
When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of "other operating income".

The accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before October 1, 2019

As a lessee
Operating leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All 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.

As a lessor
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All payments made under operating leases are recorded in "other operating income" in profit or loss on a straight-line basis over the lease term.

4.13 Repurchase agreements

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

4.14 Current and deferred income taxes

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

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

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

4.14 Current and deferred income taxes *(cont'd)*

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.

4.17 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 25 for details on each component of other reserves.

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

4.18 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Other loan commitments issued are measured at the sum of (i) the loss allowance determined in accordance with IFRS 9 and (ii) the amount of any fees received, less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognised. Derecognition policies for financial assets (see Note 4.3) are applied to loan commitments issued and held.

The Group has issued no loan commitments that are measured at FVTPL.

Liabilities arising from financial guarantees and loan commitments are included within "provisions and other liabilities" on the statement of financial position.

4.19 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.

Business combinations
The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

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

4.19 Basis of consolidation *(cont'd)*

Subsidiaries
'Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity if 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 Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

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.

Non-controlling interests
NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

5. Financial risk management

Risk management framework

The Group's Board of Directors has overall responsibility for the establishment and oversight of its risk management framework. The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to retail banking, and operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Management identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides oversight for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. The Audit and Risk Management Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

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

Risk management framework *(cont'd)*

COVID 19

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Governments and regulatory bodies in affected areas, including Antigua, have imposed a number of measures designed to contain the outbreak, including government-mandated social distancing measures, travel restrictions, quarantines, and stay at home directives. The breadth and depth of the impact of COVID-19 on the global economy and financial markets continues to evolve with disruptive effects. The specific impact on the economy of Antigua and Barbuda, which is largely driven by tourism has been significant. This has resulted in increased unemployment, hotel closures/hotel operations at reduced occupancy levels for those which remained opened and reduced revenue for businesses, financial institutions and the Government.

While some of the Government and Regulatory measures have been eased across regions and the economy has started to recover, subsequent spikes in the virus have caused some measures to be reinstated and future economic activity to be uncertain. This has also been the case in Antigua, and the Government continues to monitor the number of active cases.

COVID-19 continues to impact the Group's employees, customers and community, impacting the Group's operations, financial results as well as present and future risks to the Group's business. The Group is closely monitoring the potential effects and impact of the pandemic, which is an evolving situation.

The Antigua government and the Group's Regulator, the Eastern Caribbean Central Bank have taken, and are continuing to take, significant measures to provide economic assistance to individual households and businesses, stabilize the market, and support economic growth. The effectiveness of these programs will depend on the duration and scale of COVID-19.

The Group's risk and capital management framework continues to be applied and the Group continues to monitor the impact of COVID-19 on the Group's risk and capital profile. Non-financial risks emerging from global movement restrictions, and remote working by staff, counterparties and customers are being identified, assessed, managed and governed through timely application of the Group's Risk Management Framework.

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.

5.1.1 Credit risk management

Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk including risk on debt securities, cash, loans and advances, credit cards and loan commitments. The Board of Directors created the Credit Committee for the oversight of credit risk. A separate Credit department reports to the Credit Committee, which is responsible for managing the Group's credit risk, including the following:

(Expressed in Eastern Caribbean Dollars)

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

5.1 Credit risk *(cont'd)*

5.1.1 Credit risk management *(cont'd)*

– *Formulating credit policies* covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

– *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated, with larger facilities requiring approval by the Credit Committee or the Board of Directors, as appropriate.

– *Reviewing and assessing credit risk*: all credit exposures in excess of designated limits are assessed, before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process.

– *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).

– *Developing and maintaining the Group's processes for measuring EC*L: This includes processes for:

- initial approval, regular validation and back-testing of the models used;
- determining and monitoring significant increase in credit risk; and
- incorporation of forward-looking information.

– *Reviewing compliance* with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of portfolios are provided to the Credit Committee, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.

– *Providing advice, guidance and specialist skills* to promote best practice throughout the Group in the management of credit risk.

Regular audits of credit processes are undertaken by Internal Audit.

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

5.1 Credit risk *(cont'd)*

5.1.1 Credit risk management *(cont'd)*

(a) Loans and advances

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of the counterparty. These have been developed based on the Eastern Caribbean Central Bank guidelines. Customers of the Group are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are reviewed and upgraded as necessary.

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

(b) Debt securities and other bills

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

(c) Credit card receivables

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

5.1.2 Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified, in particular to individual counterparties and groups, and to industries.

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

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

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Lending limits are reviewed in light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

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

5.1 Credit risk *(cont'd)*

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

The following specific control and mitigation measures are also utilised:

(a) Collateral

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

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

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

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

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

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

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

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

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

5.1 Credit risk *(cont'd)*

5.1.3 Impairment and provisioning policies

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

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

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

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

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

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

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

	2020		**2019**	
Group's rating	**Credit risk exposure**	**Impairment allowance**	**Credit risk exposure**	**Impairment allowance**
	(%)	**(%)**	**(%)**	**(%)**
Pass	63	7	30	5
Special mention	24	5	48	5
Sub-standard	6	11	9	16
Doubtful	7	73	13	74
Loss	-	4	-	-
	100	100	100	100

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

5.1 Credit risk *(cont'd)*

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

The mortgage subsidiary company had, on average 93% of its loan portfolio at a pass rating for the financial year ended September 30, 2020 (2019: 91%).

The internal rating tool assists management to determine whether objective evidence indicates that a facility has become credit impaired, based on the following criteria set out by the Group:

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

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Expected credit losses are determined for these accounts based on a combination of the probability of default, loss given default and the exposure at default. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

COVID-19

The COVID-19 pandemic's significant impact to the economy and the different stages of lockdown and re-opening, resulted in continued uncertainty with timing of recovery. This required additional considerations to determine the allowance for credit losses this year.

In response to the pandemic, and based on regulatory support during the period, the Group introduced a support mechanism for customers impacted by COVID-19, including the deferral of payments for an initial period of six months. The option to extend for an additional twelve months is available to all customers who still display challenges in meeting their loan commitments.

The ECL methodology, model inputs, significant increase in credit risk (SICR) thresholds, and definition of default remain consistent with those used as at September 30, 2019. Forward-looking information, scenarios and associated weightings, were revised to reflect the unprecedented impact of the COVID-19 pandemic, and the resulting significant uncertainty as it relates to current conditions and outlook.

IFRS 9 requires the consideration of past events, current conditions and reasonable and supportable forward-looking information over the life of the exposure to measure expected credit losses. Furthermore, to assess significant increase in credit risk, the Standard requires that entities assess changes in the risk of a default occurring over the expected life of a financial instrument when determining staging. The IASB and global regulators issued guidance for entities, consistent with IFRS 9, to consider the exceptional circumstances of the COVID-19 pandemic. This includes consideration of significant government support and the high degree of uncertainty around historical long-term economic trends used in determining reasonable and supportable forward-looking information.

(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)*

COVID-19 *(cont'd)*
The Group's models are calibrated to consider past performance and macroeconomic forward-looking variables as inputs. Expert credit judgement is applied to consider the exceptional circumstances this period, including consideration of government assistance programs, in the assessment of underlying credit deterioration and migration of balances to progressive stages.

Consistent with requirements of IFRS 9, the Group considered both quantitative and qualitative information in the assessment of significant increase in risk. First time utilization of a payment deferral program was not considered an immediate trigger, in keeping with IASB and regulatory guidance, for an account to migrate to a progressive stage, given that the purpose of these programs is to provide temporary cashflow relief to the Group's customers. Early observations of payment behaviour of expiries for this year were considered in the assessment of the longer-term probability of the customers' ability to pay, a key input in determining migration. Consequently, the Group also determined that the extension of the initial payment deferral period was an indicator that credit risk had significantly increased and these exposures were migrated to the next stage.

A key input into the Group's expected credit loss provisioning model is the incorporation of forward-looking macroeconomic sensitivity as required per the IFRS 9 guidance. The Group continues to utilize an economic scorecard model based on qualitative rationale and management judgment to calculate a "Forward Looking Factor" (FLF). During this period, the Group considered whether there were any other macroeconomic factors that would most likely impact credit risk given the impacts of COVID-19. Based on this assessment, the Group continued to consider the following macroeconomic projections:

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

The Group then continued to employ a Forward Looking Factor Scorecard approach to compute adjustment factors applied to the final PD estimates used to calculate the ECLs. While this approach continues to consider various economic scenarios (negative, neutral, positive) and their estimated impacts to the ECL, during this period, more weighting was placed on the negative scenario. In addition, considering the adverse economic impact brought on by COVID-19, management further considered an overlay to account for changes in the macroeconomic environment due to COVID-19. The mitigating impact of government support measures was considered in the determination of these overlays to the extent not already reflected in our models.

(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)*

COVID-19: Impact of deferral programs

The table below sets out the gross credit risk exposures which remain on deferral at September 30, 2020:

Stage 1	$ 263,819,279
Stage 2	85,205,479
Stage 3	1,826,931
Total	$ 350,851,689

Options available for customers upon expiry of the initial deferral period included:

- extension of moratoriums for up to an additional 12 months
- resuming regular repayments
- extension of loan terms
- converting outstanding interest to a separate loan and
- consolidation of debt

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

	Maximum Exposure	
	2020	**2019**
Credit risk exposures relating to on-balance sheet assets		
Due from other banks	$ 184,531,368	97,482,109
Treasury bills	95,694,151	89,836,565
Statutory deposits	6,869,059	5,965,440
Loans and advances to customers	659,165,380	674,762,574
Investment securities:		
Amortised cost	64,382,962	104,342,357
FVTPL	41,547,461	42,166,783
Other assets	19,713,991	13,966,051
	$ 1,071,904,372	1,028,521,879
Credit risk exposures relating to off-balance sheet assets		
Loan commitments and other credit related obligations	57,600,939	61,370,469
At September 30	$ 1,129,505,311	1,089,892,348

(Expressed in Eastern Caribbean Dollars)

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

5.1 Credit risk *(cont'd)*

5.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements *(cont'd)*

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

As shown above, 62% of the total maximum exposure is derived from loans and advances to customers (2019: 66%); 6% represents investments in debt securities (2019: 10%).

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

- Business loans, which represents the biggest group in the portfolio, are backed by collateral; and
- 80% of loans and advances portfolio are considered to be neither past due nor impaired (2019: 76%).

5.1.5 Loans and advances

Loans and advances are summarised as follows:

		Loans and advances to customers	
		2020	2019
Neither past due nor impaired	$	547,101,321	520,668,163
Past due but not impaired		76,947,078	111,901,348
Individually impaired		64,944,879	60,260,836
Gross		688,993,278	692,830,347
Interest receivable		18,747,315	17,201,729
Deferred interest income		(90,655)	(3,357,430)
Deferred fees		(2,096,498)	(2,162,758)
Less: allowance for impairment		(46,388,060)	(29,749,314)
Net		659,165,380	674,762,574
Allowance for impairment:			
Expected credit losses		46,388,060	29,749,314
Total	$	46,388,060	29,749,314

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, 2020							
Grades							
Standard monitoring	$	12,431	46,201,624	155,906,327	202,421,222	17,261,376	421,802,980
Special monitoring		23,627	1,089,180	586,581	118,000,332	5,598,621	125,298,341
Total	$	36,058	47,290,804	156,492,908	320,421,554	22,859,997	547,101,321
September 30, 2019							
Grades							
Standard monitoring	$	90,080	41,652,312	126,652,596	287,787,058	11,611,827	467,793,873
Special monitoring		436,577	2,156,897	-	43,651,358	6,629,458	52,874,290
Total	$	526,657	43,809,209	126,652,596	331,438,416	18,241,285	520,668,163

Special monitoring relates to facilities for which the Group applies more active on-going review due to increases in credit risk.

(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, 2020							
Past due up to 30 days	$	-	424,917	6,047,952	4,289,775	1,341,528	12,104,172
Past due 31 – 60 days		-	821,075	3,314,815	28,782,335	-	32,918,225
Past due 61 – 90 days		-	65,925	838,768	-	442,391	1,347,084
Past due 90 days and over		11,366	858,685	3,106,942	20,165,278	6,435,326	30,577,597
Total	$	11,366	2,170,602	13,308,477	53,237,388	8,219,245	76,947,078
September 30, 2019							
Past due up to 30 days	$	-	2,196,370	29,251,275	742,087	-	32,189,732
Past due 31 – 60 days		-	897,249	3,104,992	36,149,612	1,197,646	41,349,499
Past due 61 – 90 days		-	448,269	3,708,325	5,820,854	-	9,977,448
Past due 90 days and over		1,105,295	1,757,960	7,744,686	16,632,292	1,144,436	28,384,669
Total	$	1,105,295	5,299,848	43,809,278	59,344,845	2,342,082	111,901,348

(Expressed in Eastern Caribbean Dollars)

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

5.1 Credit risk *(cont'd)*

5.1.5 Loans and advances *(cont'd)*

(c) *Loans and advances individually impaired*

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held amounts to $64,944,879 (2019: $60,260,836).

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, 2020								
Gross amount	$	286,992	1,691,656	1,471,228	5,277,803	51,784,913	4,432,287	64,944,879
Amount provided	$	286,991	1,223,039	783,786	460,385	22,097,656	1,605,998	26,457,855
September 30, 2019								
Gross amount	$	1,728,932	1,691,656	2,237,764	5,239,705	47,007,904	2,354,875	60,260,836
Amount provided	$	1,728,932	1,223,039	1,444,720	254,347	14,001,909	862,499	19,515,446

(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.

		2020	2019
Renegotiated loans and advances to individuals	$	1,220,555	4,173,034
Renegotiated loans and advances to corporations		-	6,905,841
	$	1,220,555	11,078,875

COVID-19: Modifications
The terms and conditions related to the payment deferrals were assessed to determine if they represented substantial modifications where required modification gains or losses have been recognized.

5.1.6 Debt securities, treasury bills and other eligible bills

A number of qualitative and quantitative factors are considered in assessing the risk associated with each investment. However, there is no hierarchy of ranking. The tables below present an analysis of debt securities, treasury bills and other eligible bills at September 30, 2020 and 2019:

	Treasury Bills	Amortised cost	FVTPL	Total
	$	$	$	$
At September 30, 2020				
Rated	-	28,750,916	41,547,461	70,298,377
Unrated	96,163,108	39,713,231	-	135,876,339
	96,163,108	68,464,147	41,547,461	206,174,716

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

Based on Standard & Poor's ratings, the securities rated were rated from AA+ to BBB- in 2020 and 2019.

(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 Group 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
2020:					
Credit risk exposures relating to on-balance sheet assets:					
Due from other banks	$	3,011,218	41,301,145	140,219,005	184,531,368
Statutory deposits		6,869,059	-	-	6,869,059
Treasury bills		32,035,649	63,658,502	-	95,694,151
Investment Securities:					
Amortised Cost		1,552,705	41,204,216	21,626,041	64,382,962
FVTPL		-	-	41,547,461	41,547,461
Loans and advances		655,915,711	2,662,448	587,221	659,165,380
Other assets		19,713,991	-	-	19,713,991
		719,098,333	148,826,311	203,979,728	1,071,904,372
Credit risk exposures relating to off-balance sheet assets:					
Loan commitments and other credit related facilities		57,600,939	-	-	57,600,939
September 30, 2020	$	776,699,272	148,826,311	203,979,728	1,129,505,311

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

(Expressed in Eastern Caribbean Dollars)

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

5.1 Credit risk *(cont'd)*

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

(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	184,531	-	-	-	-	-	-	184,531
Treasury bills	-	-	-	-	95,694	-	-	95,694
Statutory deposits	-	-	-	-	6,869	-	-	6,869
Loans and advances	-	87,669	34,904	78,483	140,241	79,374	238,494	659,165
Investment securities:								
- Amortised Cost	24,229	-	-	-	28,809	11,345	-	64,383
- FVTPL – Bonds	41,548	-	-	-	-	-	-	41,548
Other assets	-	-	-	-	-	19,714	-	19,714
As of September 30, 2020	250,308	87,669	34,904	78,483	271,613	110,433	238,494	1,071,904

(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	97,482	-	-	-	-	-	-	97,482
Treasury bills	-	-	-	-	89,837	-	-	89,837
Statutory deposits	-	-	-	-	5,965	-	-	5,965
Loans and advances	-	94,909	25,150	99,421	129,500	103,768	222,015	674,763
Investment securities:								
- Amortised Cost	9,127	-	-	-	87,162	8,053	-	104,342
- FVTPL - Bonds	42,167	-	-	-	-	-	-	42,167
Other assets	-	-	-	-	-	13,966	-	13,966
As of September 30, 2019	148,776	94,909	25,150	99,421	312,464	125,787	222,015	1,028,522

(Expressed in Eastern Caribbean Dollars)

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

5.1 Credit risk *(cont'd)*

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

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

	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	-	4,083	-	4,999	10,365	18,004	20,150	57,601
As of September 30, 2020	-	4,083	-	4,999	10,365	18,004	20,150	57,601
Loan commitments and other credit related obligations	-	3,295	-	3,345	9,124	33,988	11,618	61,370
As of September 30, 2019	-	3,295	-	3,345	9,124	33,988	11,618	61,370

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 FVOCI 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 FVOCI. 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

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

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

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard interest rate scenarios.

(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, 2020								
Assets								
Cash and balances with the Central Bank	$ -	-	-	-	-	-	133,128,669	133,128,669
Statutory deposits	-	-	-	-	-	-	6,869,059	6,869,059
Due from other banks	96,796,683	3,848,000	1,161,000	60,511,400	-	-	22,214,285	184,531,368
Treasury bills	45,621,765	4,784,690	45,287,696	-	-	-	-	95,694,151
Investment securities:								
- Amortised cost	5,359,096	18,870,076	10,826,041	10,800,000	7,182,979	-	11,344,770	64,382,962
- FVTPL	1,353,907	4,757,694	4,807,807	18,462,261	-	-	12,165,792	41,547,461
Loans and advances	56,886,122	549,841	5,420,175	25,853,474	45,548,550	523,207,707	1,699,511	659,165,380
Other assets	-	-	-	-	4,631,768	-	15,082,223	19,713,991
Total financial assets	$ 206,017,573	32,810,301	67,502,719	115,627,135	57,363,297	523,207,707	202,504,309	1,205,033,041
Liabilities								
Deposits due to customers	$ 743,460,162	38,742,330	53,703,645	132,124,464	-	62,389,687	3,266,871	1,033,687,159
Other liabilities and accrued expenses	502,646	-	-	-	1,408,917	-	17,383,834	19,295,397
Total financial liabilities	743,962,808	38,742,330	53,703,645	132,124,464	1,408,917	62,389,687	20,650,705	1,052,982,556
Total interest repricing gap	$ (537,945,235)	(5,932,029)	13,799,074	(16,497,329)	55,954,380	460,818,020	181,853,604	152,050,485

(Expressed in Eastern Caribbean Dollars)

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

5.2 Market risk *(cont'd)*

5.2.2 Interest rate risk *(cont'd)*

	0 – 3 months	3 – 6 months	6 months – 1 year	1 – 3 years	3 – 5 years	Over 5 years	Non-interest bearing	Total
As of September 30, 2019								
Assets								
Cash and balances with the Central Bank	$ -	-	-	-	-	-	169,110,446	169,110,446
Statutory deposits	-	-	-	-	-	-	5,965,440	5,965,440
Due from other banks	30,258,569	8,600,000	13,332,500	14,079,000	526,500	-	30,685,540	97,482,109
Treasury bills	41,632,689	29,245,039	18,958,837	-	-	-	-	89,836,565
Investment securities:								
- Amortised cost	5,103,351	9,321,833	30,594,427	21,226,968	38,095,778	-	-	104,342,357
- FVTPL	1,624,238	3,281,574	2,273,214	4,546,455	3,080,268	-	27,361,034	42,166,783
Loans and advances	91,675,914	6,943,079	5,702,999	55,827,980	35,085,185	479,437,848	89,569	674,762,574
Other assets	-	-	-	-	-	6,079,861	7,886,190	13,966,051
Total financial assets	$ 170,294,761	57,391,525	70,861,977	95,680,403	76,787,731	485,517,709	241,098,219	1,197,632,325
Liabilities								
Deposits due to customers	$ 719,405,505	43,759,333	75,612,015	96,831,457	-	69,896,329	2,975,393	1,008,480,032
Other liabilities and accrued expenses	470,726	-	-	-	1,248,038	-	15,074,425	16,793,189
Total financial liabilities	719,876,231	43,759,333	75,612,015	96,831,457	1,248,038	69,896,329	18,049,818	1,025,273,221
Total interest repricing gap	$ (549,581,470)	13,632,192	(4,750,038)	(1,151,054)	75,539,693	415,621,380	223,048,401	172,359,104

(Expressed in Eastern Caribbean Dollars)

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

5.2 Market risk *(cont'd)*

5.2.3 Foreign exchange risk

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

(Expressed in Eastern Caribbean Dollars)

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

5.2 Market risk *(cont'd)*

5.2.3 Foreign exchange risk *(cont'd)*

		XCD	USD	EUR	GBP	Others	Total
As of September 30, 2020							
Assets							
Cash and balances with the Central Bank	$	132,663,085	287,345	72,404	56,334	49,501	133,128,669
Statutory deposits		6,869,059	-	-	-	-	6,869,059
Deposits from other banks		30,320,700	154,019,198	35,892	33,089	122,489	184,531,368
Treasury bills		95,694,151	-	-	-	-	95,694,151
Investment securities:							
Amortised cost		20,425,311	43,957,651	-	-	-	64,382,962
FVTPL		-	41,547,461	-	-	-	41,547,461
Loans and advances		618,678,120	40,487,260	-	-	-	659,165,380
Other assets		19,713,991	-	-	-	-	19,713,991
Total financial assets	$	924,364,417	280,298,915	108,296	89,423	171,990	1,205,033,041
Liabilities							
Deposits due to customers	$	979,214,083	54,473,076	-	-	-	1,033,687,159
Provisions and other liabilities		19,295,397	-	-	-	-	19,295,397
Total financial liabilities	$	998,509,480	54,473,076	-	-	-	1,052,982,556
Net on-balance sheet position	$	(74,145,063)	225,825,839	108,296	89,423	171,990	152,050,485

(Expressed in Eastern Caribbean Dollars)

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

5.2 Market risk *(cont'd)*

5.2.3 Foreign exchange risk *(cont'd)*

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

(Expressed in Eastern Caribbean Dollars)

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

5.3 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 take 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 agreements with central banks.

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

(Expressed in Eastern Caribbean Dollars)

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

5.3 Liquidity risk *(cont'd)*

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

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

		0 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Total
As at September 30, 2020							
Liabilities							
Deposits due to customers	$	744,785,590	39,266,239	54,539,676	135,552,896	62,389,780	1,036,534,181
Other liabilities and accrued expenses		-	-	544,041	18,751,356	-	19,295,397
Total liabilities (contractual maturity dates)	$	744,785,590	39,266,239	55,083,717	154,304,252	62,389,780	1,055,829,578
Assets held for managing liquidity risk	$	231,741,578	49,191,301	64,323,137	749,109,895	207,163,520	1,301,529,431
As at September 30, 2019							
Liabilities							
Deposits due to customers	$	719,405,505	43,759,333	75,612,015	99,806,851	69,896,328	1,008,480,032
Other liabilities and accrued expenses		501,930	-	529,912	15,761,347	-	16,793,189
Total liabilities (contractual maturity dates)	$	719,907,435	43,759,333	76,141,927	115,568,198	69,896,328	1,025,273,221
Assets held for managing liquidity risk	$	194,258,585	53,947,774	76,187,688	705,011,535	229,099,278	1,258,504,860

(Expressed in Eastern Caribbean Dollars)

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

5.4 Fair value

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

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

	Carrying value		Fair value	
	2020	**2019**	**2020**	**2019**
Financial Assets				
Statutory deposits	$ 6,869,059	5,965,440	6,869,059	5,965,440
Treasury bills	95,694,151	89,836,565	95,694,151	89,896,522
Due from other banks	184,531,368	97,482,109	184,531,368	97,482,109
Loans and advances	659,165,380	674,762,574	683,664,151	681,306,780
Investment securities	153,813,115	184,810,677	153,683,154	184,401,770
Other assets	19,713,991	13,966,051	19,714,310	13,981,808
	$ 1,119,787,060	1,066,823,416	1,144,156,193	1,073,034,429
Financial Liabilities				
Deposits due to customers	$ 1,033,687,159	1,008,480,032	1,030,889,121	1,006,111,525
Other liabilities and accrued expenses	19,295,397	16,793,189	19,295,397	16,793,189
	$ 1,052,982,556	1,025,273,221	1,050,184,518	1,022,904,714

COVID-19: Valuation of financial instruments

Given market volatility during the year, the Group reviewed the appropriateness of the inputs to its fair values. As a result and as part of the process to determine fair values of financial instruments since the onset of the pandemic, the Group has applied a heightened level of judgement to a broader population of financial instruments than would otherwise generally be required with the objective of determining the fair value that is most representative of those financial instruments.

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.

(Expressed in Eastern Caribbean Dollars)

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

5.4 Fair value *(cont'd)*

- *Deposits from Groups 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 is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is based on cost less any impairment recognised.

5.4.1 Fair value hierarchy

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

- Level 1 - Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. This level includes listed equity securities and debt instruments on exchanges.

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3 - Inputs that are unobservable (not based on observable market data). This category includes all instruments for which the valuation technique includes inputs that are not observable, and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between instruments.

(Expressed in Eastern Caribbean Dollars)

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

5.4 Fair value *(cont'd)*

5.4.1 Fair value hierarchy *(cont'd)*

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

	Level 1	Level 2	Level 3	Total
	$	$	$	$
As at September 30, 2020				
Financial Assets				
Investment Securities:				
FVTPL	53,059,972	-	-	53,059,972
FVOCI – quoted	-	9,357,431	-	9,357,431
FVOCI – unquoted	-	-	27,012,750	27,012,750
Total Assets	53,059,972	9,357,431	27,012,750	89,430,153

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

If the market price on the FVOCI Level 2 investments were to change by +/- 10%, the impact on other comprehensive income would be an increase/decrease of $935,743 (2019: $936,534).

There were no movements in or out of Level 3 during the period (2019: nil).

Level 3 fair value measurements
Unobservable inputs used in measuring fair values

Valuation technique	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Asset based approach with discounts applied where prudent, with subsequent consideration of the Bank's shareholding	Net assets Shareholding percentage	The estimated fair value would increase/(decrease) if: Net assets were higher/(lower) Shareholding increases/(decreases)

(Expressed in Eastern Caribbean Dollars)

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

5.4 Fair value *(cont'd)*

5.4.2 Financial instruments not measured at fair value

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

September 30, 2020 **$'000**		**Level 2**	**Total fair values**	**Total carrying amount**
Assets				
Cash and balances with the Central Bank	$	133,129	133,129	133,129
Due from other banks		184,531	184,531	184,531
Treasury bills		95,694	95,694	95,694
Loans and advances		683,664	683,664	659,165
Amortised cost investment securities		64,383	64,383	64,383
Liabilities				
Deposits due to customers	$	1,030,889	1,030,889	1,033,687

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

(Expressed in Eastern Caribbean Dollars)

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

5.5 Financial assets and liabilities by category

The table below analyses the Group's financial assets and liabilities by category. For financial assets carried at amortised cost, the values below exclude accrued interest receivable where relevant.

	Amortised cost	FVTPL	FVOCI	Total
	$	$	$	$
As of September 30, 2020				
Assets				
Due from banks and other financial institutions	316,722,973	-	-	316,722,973
Investment securities	67,771,432	53,059,972	36,370,181	157,201,585
Loans and advances	642,605,218	-	-	642,605,218
Other financial assets	19,713,991	-	-	19,713,991
Treasury bills	94,589,960	-	-	94,589,960
Total financial assets	1,141,403,574	53,059,972	36,370,181	1,230,833,727

	Financial Liabilities at amortised cost	Total
Liabilities		
Deposits due to customers	$ 1,029,632,699	1,029,632,699
Other liabilities and accrued expenses	3,705,369	3,705,369
Total financial liabilities	$ 1,033,338,068	1,033,338,068

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

(Expressed in Eastern Caribbean Dollars)

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	$	1,004,614,397	1,004,614,397
Other liabilities and accrued expenses		1,733,802	1,733,802
Total financial liabilities	$	1,006,348,199	1,006,348,199

5.6 Operational risk

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks – e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

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

The Board of Directors has created a Governance and Executive Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

– requirements for appropriate segregation of duties, including the independent authorisation of transactions;

– requirements for the reconciliation and monitoring of transactions;

– compliance with regulatory and other legal requirements;

– documentation of controls and procedures;

– requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

– requirements for the reporting of operational losses and proposed remedial action;

– development of contingency plans;

– training and professional development;

– ethical and business standards;

– information technology and cyber risks; and

– risk mitigation, including insurance where this is cost-effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Audit Committee.

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 FVOCI.

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

(Expressed in Eastern Caribbean Dollars)

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

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended September 30, 2020 and 2019. During those two years, the Group complied with all of the externally imposed capital requirements to which they are subject.

		2020	2019
Tier 1 capital			
Stated capital (net of treasury shares)	$	36,000,000	36,000,000
Statutory reserve		26,059,962	26,059,962
Capital reserves		7,461,949	7,461,949
Retained earnings		105,550,590	107,397,710
Total qualifying Tier 1 capital	$	175,072,501	176,919,621
Tier 2 capital			
Revaluation reserve: FVOCI investments	$	22,572,436	19,235,907
Reserves for loan loss		21,181,515	21,531,276
Total qualifying Tier 2 capital	$	43,753,951	40,767,183
Total regulatory capital	$	218,826,452	217,686,804
Risk-weighted assets:			
On-balance sheet	$	773,315,000	775,538,400
Off-balance sheet		57,600,939	61,370,469
Total risk-weighted assets	$	830,915,939	836,908,869
Basel ratio		26.3%	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, 2020 and September 30, 2019.

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

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

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

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

COVID-19: Impact on Use of Estimates and Judgements
COVID-19, a global pandemic, has materially impacted and continues to materially impact the markets in which the Group operates. Governments around the world imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, quarantines and cancellations of gatherings and events. These measures have caused increased volatility and uncertainty in financial markets. This has given rise to heightened uncertainty as it relates to the key areas of estimation uncertainty. The Group has utilized estimates, assumptions and judgments that reflect this uncertainty. While management makes its best estimates and assumptions, given the dynamic and evolving nature of COVID-19 and limited recent experience of the economic and financial impacts of such a pandemic, the actual outcomes for the Group in the future may differ from assumptions that have been applied in the measurement of the Group's assets and liabilities.

The Group has taken into account the impact of COVID-19 and related market volatility in preparing these consolidated financial statements. While the methodologies and assumptions applied in the measurement of various items within the consolidated financial statements remain unchanged from those applied in the 2019 consolidated financial statements, the impact of COVID-19 has resulted in the application of further judgement and the incorporation of estimates and assumptions specific to the impact of COVID-19. Principally this has resulted in updates to the Group's economic assumptions used in determining expected credit losses (ECL).

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

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

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

To the extent that the net present value of estimated cash flows differs by +/-10%, the provision would be estimated $4,785,988 lower (2019: $4,669,825) or $3,888,060 higher (2019: $8,228,900)

(Expressed in Eastern Caribbean Dollars)

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

(a) *Impairment losses on loans and advances (cont'd)*
Incorporation of forward-looking information

The Group incorporates forward-looking information into the measurement of expected credit losses (ECL) through a scorecard model. The model is applied for each segment of the portfolio: Personal Loans, Commercial Loans, Mortgages, Overdrafts and Credit Cards. The adjustment for forward looking information is determined based on the Group's outlook related to multiple economic factors. For each segment, the Group assigned weightings to macroeconomic factors to indicate their relative significance to the portfolio segment.

The Group applied experienced judgment to select macroeconomic factors that would most likely impact credit risk. The Group leveraged the 2019 IMF's country report on the Eastern Caribbean Currency Union and Caribbean Development Bank's 2019 economic outlook on Antigua and Barbuda to provide macroeconomic projections on the following factors:

- GDP
- Inflation
- Unemployment Rate
- Lending rates

The adjustment of forward-looking information is estimated after considering various outlooks on the macro-economic factors (negative, positive, neutral), expressed as a percentage from 0 to 100, representing the impact of the outlook on credit risk. For a neutral or stable outlook, the factor is 0%. Negative outlooks will have a factor of 20% (increase to the ECL estimate, reflecting an adverse economic outlook) and positive outlooks will have a factor of -20% (decrease to the ECL estimate, reflecting a more favorable economic environment).

The Group estimates the macroeconomic outlook over a twelve-month forecast period. Where forecasts were not available, a zero change was applied. The table below lists the macroeconomic assumptions used (NA* – forecast data was not available at the reporting date):

	2020				2019			
	GDP Change	Inflation Rate	Lending Rates	Unemployment Rate	GDP Change	Inflation Rate	Lending Rates	Unemployment Rate
As 30 September								
Economic assumptions	2.5%	2.008%	8.62%	NA*	3.3%	2%	8.62%	14.2%

The forward looking information factor is applied to the historical PD ranges, in order to ensure that final point in time PD estimates are within the range of the historical PD distribution for the segment. The Group monitors the relevance of the model assumptions and data including macroeconomic factor weights and expected trends on an on-going basis.

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

(b) *Classification of financial assets*

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

(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 17.

(d) *Impairment of non-financial assets*

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

(e) *Fair value of financial instruments*

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

(f) *Revaluation of land and buildings*

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

(g) *Current and deferred taxes*

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

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

(Expressed in Eastern Caribbean Dollars)

8. Cash and balances with the Central Bank

	Note	2020	2019
Cash on hand		$ 8,852,859	8,433,692
Balances with the ECCB other than mandatory reserve deposits		72,531,664	112,491,165
Included in cash and cash equivalents	28	81,384,523	120,924,857
Mandatory reserve deposits with the ECCB		51,744,146	48,185,589
Total cash and balances with the Central Bank		$ 133,128,669	169,110,446

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	2020	2019
Term deposits and operating accounts with other banks with original maturities of 3 months or less		$ 104,003,300	35,694,964
Items in the course of collection from other banks		14,744,957	2,594,489
Included in cash and cash equivalents	28	118,748,257	38,289,453
Term deposits and operating accounts with other banks with original maturities greater than 3 months		65,020,400	58,538,000
Less: Provision for expected credit loss		(174,353)	(99,889)
		183,594,304	96,727,564
Interest receivable		937,064	754,545
Total due from other banks		$ 184,531,368	97,482,109

The movement in expected credit losses is as follows:	2020	2019
Balance at the beginning of the year	99,889	-
Amounts restated through opening retained earnings on initial application of IFRS 9 in 2019	$ -	198,250
Opening balance at October 1	99,889	198,250
Expected credit losses	74,464	(98,361)
Balance at the end of the year	$ 174,353	99,889

(Expressed in Eastern Caribbean Dollars)

10. Treasury bills

	Note	Nominal Value 2020	Cost 2020	Nominal Value 2019	Cost 2019
Treasury bills at amortised cost- OECS Government with original maturities of 3 months or less and interest rates ranging from 3.5% to 7%		$ 30,676,000	30,296,720	44,700,000	43,979,408
Included in cash and cash equivalents	28	30,676,000	30,296,720	44,700,000	43,979,408
Treasury bills at amortised cost- OECS Government with original maturities of more than 3 months and interest rates ranging from 5% to 6.34%		65,249,617	64,762,197	45,400,000	44,869,756
Interest receivable		-	1,104,191	-	1,360,737
Total treasury bills - gross		$ 95,925,617	96,163,108	90,100,000	90,209,901
Less: Provision for expected credit losses		-	(468,957)	-	(373,336)
Total treasury bills – net		$ 95,925,617	95,694,151	90,100,000	89,836,565

		2020	2019
The movement in expected credit losses is as follows:			
Balance at the beginning of the year	$	373,336	-
Amounts restated through opening retained earnings on initial application of IFRS 9 in 2019		-	351,477
Opening balance at October 1		373,336	351,477
Expected credit losses		95,621	21,859
Balance at the end of the year	$	468,957	373,336

11. Statutory deposit

		2020	2019
Statutory reserve deposit with the Government of Antigua and Barbuda	$	6,869,059	5,965,440

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

(Expressed in Eastern Caribbean Dollars)

12. Loans and advances

		2020	2019
Mortgage loans	$	172,565,371	168,608,978
Commercial loans		394,928,080	394,192,844
Personal loans		61,509,140	66,047,455
Overdrafts		58,291,381	62,289,416
Credit card advances		1,699,306	1,691,654
		688,993,278	692,830,347
Less: Allowance for loan impairment		(46,388,060)	(29,749,314)
		642,605,218	663,081,033
Add:			
Interest receivable		18,747,315	17,201,729
Deferred interest income		(90,655)	(3,357,430)
Deferred fees		(2,096,498)	(2,162,758)
Total loans and advances	$	659,165,380	674,762,574

		2020	2019
Current	$	64,513,088	104,411,562
Non-current		594,652,292	570,351,012
	$	659,165,380	674,762,574

Allowance for loan impairment

The movement in expect credit losses is as follows:

		2020	2019
Balance, beginning of year	$	29,749,314	14,340,120
Impact of IFRS 9 adoption in 2019		-	5,608,449
Opening balance at October 1		29,749,314	19,948,569
Provision for loan impairment		22,333,373	10,874,896
Write off of impaired loan balances		(5,694,627)	(1,074,151)
Balance, end of year	$	46,388,060	29,749,314

The provision for loan impairment shown in the statement of income of $22,609,895 includes a provision of $276,522 on loan commitments. This provision is shown in note 19, as part of 'Provisions'.

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $31,926,364 (2019: $32,648,430). At the end of 2019, as the ECCB provision was in excess of the IFRS amount, the difference between the ECCB figure and the loan loss provision calculated under IFRS 9 was set aside as a specific reserve through equity (note 25). The gross carrying value of impaired loans at the year-end was $64,944,879 (2019: $60,260,836). Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $6,730,771 (2019: $13,954,159) and is also included in the specific regulatory reserve (note 25).

(Expressed in Eastern Caribbean Dollars)

12.1. Provision for impairment of loans and advances

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

	Personal	Commercial	Mortgage	Credit Cards	Overdraft	Total
	$	$	$	$	$	$
Balance at September 30, 2019	4,485,453	20,523,148	504,470	1,223,039	3,013,204	29,749,314
Credit loss movements	688,869	18,176,387	-	-	3,439,962	22,305,218
Reclassification	(1,821,275)	1,821,275	-	-	-	-
Loan repayments etc.	(110,935)	(792,173)	-	-	-	(903,108)
Provision for ECL	(38,963)	949,901	20,325	-	-	931,263
Loans written off during the year	(1,165,020)	(4,344,666)	-	-	(184,941)	(5,694,627)
At September 30, 2020	2,038,129	36,333,872	524,795	1,223,039	6,268,225	46,388,060
Balance at September 30, 2018	2,331,236	9,507,374	322,921	1,223,039	955,550	14,340,120
Effect of adopting IFRS 9 at October 1, 2018	531,215	4,669,932	390,413	-	16,889	5,608,449
Provision (Change in assumptions)	1,501,680	8,557,256	(244,271)	-	2,216,755	12,031,420
Recovery of provision	-	(1,840,401)	-	-	(128,289)	(1,968,690)
Provision for ECL	121,322	703,138	35,407	-	(47,701)	812,166
Loans written off during the year	-	(1,074,151)	-	-	-	(1,074,151)
At September 30, 2019	4,485,453	20,523,148	504,470	1,223,039	3,013,204	29,749,314

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

	Personal	Commercial	Mortgage	Credit Cards	Overdraft	Total
	$	$	$	$	$	$
September 30, 2020						
Gross loans before provision	61,509,140	394,928,080	172,565,371	1,699,306	58,291,381	688,993,278
Stage 1: 12 month ECL	(672,380)	(4,713,511)	(352,937)	-	(664,016)	(6,402,844)
Stage 2: Lifetime ECL	(132,796)	(7,498,331)	(93,209)	-	(346,598)	(8,070,934)
Stage 3: Credit Impaired	(1,232,953)	(24,200,678)	-	(1,223,038)	(5,257,613)	(31,914,282)
	59,471,011	358,515,560	172,119,225	476,268	52,023,154	642,605,218

(Expressed in Eastern Caribbean Dollars)

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

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

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

	Personal	**Commercial**	**Mortgages**	**Credit Cards**	**Overdraft**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Stage 1: 12 month ECL						
ECL allowance as at:						
September 30, 2019	603,691	4,808,973	376,657	-	151,916	5,941,237
Credit loss movements, new	159,691	1,325,245	(23,720)	-	512,100	1,973,316
Loan repayments, etc.	(91,002)	(1,420,707)	-	-	-	(1,511,709)
As at September 30, 2020	672,380	4,713,511	352,937	-	664,016	6,402,844
Stage 2: Lifetime ECL						
ECL allowance as at:						
September 30, 2019	74,566	3,402,854	49,163	-	-	3,526,583
Credit loss movements, new	78,163	3,466,943	44,046	-	346,598	3,935,750
Loan repayments, etc.	(19,933)	628,534	-	-	-	608,601
As at September 30, 2020	132,796	7,498,331	93,209	-	346,598	8,070,934
Stage 3: Lifetime ECL						
ECL allowance as at:						
September 30, 2019	3,807,196	12,389,970	-	1,223,038	2,861,290	20,281,494
Reclassifications, Adjustments	(1,821,275)	1,821,275	-	-	-	-
Credit loss expense	412,052	14,334,099	-	-	2,581,264	17,327,415
Charge-offs and write-offs	(1,165,020)	(4,344,666)	-	-	(184,941)	(5,694,627)
As at September 30, 2020	1,232,953	24,200,678	-	1,223,038	5,257,613	31,914,282
Total at September 30, 2020	2,038,129	36,412,520	446,146	1,223,038	6,268,227	46,388,060

(Expressed in Eastern Caribbean Dollars)

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

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

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

(Expressed in Eastern Caribbean Dollars)

12.2. Allowance for impairment on loans and advances

The following tables show reconciliations from the opening to the closing balance of the loss allowance by loan category. The basis for determining transfers due to changes in credit risk is set out in accounting policy Note 4.3.

	2020				2019			
	Stage 1 12 months ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $	Stage 1 12 months ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Personal								
Loss allowance as at October 1	603,691	74,566	3,807,196	4,485,453	487,573	70,468	2,305,516	2,863,557
Changes in the loss allowance								
- Transfer to stage 1	31,619	(31,619)	-	-	2,723	(2,723)	-	-
- Transfer to stage 2	(65,970)	65,970	-	-	(20,092)	20,092	-	-
- Transfer to stage 3	-	-	-	-	-	-	-	-
- Net remeasurement of loss allowance	(38,458)	23,879	412,052	397,473	(62,048)	(13,271)	1,501,680	1,426,361
- New financial assets originated	189,704	-	-	189,704	251,289	-	-	251,289
- Financial assets that have been derecognized	(48,206)	-	-	(48,206)	(55,754)	-	-	(55,754)
- Reclassification	-	-	(1,821,275)	(1,821,275)	-	-	-	-
- Write-offs	-	-	(1,165,020)	(1,165,020)	-	-	-	-
Loss allowance as at September 30	672,380	132,796	1,232,953	**2,038,129**	603,691	74,566	3,807,196	**4,485,453**

(Expressed in Eastern Caribbean Dollars)

12.2. Allowance for impairment on loans and advances *(cont'd)*

	2020				2019			
	Stage 1 12 months ECL $	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**	**Stage 1 12 months ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Commercial								
Loss allowance as at October 1	4,808,973	3,402,854	12,389,970	20,601,797	3,808,856	3,621,183	6,747,267	14,177,306
Changes in the loss allowance								
- Transfer to stage 1	-	-	-	-	538	(538)	-	-
- Transfer to stage 2	(1,867,011)	1,867,011	-	-	(13,132)	13,132	-	-
- Transfer to stage 3	-	-	-	-	-	-	-	-
- Net remeasurement of loss allowance	1,345,373	2,228,466	14,334,099	17,907,938	427,181	(230,923)	6,716,854	6,913,112
- New financial assets originated	793,400	-	-	793,400	675,858	-	-	675,858
- Financial assets that have been derecognized	(367,224)	-	-	(367,224)	(90,328)	-	-	(90,328)
- Reclassification	-	-	1,821,275	1,821,275	-	-	-	-
- Write-offs	-	-	(4,344,666)	(4,344,666)	-	-	(1,074,151)	(1,074,151)
Loss allowance as at September 30	4,713,511	7,498,331	24,200,678	**36,412,520**	4,808,973	3,402,854	12,389,970	**20,601,797**

(Expressed in Eastern Caribbean Dollars)

12.2. Allowance for impairment on loans and advances *(cont'd)*

	2020				2019			
	Stage 1 12 months ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $	Stage 1 12 months ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Mortgages								
Loss allowance as at October 1	376,657	49,163	-	425,820	255,510	134,903	322,921	713,334
Changes in the loss allowance								
- Transfer to stage 1	12,643	(12,643)	-	-	128	(128)	-	-
- Transfer to stage 2	(41,131)	41,131	-	-	(52,629)	52,629	-	-
- Transfer to stage 3	-	-	-	-	-	-	-	-
- Net remeasurement of loss allowance	(24,719)	15,558	-	(9,161)	144,738	(138,241)	(322,921)	(316,424)
- New financial assets originated	69,751	-	-	69,751	61,009	-	-	61,009
- Financial assets that have been derecognized	(40,264)	-	-	(40,264)	(32,099)	-	-	(32,099)
- Write-offs	-	-	-	-	-	-	-	-
Loss allowance as at September 30	352,937	93,209	-	**446,146**	376,657	49,163	-	**425,820**

(Expressed in Eastern Caribbean Dollars)

12.2. Allowance for impairment on loans and advances *(cont'd)*

	2020				2019			
	Stage 1 12 months ECL $	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**	**Stage 1 12 months ECL $**	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Credit Cards								
Loss allowance as at October 1	-	-	1,223,038	1,223,038	-	-	1,223,038	1,223,038
Changes in the loss allowance								
- Transfer to stage 1	-	-	-	-	-	-	-	-
- Transfer to stage 2	-	-	-	-	-	-	-	-
- Transfer to stage 3	-	-	-	-	-	-	-	-
- Net remeasurement of loss allowance	-	-	-	-	-	-	-	-
- New financial assets originated	-	-	-	-	-	-	-	-
- Financial assets that have been derecognized	-	-	-	-	-	-	-	-
- Write-offs	-	-	-	-	-	-	-	-
Loss allowance as at September 30	-	-	1,223,038	**1,223,038**	-	-	1,223,038	**1,223,038**

(Expressed in Eastern Caribbean Dollars)

12.2. Allowance for impairment on loans and advances *(cont'd)*

	2020				2019			
	Stage 1 12 months ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $	Stage 1 12 months ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Overdraft								
Loss allowance as at October 1	151,916	-	2,861,290	3,013,206	198,511	-	772,823	971,334
Changes in the loss allowance								
- Transfer to stage 1	-	-	-	-	-	-	-	-
- Transfer to stage 2	(336,956)	336,956	-	-	-	-	-	-
- Transfer to stage 3	-	-	-	-	-	-	-	-
- Net remeasurement of loss allowance	779,419	9,642	2,581,265	3,370,326	157	-	2,088,467	2,088,624
- New financial assets originated	82,928	-	-	82,928	7,094	-	-	7,094
- Financial assets that have been derecognized	(13,291)	-	-	(13,291)	(53,846)	-	-	(53,846)
- Write-offs	-	-	(184,942)	(184,942)	-	-	-	-
Loss allowance as at September 30	664,016	346,598	5,257,613	**6,268,227**	151,916	-	2,861,290	**3,013,206**

(Expressed in Eastern Caribbean Dollars)

12.2. Allowance for impairment on loans and advances *(cont'd)*

	2020				2019			
	Stage 1 12 months ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $	Stage 1 12 months ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Total								
Loss allowance as at October 1	5,941,237	3,526,583	20,281,494	29,749,314	4,750,450	3,826,554	11,371,565	19,948,569
Changes in the loss allowance								
- Transfer to stage 1	44,262	(44,262)	-	-	3,389	(3,389)	-	-
- Transfer to stage 2	(2,311,068)	2,311,068	-	-	(85,853)	85,853	-	-
- Transfer to stage 3	-	-	-	-	-	-	-	-
- Net remeasurement of loss allowance	2,061,614	2,277,545	17,327,415	21,666,574	510,029	(382,435)	9,984,080	10,111,674
- New financial assets originated	1,135,784	-	-	1,135,784	995,249	-	-	995,249
- Financial assets that have been derecognized	(468,985)	-	-	(468,985)	(232,027)	-	-	(232,027)
- Reclassification	-	-	-	-	-	-	-	-
- Write-offs	-	-	(5,694,627)	(5,694,627)	-	-	(1,074,151)	(1,074,151)
Loss allowance as at September 30	6,402,844	8,070,934	31,914,282	**46,388,060**	5,941,237	3,526,583	20,281,494	**29,749,314**

(Expressed in Eastern Caribbean Dollars)

13. Other assets

		2020	2019
Depositor Protection Trust	$	7,699,603	7,699,520
Merchant receivables		13,762,787	6,123,928
Prepayments		1,714,486	1,467,990
Miscellaneous receivables		191,732	253,871
Suspense accounts		1,534	-
Total other assets – gross		23,370,142	15,545,309
Less: provision for expected credit losses		(1,941,665)	(111,268)
Total other assets – net	$	21,428,477	15,434,041
Current	$	15,670,540	7,845,790
Non-current		5,757,937	7,588,251
	$	21,428,477	15,434,041

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. The principal payment scheduled for May 2020 was not received which resulted in an increased allowance for expected credit losses.

The amount due from the DPT is in Stage 3 at the reporting date, as it has become credit impaired due to the missed payment.

		2020	2019
The movement in expected credit losses is as follows:			
Balance at the beginning of the year	$	111,268	-
Amounts restated through opening retained earnings on initial application of IFRS 9 in 2019		-	101,146
Opening balance at October 1		111,268	101,146
Expected credit losses		1,830,397	10,122
Balance at the end of the year	$	1,941,665	111,268

(Expressed in Eastern Caribbean Dollars)

14. Investment securities

	2020 $	2019 $
Securities measured at amortised cost		
Debt securities		
- Unlisted	25,467,200	51,792,721
- Listed	42,304,232	55,293,004
Interest receivable	692,715	1,476,723
Less: allowance for impairment	(4,081,185)	(4,220,091)
Total securities at amortised cost	64,382,962	104,342,357
Securities measured at fair value through OCI		
Equity securities		
- Unlisted	27,012,750	23,670,287
- Listed	9,357,431	9,365,345
Total equity securities	36,370,181	33,035,632
Total securities at fair value through OCI	36,370,181	33,035,632
Securities measured at fair value through P&L		
Equity securities		
- Unlisted	-	-
- Listed	11,512,511	5,265,905
Total equity securities	11,512,511	5,265,905
Debt securities		
- Unlisted	-	-
- Listed	41,547,461	42,052,689
Interest receivable	-	114,094
Total debt securities	41,547,461	42,166,783
Total securities at fair value through P&L	53,059,972	47,432,688
Total investment securities	153,813,115	184,810,677

All debt securities have fixed interest rates.

For investments in equity securities that are designated at FVOCI, this designation was made because the investments are expected to be held for the long term for strategic purposes.

None of these strategic investments were disposed of during the year ended September 30, 2020 (2019: nil), and there were no transfers of any cumulative gain or loss within equity relating to these investments (2019: nil). The change in fair value on these investments was $3,334,549 for the year ended September 30, 2020.

(Expressed in Eastern Caribbean Dollars)

14. Investment securities *(cont'd)*

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

	Fair value through OCI	Fair value through P & L	Amortised cost	Available-for-sale	Held-to-maturity	Loans and receivables
	$	$	$	$	$	$
At September 30, 2019	33,035,632	47,432,688	104,342,357	-	-	-
Additions	-	38,141,435	45,867,200	-	-	-
Reclassified to cash	-	(300,156)	-	-	-	-
Disposals (sales and redemptions)	(1)	(34,087,006)	(85,492,720)	-	-	-
Movement in accrued interest	-	(114,094)	(784,009)	-	-	-
Change in fair value	3,334,550	1,987,105	-	-	-	-
Movement in premium/discount	-	-	311,228	-	-	-
Allowance for expected credit losses	-	-	138,906	-	-	-
At September 30, 2020	36,370,181	53,059,972	64,382,962	-	-	-
At September 30, 2018	-	-	-	15,135,461	51,596,134	46,893,849
Impact of adopting IFRS 9 – classification	15,135,461	-	98,489,983	(15,135,461)	(51,596,134)	(46,893,849)
Impact of adopting IFRS 9 – ECL remeasurement	17,892,258	-	(276,761)	-	-	
Restated balance at October 1, 2018	33,027,719	-	98,213,222	-	-	-
Additions	-	54,214,042	8,313,835	-	-	-
Reclassified to cash	-	(6,748,217)	-	-	-	-
Disposals (sales and redemptions)	-	-	(92,010)	-	-	-
Movement in accrued interest	-	114,094	(2,149,360)	-	-	-
Change in fair value	7,913	(147,231)	-	-	-	-
Allowance for expected credit losses	-	-	56,670	-	-	-
At September 30, 2019	33,035,632	47,432,688	104,342,357	-	-	-

(Expressed in Eastern Caribbean Dollars)

14. Investment securities *(cont'd)*

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

	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets Lifetime ECL	Total
	$	$	$	$
September 30, 2020				
Gross exposure	64,464,147	-	4,000,000	68,464,147
ECL	(81,185)	-	(4,000,000)	(4,081,185)
Net exposure	64,382,962	-	-	64,382,962

	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired Financial Assets Lifetime ECL	Total
	$	$	$	$
September 30, 2019				
Gross exposure	104,562,448	-	4,000,000	108,562,448
ECL	(220,091)	-	(4,000,000)	(4,220,091)
Net exposure	104,342,357	-	-	104,342,357
ECL allowance as at September 30, 2019	220,091	-	4,000,000	4,220,091
ECL on new instruments issued during the year	1,075	-	-	1,075
Repayments and maturities	(139,981)	-	-	(139,981)
At September 30, 2020	81,185	-	4,000,000	4,081,185
ECL allowance as at October 1, 2018 under IFRS 9	276,761	-	4,000,000	4,276,761
ECL on new instruments issued during the year	(54,038)	-	-	(54,038)
Repayments and maturities	(2,632)	-	-	(2,632)
At September 30, 2019	220,091	-	4,000,000	4,220,091

(Expressed in Eastern Caribbean Dollars)

15. Property and equipment

	Land	Buildings & building improvements	Furniture and fixtures	Equipment	Motor vehicles	Computer hardware	Computer software	Leasehold improvements	Work in progress	Total
At September 30, 2019										
Cost or valuation	$ 9,465,000	15,609,745	5,912,171	11,095,634	785,878	14,512,765	8,992,765	280,283	4,320,392	70,974,633
Accumulated depreciation	-	-	(5,561,854)	(8,875,480)	(585,600)	(12,907,978)	(8,385,520)	(128,651)	-	(36,445,083)
Net book amount	$ 9,465,000	15,609,745	350,317	2,220,154	200,278	1,604,787	607,245	151,632	4,320,392	34,529,550
Year ended September 30, 2020										
Opening net book amount	$ 9,465,000	15,609,745	350,317	2,220,154	200,278	1,604,787	607,245	151,632	4,320,392	34,529,550
Additions	-	143,017	43,856	72,796	125,590	200,127	130,955	-	1,791,445	2,507,786
Disposals	-	-	-	(34,213)	(228,566)	-	-	-	-	(262,779)
Write-Back	-	-	-	-	228,566	-	-	-	-	228,566
Transfers	-	733,449	6,170	84,020	-	-	31,749	-	(855,388)	-
Property revaluation adjustment	-	-	-	-	-	-	-	-	-	-
Depreciation charge	-	(470,200)	(101,299)	(398,666)	(96,531)	(807,428)	(368,800)	(20,896)	-	(2,263,820)
Closing net book amount	$ 9,465,000	16,016,011	299,044	1,944,091	229,337	997,486	401,149	130,736	5,256,449	34,739,303
At September 30, 2020										
Cost or valuation	$ 9,465,000	16,486,211	5,962,197	11,218,237	911,468	14,712,892	9,155,469	280,283	5,256,449	73,448,206
Accumulated depreciation	-	(470,200)	(5,663,153)	(9,274,146)	(682,131)	(13,715,406)	(8,754,320)	(149,547)	-	(38,708,903)
Net book amount	$ 9,465,000	16,016,011	299,044	1,944,091	229,337	997,486	401,149	130,736	5,256,449	34,739,303

(Expressed in Eastern Caribbean Dollars)

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

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

(Expressed in Eastern Caribbean Dollars)

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

As of September 30, 2019, all of the Group's land and buildings and improvements were revalued based on the appraisal performed by an independent firm of professional appraisers. The revaluation resulted in a gain amounting to $1,300,392 which was included in profit or loss. The remaining revaluation surplus of $585,000 was included within 'other reserves' in shareholders' equity (note 25).

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of September 30, 2020.

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

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

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

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

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

(Expressed in Eastern Caribbean Dollars)

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

Valuation techniques	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Income based approach: This is a method of estimating the present worth of the rights to future benefits to be derived from the ownership of a specific interest in a specific property under given market conditions. In property valuation, the future rights can be expressed as the right to receive an income from the property. The net income must then be capitalized at an appropriate rate to reflect the security of income, expectations of rental growth etc. The income method of valuation is considered most appropriate for income producing properties such as commercial premises.	• Net cash flows • Capitalization rate	The estimated fair value would increase/(decrease) if: • Net cash flows were higher/(lower) • Capitalization rates were lower/(higher)

(Expressed in Eastern Caribbean Dollars)

16. Leases

The Group mainly leases office spaces used in its operations. Rental contracts for these leases are typically made for fixed periods but may have extension options.

With respect to any extension options, these are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

The Group also leases ATM space for fixed periods. These leases are short-term in nature. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

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

	Right-of-Use Property $	Lease Liability $
Balance at October 1, 2019	826,162	826,162
Depreciation expense	(309,811)	-
Interest expense	-	13,248
Principal payments	-	(320,811)
As at September 30, 2020	516,351	518,599

Additions to the right-of-use asset during the period were $nil.

(Expressed in Eastern Caribbean Dollars)

16. Leases *(cont'd)*

Supplemental balance sheet information as of September 30, 2020 is set forth below:

	September 30, 2020
Right-of-use assets	516,351
Lease obligations:	
Current	314,266
Non-current	204,333
Total lease obligations	518,599
Weighted-average remaining lease term (in years)	2 years
Weighted-average discount rate	2%

The following table provides details of our lease expense:

	September 30, 2020	**September 30, 2019***(a)*
Included in operating costs:		
Operating lease costs	-	461,790
Amortization of right-of-use assets	309,811	-
Short-term lease expense	-	-
Included in finance expense – interest expense on lease obligations	13,248	-
Total lease expense	323,059	461,790

(a) Amounts reflect operating lease expense recorded under IAS 17, *Leases*, prior to adoption of IFRS 16 on October 1, 2019. Accordingly, amounts are not necessarily comparable.

The following table provides supplemental cash flow information related to our leases:

	September 30, 2020
Total cash outflows from leases	320,811

Maturities of Leases

Maturities of our lease liabilities on an undiscounted basis as of September 30, 2020 are presented below along with the current and non-current lease liabilities on a discounted basis.

	Year ending September 30, 2020
2021	320,811
2022	205,050
2023	-
2024	-
2025	-
Thereafter	-
Total future payments on an undiscounted basis	525,861
Less: Present value discount	(7,262)
Present value of lease liabilities	518,599
Current portion	314,266
Non-current portion	204,333

(Expressed in Eastern Caribbean Dollars)

17. 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, 2020 using the projected unit credit method. At September 30, 2020, the actuarial valuation showed that the Plan is underfunded with net assets available for benefits representing 86% of accrued projected plan benefits, and indicated a required contribution rate by the Group, for the next three years, of less than 17.2% 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:

		2020	2019
Pension plan asset			
Present value of funded obligations	$	(19,173,287)	(18,144,779)
Fair value of plan assets		26,302,191	25,706,542
Net asset – end of year	$	7,128,904	7,561,763

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

		2020	2019
Fair value of plan assets – beginning of year	$	25,706,542	25,749,002
Contributions – employer and employees		803,345	810,788
Benefits paid		(1,287,928)	(1,281,449)
Plan administration expenses		(68,057)	(68,770)
Actuarial loss		(634,209)	(1,288,986)
Interest on plan assets		1,782,498	1,785,957
Fair value of plan assets – end of year	$	26,302,191	25,706,542

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

		2020	2019
Present value of funded obligations – beginning of year	$	18,144,779	17,639,500
Current service cost		727,519	712,544
Interest cost		1,275,983	1,239,792
Benefits paid		(1,287,928)	(1,281,449)
Actuarial loss/(gain)		312,934	(165,608)
Present value of funded obligations – end of year	$	19,173,287	18,144,779

(Expressed in Eastern Caribbean Dollars)

17. Pension plan *(cont'd)*

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

		2020	2019
Net asset – beginning of year	$	7,561,763	8,109,502
Net pension income included in the statement of income		114,757	173,144
Actuarial losses included in other comprehensive income		(947,143)	(1,123,378)
Contributions paid - employer		399,527	402,495
Net asset – end of year	$	7,128,904	7,561,763

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

		2020	2019
Current service cost	$	(323,700)	(304,251)
Net interest income on the net defined benefit asset		506,514	546,165
Plan administration expenses		(68,057)	(68,770)
Net gain recognized in the statement of income	$	114,757	173,144

The amounts recognized in other comprehensive income are as follows:

		2020	2019
Actuarial (loss)/gain for the year – obligation	$	(312,934)	165,608
Actuarial loss for the year - plan assets		(634,209)	(1,288,986)
Actuarial loss recognized in other comprehensive income	$	(947,143)	(1,123,378)

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

	2020	2019
Cash and cash equivalents	52%	54%
Debt securities	7%	8%
Equity securities	23%	20%
Property	18%	18%

The pension plan assets include ordinary shares issued by the Group with a value of $77,748 (2019: $75,851). Plan assets include deposits held with the Group with a fair value of $3,091,546 (2019: $2,313,992).

(Expressed in Eastern Caribbean Dollars)

17. Pension plan *(cont'd)*

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

		2020	2019	2018	2017	2016
Defined benefit obligation	$	(19,173,287)	(18,144,779)	(17,639,500)	(16,433,180)	(15,667,965)
Plan assets		26,302,191	25,706,542	25,749,002	24,684,972	23,590,647
Surplus	$	7,128,904	7,561,763	8,109,502	8,251,792	7,922,682

Principal actuarial assumptions used for accounting purposes were as follows:

	2020	2019
Discount rate	7%	7.0%
Future promotional salary increases	3.5%	3.5%

Contributions to the pension scheme for the year ended September 30, 2020 amounted to $399,527, being Antigua Commercial Bank Ltd: $355,829; ACB Mortgage and Trust Company Limited: $43,698 (2019: $402,495, being Antigua Commercial Bank Ltd: $354,133; ACB Mortgage and Trust Company Limited: $48,362). The Group'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 $615,574, being Antigua Commercial Bank Ltd: $565,674; ACB Mortgage and Trust Company Limited: $49,900.

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

	2020 Impact on defined benefit obligation				
	Change in assumption		Increase in assumption		Decrease in assumption
Discount rate	1%	$	(2,317,749)	$	2,924,386
Salary growth rate	1%		983,420		(865,314)
Life expectancy	1%		19,499,081		-

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

The duration of the benefit obligation is 13.5 years (2019: 13.6 years).

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

(Expressed in Eastern Caribbean Dollars)

17. 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.

18. Deposits due to customers

		2020	2019
Savings accounts	$	365,339,930	400,013,306
Time deposits		285,325,135	253,213,816
Current accounts		281,753,636	227,553,360
Other deposits		97,213,998	123,833,915
		1,029,632,699	1,004,614,397
Interest payable		4,054,460	3,865,635
Total deposits due to customers	$	1,033,687,159	1,008,480,032
Current	$	839,173,008	841,752,246
Non-current		194,514,151	166,727,786
	$	1,033,687,159	1,008,480,032

19. Provisions and other liabilities

		2020	2019
Trade payables and accrued expenses	$	11,940,152	12,076,122
Manager's cheques		3,705,369	1,733,802
Provisions (1)		1,742,240	1,492,978
Escrow accounts		1,408,917	1,248,022
Other sundry payables		3,883	86,761
Miscellaneous payable		494,836	155,504
Total other liabilities and accrued expenses	$	19,295,397	16,793,189
Current	$	17,886,477	15,545,166
Non-current		1,408,920	1,248,023
	$	19,295,397	16,793,189

(1) Provisions relate to expected credit losses on loan commitments and financial guarantee contracts.

(Expressed in Eastern Caribbean Dollars)

20. Dividends

During the year, a dividend in respect of the 2019 financial year end of $5,000,000 was recorded and paid (2019: $4,000,000 in respect of the 2018 financial year).

The dividend proposed in respect of the 2020 financial year end is $0.085 for each unit of paid up share capital, or EC$850,000 (2019: $0.50 or EC$5,000,000). The consolidated financial statements for the year ended September 30, 2020 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, 2021.

21. Taxation

Income tax payable

		2020	2019
Income tax payable, beginning of year	$	3,826,505	1,173,830
Current tax expense		1,205,336	3,888,538
Prior year over accrual		(214,669)	(51,812)
Payments made during the year		(3,482,156)	(1,184,051)
Income tax payable, end of year	$	1,335,016	3,826,505

Income tax expense

		2020	2019
Profit before tax	$	2,475,417	25,343,110
Income tax expense at statutory rates	$	704,159	6,320,679
Effect of interest income not subject to tax		(1,185,574)	(1,770,838)
Effect of dividend income not subject to tax		(686,971)	(667,050)
Effect of untaxable income		(56,412)	(316,261)
Prior year over accrual		-	-
Effect of deferred taxes		70,300	(577,260)
Effect of other permanent differences		(214,669)	1,530,692
Others		149,332	87,717
Non-deductible expenses		264,874	-
Actual income tax (credit) expense	$	(954,961)	4,607,679

The statutory tax rate for Antigua Commercial Bank is 25% (2019: 25%) and for ACB Mortgage and Trust is 20% (2019: 20%).

(Expressed in Eastern Caribbean Dollars)

21. Taxation *(cont'd)*

Deferred tax liability (asset), net

		2020	2019
Balance, beginning of year	$	5,775,417	7,277,536
Deferred tax on IFRS 9 ECL opening adjustment		-	(1,940,415)
Current year release to deferred tax – profit		(109,730)	-
Current year release to deferred tax – equity		109,746	-
(Credit) Charge for the year		(1,945,628)	719,141
Deferred tax on the revaluation of FVOCI securities		(1,980)	-
Other		(1,482)	-
Actuarial loss		(236,786)	(280,845)
Balance, end of year	$	3,589,557	5,775,417

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

		2020	2019
Statutory loan loss reserve	$	6,825,850	8,621,553
Revaluation of FVOCI securities		873,715	875,394
Pension asset		1,782,226	1,890,441
Deferred commission		(424,358)	(501,755)
Decelerated capital allowances		(651,959)	(592,531)
Tax losses carried forward		(1,144,504)	(1,504,841)
Expected credit losses – Stage 1 and 2		(3,218,069)	(2,127,973)
Unrealized gains		441,115	-
Capital allowances		(894,459)	(884,871)
Balance, end of year	$	3,589,557	5,775,417

The income tax payable does not represent amounts agreed with the tax authority. The amount is reflective of the Group's position concerning its tax balance with the Inland Revenue Department (IRD) on the basis of its records. However, as the Group's tax return for the year of assessment 2020 has not been finalised with the IRD, there is uncertainty as to the eventual liability.

22. 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.

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

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

(Expressed in Eastern Caribbean Dollars)

22. 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:

		2020	2019
Loans to directors and key members of management			
Loans outstanding at beginning of year	$	890,107	1,958,363
Change in status		(84,441)	(898,372)
Loans reassigned from Director		173,002	(898,073)
Loans issued during the year		404,272	962,996
Loan repayments during the year		(103,006)	(234,807)
Loans outstanding at end of year	$	1,279,934	890,107

No provisions have been recognised in respect of loans given to related parties (2019: nil).

Interest income earned on directors' and key members of management's loans and advances during the year is $64,115 (2019: $159,823). The interest rates on these loans range from 5% to 11% (2019: 7% to 8.5%) and they are granted on an arm's length basis.

		2020	2019
Deposits by directors and key members of management			
Deposits at beginning of year	$	7,013,879	6,679,275
Deposits received during the year		6,423,425	4,785,349
Deposits repaid/reclassified during the year		(5,514,157)	(4,724,831)
Change in status		978,956	274,086
Deposits at end of year	$	8,902,103	7,013,879

Interest expense paid on directors' and key members of management's deposits during the year is $296,155 (2019: $205,945). Interest rates on directors' deposits range from 2% to 2.5% (2019: 2% to 2.25%) 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:

		2020	2019
Salaries and wages	$	1,026,475	1,015,915
Directors' fees and expenses		949,437	944,182
Other staff costs		240,791	244,481
Pension costs		25,678	24,638
	$	2,242,381	2,229,216

(Expressed in Eastern Caribbean Dollars)

23. Stated capital

		2020	2019
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

24. Statutory reserve

		2020	2019
Balance at beginning of year	$	26,059,962	23,459,372
Transfer from profit after taxation		-	2,600,590
Balance at end of year	$	26,059,962	26,059,962

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 of Antigua Commercial Bank shall be set aside to a reserve fund whenever the fund is less than the paid-up capital of the Bank.

25. Other reserves

		2020	2019
Capital reserve	$	7,461,949	7,461,949
Regulatory reserve for loan loss		27,912,286	34,997,809
Revaluation reserve – FVOCI securities		22,572,436	19,235,907
Revaluation reserve – property		5,902,922	5,902,922
Pension reserve		7,128,904	7,561,763
Total other reserves	$	70,978,497	75,160,350

(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*

		2020	2019
Balance at beginning of year	$	34,997,809	34,997,809
Decrease in reserve for regulatory purposes		(7,085,523)	-
Balance at end of year	$	27,912,286	34,997,809

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

(Expressed in Eastern Caribbean Dollars)

25. Other reserves *(cont'd)*

(b) Regulatory reserve for loan loss and interest recognized (cont'd)

The regulatory reserve is represented by:

		2020	2019
Reserve for loan impairment – ECCB	$	-	2,899,116
Reserve for loan impairment – ECCB (voluntary)		21,181,515	18,144,534
Reserve for interest on non-performing loans		6,730,771	13,954,159
Balance at end of year	$	27,912,286	34,997,809

(c) Revaluation reserve for FVOCI securities

		2020	2019
Balance at beginning of year	$	19,235,907	2,736,004
Changes on initial application of IFRS 9 in 2019		-	16,493,969
Increase in market value of investment securities, net of tax of $1,980 (2019: $1,979)		3,336,529	5,934
Balance at end of year	$	22,572,436	19,235,907

(d) Revaluation reserve - Property

		2020	2019
Balance at beginning of year	$	5,902,922	5,317,922
Increase in revaluation reserve - property		-	585,000
	$	5,902,922	5,902,922

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

(e) Pension reserve

		2020	2019
Balance at beginning of year	$	7,561,763	8,109,502
Decrease in pension reserve		(432,859)	(547,739)
Balance at end of year	$	7,128,904	7,561,763

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.

(Expressed in Eastern Caribbean Dollars)

26. Other operating income

		2020	2019
Fees and commissions	$	9,348,105	10,186,191
Foreign exchange		4,728,127	5,319,874
Unrealised gain (loss) on FVTPL		1,764,458	(147,231)
Insurance settlement		1,351,407	-
Dividend income		761,105	682,206
Realized gain on FVTPL securities		222,647	-
Rental income		144,576	144,576
Recovery of loans written off		109,491	315,544
Miscellaneous income		337,609	426,568
Total other operating income	$	18,767,525	16,927,728

26. Other operating income *(cont'd)*

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

For the accounting policy for fees and commissions in the scope of IFRS 9, see Note 4.9; and for the accounting policy for onerous contracts, see Note 4.4.

Type of service	*Nature and timing of satisfaction of performance obligations, including significant payment terms*	*Revenue recognition policies under IFRS 15*
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Group sets the rates separately for retail and corporate banking customers on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

(Expressed in Eastern Caribbean Dollars)

27. 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.

		2020	2019
Net profit attributable to shareholders	$	3,430,378	20,735,431
Weighted average number of ordinary shares in issue		10,000,000	10,000,000
Basic and diluted earnings per share	$	0.34	2.07

28. Cash and cash equivalents

	Notes		2020	2019
Due from other banks	9	$	118,748,257	38,289,453
Cash balances with the Central Bank	8		81,384,523	120,924,857
Treasury bills	10		30,296,720	43,979,408
Total cash and cash equivalents		$	230,429,500	203,193,718

(Expressed in Eastern Caribbean Dollars)

29. General and administrative expenses

	Notes	2020	2019
Salaries and related costs	30	$ 14,021,860	13,970,640
Software operating expenses		2,223,260	2,170,313
Service charge for corresponding banks		1,210,960	1,289,999
Legal and other professional fees		1,204,275	432,717
Acquisition costs		1,154,633	-
Telephone and data charges		741,608	776,825
Utilities		731,167	705,352
Audit fees and expenses		673,388	498,372
Advertising and promotion		615,349	605,061
Insurance expense		598,066	533,555
Subscriptions and fees		595,500	542,555
Cleaning expenses		544,626	432,220
Security services		512,853	504,993
Repairs and maintenance		449,424	402,916
Printing and stationery expenses		443,728	498,977
Licenses and taxes		375,245	359,888
Four C's operating expenses		374,584	370,025
Night depository expenses		350,893	381,797
ECACH charges		279,987	202,186
Non-credit losses		279,605	2,075,870
Investment expense		257,098	271,143
Agency expenses		170,097	76,935
Rent		154,498	461,790
ECCB and foreign exchange expenses		137,315	269,256
Wire services expense		108,506	108,444
Vehicle expenses		88,978	95,074
Strategic Planning Expense		84,324	-
Shareholders' meeting expenses		83,138	213,788
Donations		73,561	43,566
Commission		38,007	40,678
Travel and entertainment		18,013	62,516
Bank charges		5,477	5,487
Cash purchases expenses		-	324,200
Hospitality Suite		-	6,250
Scholarship fund		(39,760)	94,127
Miscellaneous expenses		88,248	95,820
Total general and administrative expenses		$ 28,648,511	28,923,335

(Expressed in Eastern Caribbean Dollars)

30. Salaries and related costs

		2020	2019
Salaries, wages and allowances	$	11,305,830	11,246,076
Statutory deduction costs		1,003,540	943,690
Other benefits		646,317	682,261
Staff incentive scheme		571,348	628,082
Training and education		316,569	360,076
Group health and life		245,053	235,237
Pension credit		(66,797)	(124,782)
Total salaries and related costs	$	14,021,860	13,970,640

31. 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:

		Up to 1 year	Total
As of September 30, 2020			
Loan commitments (undrawn)	$	57,600,939	57,600,939

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

		Up to 1 year	Total
As of September 30, 2020			
Financial guarantee contracts	$	8,236,116	8,236,116

		Up to 1 year	Total
As of September 30, 2019			
Financial guarantee contracts	$	8,643,883	8,643,883

(Expressed in Eastern Caribbean Dollars)

32. Provision for impairment of other financial assets

The provision for impairment of other financial assets is comprised of $74,464 [Note 9], $95,621 [Note 10], $1,830,397 [Note 13] and ($138,906) [Note 14].

33. Subsequent events

Further to the December 12, 2019 announcement that the Bank, as part of a Consortium of Banks, had entered into a definitive agreement to purchase identified assets from the Royal Bank of Canada (RBC), the Bank received regulatory approval from the Eastern Caribbean Central Bank (ECCB) on December 22, 2020 to, inter alia:

- acquire the assets and banking business of the RBC Antigua Branch; and
- acquire 62.08% shareholding of RBTT Bank Grenada Limited.

A tentative closing date of April 1, 2021 has been set for the completion of the transaction with an up to 12 months transition period provided thereafter. Due to the stage of the transaction, an estimate of the financial effect of this proposed acquisition cannot be made reliably.