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ANNUAL REPORT 2019

WORKING HARDER TODAY FOR A BRIGHTER TOMORROW

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

THEME

The theme for the annual report makes a claim, demonstrates the grounds on which it is made and declares the future of the commitment in one powerful phrase. The undeniable truth of the generations-deep long-term stability and historic role of the Bank's commitment to personal and national development forms the basis for the future promise of the continuity of that promise. The report will underscore the strength and current stability on which the Bank assures the future for all stakeholders and will deepen trust and loyalty in the face of competitive offerings from arriving institutions.

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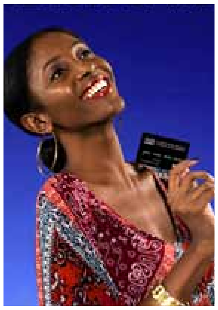

-VISION-

To be recognized internationally as the premier financial institution through advanced technology, strategic alliances and superior products and services.

-MISSION-

To be an efficient, profitable and growth-oriented financial institution, promoting social and economic development in the national and regional community by providing high quality financial services and products at competitive prices.

CUSTOMER CHARTER

- To keep the Bank a customer friendly institution.
- To treat customers as an integral part of the Bank and serve them with the highest levels of integrity, fairness and goodwill.
- To provide customers with the products and services they need, in the form and variety they demand them, at the time they require them, and at prices they can afford.
- To give our customers good value for the prices they pay.

POLICY STATEMENT

- To mobilise domestic and foreign financial resources and allocate them to efficient productive uses to gain the highest levels of economic development and social benefits.
- To promote and encourage the development of entrepreneurship for the profitable employment of available resources.
- To exercise sound judgment, due diligence, professional expertise and moral excellence in managing our corporate business and advising our customers and clients.
- To maintain the highest standard of confidentiality, integrity, fairness and goodwill in all dealing with customers, clients and the general public.
- To create a harmonious and stimulating work environment in which our employees can experience career fulfillment, job satisfaction and personal accomplishment; to provide job security; to pay fair and adequate compensation based on performance, and to recognize and reward individual achievements.
- To promote initiative, dynamism and a keen sense of responsibility in our Managers; to hold them accountable personally for achieving performance targets and to require of them sustained loyalty and integrity.
- To provide our shareholders with a satisfactory return on their capital and thus preserve and increase the value of their investment.
- To be an exemplary corporate citizen providing managerial, organizational and ethical leadership to the business community.

The policies set out above inform and inspire our customer relationships, staff interactions and public communication; guide our corporate decision making process; influence the manner in which we perform our daily tasks and direct our recruitment, organizational, operational and development policies, plans and programmes.

Our Directors, Management and Staff are unreservedly committed to the observance of the duties and responsibilities stated above for the fulfillment of our Mission.

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NOTICE OF MEETING

Notice is hereby given that the FORTY–NINTH ANNUAL GENERAL MEETING OF ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED will be held at the St. Kitts Marriott Beach Resort, Frigate Bay on Monday 9th December, 2019 at 5:00 p.m. for the following purposes:-

1. To read and confirm the Minutes of the Meeting held on 20th December, 2018
2. To consider matters arising from the Minutes
3. To receive the Directors' Report
4. To receive the Auditor's Report
5. To receive and consider the Accounts for the year ended 30th June, 2019
6. To declare a Dividend
7. To elect Directors
8. To reconfirm the appointment of Auditors for year ending 30th June, 2020 and to authorize the Directors to fix their remuneration.
9. To consider and determine Directors' remuneration
10. To discuss any other business for which notice in writing is delivered to the Company's Secretary three (3) clear banking days prior to the meeting.

By Order of the Board

Stephen O. A. Hector
Secretary

SHAREHOLDERS OF RECORD

All shareholders of record as at 30th September, 2019 will be entitled to receive a dividend in respect of the financial year ended 30th June, 2019.

PROXY

A member of the Company who is entitled to attend and vote at this meeting is entitled to appoint a proxy to vote in his/her stead. No person shall be appointed a proxy who is not entitled to vote at the meeting for which the proxy is given. The proxy form must be delivered to the Company's Secretary not less than 24 hours before the meeting.

ARTICLES GOVERNING MEETINGS

ARTICLE 42

At any meeting, unless a poll is demanded as hereinafter provided, every resolution shall be decided by a majority of the Shareholders or their proxies present and voting, either by show of hands or by secret ballot, and in case there shall be an equality of votes, the Chairman of such meeting shall have a casting vote in addition to the vote to which he may be entitled as a member.

ARTICLE 43

If at any meeting a poll is demanded by ten members present in person or by proxy and entitled to vote, the poll shall be taken in every such manner as the Chairman shall direct; and in such case every member present at the taking of the poll, either personally or by proxy, shall have a number of votes, to which he may be entitled as hereinafter provided; and in case at any such poll there shall be an equality of votes, the Chairman of the meeting at which such poll shall be taken shall be entitled to a casting vote in addition to any votes to which he may be entitled as a member and proxy.

ARTICLE 45

Every member shall on a poll have one vote for every dollar of the capital in the Company held by him.

ARTICLE 56

At every ordinary meeting one-third of the Directors shall retire from office. If the number of Directors be not divisible by three, then the nearest to one-third of the number of Directors shall retire from office. The Directors to retire shall be those who have been longest in office since their last election. As between Directors of equal seniority in office the Directors to retire shall be selected from amongst them by lot. A retiring Director shall be immediately, or at any future time, if still qualified, eligible for re-election.

ARTICLE 59

No one (other than a retiring Director) shall be eligible to be a Director, unless notice in writing that he is a candidate for such office shall have been given to the Company by two other members of the Company at least seven days before the day of holding the meeting at which the election is to take place.

FINANCIAL HIGHLIGHTS

	2019 $'000	2018 $'000	2017 $'000	2016 $'000	Revised 2015 $'000
BALANCE SHEET INFORMATION					
Total assets	**3,690,301**	3,683,801	3,778,329	3,697,059	3,649,229
Total customer's deposits	**2,840,108**	2,834,300	3,032,091	3,049,273	2,996,093
Loans & advances (gross)	**900,563**	828,885	767,377	758,341	703,130
Investment securities	**1,158,413**	1,250,766	1,030,054	728,586	493,314
Cash and Money at call	**709,816**	551,695	764,096	952,871	1,186,313
OPERATING RESULTS					
Gross operating income	**210,760**	223,662	181,676	161,236	172,969
Interest income	**89,281**	82,899	85,643	92,372	94,240
Interest expense	**43,601**	45,874	53,614	60,188	67,114
Net Income	**52,268**	52,087	39,450	28,374	25,803
Operating expenses/provisions	**101,276**	95,261	92,207	70,976	82,475
Number of employees	**267**	266	258	257	255
Gross revenue per employee	**789**	841	704	627	678
Total assets per employee	**13,809**	14,027	14,645	14,385	14,311
SHARE CAPITAL & DIVIDEND INFORMATION					
Common shares issued and outstanding (in thousands)	**135,000**	135,000	135,000	135,000	135,000
Total shareholder's equity	**606,858**	595,048	549,439	467,572	475,817
Dividends paid	**13,500**	13,500	13,500	13,500	13,500
Number of shareholders	**5,596**	5,470	5,568	5,612	5,491
Earnings per share ($)	**0.39**	0.39	0.29	0.21	0.19
Dividends per share ($)	**0.10**	0.10	0.10	0.10	0.10
Book value per common share	**4.50**	4.41	4.07	3.46	3.52
BALANCE SHEET AND OPERATING RESULTS RATIOS (%)	%	%	%	%	%
Loans and advances to deposits	**31.7**	29.2	25.3	24.9	23.4
Staff Cost/Total Cost	**23.0**	20.5	21.6	19.2	16.4
Staff Cost/Total Revenue	**15.8**	12.9	17.3	15.7	14.2
Cost/Income (Efficiency) before impairment	**54.3**	49.0	63.3	69.9	75.0
Cost/Income (Efficiency) after impairment	**60.6**	53.6	72.0	70.2	77.9
Return on Equity	**8.7**	9.1	7.8	6.0	5.4
Return on Assets	**1.4**	1.4	1.1	0.8	0.8
Asset Utilization	**5.7**	6.0	4.9	4.4	5.1
Yield on Earning Assets	**2.9**	2.7	2.8	3.3	3.7
Cost to fund Earning Assets	**1.4**	1.5	1.8	2.1	2.6
Net Interest Margin	**1.5**	1.2	1.1	1.1	1.1

CORPORATE INFORMATION

BOARD OF DIRECTORS

Alexis Nisbett	Chairman
Dr. Analdo Bailey	1st Vice Chairman
Franklin Maitland	2nd Vice Chairman
Talibah Byron	Director
Elreter Simpson-Browne	Director
Dr. Cardell Rawlins	Director
Lionel Benjamin	Director
Lorna Hunkins	Director
Wallis Wilkin	Director
William Liburd	Director

SECRETARY

Stephen O.A. Hector

SOLICITORS

Kelsick, Wilkin & Ferdinand
Chambers
South Independence Square
BASSETERRE
St. Kitts

AUDITORS

Grant Thornton
Corner Bank Street & West Independence Square
P. O. Box 1038
BASSETERRE
St. Kitts

BRANCHES

Head Office
Central Street,
Basseterre

Nevis Branch
Charlestown, Nevis

Sandy Point Branch
Main Street, Sandy Point, St. Kitts

Pelican Mall Branch
Bay Road, Basseterre, St. Kitts

Agency Office
RLB International Airport

ATMS

Basseterre Branch
Buckley's
Cayon
CAP Southwell Industrial Park
Frigate Bay
Lodge
Mapau
Molineux
Nevis Branch
Old Road
Pelican Mall
RLB International Airport
Sandy Point
Saddlers
St. Kitts Marriot Hotel
St. Paul's
St. Peter's
Tabernacle
The Circus

SUBSIDIARIES CONSOLIDATED

National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited
Sands Complex, BASSETERRE, St. Kitts

National Caribbean Insurance Company Limited
Church Street, BASSETERRE, St. Kitts

St. Kitts and Nevis Mortgage and Investment Company Limited
Sands Complex, BASSETERRE, St. Kitts

REGISTERED OFFICE OF THE PARENT COMPANY

St. Kitts-Nevis-Anguilla National Bank Limited
Central Street, BASSETERRE, St. Kitts

CORPORATE GOVERNANCE

BOARD RESPONSIBILITIES

The Board's key responsibilities are to provide strategic guidance for the Group and effective monitoring and oversight of the management's performance and implementation of the Group's strategic objectives. The Board acts in the best interests of the Group and its stakeholders, guided by a philosophy based on transparency, accountability and responsibility. The Group's values and standards are established to ensure that its obligations to its shareholders, employees, and customers are met.

The Board has in place several Committees that consider key matters of the Group, under the guidance of clearly documented Charters. These committees are the Audit Committee, Budget Committee, Risk and Compliance Committee, Corporate Governance Committee, Credit Committee, Human Resource Committee, Information Technology Committee, Investment Committee and Property Management/ Space Committee. The Charters for each Committee have been approved by the Board of Directors and are reviewed and revised, as prescribed, by the respective Committee and ratified by the Board of Directors.

BOARD SIZE AND COMPOSITION

The Articles of Associations mandates a Board size for effective decision-making is between five to ten directors for the Bank, four to ten for NCIC, and four to fifteen for the National Bank Trust Company. Board size and composition are reviewed annually based on changes in legal requirements, best practices, the skills and experiences required to enhance the Board's effectiveness and the number of directors needed to discharge the duties of the Board and its sub-committees effectively.

The Board of the St. Kitts-Nevis-Anguilla National Bank was comprised of ten (10) members who were elected and appointed by the holders of ordinary shares.

The Board of NCIC comprised of six (6) members of which one member, Marcella Lanns - Monish resigned effective 31st August 2018.

The Board of National Bank Trust Company comprised five (5) members.

The table below outlines the relevant qualifications of each Director.

DIRECTOR	QUALIFICATION
Alexis Nisbett	Master of Science (Accounting); Bachelor of Commerce (Accounting); Audit Committee Certificate (ACC)
Dr. Analdo Bailey	Doctor of Divinity Master of Business Administration Accredited Director (Acc. Dir)
Franklin Maitland	Fellow Chartered Certified Accountant; Master of Science – Finance; GCIB
Dr. Cardell Rawlins	Bachelor of Science – Medical Doctor
Elreter Simpson-Browne	Bachelor of Science – Management Accredited Director (Acc. Dir)
Talibah Byron	Bachelor of Laws; Master of Laws Accredited Director (Acc. Dir)
Lionel Benjamin	Certificate in Business Management Accredited Director (Acc. Dir)
Lorna Hunkins	Bachelor of Science – Economics/Accounts
Wallis Wilkin	Bachelor of Science – Management Studies Associate of Science – Architectural Engineering Accredited Director (Acc. Dir)
William Liburd	Bachelor of Science - Economics and History

INDEPENDENCE

The Board believes that director independence is very important. A Director is considered independent only where the Board determines that the Director has no material relationship with the National Bank Group of Companies. A material relationship is a relationship which could be reasonably expected to interfere with the exercise of an independent Director's judgment.

All Directors must take decisions objectively in the best interest of the Group. The Board has established clear delineation of responsibilities between the operation of the Board and the Executive responsible for the day to day running of the Group. No one individual has unrestricted powers of decision making. The roles of Chairman and Chief Executive Officer cannot be exercised by the same individual and no individual or group of individuals dominates the decision-making process.

CONFLICTS OF INTEREST

All Directors of the Company and its subsidiaries must avoid any situation which might give rise to a conflict between their personal interests and those of the Group. Prior to appointment, potential conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent that person from taking on the role. Directors are responsible for notifying the Chairman and Company Secretary as soon as they become aware of actual or potential conflicting situations.

If Directors or Executive Officers have an interest in a material transaction or agreement with the National Group that is being considered by the Board or a Board committee, they must:

1) disclose that interest;
2) leave the meeting during Board or committee discussion; and
3) not vote on the matter.

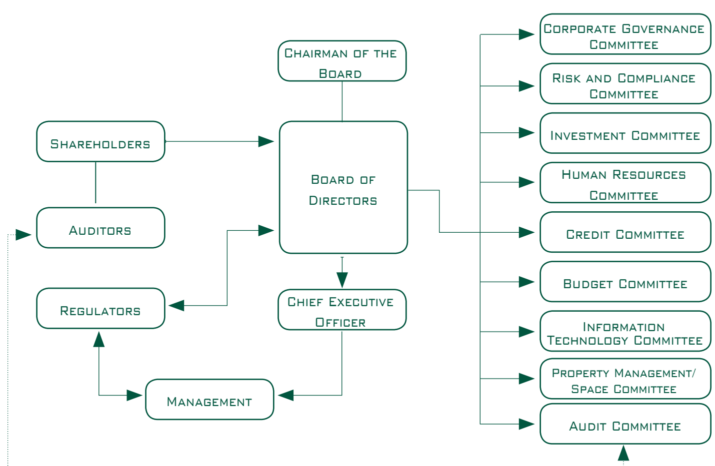
THE DEVELOPMENT OF DIRECTORS' KNOWLEDGE, EXPERIENCE AND SKILLS

During the financial period, Directors participated in various regional and international seminars and conferences aimed at maintaining and developing the knowledge, experience and skills needed in the performance of their duties and responsibilities. These seminars and conferences focused on areas including but not limited to:

- Correspondence Banking Relationships
- Anti-Money Laundering/Anti-terrorist Financing Compliance
- Internal Auditing
- Investment Management
- Card Risk Leadership
- Human Resources Management
- Health and Safety Management

COMMUNICATION

Management provides reporting to the Board of Directors allowing them to carry out their roles and responsibilities effectively. Additionally, information may be requested by the Directors. The diagram below provides an overview of how the Board interacts with the various stakeholder groups.



ATTENDANCE AT BOARD MEETINGS

SKNANB Board Meeting Attendance Report
The attendance at Board meetings is shown in the table below.

Director	No. of Meetings Attended	Meeting Attendance	
		Number	Rate (%)
Alexis Nisbett	23 of 24	23	95.83
Dr. Analdo Bailey	19 of 24	19	79.17
Franklin Maitland	24 of 24	24	100
Dr. Cardell Rawlins	20 of 24	20	83.33
Elreter Simpson-Browne	20 of 24	20	83.33
Talibah Byron	19 of 24	19	79.17
Lionel Benjamin	23 of 24	23	95.83
Lorna Hunkins	22 of 24	22	91.67
Wallis Wilkin	22 of 24	22	91.67
William Liburd	22 of 24	22	91.67
Stephen Hector (Secretary)	23 of 24	23	95.83
No. of Meetings	**24**		

It should be noted that there were some instances where Directors were absent from the meetings of the Board as a result of the Group's business.

Meetings of the Board of NCIC are held monthly. The attendance at Board meetings is shown in the table below.

NCIC Board Meeting Attendance Report

Director	No. of Meetings Attended	Meeting Attendance	
		Number	Rate (%)
Howard Richardson	9	9 of 9	100
Jenifer Howell	9	9 of 9	100
Marcella Lanns-Monish*	2	2 of 2	100
Jacynth Francis	7	7 of 9	77.78
Sonia Henry	7	7 of 9	77.78
Joycelyn Mitcham	9	9 of 9	100
Tracy Herbert (Secretary)	9	9 of 9	100
No. of Meetings	**9**		

**Lanns-Monish resigned from the Board in August 2018 and has not been replaced to date.*

St. Kitts-Nevis-Anguilla National Bank Trust Company Limited Board of Directors

The Board of Directors of the St. Kitts-Nevis-Anguilla National Bank Trust Company Ltd is comprised of:
O'Grenville Browne – CHAIRMAN
Dr. Patricia Bartlette – Secretary
Shirley Julius
Cyndie Demming
Crace Lewis

The Board of Directors for the National Bank Trust Company Ltd convened five (5) meetings during the year.

St. Kitts and Nevis Mortgage and Investment Company Limited

The Board of Directors of the St. Kitts-Nevis-Anguilla National Bank Ltd functions as the Board of Directors for the St. Kitts and Nevis Mortgage and Investment Company Ltd (MICO). However, the St. Kitts-Nevis-Anguilla National Bank Trust Company Ltd assumed responsibility for those operations previously conducted by the company effective March 1, 2017.

Directors' Rotation

At every ordinary general meeting one-third of the Directors shall retire from office. If the number of Directors be not divisible by three, then the nearest to one-third of the number of Directors shall retire from office. The retiring Directors shall be those who have been in office longest since being last election. Where Directors are of equal seniority in office, the Directors to retire shall be selected from amongst them by lot. A retiring Director shall be immediately, or at any future time, if still qualified, eligible for re-election.

Directors' Remuneration

Directors' fees are included in the Note 26 "Other Expenses".

Directors' Shareholdings

Director	No. of Shares Owned	Type of Director
Alexis Nisbett	635	Non-Executive
Dr. Analdo Bailey	32,500	Non-Executive
Franklin Maitland	8,250	Non-Executive
Dr. Cardell Rawlins	5,333	Non-Executive
Elreter Simpson-Browne	500	Non-Executive
Talibah Byron	4,520	Non-Executive
Lionel Benjamin	50,000	Non-Executive
Lorna Hunkins	800	Non-Executive
Wallis Wilkin	4,700	Non-Executive
William Liburd	25,416	Non-Executive

Election

Unless it be resolved to reduce the number of Directors, the ordinary general meeting at which Directors retire shall elect a successor to each retiring Director. A retiring Director shall remain in office until the close of the meeting notwithstanding the election of his successor.

Retiring Directors to continue if no others elected

If at any meeting where there is no one elected to replace a retiring Director, the retiring Director shall continue to be a Director as though he/she had been re-elected at such meeting.

Notice of Candidates

No one (other than a retiring Director) shall be eligible to be a Director, unless notice in writing that he is a candidate for such office shall have been given to the Company by two other members of the Company at least seven days before the day of holding the meeting at which the election is to take place.

Resignation

A Director may at any time give one month's notice in writing to the Company of his desire to resign, and at the expiration of such notice his office shall be vacated.

The role of the Board Committees

In an effort to effectively allocate tasks and responsibilities at the Board level, the Board has established nine (9) standing committees for the Bank and three (3) for the NCIC.

The Boards are supported by its sub-committees which make recommendations to the Board on matters delegated to them, in particular in relation to internal control, risk, financial reporting, governance and employee matters. This enables the Board to spend a greater proportion of its time on strategic, forward looking agenda items. Each Committee is chaired by an experienced Chairman.

St. Kitts-Nevis-Anguilla National Bank Ltd Board Committees

The Board of the St. Kitts-Nevis-Anguilla National Bank Limited is supported by the following committees which make recommendations to the Board on matters delegated to them.

Audit Committee

The Audit Committee is responsible for reviewing the integrity of the financial statements of the National Bank Group of Companies, related management's discussion and analysis (MD&A) and internal control over financial reporting, monitoring the system of internal control, monitoring compliance with legal and regulatory requirements, selecting external auditors for shareholder approval, reviewing the qualifications, independence and performance of the external auditors, reviewing the qualifications, independence and performance of the internal auditors, monitoring the internal audit function and reviews significant accounting and reporting issues; including critical accounting estimates and judgments used in applying accounting principles as well as the treatment of complex or unusual transactions to understand their impact on the financial statements.

The members of the Committee are as follows:
Franklin Maitland – CHAIRMAN
Talibah Byron
Dr. Analdo Bailey
Lorna Hunkins
Sheena Robinson – RECORDER*

**David Walters resigned in August 2018 and was replaced by Bentley Bissette. Ms. Sheena Robinson was subsequently appointed effective 1 March 2019.*

Budget Committee

The Budget Committee is responsible for reviewing the strategy and goals, and monitor progress toward these goals, provide oversight of the company's budget and financial performance reports, review the company's annual planning and budgeting prior to consideration by the Board of Directors.

The members of the committee are as follows:
Alexis Nisbett – CHAIRMAN
Franklin Maitland
Elreter Simpson-Browne
Dr. Cardell Rawlins
Anthony Galloway – RECORDER
Donald Thompson – EX OFFICIO

Risk and Compliance Committee

The Risk and Compliance Committee ensures that the Group has an appropriate program in place to identify and effectively mitigate compliance risk, considers and approves the scope of the compliance function having regard to each regulatory framework and the Group's compliance standards, reviews and monitors the Group's compliance activities and the effectiveness of the compliance program for the Group, ensures that Senior Management are taking the appropriate measures to satisfy all of the regulatory requirements applicable to the Group and monitor compliance with regulatory, prudential, legal and ethical standards.

The members of the committee are as follows:
Talibah Byron – CHAIRMAN
Lionel Benjamin
Alexis Nisbett
Elreter Simpson-Browne
Lorna Hunkins
Jacqueline Hewlett – RECORDER
Donald Thompson – EX OFFICIO

Corporate Governance Committee

The Corporate Governance Committee major responsibilities are to provide oversight of corporate governance matters, make recommendation on Board and Committee structure and composition, make recommendations on nomination, resignation and removal of Directors and establishing an annual performance assessment of Directors.

The members of the committee are as follows:
Franklin Maitland – CHAIRMAN
Dr. Cardell Rawlins
William Liburd
Dr. Analdo Bailey
Anthony Galloway – RECORDER
Donald Thompson – EX OFFICIO

Credit Committee/Nonperforming Facilities

The Credit Committee/ Nonperforming Facilities is responsible for reviewing credit applications, and monitoring and reviewing nonperforming facilities. The Committee also reviews applications and approved loans to ensure that they are in compliance with the lending regulations and the Group's lending policy. The Credit Committee reviews all special lending products and make appropriate recommendations to the Board of Directors. The Credit Committee also reviews all loan requests when special considerations are necessary.

The members of the committee are as follows:
Alexis Nisbett – CHAIRMAN
Dr. Analdo Bailey
Lionel Benjamin
Talibah Byron
Elreter Simpson-Browne
Dr. Cardell Rawlins
William Liburd
Wallis Wilkin
Lorna Hunkins
Franklin Maitland
Stephen Hector – SECRETARY
Donald Thompson – EX OFFICIO

Human Resources Committee

The Committee is responsible for assisting the Board in fulfilling its governance and supervisory responsibilities for strategic oversight of the Group's human capital, including organization effectiveness, succession planning and compensation, and their alignment with the Group's strategy of consistent, sustainable performance, its risk appetite and control framework.

The members of the committee are as follows:
Elreter Simpson-Browne – CHAIRMAN
Lionel Benjamin
Alexis Nisbett
Talibah Byron
Pansyna Bailey – RECORDER
Donald Thompson – EX OFFICIO

Information Technology Committee

The Information Technology Committee is responsible for assisting the Board of Directors in fulfilling its governance and supervisory responsibilities for strategic oversight of National Bank Group change initiatives, information technology and security effectiveness, and their alignment with the strategy of consistent, sustainable performance, as well as control matters.

The members of the committee are as follows:
Dr. Analdo Bailey – CHAIRMAN
Wallis Wilkin
Elreter Simpson-Browne
Lorna Hunkins
Quincy Prentice – RECORDER*
Donald Thompson – EX OFFICIO

*Junior Jules resigned effective July 17, 2018 and was subsequently replaced by Quincy Prentice.

Investment Committee

The Committee shall draw up and regularly review Investment Guidelines and recommend Investment Policy amendments to the Board, regularly monitor the investments of the Group to ensure that they are consistent with the Investment Policy and report to the Board, regularly review the performance of both the investment portfolio and external fund managers against agreed benchmarks and report the findings to the Board.

The members of the committee are as follows:
Dr. Analdo Bailey – CHAIRMAN
Wallis Wilkin
Talibah Byron
Dr. Cardell Rawlins
Anthony Galloway – RECORDER
Donald Thompson – EX OFFICIO

Property Management/Space Committee

The Property Management/Space Committee works closely with the facilities management team to provide safe and comfortable environment for employees and customers through space planning construction and renovation projects.

The members of the committee are as follows:
Wallis Wilkin – CHAIRMAN
William Liburd
Lionel Benjamin
June O'Brien – RECORDER
Donald Thompson – EX OFFICIO

National Caribbean Insurance Company Limited (NCIC) Board Committees

The Board of the National Caribbean Insurance Company Limited (NCIC) is supported by the following committees which make recommendations to the Board on matters delegated to them.

Audit Committee

The Audit Committee of NCIC has the same responsibility as the Audit Committee of the Bank as outlined earlier.
The members of the Committee are as follows:
Marcella Lanns-Monish – CHAIRMAN*
Jenifer Howell
Jacynth Francis
*Lanns-Monish resigned from the committee in August 2018 and has not been replaced to date.

Compliance Committee

The Compliance Committee of NCIC has the same responsibility as the Risk and Compliance Committee of the Bank as outlined earlier.

The members of the committee are as follows:
Howard Richardson – CHAIRMAN
Sonia Henry
Joycelyn Mitcham
Patricia Herbert – RECORDER
Jacqueline Hewlett – EX OFFICIO

Investment Committee

The Investment Committee of NCIC has the same responsibility as outlined above for the Investment and Budget Committees.
The members of the committee are as follows:
Howard Richardson – CHAIRMAN
Marcella Lanns-Monish *
Jenifer Howell
Cedric L. K. Jeffers
Sherlene Johnson – RECORDER

*Lanns-Monish subsequently resigned from the committee in August 2018 and has not been replaced to date.

Internal Audit Function Oversight

The third line of defense is the Internal Audit function, which is charged with providing independent, objective assurance by delivering an objective evaluation of the risk and internal controls.

The Audit Committee has the ultimate responsibility for the internal audit function and oversees its performance.

Organization Placement

The Chief Internal Auditor (or designate) is responsible for the independent functioning of the Internal Audit Unit, reports functionally to the Audit Committee and administratively to the Chief Executive Officer. The Chief Internal Auditor has unencumbered access to the Audit Committee and may freely discuss audit policies, audit findings, and recommendations, audit follow-up, guidance issues and other matters.

Professional Standards and Independence

The Internal Audit Unit follows the professional standards of relevant professional organizations including:

i) Code of Ethics of the Institute of Internal Auditors; and
ii) The International Standards for the Professional Practice of Internal Auditing.

Resources and skill set

The Committee recognizes that internal auditors must possess the required expertise and knowledge to perform his/her functions consistent with the requirements of the professional standards as outlined above.

The Chief Internal Auditor therefore provides the Audit Committee with a regular report on the Unit's personnel, including the sufficiency of resources, their qualifications, certifications, and training and development needs.

Independence

The Chief Internal Auditor periodically discusses standards of professional audit independence with the Audit Committee Chair and Audit Committee. The Audit Committee reviews the reporting relationships of the Chief Internal Auditor periodically.

To emphasize the Internal Audit Unit's independence, the Unit is restricted from implementing internal controls, developing procedures, installing systems, preparing records, or engaging in any other activity that may impair the internal auditor's judgment.

Periodic Review

The Audit Committee is responsible for reviewing the effectiveness of the Internal Audit function and receives reports from the Chief Internal Auditor. On a periodic basis, the Audit Committee may engage an independent third party to assess the Internal Audit function in accordance with professional standards promulgated by the Institute of Internal Auditors and in the context of regulatory expectations and practices of leading institutions. The Audit Committee reviews the results of those assessments.

Audit Plan

The Audit Committee is responsible for reviewing and approving the annual audit plan which includes the audit scope and the overall risk assessment methodology presented by the Chief Internal Auditor to assess whether it is appropriate, risk based and addresses all relevant activities over a measurable cycle. The Chief Internal Auditor, on a quarterly basis, reviews the status of the audit plan and any changes needed, including reviews of:

i) the results of audit activities, including any significant issues reported to management and management's response and/or corrective actions;
ii) the status of identified control weaknesses;
iii) the adequacy and degree of compliance with its systems of internal control.

CHAIRMAN'S REPORT

Security, Stability, Exceptional Customer Service. These are the Pillars of National Bank.

Alexis Nisbett
Chairman of the Board

INTRODUCTION

I take great pleasure in presenting to you, our valued shareholders, the Annual Report and Audited Financial Statements for the financial year ended June 30, 2019. Indeed the Board of Directors of the St. Kitts-Nevis-Anguilla National Bank Limited (SKNANB or The Bank) and by extension The Boards and Management of the various companies that make up the National Bank Group are proud to once again stand before you with what can only be described as another successful year here at National.

SKNANB, over the recently concluded financial year, performed at a commendably high level which led to the returns reported to you in the Annual Report. SKNANB was able to accomplish this while continuing to employ the highest standards of Corporate Governance and utilizing high end technology and comprehensive strategies.

THE BOARD OF DIRECTORS

The Board faced both new and continuing challenges during the financial year.

The Board continued to meet at least twice per month to chart the strategic course of the Bank and, of course, there were times when the matter or matters were of such a high level of urgency that the Board had to convene special meetings to address the same.

The Credit Committee, one of, if not the, key sub-committees of the Board, also continued to meet at least twice per month to deal with the Credit portfolio of the Bank in what can only be described as an ever-increasingly competitive lending environment. The Directors continue to show an appreciation for the unique position and value of having the Bank's key decision makers resident on island and as such they spent countless hours deliberating on credit matters in order to allow for swift turnaround of loan applications as well as swift implementation of credit policies.

Each of the sub-committees of the Board continues to meet regularly. The importance of these Committees cannot be overstated as matters relating to such key areas as Investment, Governance and Oversight of the performance of the various business areas of the Bank, can arise on a daily basis. These committees and indeed the Bank as a whole are buttressed by the Bank's Information Technology systems in an attempt to keep National ahead of the competition AND ahead of those fraudulent entities that threaten the Bank and the financial system as a whole.

The Board continues to grapple with the Non-Performing Loan Portfolio and in particular some of the larger debt exposures. In this vein the Board has increased its deliberations with Senior Management at the Bank as well as meetings with key representatives from those large debtors. These efforts have borne significant fruit albeit at times at a slower pace than the Board would prefer. The Board, along with Senior Management and the said representatives, have been able to turn suggestions and proposals into strong viable commitments for restructuring and/or repayments that the Board feels strongly will result in a significant reduction in the Bank's NPLs.

THE SENIOR EXECUTIVE TEAM

Shareholders can feel confident and proud that your Board of Directors continue to work with the Senior Executive Team at the Bank to protect the interests of the shareholders and to grow the value of the Bank. The Board approved the selection of a Chief Internal Audit Officer to strengthen the Bank's lines of defense. Thus, over the course of the last two (2) financial years the Board has ensured the stability of the Senior Executive Team by filling leadership posts in the key areas of Information Technology, Human Resources and now Internal Audit.

I must point out that the recruitment of a Chief Credit Risk Officer (CCRO) remains an extremely challenging endeavor. The Human Resources sub-committee of the Board and indeed the Board as a whole has faced the challenge of finding a candidate that satisfies not only the educational and experience qualifications, but who at the same time exhibits the leadership qualities that the Board feels are imperative to lead the Credit Division especially at this critical juncture of the Bank's history, where the Bank is tackling the aforementioned large exposures, increased efforts from the competitors and the reality of the impact of the "Land for Debt Swap" on the Loan Portfolio.

The Board has not relaxed its efforts in the recruitment of the CCRO, however, and in fact has renewed its search efforts by enlisting the aid of another recruitment agency to once again search the market for the best candidates for this role. The Board anticipates that this fresh perspective will provide positive results and the Board remains confident that it will find the ideal person. I cannot overemphasize the fact that the Board is resolute that this is not an area where the Board can settle for anything less than the best candidate.

The Board remains appreciative of the steady and ever-growing leadership of Mr. Donald Thompson and his team of Senior Executives whose efforts are supported by the results exhibited in the Annual Report that is before you for your consideration.

THE ECONOMY

The local economy expanded in the financial year 2019 as evidenced by increases in the construction, tourism and retail and wholesale sectors. Growth is projected to increase further by 2020 and beyond following the completion of the second Cruise Pier in November 2019. This historical event is expected to augment the tourism sector, and in addition to that – facilitate expansions in all other major economic sectors.

The Eastern Caribbean Central Bank has projected slightly lower real GDP growth rate (basic prices) of 3.03% for 2020 compared with 3.32% for 2019. Similarly, using market prices, the real growth rate is projected at 2.56% for 2020 from 3.03% in 2019. Despite, the lower projected growth rates, performance in the local economy is expected to improve year-over-year, while the banking industry, and in particular SKNANB, will continue to show positive results.

FINANCIAL RESULTS

The Group of Companies enjoyed a satisfactory year in so far as it relates to asset quality, business developments and diversification, investment returns and contracts with third parties. Relationships with our correspondent banks and reinsurance providers continued to develop and grow to the benefit of the Bank and its stakeholders.

The Bank's correspondent banking relationships continue to be strong in these challenging times. The Board continues to utilize a straightforward and honest approach in its deliberations with the correspondent banks thus leaving no room for surprises of any kind that can harm the levels of trust that the Bank has built up with the correspondent banks over the years.

Net income for the year was $52.27 million compared to $52.09 million for the year ended June 30, 2018. Total assets were at $3.69 billion for the financial year ended June 30, 2019 compared to $3.68 billion at the end of the year ended June 30, 2018.

The Bank remained highly liquid in 2019 as evidenced by the increase in the cash and cash equivalents over the period. In 2019, the cash and cash equivalents stood at $0.7 billion compared with $0.6 billion in 2018.

THE BANKING LANDSCAPE

The banking landscape is expected to change somewhat with the exit of some long-standing major players in the marketplace and the arrival of a new player to the Federation. Nevertheless, National is poised to take advantage of all opportunities that these changes would present and will continue to be the premier financial institution in the Organization of Eastern Caribbean States (OECS).

Increased emphasis on strengthening and expanding our customer base, thereby increasing fee-based income while still managing costs will provide us with the competitive edge and put us on a stronger path to increasing shareholders value.

QUALIFICATION TO ACCOUNTS

Once again you will note that the Board has had to deal with the issue of the ABI Bank loan of 2009 and the impact that it presents for the asset quality of the Bank. The position of our auditor remains the same and it has once again resulted in a qualification of the Auditor's opinion on the accounts. The reasons given by the auditor are stated in the Financial Statements exhibited in the Annual Report.

The Board remains confident in the potential for recoverability with regards to this matter. The issue which concerns the Bank's purchase of Certificates of

Participation in a Government of Antigua and Barbuda Seven (7) year Long Term Notes (the Certificates of Participation), the same securitized by the ABI Bank Limited (ABIB) of Antigua has progressed to the stage where the Bank has begun the process of initiating legal action to recover its interest.

Despite the qualification, the Board considers that this initiation of legal action is a significant development over the course of the financial year. The Bank's External Legal Counsel team has been buttressed by the retention of Legal Counsel out of the United Kingdom, who the Bank is advised is an expert in this particular area of the law. This further increases the Board's optimism of a favorable outcome for the Bank and you the Shareholders.

The Board continues to rely on the expert legal advice received by the Bank thus far as pertains to the prospects of enforcing recovery. The Board also remains resolute in its commitment to its fiduciary duties to the Bank and further to the defense of the rights of its shareholders and depositors.

CONCLUSION

The Board is pleased with the performance of the Bank and the Group (as a whole) over the course of the financial year. The staff of the National Bank Group continues to provide yeoman's efforts in their day to day performance.

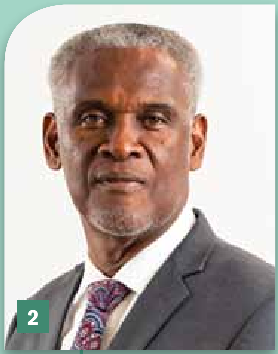
The Board remains vigilant in all attempts to protect the Bank, its shareholders and depositors.

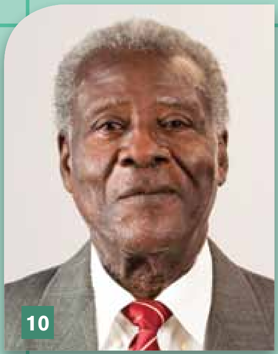
I would like to take this opportunity on behalf of my Board colleagues to thank you the shareholders, our depositors and our stakeholders for the confidence that you continue to place in the Board and the Bank. It is the invaluable partnership that we share with you that has brought the Bank this far and that paves the way for a bright NATIONAL future.

Alexis Nisbett

Chairman

BOARD OF DIRECTORS





LEFT TO RIGHT

1. **Alexis Nisbett -** Chairman
2. **Dr. Analdo Bailey -** 1st Vice Chairman
3. **Franklin Maitland -** 2nd Vice Chairman
4. **Dr. Cardell Rawlins -** Director
5. **Talibah Byron -** Director
6. **Elreter Simpson-Browne -** Director
7. **Wallis Wilkin -** Director
8. **Lionel Benjamin -** Director
9. **Lorna Hunkins -** Director
10. **William Liburd -** Director
11. **Stephen O.A. Hector -** Corporate Secretary

DIRECTORS' REPORT

Opportunities don't happen. You create them.

Stephen OA Hector
Secretary

DIRECTORS' REPORT

The Directors take pleasure in submitting their Report for the financial year ended June 30, 2019.

DIRECTORS

In accordance with the Bank's Articles of Association one third of the Directors shall retire by rotation at every annual General Meeting. Retiring Directors shall be eligible for re-election.
The retiring Directors by rotation are:

Ms. Talibah Byron
Mr. Lionel Benjamin
Dr. Analdo Bailey

The retiring Directors, being eligible, offer themselves for re-appointment.

BOARD COMMITTEES

In keeping with its management function and fiduciary duties, the Board of Directors operates through nine (9) committees namely: Audit, Budget, Corporate Governance, Credit, Human Resources, Investment, Risk and Compliance, Information Technology and Property Management/Space.
All committees work closely with management to deal with the many challenges facing the financial services industry and the Bank in particular.

FINANCIAL RESULTS AND DIVIDENDS

Activities of the Bank are focused on increasing shareholders value by providing them with a reasonable return on their investments. During the period June 2015 to June 2019, dividend payments were $13.5m (for the financial year ended June 30, 2015), $13.5m (for the financial year ended June 30, 2016), $13.5m (for the financial year ended June 30, 2017) and $13.5m (for the financial year ended June 30, 2018) for a total of $54.0m over a four-year period.

The Directors report that profit after taxation for the year ended June 30, 2019 amounted to $52.3 million, with earnings per common share of $0.39.

Further discussion of the performance of the Company can be found in Management's Discussion and Analysis of the financial condition and results of operations presented in a separate section of this Annual Report.

The Directors have decided to recommend a dividend of 15% for the financial year ended June 30, 2019. This recommendation, if approved by the Annual General Meeting, will mean a total dividend of $20.3 million will be paid for the financial year ended June 30, 2019.

By Order of the Board of Directors

Stephen O. A. Hector
SECRETARY

SENIOR EXECUTIVE TEAM

1. **Donald Thompson,** Chief Executive Officer
2. **Anthony Galloway,** Chief Financial Officer
3. **Pansyna Bailey,** Chief Human Resources Officer
4. **Bernice Grant-Kelly,** Chief Electronic Services Officer
5. **Jacqueline Hewlett,** Chief Risk and Compliance Officer
6. **Quincy Prentice,** Chief Information Officer
7. **Sheena Robinson,** Chief Internal Auditor
8. **Ermelin Sebastian-Duggins,** Chief Legal Counsel
9. **David Edwards,** Executive Manager, Systems
10. **Chidi Liburd-Edwards,** Executive Manager, Finance
11. **Anthony Morton,** Executive Manager, Marketing
12. **Paula Morton,** Officer in Charge, Credit Division
13. **June O'Brien,** Executive Manager, Administration Department
14. **Deirdre Venner,** Senior Manager Retail Banking

MANAGEMENT DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides an overview of the economic conditions that existed globally and domestically during the financial year ended 30 June 2019, and an analysis of the results of operations and financial condition of St. Kitts-Nevis-Anguilla National Bank Limited and its subsidiaries (the "Group") for the same period. This should be read in conjunction with the Consolidated Financial Statements and related notes found on pages 45 to 162.

Operating Environment

Global growth remained subdued throughout the 2018/19 financial year and was forecasted at approximately 3.2 per cent in 2019. The world economies were impacted by increased trade and technology tensions between the USA and China, prospects of tighter US Sanctions, Brexit uncertainties and rising geopolitical tensions. However, growth is expected to increase 30 basis points to 3.5 per cent by 2020, but this projection is based on reaching positive international policy resolutions, which would boost business confidence and financial market sentiments, as well as stabilize the emerging market and developing economies.

Against this backdrop, the economies of the Eastern Caribbean Currency Union (ECCU) performed considerably well, supported largely by increased activities in the construction and tourism sectors. The spillover effects from these sectors have added value to other major sectors, including wholesale and retail trade, mining and quarrying and manufacturing. However, the general policy uncertainties in the international markets could potentially threaten tourism demand, investment flows and future economic growth within the region.

Despite such uncertainties, the economy of St. Kitts and Nevis expanded at an accelerated rate when compared to the performance of 2017/2018. Growth was fueled mainly by developments in the construction, hotels and restaurants and manufacturing sectors, with positive spinoffs to the other sectors. Developments in the banking system reflected an overall increase in lending but net foreign asset registered a much lower position. Commercial bank liquidity continues to increase as the ratio of liquid assets to total deposits widens. The banks were not only profitable, their capital position strengthened as well.

In this environment, St. Kitts-Nevis-Anguilla National Bank Group reports another successful year of operations.

Results of Operations

Net Interest Income

Net interest income for the year was $45.7 million, an increase of $8.7 million or 23.5% when compared with $37.0 million reported for 2018. This year-over-year increase in net interest income was the result of higher interest income and lower interest expenses for the period. (See Table 1)

Higher interest income was earned on loans, advances and investments whilst interest expenses decreased primarily on fixed deposits during the year. Consequently, the Bank's net interest margin (net interest income as a percentage of average assets) increased to 1.5% in 2019 from 1.2% in 2018.

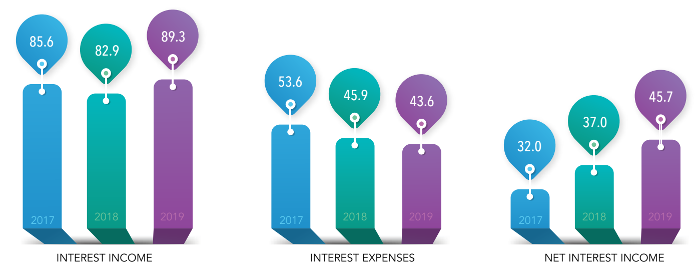
Table 1

	2019	2018	Change $	Change %
Interest Income	**$89.3**	**$82.9**	**6.4**	**7.7**
Loans & Advances	47.5	43.7	3.8	8.7
Investments	41.8	39.2	2.6	6.6
Interest Expense	**43.6**	**45.9**	**(2.3)**	**(5.0)**
Demand	1.0	0.9	0.1	11.1
Savings	9.0	8.5	0.5	5.9
Time	33.6	36.5	(2.9)	(7.9)
Net Interest Income	**45.7**	**37.0**	**8.7**	**23.5**

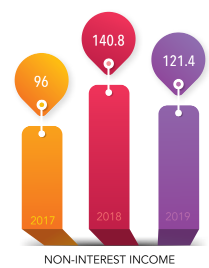
Table 2

(In Millions)	2019	2018	Change $	Change %
Fee and Commission Income	$ 16.8	$ 14.9	1.9	12.7
Dividend	10.8	10.3	0.5	4.9
Net Gain on AFS Investments	49.6	74.7	(25.1)	(33.6)
Net Insurance related income	36.1	34.1	2.0	5.9
Foreign Exchange gains	7.6	5.4	2.2	40.7
Other	0.5	1.4	(0.9)	(64.3)
Non-Interest Income	**121.4**	**140.8**	**(19.4)**	**(13.8)**

NET INTEREST INCOME



NON-INTEREST INCOME



Non-Interest Income

Non-interest income decreased by $19.4 million or 13.8% when compared with 2018. During the review period, strong volatility in the United States financial markets resulted in lower gains from investment securities, and when coupled with a reduction in miscellaneous income, resulted in a fall in total non-interest income for 2019 when compared to the same period in 2018.

Excluding the impact of lower investment gains and miscellaneous income, all other categories of non-interest income showed year-over-year growth. Foreign exchange gains increased by $2.2 million or 40.7%, Insurance related income rose by $2.0 million or 5.9%, commission income increased by $1.9 million or 12.7% in 2019 over 2018, while dividends grew by $0.5 million or 4.9% in 2019 when compared to the $10.3 million recorded for 2018. (see table 2)

Non-Interest Expenses

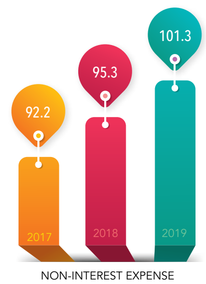
In 2019, non-interest expenses increased by $6.0 million or 6.3% from $95.3 million in 2018 to $101.3 million in 2019. Growth in non-interest expenses was the net result of the reduction in depreciation and insurance claims incurred, and an increase in impairment charges, employee costs and fees.

Consequently, before adjustments for impairment, the efficiency ratio rose 530 basis points from 49.0% in 2018 to 54.3% in 2019. Similarly, after adjusting for impairment, the efficiency ratio moved up 700 basis points from 53.6% in 2018 to 60.6% in 2019. In both instances, the higher efficiency ratio, is an indication that operating costs has increased over the review period.

Table 3

(In Millions)	2019	2018	Change $	Change %
Administrative and general expenses	46.9	42.9	4.0	9.3
Net Claims incurred	23.2	24.6	(1.4)	(5.7)
Fee expenses	16.2	15.0	1.2	8.0
Impairment charges	10.5	8.2	2.3	28.0
Depreciation and amortization	2.6	2.8	(0.2)	(7.1)
Directors Fees & Expenses	1.1	1.1	0.0	0.0
Professional fees and related expenses	0.8	0.7	0.1	14.3
Non-Interest Expenses	**101.3**	**95.3**	**6.0**	**6.3**

NON-INTEREST EXPENSES



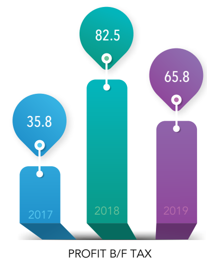
Net Income

The net effect of the change in net interest income, non-interest income and non-interest expenses was a $16.7 million or 20.2% decrease in net income before tax for 2019 over 2018. However, net income for 2019 was $0.2 million or 0.4% higher than the $52.1 million achieved in 2018. Consequently, earnings per share (basic and diluted) remained unchanged at $0.39 in 2019 when compared to 2018. (See table 4)

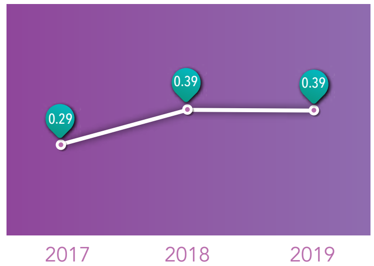
Table 4

(In Millions)	2019	2018	Change $	Change %
Net Interest Income	$ 45.7	$ 37.0	8.7	23.5
Non-Interest Income	121.4	140.8	(19.4)	(13.8)
Non-Interest Expenses	101.3	95.3	6.0	6.3
Net Income (Profit b/f Tax)	**65.8**	**82.5**	**(16.7)**	**(20.2)**

PROFIT B/F TAX



EARNINGS PER SHARE ($)



Financial Conditions

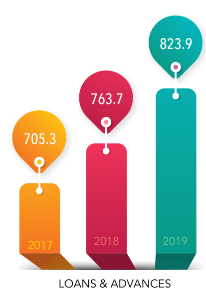
Loans and Advances

Total Loans and Advances to customers increased by $60.2 million or 7.9% to $823.9 million in 2019 over 2018, driven by strong demand for Demand Loans, Mortgages and Overdrafts.

Demand loans, which were recorded at $255.2 million in 2019, accounted for 61.6% of the total productive loans and advances portfolio. Mortgages and overdrafts, on the other hand, account for 26.3% and 2.3% of the portfolio, respectively. All other loan categories accounted for the remaining 9.8%.

SKNANB's market share of total loans and advances in the Federation of St Kitts and Nevis increased 180 basis points from 41.5% in 2018 to 43.0% in 2019 and when compared to the ECCU, moved up 20 basis points from 6.3% to 6.5% over the same period.

LOANS & ADVANCES

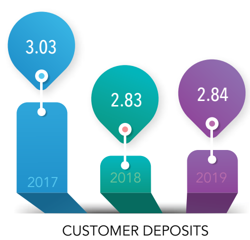


Deposits

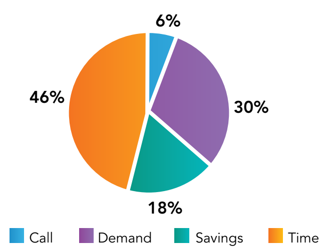
Customer deposits grew by $5.9 million or 0.2% to $2.8 billion in 2019 when compared with 2018. Direct demand deposits and savings were the main contributing factors to the rise in customer deposits. Direct demand deposits increased by $93.0 million or 12.6% while savings deposits rose by $34.4 million or 7.3%. All other deposit categories, that is, fixed deposits and call, fell by 1.1% and 36.7% respectively, over 2018.

Interest payments on deposits amounted to $43.7 million in 2019 compared to $50.5 million in 2018. The average effective rate of interest paid on customers' deposits was 1.64% in 2019, compared with 1.66% in 2018.

CUSTOMER DEPOSITS



DEPOSITS MIX 2019



Capital and Liquidity

The Group continued to maintain a very strong capital position in financial year 2019 as evidenced by the end of period Tier 1 capital ratio of 39.0% and Basel ratio of 38.0%. This strong capital position has enabled the Group to continually pay dividends (of $0.10 per share) to shareholders. Shareholders' equity has risen by $11.8 million or 2.0% in 2019, Return on assets remained at 1.4% in 2019 when compared to 2018 but the Return on equity moved slightly lower to 8.7% in 2019 from 9.1% in 2018.

The Group also remained highly liquid and maintained a higher level of liquid assets in 2019 over 2018. Total liquid assets maturing within one (1) year were 2.4 billion in 2019 (2018 - $2.4 billion), equal to 63.9% of total assets versus 65.5% the previous year. Despite the lower position, it is still an indication that the bank possesses the appropriate amount of liquidity in support of its assets, giving it the ability to meet its contractual obligations as they fall due.

Risk Management

Risk Management continues to be a key area of focus for St. Kitts-Nevis-Anguilla National Bank Limited. Over the past financial year, significant progress has been made to the development and implementation of an Enterprise Risk Management programme. This was especially so with respect to Operational Risk with the implementation of operational risk meters and dashboards for the various departments of the Bank and the commencement of monthly operational risk dashboard reporting to the Board of Directors. The use of the monthly dashboard reporting provides a holistic view of the Bank's operational risk as well as highlights any areas of concern, thereby facilitating corrective action where and when required.

During financial year 2018-2019, efforts were also made to enhance the Bank's financial risk reporting. Stress test reporting for the Bank's investment portfolio has been developed, showing the potential loss exposure under several scenarios, for which parameters are being established. The Bank's financial risk reporting will continue to be developed with specific focus on credit and liquidity risk with the aim of enhancing the Bank's credit and liquidity risk management frameworks, including the introduction of liquidity risk stress testing during the next financial year-end.

As such, implementation of the Bank's Enterprise Risk Management (ERM) programme is being advanced in order to ensure that all relevant risks affecting the organisation are appropriately identified, measured, monitored and mitigated, where possible. Thus, the Bank's Board of Directors and senior management will be equipped with more timely and specific risk information to assist with decision-making and strategic planning in a constantly changing environment.

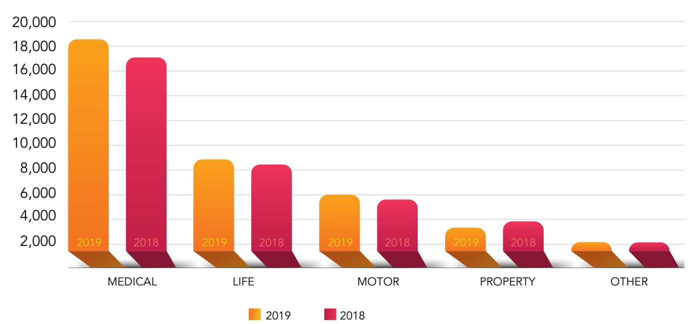
To date, the efforts to develop the Bank's Risk Management programme augur well for the Bank to successfully navigate future implementation of Basel II/III as being currently explored for the Eastern Caribbean Currency Union.

National Caribbean Insurance Company (NCIC)

NCIC achieved a Net Income before tax of $6.1 million; a $2.4 million or 63.2% increase over the profit of $3.7 million which was reported for 2018. The rise in profits was mainly attributable to improved underwriting results for the year.

Underwriting results improved year-over-year as a net result of growth in net premium income and a reduction in the claims expense. Net premium Income rose by 5.9%, moving from $34.1 million in 2018 to $36.1 million in 2019. Claims expenses, on the other hand, reduced by 5.7% over the period.

ANALYSIS OF NET PREMIUMS



National Bank Trust Company

At the end of June 2019, National Bank Trust Company also reported a successful year of operations when compared to the previous year. Its income before taxation was $0.1 million, which represents a $0.1 million or 412.5% increase over the previous year's loss of $0.032 million.

The profit achieved for financial year 2019 was due mainly to a $0.3 million increase in total income and a $0.2 million increase in total expenses. This increase in income was due mainly to increases in fees, which was offset mainly by increases in administrative, staff and depreciation expenses.

MICO

Although the St. Kitts-Nevis Mortgage and Investment Company reported a loss of $0.5 million in 2019, the loss was 11.4% less than that achieved in 2018. The improvement over the previous year was attributable to higher operating income and lower expenses over the period. The main expenses incurred over the period were administration and general expenses and depreciation.

Outlook

In the 2019/20 financial year, St. Kitts-Nevis Anguilla National Bank Group will continue to implement measures to improve profitability, curtail expenses and strengthen its position globally. Furthermore, the Group will continue to adhere to international prudential policies and practices with regards to capital adequacy and supervision that have tightened over the years.

Through these efforts, in the year ending June 2020, the Group is targeting increases in loans and advances, revenue and shareholders' equity, as well as lower costs of funds.

Grant Thornton
An instinct for growth™

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West Indies

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Independent Auditor's Report

To the Shareholders of
St. Kitts-Nevis-Anguilla National Bank Limited

Opinion

We have audited the consolidated financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** (the "Bank") and its subsidiaries (the 'Group"), which comprise the consolidated statement of financial position as of June 30, 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Originated debts on the Group's consolidated statement of financial position includes certain long-term notes issued by a third party, ABI Bank Limited (in receivership) ("ABIB"), amounting to $36,242,620 which have matured and remain outstanding. The loans were to be fully repaid by cash flows from loans ABIB made to the Government of Antigua and Barbuda. However, on November 27, 2015, ABIB was placed in receivership. No provision for potential losses has been made in the consolidated financial statements in respect of these notes.

We were unable to obtain sufficient appropriate audit evidence or satisfy ourselves by alternative methods, as to the recoverability of the $36,242,620 due to the Group. Consequently, we were unable to determine whether any adjustment to this amount was necessary in the consolidated financial statements.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants ("IESBA Code")*, 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 qualified opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of financial assets

Description of the Matter

The impairment of financial assets is a key audit matter, as it requires the application of critical management judgement and use of subjective estimates in determining the amount of impairment losses that are required to be recognised in the consolidated financial statements. As of June 30, 2019, the Group's financial assets with credit risk that are subject to impairment amounted to $2,609,749, which represents 71% of total assets.

On July 1, 2018, the Group adopted IFRS 9, which introduced the expected credit losses ("ECL") model in determining the impairment of financial assets. Accordingly, the Group used the ECL model in determining the impairment allowance for its financial assets. Under IFRS 9, the assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of default occurring, the associated loss ratio and of default correlation between counterparties. Furthermore, the Group incorporated forward-looking information into the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition to the measurement of ECL. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

The disclosures relating to the impairment allowances on the financial assets, and the related credit risk are included in notes 3 to 10 and 15 to the consolidated financial statements.

How the Matter was addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the adequacy of the impairment allowance on the financial assets, which was considered to be a significant risk, included the following:

- Obtained an understanding and critically assessed the Group's updated accounting policies relating to the classification, measurement and impairment of financial assets;

- Assessed and evaluated the effectiveness of controls over the approval, recording and monitoring of financial assets, classification into credit risk stages, and calculation of impairment allowance;

- Evaluated the inputs and assumptions, as well as the formulas used in the development of the ECL models for the various financial assets. This includes assessing the appropriateness of design of the ECL impairment model and formula used in determining the ECL;

- Evaluated the classification of credit-impaired loans and advances to customers to stage 3 for completeness of the population of loans and advances to customers included in the stage 3 ECL calculation. Independently tested the accuracy of management's stage 3 ECL calculation on a sample basis;

How the Matter was addressed in the Audit ...continued

- Examined the collateral values recorded by management by comparing them to independent valuation reports of independent professional valuators;

- Assessed the estimated costs and time to sell pledged collaterals used in the ECL calculation for reasonableness; and

- Assessed the key credit risk factors such as default history, macro-economic factors and financial capability of counterparties.

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *...continued*

- 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jefferson E. Hunte.

Grant Thornton

Chartered Accountants
October 17, 2019
Basseterre, St. Kitts

Consolidated Statement of Financial Position

As of June 30, 2019

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2019 $	2018 $
Assets			
Cash and balances with Central Bank	5	**220,505**	223,552
Treasury bills	6	**69,615**	102,928
Deposits with other financial institutions	7	**591,769**	434,132
Loans and advances to customers	8	**823,883**	763,692
Originated debts	9	**224,215**	257,050
Financial asset	31	**682,075**	783,036
Investment securities:			
Investments – FVTPL	10	**736,831**	–
Equity investments – FVOCI	10	**108,752**	–
Debt securities – FVOCI	10	**88,615**	–
Available-for-sale		**–**	993,716
Property inventory	11	**8,553**	8,751
Investment property	12	**4,040**	4,040
Income tax recoverable	18	**16,948**	17,791
Property and equipment	13	**33,348**	34,685
Intangible assets	14	**658**	350
Other assets	15	**62,192**	60,078
Deferred tax asset	18	**18,302**	–
Total assets		**3,690,301**	3,683,801
Liabilities			
Customers' deposits	16	**2,840,108**	2,834,300
Due to other financial institutions		**124**	–
Accumulated provisions, creditors and accruals	17	**226,724**	219,347
Acceptances, guarantees and letters of credit		**6,375**	7,552
Income tax liability	18	**6,797**	17,557
Deferred tax liability	18	**3,315**	9,997
Total liabilities		**3,083,443**	3,088,753
Shareholders' equity			
Issued share capital	19	**135,000**	135,000
Share premium		**3,877**	3,877
Reserves	20	**339,773**	379,663
Retained earnings		**128,208**	76,508
Total shareholders' equity		**606,858**	595,048
Total liabilities and shareholders' equity		**3,690,301**	3,683,801

The notes on pages 45 to 162 are an integral part of these consolidated financial statements

Approved for issue by the Board of Directors on October 17, 2019.

Chairman **Director**

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2019 $	2018 $
Interest income		**89,281**	82,899
Interest expense		**(43,601)**	(45,874)
Net interest income	21	**45,680**	37,025
Fees and commission income		**16,841**	14,859
Fees expenses		**(16,247)**	(15,028)
Net fees and commission income/(expense)	22	**594**	(169)
Other income, net	23	**104,638**	125,904
Operating income		**150,912**	162,760
Operating expenses			
Administrative and general expenses	24	**46,861**	42,902
Other expenses	26	**27,696**	29,113
Impairment expense	25	**10,472**	8,218
Total operating expenses		**85,029**	80,233
Net income before tax		**65,883**	82,527
Income tax expense	18	**(13,615)**	(30,440)
Net income for the year		**52,268**	52,087
Earnings per share (basic and diluted)	27	**0.39**	0.39

The notes on pages 45 to 162 are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income

For the year ended June 30, 2019

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2019 $	2018 $
Net income for the year		**52,268**	52,087
Other comprehensive (loss)/income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Financial assets measures at FVOCI – debt instruments:			
Unrealised net gains on investment securities, net of tax		**1,195**	–
Reclassification adjustments for net gains included in income, net of tax		**(26)**	–
Available-for-sale financial assets:			
Unrealised gains on investment securities, net of tax		–	42,670
Reclassification adjustments for gains included in income		–	(35,003)
		1,169	7,667
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Financial assets measured at FVOCI – equity instruments:			
Net losses due to changes in fair value, net of tax		**(25,795)**	–
Re-measurement loss on defined benefit asset, net of tax	20	**(2,304)**	(645)
Total other comprehensive (loss)/income for the year		**(26,930)**	7,022
Total comprehensive income for the year		**25,338**	59,109

The notes on pages 45 to 162 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Shareholders' Equity

For the year ended June 30, 2019

(expressed in thousands of Eastern Caribbean dollars)

	Notes	Issued share capital $	Share premium $	Statutory reserve $	Other reserve $	Revaluation reserve $	FVOCI reserve $	Retained earnings $	Total $
Balance at June 30, 2017		**135,000**	**3,877**	**123,766**	**218,639**	**18,648**	–	**49,509**	**549,439**
Net income for the year		–	–	–	–	–	–	52,087	52,087
Other comprehensive income		–	–	–	(645)	7,667	–	–	7,022
Total comprehensive income for the year		–	–	–	**(645)**	**7,667**	–	**52,087**	**59,109**
Transfer to reserves	20	–	–	10,026	1,562	–	–	(11,588)	–
Transaction with owners:									
Dividends	28	–	–	–	–	–	–	(13,500)	(13,500)
Balance at June 30, 2018		**135,000**	**3,877**	**133,792**	**219,556**	**26,315**	–	**76,508**	**595,048**
Changes on initial application of IFRS 9	2	–	–	–	–	**(6,654)**	**(14,817)**	**21,443**	**(28)**
Restated balance at July 1, 2018		**135,000**	**3,877**	**133,792**	**219,556**	**19,661**	**(14,817)**	**97,951**	**595,020**
Net income for the year		–	–	–	–	–	–	52,268	52,268
Other comprehensive loss		–	–	–	(2,304)	–	(24,626)	–	(26,930)
Total comprehensive income for the year		–	–	–	**(2,304)**	–	**(24,626)**	**52,268**	**25,338**
Transfer to reserves	20	–	–	6,854	1,657	–	–	(8,511)	–
Transaction with owners:									
Dividends	28	–	–	–	–	–	–	(13,500)	(13,500)
Balance at June 30, 2019		**135,000**	**3,877**	**140,646**	**218,909**	**19,661**	**(39,443)**	**128,208**	**606,858**

The notes on pages 45 to 162 are an integral part of these consolidated financial statements

(expressed in thousands of Eastern Caribbean dollars)

	2019 $	2018 $
Cash flows from operating activities		
Net income before tax	**65,883**	82,527
Adjustments for items not affecting cash:		
Interest expense	**43,601**	45,874
Impairment expense	**10,472**	8,218
Unrealised losses on FVTPL investment securities	**2,713**	–
Depreciation and amortisation	**2,627**	2,767
Pension expense	**543**	565
Loss on disposal of property inventory	**38**	–
Write-off of projects ongoing to expense	**455**	–
Dividend income	**(10,846)**	(10,349)
Interest income	**(89,281)**	(82,899)
Operating income before changes in operating assets and liabilities	**26,205**	46,703
(Increase)/decrease in operating assets:		
Loans and advances to customers	**(71,678)**	(61,531)
Mandatory deposits with Central Bank	**(134)**	2,750
Financial asset	**100,340**	34,404
Other assets	**(4,345)**	(8,933)
Increase/(decrease) in operating liabilities:		
Customers' deposits	**5,942**	(193,118)
Due to other financial institutions	**124**	–
Accumulated provisions, creditors and accruals	**7,377**	40,360
Cash generated from/(used in) operations	**63,831**	(139,365)
Interest received	**71,783**	78,673
Pension contributions paid	**(1,751)**	(1,667)
Income tax paid	**(24,244)**	(4,358)
Interest paid	**(43,735)**	(50,547)
Net cash from/(used in) operating activities	**65,884**	(117,264)
Cash flows from investing activities		
Disposal of investment securities and originated debts	**1,822,085**	1,163,705
Decrease in special term deposits	–	20,269
Decrease in restricted term deposits and treasury bills	**3,056**	18,177
Interest received	**16,329**	13,136
Dividends received	**10,846**	10,349
Acquisition of intangible assets	**(467)**	(235)
Acquisition of property and equipment	**(1,587)**	(725)
Proceeds from disposal of property inventory	**160**	–
Acquisition of property inventory	–	(938)
Purchase of investment securities and originated debt	**(1,743,508)**	(1,305,471)
Net cash from/(used in) investing activities	**106,914**	(81,733)
Subtotal carried forward	**172,798**	(198,997)

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2019 $	2018 $
Subtotal brought forward		**172,798**	(198,997)
Cash flows from financing activities			
Increase/(decrease) in acceptances, guarantees and letters of credit		**(1,177)**	96
Dividends paid	28	**(13,500)**	(13,500)
Net cash used in financing activities		**(14,677)**	(13,404)
Net increase/(decrease) in cash and cash equivalents		**158,121**	(212,401)
Cash and cash equivalents, beginning of year		**551,695**	764,096
Cash and cash equivalents, end of year	32	**709,816**	551,695

The notes on pages 45 to 162 are an integral part of these consolidated financial statements

(expressed in thousands of Eastern Caribbean dollars)

1 Incorporation and principal activity

St. Kitts-Nevis-Anguilla National Bank Limited (the "Bank") was incorporated as a public limited company on February 15, 1971 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 1999. The Bank operates in both St. Kitts and Nevis and is subject to the provisions of the Banking Act of 2015. The Bank is a public company listed on the Eastern Caribbean Securities Exchange.

The Bank's registered office is at Central Street, Basseterre, St. Kitts. The principal activities of the Bank and its subsidiaries (the "Group") are described below.

The Bank is principally involved in the provision of financial services being primarily commercial banking and investment activities. The Bank is regulated by the Eastern Caribbean Central Bank (ECCB).

The Bank's subsidiaries and their activities are as follows:

- *National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited ("Trust Company")*

  The Trust Company was incorporated on January 26, 1972 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14,1999.

  The principal activity of the Trust Company is the provision of long-term mortgage financing, raising long-term investment funds, real estate development, property management and the provision of trustee services.

- *National Caribbean Insurance Company Limited ("Insurance Company")*

  The Insurance Company was incorporated on June 20, 1973 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 1999.

  The Insurance Company provides life insurance coverage, non-life insurance coverage and pension schemes.

- *St. Kitts and Nevis Mortgage and Investment Company Limited ("MICO")*

  MICO was incorporated on May 25, 2001 under the Companies Act No. 22 of 1996 and commenced operations on May 13, 2002.

  MICO acts as the real estate arm of the Bank with its main operating activities being the acquisition and sale of properties.

2 Significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments and in accordance with the going concern assumption.

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

2.2 Changes in accounting policies

New and revised standards that are effective for annual periods beginning on or after July 1, 2018

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Group has assessed the relevance of all such new interpretations and amendments, and has adopted the following which are relevant to its operations.

- ***New standards adopted during the accounting year***

  IFRS 9, Financial Instruments

  The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of July 1, 2018. IFRS 9 replaces International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement*. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

  When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings. Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior year.

2 Significant accounting policies *…continued*

2.2 Changes in accounting policies *…continued*

New and revised standards that are effective for annual periods beginning on or after July 1, 2018 *…continued*

- ***New standards adopted during the accounting year*** *…continued*

  IFRS 9, Financial Instruments …continued

  The adoption of IFRS 9 has impacted the following areas:

- **Financial assets reclassified from available-for-sale (AFS) financial assets to fair value through other comprehensive income (FVOCI)**

  AFS financial assets included quoted and unquoted equity investments. Under IAS 39, the equity investments which were not traded were previously carried at cost less impairment. This treatment is no longer permitted under IFRS 9, and accordingly the investments have been restated as at July 1, 2018. All other equity instruments were classified as AFS with unrealised net gains or losses initially recognised in other comprehensive which were then subsequently recycled to profit or loss on disposal of the financial assets.

  The Group elected to irrevocably designate certain equity investment securities at FVOCI, as the assets are held by the Group with the objective of selling in the future for liquidity purposes and are not actively traded for the purposes of profit making through speculative trading. There were no accumulated fair value gains for those equity securities which were previously measured at cost, however, for those equity instruments which were measured at fair value, there were net gains or losses presented under AFS investment revaluation reserve as included in the statement of changes in shareholders' equity. As such there was a transfer from AFS investment revaluation reserve account of $16,619, net of tax to a FVOCI reserves account.

  Management has undertaken an assessment of the fair value of the equity investments which were carried at cost less impairment and has recorded a net fair value gain of $1,802 to the opening revaluation reserves for equity FVOCI instruments.

- **Financial assets reclassified from available-for-sale (AFS) financial assets to fair value through profit or loss (FVTPL)**

  AFS financial assets included certain quoted investments which were actively traded or acquired by management for the purposes of profit making through speculation. Under IAS 39, the equity investments were measured at fair value. Unrealised net gains or losses on changes in fair value were initially recognised in other comprehensive income which were then subsequently recycled to profit or loss on disposal of the financial assets.

  As these equity investments were measured at fair value under IAS 39, there was no further remeasurement to their carrying value on transition to IFRS 9. The net gains or losses presented under AFS investment revaluation reserve as included in the consolidated statement of changes in shareholders' equity that were transferred to the retained earnings amounted to $23,269, net of tax.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

New and revised standards that are effective for annual periods beginning on or after July 1, 2018 *...continued*

- ***New standards adopted during the accounting year*** *...continued*

  IFRS 9, Financial Instruments ...continued

- **Credit losses on financial assets measured at amortised cost and debt securities measured at amortised cost and FVOCI**

  The impairment of financial assets applying the expected credit loss model affects the Group's financial assets and debt securities measured at amortised cost and FVOCI as presented under cash and balances with Central Bank, treasury bills, deposits with other financial institutions, financial asset, acceptances, guarantees and letters of credit and certain financial assets as included under "other assets" in the consolidated statement of financial position. These financial assets are measured at amortised cost or FVOCI.

  For debt securities, the Group applies the lifetime expected credit losses based on the stages as identified in the impairment assessment. For other financial assets measured at amortised cost, the Group applies the 12-month loss model of recognising lifetime expected credit losses as these items do not have a significant financing component. This is outlined in more detail under "Significant accounting policies – Policies under IFRS 9 – Credit risk measurement" and "Significant accounting policies – Policies under IFRS 9 – Impairment measurement".

  The application of the expected credit loss methodology based on the stages of impairment assessment for financial assets measured at amortised cost and debt securities measured at amortised cost and FVOCI resulted in the recognition of additional allowance for credit losses for treasury bills amounting to $162, deposits with other financial institutions amounting to $46, loans and advances to customers amounting to $1,904, originated debts amounting to $409 and investment in debt securities amounting to $208. Such amount totalling $1,826, net of tax was charged against the opening balance of the retained earnings account.

  The quantitative impact of applying IFRS 9 as at July 1, 2018 is disclosed in the transition disclosures in note 2.5.1.

  IFRS 7, Financial Instruments: Disclosures Revised

  To reflect the differences between IFRS 9 and IAS 39, IFRS 7 – *Financial Instruments: Disclosures Revised*, was updated and the Group has adopted it, together with IFRS 9, for the year beginning July 1, 2018. Changes include transition disclosures as shown in this Note under "Significant accounting policies – Policies under IFRS 9 – Reconciliation of consolidated statement of financial position balances from IAS 39 to IFRS 9".

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

New and revised standards that are effective for annual periods beginning on or after July 1, 2018 *...continued*

- ***New standards adopted during the accounting year*** *...continued*

Amendments to IFRS 4 – Applying IFRS 9, Financial Instruments, with IFRS 4, Insurance Contracts

In September 2016, the IASB published Applying IFRS 9, *Financial Instruments,* with IFRS 4, *Insurance Contracts,* which makes narrow scope amendments to IFRS 4, *Insurance Contracts*. The IASB issued the amendments to address the temporary accounting consequences of the different effective dates of IFRS 9, Financial *Instruments,* and the new insurance contracts Standard, IFRS 17. The new insurance contracts Standard is yet to be finalised and will have an effective date January 1, 2021. Therefore, its mandatory effective date will be after the 2018 effective date of IFRS 9. Considerable concerns were raised over the practical challenges of insurance companies implementing both new standards on different dates as a result of the significant accounting changes. Further concerns were raised over the potential for increased volatility in profit or loss if IFRS 9's new requirements for financial instruments come into force before the new insurance accounting rules. To address these concerns while still fulfilling the needs of users of financial statements, the IASB has responded by amending IFRS 4 and introducing the following alternatives:

- an overlay approach – an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of IFRS 9; and
- a temporary exemption – an optional temporary exemption from applying IFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of IAS 39 until the application of IFRS 17 on January 1, 2021.

The amendments are effective as follows:

- the overlay approach is applied when entities first apply IFRS 9 from its effective date of January 1, 2018; and
- a temporary exemption from IFRS 9 is applied for accounting periods on or after January 1, 2018.

The Group has not elected the use of temporary exemption from IFRS 9 on its effective date, as the Group's activities overall are not predominantly connected with insurance.

Transfer to Investment Property (Amendments to IAS 40)

The Group has adopted the amendments to IAS 40, *Investment Property*, for the first time in the current financial year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties). The adoption of this amendment had no material effect on the financial statements of the Group for any period presented.

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

New and revised standards that are effective for annual periods beginning on or after July 1, 2018 *...continued*

- ***New standards adopted during the accounting year*** *...continued*

IFRS 15, Revenue from Contracts with Customers

IFRS 15 and the related Clarifications to IFRS 15 replace International Accounting Standard (IAS) 18, *Revenue*, IAS 11, *Construction Contracts*, and several revenue-related interpretations. The new standard has been applied retrospectively, without restatement or an adjustment to the opening balance of retained earnings at July 1, 2018.

The Group adopted the new guidance for the recognition of revenue from contracts with customers under IFRS 15 and these did not have any impact on the amounts recognised in prior periods and did not significantly affect the current period.

Other amendments to standards

Other standards and amendments that are effective for the first time in 2019 are as follows:

- Annual Improvements 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28);
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2); and
- IFRIC 22, *Foreign Currency Transactions and Advance Consideration.*

These amendments do not have significant impact on these consolidated financial statements and therefore the disclosures have not been made.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these consolidated financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's consolidated financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group *...continued*

IFRS 16, Leases (effective from January 1, 2019)

IFRS 16 eventually replaces IAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease.* For lessees, it requires that entities account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortisation. The lease liability is accounted for similar to a financial liability which is amortised using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under IAS 17 where lease payments are recognised as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to IAS 17. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as IAS 17. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management plans to adopt the modified retrospective application of IFRS 16 where the cumulative effect of initially applying the standard will be recognised as an adjustment to the opening balance of retained earnings account at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Management is currently assessing the financial impact of this new standard on the Group's consolidated financial statements.

IFRS 17 Insurance Contracts (effective from January 1, 2021)

IFRS 17 was issued in May 2017 as replacement for IFRS 4, Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

2.2 Changes in accounting policies *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group *...continued*

IFRS 17 Insurance Contracts (effective from January 1, 2021) ...continued

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Group has commenced the review of this standard but has not yet assessed the impact.

Annual Improvements to IFRS 2015-2017 Cycle (effective from January 1, 2019)

Among the improvements, IAS 12 (Amendments), Income Taxes – Consequences of Dividends, is relevant to the Group but had no material impact on the Group’s consolidated financial statements. The amendments clarify that all income tax consequence of dividend payments should be recognised in profit or loss.

There are no other new or amended standards and interpretations that are issued but not yet effective, that are expected to have a significant impact on the accounting policies or financial disclosures of the Group.

2 Significant accounting policies *...continued*

2.3 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of June 30, 2019. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of June 30. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.4 Cash and cash equivalents

Cash comprises cash on hand and demand and call deposits with banks. Cash equivalents are short-term, highly liquid investments with original maturities of ninety (90) days or less that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents are subject to an insignificant risk of change in value. Cash and cash equivalents exclude balances held to meet statutory requirements and restricted deposits.

2.5 Financial assets and liabilities

2.5.1 Policies under IFRS 9

The Group has adopted IFRS 9 with a date of transition of July 1, 2018. The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification, measurement and impairment of financial assets. As permitted by IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets at the date of transition were recognized in the opening retained earnings and other reserves of the current period.

Classification and measurement

From July 1, 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- FVTPL;
- FVOCI; or
- Amortised cost.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

2.5.1 Policies under IFRS 9 *...continued*

Classification and measurement *...continued*

(a) Debt instruments

Debt instruments are those instruments that contain contractual obligations to pay the instrument holder certain cash flows, such as government and corporate bonds, and loans and receivables.

Classification and subsequent measurement of debt instruments depend on:

- the Group's business model for managing the asset; and
- the cash flow characteristics of the asset.

Business model test:

Business model reflects the objective of the Group holding different assets. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are held for trading purposes and are measured at FVTPL.

Solely Payments of Principal and Interest test (SPPI):

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

2.5.1 Policies under IFRS 9 *...continued*

Classification and measurement *...continued*

(a) Debt instruments *...continued*

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognized in profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be infrequent and none occurred during the period.

(b) Equity instruments

Equity instruments are instruments that do not contain contractual obligations to pay the instrument holder and that evidence residual interests in the issuer's net assets. The Group subsequently measures all equity investments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Credit risk measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1'. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

2.5.1 Policies under IFRS 9 *...continued*

Credit risk measurement *...continued*

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Instruments in Stages 2 have their ECL measured based on expected credit losses on a lifetime basis.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Instruments in Stages 3 have their ECL measured based on expected credit losses on a lifetime basis.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis.

For debt securities, the Group examines the issuer's capital adequacy, financial performance, liquidity position, and credit rating to assess whether the issuer has experience significant increase in credit risk since the origination of the assets. When no external credit rating is available, the Group assigns internal credit rating based on internal risk criteria. The Group also considers if there is any negative press or adverse market information that may indicate changes in credit risk.

For loans and advances, and other receivables, delinquency status is utilized as the main indicator for changes in credit risk. Credit management actions are triggered by movement in days past due. Other qualitative factors are considered, which include but are not limited to:

- Early signs of cash flow/liquidity problems;
- In short-term forbearance;
- Known adverse change in financial conditions; and,
- Known adverse changes in business or economic conditions in which the borrower operates.

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a SICR if:

- An obligor's external or internal credit rating is downgraded to below investment grade (BB+/Ba1, its internal equivalent or lower) compared to the rating at initial recognition;
- A below investment grade instrument is lowered by 2 or multiple notches; or
- Payment of principal and/or interest is more than 30 days past due.

If one or more of the above conditions are satisfied, the financial asset is transferred to Stage 2 from Stage 1. The assignment of a financial instrument to Stage 3 will be based on the status of the obligor being in default. Assets in Stage 2 or 3 will be transferred back to Stage 1 or 2 once the criteria for significant increase in credit risk or impairment are no longer met.

The staging assessment requires the Group to monitor credit risk through regular credit reviews or other monitoring at a counterparty level. All loans and investment securities held by the Group are allocated to a credit quality rating or risk grade (internal or external) based on the most recent

2 Significant accounting policies *…continued*

2.5 Financial assets and liabilities *…continued*

2.5.1 Policies under IFRS 9 *…continued*

Credit risk measurement *…continued*

Significant increase in credit risk (SICR)…continued

review, forward-looking or other available information on an annual basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by Management.

Backstop

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

If an asset is in investment grade at reporting date, it will be in Stage 1 irrespective of its origination rating. With respect to loans and advances to customers however, the Group has not used the low credit risk exemption for any of those financial instruments in the year ended June 30, 2019.

Default

For debt securities, default is defined as having missed the contractual payments of principal or interest. For loans and advances, and other receivables, the Group defines default based on the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. Examples of these instances are:

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent; and,
- The borrower is in breach of financial covenants.

The criteria above are consistent with the definition of default used for internal credit risk management purposes.

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

2.5.1 Policies under IFRS 9 *...continued*

Impairment measurement

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument carried at amortised cost and FVOCI and with the exposure arising from loan commitments. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. PD is generated based on historical default data of each portfolio.

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). EAD is assessed based on contractual terms of the debt instrument.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, availability of collateral or other credit support, and historical recovery information.

ECL is determined by projecting the PD, LGD and EAD for future period and for each individual exposure or collective segment. These three components are multiplied together and discounted. For expected credit loss provisions modelled on a collective basis, a group of exposures is assessed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Forward looking information

When incorporating forward looking information, such as macroeconomic forecasts, into determination of expected credit losses, the Group considers the relevance of the information for each specific group of financial instruments. The macroeconomic indicators utilised include but are not limited to GDP growth and unemployment rate. These variables and their associated impact on the ECL varies by financial instrument.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

2.5.1 Policies under IFRS 9 *...continued*

Impairment measurement*...continued*

In addition to the base economic scenario, the Group also incorporated upside and downside scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each product type to ensure non-linearities are captured. The attributes of scenarios are reassessed at each reporting date. The scenario weightings takes account of the range of possible outcomes of which each chosen scenario is representative.

Reconciliation of consolidated statement of financial position balances from IAS 39 to IFRS 9

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at 1 July 2018 are compared as follows:

	IAS 39 classification	Carrying value June 30, 2018 $	IFRS 9 classification	Carrying value July 1, 2018 $
Cash and balances with Central Bank	Loans and receivables	223,552	Amortised cost	223,552
Treasury bills	Loans and receivables	102,928	Amortised cost	102,766
Deposits with other financial institutions	Loans and receivables	434,132	Amortised cost	434,086
Financial Asset	Loans and receivables	783,036	Amortised cost	783,036
Loans and advances to customers	Loans and receivables	763,692	Amortised cost	761,788
Originated debts	Loans and receivables	257,050	Amortised cost	256,641
Other financial assets	Loans and receivables	33,054	Amortised cost	33,054
Investment securities: Available for sale	Available-for-sale	993,716		–
Equity investments – FVOCI	Available-for-sale	–	FVOCI	97,329
Equity investments – FVTPL	Available-for-sale	–	FVTPL	862,136
Debt securities - FVOCI	Available-for-sale	–	FVOCI	35,845
Total financial assets		**3,591,160**		**3,590,233**

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

2.5.1 Policies under IFRS 9 *...continued*

Reconciliation of consolidated statement of financial position balances from IAS 39 to IFRS 9 *...continued*

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on July 1, 2018:

	IAS 39 carrying amount June 30, 2018 $	**Reclass-ifications**	**Remeasu-rements**	**IFRS 9 carrying amount July 1, 2018 $**
Cash and balances with Central Bank	223,552	–	–	223,552
Treasury bills	102,928	–	(162)	102,766
Deposits with other financial institutions	434,132	–	(46)	434,086
Financial asset	783,036	–	–	783,036
Loans and advances to customers	763,692	–	(1,904)	761,788
Originated debts	257,050	–	(409)	256,641
Other assets	33,054	–	–	33,054
Investment securities:				
Available for sale	993,716	(993,716)	–	–
Equity investments – FVOCI	–	95,527	1,802	97,329
Equity investments – FVTPL	–	862,136	–	862,136
Debt securities – FVOCI	–	36,053	(208)	35,845
Total financial assets	**3,591,160**	**–**	**(927)**	**3,590,233**

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

2.5.1 Policies under IFRS 9 *...continued*

Reconciliation of consolidated statement of financial position balances from IAS 39 to IFRS 9 *...continued*

On the date of initial application of IFRS 9, July 1, 2018, the impact to retained earnings of the Group is as follows:

	Retained earnings effect $
Balance as at June 30, 2018	76,508
Accumulated fair value gains of investment securities – equity investments – FVTPL previously classified as investment securities – AFS and FV, net of tax	23,269
Expected credit losses on financial assets at amortised cost, net of tax	(1,826)
Balance at July 1, 2018, as restated	**97,951**

Derecognition of financial assets

Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the consolidated statement of financial position as ‘Pledged assets’, if the transferee has the right to sell or repledge them. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the separate statement of financial position as ‘Pledged assets’, if the transferee has the right to sell or repledge them.

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities include customers’ deposits, due to other financial institutions, acceptances, guarantees and letters of credit and accumulated provisions, creditors and accruals.

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

2.5.1 Policies under IFRS 9 *...continued*

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2.5.2 Policies under IAS 39

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – are recognised in the statement of financial position and measured in accordance with their assigned category.

Measurement and classification

The Group allocates its financial assets to the IAS 39 category of: loans and receivables and AFS financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than: (a) those that the Group intends to sell immediately or in the short term, which are classified or held for trading and those that the entity upon initial recognition designates at fair value through profit or loss; (b) those that the Group upon initial recognition designates as available-for-sale; and (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivable are recognised when cash or the right to cash is advanced to a borrower and are carried at amortised cost using the effective interest method. The Group’s loans and receivables include cash in bank and cash equivalents, treasury bills, deposits with other financial institutions, loans and advances to customers, originated debt, financial asset and other receivables within “other assets”.

2 Significant accounting policies *...continued*

2.5 Financial assets*...continued*

2.5.2 Policies under IAS 39 *...continued*

Measurement and classification *...continued*

(ii) Available-for-sale financial assets

AFS financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of available-for-sale financial assets are recognised on settlement date – the date that an asset is delivered to or received by the Group.

AFS financial assets are initially recognised at fair value being the transaction price less transaction costs. AFS financial assets are subsequently measured at fair value based on the current bid prices of quoted investments in active market. If the market for AFS financial assets is not active (such as investments in unlisted entities) and the fair value cannot be reliably measured, they are measured at cost less any impairment loss. Gains and losses arising from the fair value of AFS financial assets are recognised though other comprehensive income until the financial assets are derecognised or impaired, at which time, the cumulative gain or loss previously recognised through other comprehensive income is transferred and recognised in the profit or loss.

Interest calculated using the effective interest method, dividend income and foreign currency gains and losses on financial assets classified as AFS are recognised in the consolidated statement of income. Dividends on AFS equity instruments are recognised in the consolidated statement of income when the right to receive payment is established.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

The Group's AFS financial assets are separately presented in the consolidated statement of financial position.

Reclassification of financial assets

The Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or AFS categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

2 Significant accounting policies *...continued*

2.5 Financial assets*...continued*

2.5.2 Policies under IAS 39 *...continued*

Classes of financial instruments

The Group classifies the financial instruments into classes that reflect the nature of information disclosed and take into account the characteristics of those financial instruments. The classification hierarchy can be seen in the table below:

<table>
<tr><td rowspan="4">Financial assets</td><td rowspan="3">Loans and receivables</td><td colspan="2">Cash and cash equivalents and deposits with other financial institutions</td><td>Bank accounts</td></tr>
<tr><td colspan="2">Treasury bills and originated debts</td><td>Government fixed rated bonds and long-term note</td></tr>
<tr><td colspan="2">Loans and advances to customers</td><td>Primary lenders</td></tr>
<tr><td>Available-for-sale financial assets</td><td>Investment securities –AFS investments</td><td colspan="2">Equity and debt securities</td></tr>
</table>

(a) Assets carried at amortised cost

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

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

- Cash flow difficulties experienced by the borrower;
- Delinquency in contractual payments of principal and interest;
- Breach of loan covenants or conditions;
- Deterioration in the value of collateral;
- Deterioration of the borrower’s competitive position; and
- Initiation of bankruptcy proceedings.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets*...continued*

2.5.2 Policies under IAS 39 *...continued*

Classes of financial instruments *...continued*

(a) Assets carried at amortised cost ...continued

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan and receivable has a variable interest rate, the discounted rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the "Bad Debt Recovered" income account which is then used to decrease the amount of the provision for the loan impairment in the consolidated statement of income.

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

2 Significant accounting policies *...continued*

2.5 Financial assets*...continued*

2.5.2 Policies under IAS 39 *...continued*

Classes of financial instruments *...continued*

(b) Assets classified as available-for-sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of income.

(c) Renegotiated loans

Loans and advances that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Management continuously reviews these accounts to ensure that all criteria are met and that future payments are likely to occur.

Financial liabilities

Financial liabilities are classified as 'financial liabilities at amortised cost' and are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities include customers' deposits, liability under acceptances, guarantees and letters of credit and accumulated provisions, creditors and accruals.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Financial liabilities	Financial liabilities at amortised cost	Customers' deposits and liability under acceptances, guarantees and letters of credit
		Other accumulated provisions, creditors and accruals

2 Significant accounting policies *...continued*

2.6 Offsetting financial instruments

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

2.7 Employee benefits

(a) Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in accumulated provisions, creditors and accruals, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

(b) Gratuity

The Group provides a gratuity to its employees after fifteen (15) years of employment. The amount of the gratuity payment to eligible employees at retirement is computed with reference to final salary and calibrated percentage rates based on the number of years of service. Provisions for these amounts are included in the consolidated statement of financial position.

(c) Pension plan

The Group operates a defined benefit plan. The administration of the plan is conducted by National Caribbean Insurance Company Limited, one of the subsidiaries. The plan is funded through payments to trustee-administered deposit funds determined by periodic actuarial calculations. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement based on factors such as age, years of service and final salary. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuation being carried out at the end of each reporting period.

The asset figure recognised in the consolidated statement of financial position in respect of net defined benefit asset is the fair value of the plan assets less the present value of the defined benefit obligation at the reporting date. The retirement benefit asset recognised in the consolidated statement of financial position represents the actuarial surplus in the defined benefit plan. Re-measurements comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the consolidated statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Re-measurement recorded in other comprehensive income is not recycled. However, the Group may transfer those amounts recognised in other comprehensive income within equity.

2.8 Property and equipment

Land and buildings held for use in the rendering of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity, usually every five (5) years, such that the

2 Significant accounting policies *...continued*

2.8 Property and equipment *...continued*

carrying amount does not differ materially from that which would be determined using fair values at the year end.

Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in income, in which case the increase is credited to income to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to income to the extent that it exceeds the balance, if any, held in the fixed asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the consolidated statement of income. On the subsequent sale or retirement of a revalued property, any revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the fixed asset revaluation reserve to retained earnings except when an asset is derecognised.

Projects ongoing represents structures under construction and project development not yet completed and is stated at cost. This includes the costs of construction and other direct costs. Projects ongoing is not depreciated until such time that the relevant assets are ready for use.

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on the following basis:

Buildings:	25 – 45 years
Leasehold improvements:	25 years, or over the period of lease if less than 25 years
Equipment, fixtures and fittings and motor vehicles:	3 – 10 years

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

All repairs and maintenance are charged to consolidated statement of income during the financial period in which they are incurred.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.9 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and to bring into use the specific software. These costs are amortised on the basis of the expected useful life of such software which is three to five years.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2.10 Impairment of non-financial assets

Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Insurance Contracts

i) Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

ii) Recognition and measurement

Insurance contracts issued are classified as short-term insurance contracts and long-term insurance contracts with fixed and guaranteed payments.

Short-term insurance contracts

Property and casualty insurance business

- Property and casualty insurance contracts are generally one year renewable contracts issued by the Group covering insurance risks over property, motor, accident and marine.

  Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of the property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

  Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damages (public liability).

2 Significant accounting policies *…continued*

2.11 Insurance contracts *…continued*

ii) Recognition and measurement *…continued*

Short-term insurance contracts…continued

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unexpired insurance risk. Premiums are shown before deduction of commissions.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using:

- the input of assessments for individual cases reported to the Group; and
- statistical analyses for the claims incurred but not reported.

These are used to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

- Health insurance business

Health insurance contracts are generally one year renewable contracts issued by the Group covering insurance risks for medical expenses of insured persons. The liabilities of health insurance policies are estimated in respect of claims that have been incurred but not reported and claims that have been reported but not yet paid, due to the time taken to process the claim.

Long-term insurance contracts with fixed and guaranteed terms

- Life insurance business

These contracts insure events associated with human life (for example, death and survival) over a long duration. Premiums are recognised as revenue when they are received or become receivable from the policyholder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

The determination of actuarial liabilities on life policies is based on the Net Level Premium ("NLP") reserve method. This reserve method uses net premiums as opposed to calculating reserves on a first principles gross premium valuation. The NLP reserve method does not use lapse rates or expenses and takes into consideration only the bonus additions allocated to the policy to date. Future bonus additions are not considered in the valuation. The Group utilises an actuary for the determination of the actuarial liabilities. These liabilities consist of amounts that together with future premiums and investment income are required to provide for policy benefits,

2 Significant accounting policies *…continued*

2.11 Insurance contracts *…continued*

Long-term insurance contracts with fixed and guaranteed terms…continued

- Life insurance business *…continued*

expenses and taxes on life insurance contracts. The process of calculating actuarial liabilities for future policy benefits involves the use of estimates concerning factors such as mortality and morbidity rates, future investment yields and future expense levels and persistency.

The liabilities are recalculated at each end of the reporting period using the assumptions established at inception of the contracts.

iii) Reinsurance contracts held

The Group obtains reinsurance contracts coverage for insurance risks underwritten. The Group cedes insurance premiums and risk related to property and casualty contracts in the normal course of business in order to limit the potential for losses arising from its exposures. Reinsurance does not relieve the Group of its liability. The benefits to which the Group are entitled under reinsurance contracts held are recognised as reinsurance assets. Reinsurance assets are assessed for impairment and if evidence that the asset is impaired exists, the impairment is recorded in the consolidated statement of income. The obligations of the Group under reinsurance contracts held are included under insurance contract liabilities.

iv) Liability adequacy test

At the end of the reporting period, liability adequacy tests are performed by the Group to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows.

If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. The deficiency is included in the consolidated statement of income under claims and benefits.

v) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated statement of income. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated under the same method used for these financial assets.

2 Significant accounting policies *...continued*

2.11 Insurance contracts *...continued*

vi) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets until the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets until the liability is settled. The allowance is the amount of the assets that can be recovered from the action against the liable third party.

2.12 Guarantees and letters of credit

Guarantees and letters of credit comprise undertaking by the Group to pay bills of exchange drawn on customers. The Group expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers.

2.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.14 Leases – Group as a Lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Group are primarily operating leases. The total payments made under the operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

2 Significant accounting policies *...continued*

2.15 Revenue recognition

For the financial year ended June 30, 2019, the Group determined whether to recognize revenue based on a 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognising revenue when/as performance obligation(s) are satisfied.

The Group's revenue generating activities are described below.

a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the consolidated statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, estimates of cash flows that consider all contractual terms of the financial instrument are included (for example, repayment options), except future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

b) Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

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

2 Significant accounting policies *...continued*

2.15 Revenue recognition*...continued*

c) Dividend income

Dividends are recognised in the consolidated statement of income when the right to receive payment is established.

d) Premiums

Written premiums for non-life insurance relate to contracts beginning in the financial year and are stated gross of commissions payable to intermediaries and exclusive of taxes levied on premiums. Written premiums for life contracts are recognised when due from the policyholder. Unearned premiums are those proportions of the premium which relate to periods of risk after the reporting date.

e) Property sales

Revenue from property sales are recognized when title of the properties has passed to the buyer.

2.16 Operating expenses and fees expenses

Operating expenses and fees expenses are recognised in the consolidated statement of income upon utilisation of the services or as incurred.

2.17 Foreign currency translation

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

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statement of income within 'Other income'.

2 Significant accounting policies *…continued*

2.18 Equity, reserves and dividend payments

(a) *Issued share capital and share premium*
Issued share capital represents the nominal (par) value of shares that have been issued. Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

(b) *Dividends on ordinary shares*
Dividends on ordinary shares are recognised in equity in the period in which they are paid by the Board of Directors and or approved by the Bank's shareholders.

(c) *Other components of equity*
Other components of equity include the following:

- *Statutory reserve* – reserve fund as per the regulatory requirement;
- *FVOCI debt and equity investments revaluation reserves* represent unrealised gains and losses from changes in the fair value of the FVOCI investment securities;
- *AFS investments revaluation reserve* represents unrealised gains and losses from changes in the fair value of the AFS investment securities;
- *Revaluation reserve* – represent gains and losses from the revaluation of land and buildings.
- *Other reserves* – comprises the defined benefit pension plan reserve, regulatory reserve for loan impairment, regulatory reserve for interest accrued on non-performing loans, insurance and claims equalisation reserves and general reserve.

(d) *Retained earnings*
Retained earnings include cumulative balance of net income or loss, dividend distributions, effect of changes in accounting policy and other capital adjustments.

2.19 Current and deferred income tax

Income tax payable on profits, based on applicable tax law in St. Kitts and Nevis is recognised as an expense in the period in which profits arise, except to the extent that it relates to items recognised directly in equity. In such cases, the tax is recognised in a deferred tax liability account. The tax expense for the period comprises current and deferred tax.

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

The principal temporary differences arise from depreciation of property, plant and equipment and revaluation of certain financial assets. However, deferred tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. The rates enacted or substantively enacted at the reporting date are used to determine deferred income tax.

A deferred tax asset is recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. This is assessed based on the Group's forecast of future

2 Significant accounting policies *...continued*

2.19 Current and deferred income tax*...continued*

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 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. Changes in deferred tax assets or liabilities are recognised as a component of tax charge or credit in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of available-for-sale investment securities) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

The Group is subjected to the following tax rates:

(i) *Income tax rates*
The Group is subject to corporate income taxes at a rate of 33%.

(ii) *Premium tax rates*
Insurers are subject to tax on premium revenues generated in certain jurisdictions. The principal rate of premium tax is 5% for general insurance and nil for life insurance.

2.20 Deposit funds

Deposit administration contracts are issued by the Group to registered pension schemes for the deposit of pension plan assets with the Group.

Deposit administration liabilities are recognised initially at fair value and are subsequently stated at:

- amortised cost where the insurer is obligated to provide investment returns to the pension scheme in the form of interest; and

- fair value through income where the Group is obligated to provide investment returns to the pension scheme in direct proportion to the investment returns on specified blocks of assets.

Deposit administration contributions are recorded directly as liabilities. Withdrawals are deducted directly from the liability. The interest or investment return provided is recorded as an interest expense.

2.21 Investment property

Investment property is property held to earn rental and/or for capital appreciation, including property under construction for such purposes. Investment property is measured at cost, including transaction cost.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in income in the period in which the property is derecognised.

2 Significant accounting policies *…continued*

2.22 Property inventory

Property inventory is measured at the lower of cost and net realizable value (NRV). The cost of property inventory comprises all costs incurred in bringing the properties to their present condition. NRV represents the estimated selling price less all estimated costs necessary to make the sale.

2.23 Business segments

Business segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2.24 Events after the financial reporting date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting (non-adjusting events) are disclosed in the notes to the financial statements when material.

2.25 Earnings per share

Basic earnings per share are determined by dividing profit by the weighted average number of ordinary shares outstanding during the period after giving retroactive effect to stock dividends declared, stock splits and reverse stock splits during the period, if any.

Diluted earnings per share are computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Group does not have dilutive potential shares outstanding, hence, the diluted earnings per share is equal to the basic earnings per share.

2.26 Comparatives

The classification of certain items in the financial statements has been changed from the prior period to achieve a clearer or more appropriate presentation. The comparative figures have been similarly formatted and reclassified in order to achieve comparability with the current period.

3 Management of financial and insurance risks

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

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

Risk management is carried out by the Credit Division and Comptroller Division under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as approved policies covering specific areas, such as foreign exchange, interest rate, insurance and credit risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk, market risk, insurance risk (property, casual and life insurance risk) and other operational risk. Market risk includes currency risk, interest rate risk and other price risk.

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparties will cause financial losses for the Group by failing to discharge their obligations. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management, therefore, carefully manages its exposure to such credit risks. Credit exposure arises principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio.

There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised and reported to the Board of Directors.

The Group's exposure to credit risk is managed through regular analysis of the ability of its borrowers and potential borrowers to meet interest and capital repayment obligations. Credit risk is managed also in part by the taking of collateral and corporate and personal guarantees as securities on advances.

(a) Loans and advances to customers

The prudential guidelines of the Group's regulators are included in the daily credit operational management of the Group. The operational measurements can be contrasted with impairment allowances required under IFRS 9, which are based on an expected credit loss model approach.

3 Management of financial and insurance risks *…continued*

3.1 Credit risk *…continued*

(a) Loans and advances …continued

The Group assesses the probability of default of individual borrowers using internal rating tools tailored to the various categories of the counterparty. These rating tools are fashioned from the guidelines of the commercial bank's regulators. Advances made by the Group are segmented into five rating classes that reflect the range of default probabilities for each rating class. The rating tools are kept under review and upgraded as necessary.

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

(b) Debt securities and other bills

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

3.1.1 Risk limit control and mitigation policies

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

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

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

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *…continued*

3.1 Credit risk *…continued*

3.1.1 Risk limit control and mitigation policies *…continued*

Other specific controls and mitigation measures are outlined below:

(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 risk mitigation. The principal collateral types for loans and advances are:

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

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

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

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit (which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions) are 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 and advances, guarantees or letters of credit. With respect to credit risk, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Groups's maximum exposure to credit risk on these assets.

	2019					June 30, 2018
	ECL Staging					
Debt securities – amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Purchased credit-impaired $**	**Total $**	**Total $**
Credit grade:						
Investment grade	327,005	–	–	–	327,005	242,947
Non-investment grade	153,002	–	6,384	–	159,386	215,196
Default	–	–	36,243	–	36,243	36,243
Gross carrying amount	480,007	–	42,627	–	522,634	494,386
Loss allowance	(678)	–	(525)	–	(1,203)	(525)
Carrying amount	**479,329**	**–**	**42,102**	**–**	**521,431**	**493,861**

The debt securities – amortised cost in the table noted above are summarised as follows in the consolidated financial statements:

	Deposits with other financial institutions (Term deposits) $	**Treasury bills $**	**Originated debts $**	**Other assets $**	**Total $**
Credit grade:					
Investment grade	83,533	55,105	188,367	–	327,005
Non-investment grade	131,928	14,616	–	12,842	159,386
Watch	–	–	–	–	–
Default	–	–	36,243	–	36,243
Gross carrying amount	215,461	69,721	224,610	12,842	522,634
Loss allowance	(177)	(106)	(395)	(525)	(1,203)
Carrying amount June 30, 2019	**215,284**	**69,615**	**224,215**	**12,317**	**521,431**
Carrying amount June 30, 2018	**120,672**	**102,928**	**257,050**	**13,211**	**493,861**

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

	2019					June 30, 2018
	ECL Staging					
Debt securities – FVOCI	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Purchased credit-impaired $**	**Total $**	**Total $**
Credit grade:						
Investment grade	85,471	–	–	–	85,471	12,408
Non-investment grade	2,585	769	–	–	3,354	1,255
Gross carrying amount	88,056	769	–	–	88,825	13,663
Loss allowance	(63)	(147)	–	–	(210)	–
Carrying amount	**87,993**	**622**	**–**	**–**	**88,615**	**13,663**

	2019					June 30, 2018
	ECL Staging					
Overdrafts – amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Purchased credit-impaired $**	**Total $**	**Total $**
Performing	9,462	–	–	–	9,462	16,807
Underperforming	–	4	–	–	4	14
Non-performing	–	–	125,910	–	125,910	217,165
Gross carrying amount	9,462	4	125,910	–	135,376	233,986
Loss allowance	(579)	–	(33,344)	–	(33,923)	(24,529)
Carrying amount	**8,883**	**4**	**92,566**	**–**	**101,453**	**209,457**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

Loans – amortised cost	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	2019 Total $	June 30, 2018 Total $
	2019 ECL Staging					
Performing loans	392,909	–	–	–	392,909	226,192
Underperforming	–	4,855	–	–	4,855	73,456
Non-performing	–	–	360,363	–	360,363	288,204
Gross carrying amount	392,909	4,855	360,363	–	758,127	587,852
Loss allowance	(1,293)	(262)	(41,445)	–	(43,000)	(40,396)
Carrying amount	**391,616**	**4,593**	**318,918**	**–**	**715,127**	**547,456**

Credit cards – amortised cost	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	2019 Total $	June 30, 2018 Total $
	2019 ECL Staging					
Performing	7,154	–	–	–	7,154	6,708
Underperforming	–	494	–	–	494	170
Non-performing	–	–	583	–	583	514
Gross carrying amount	**7,154**	**494**	**583**	**–**	**8,231**	**7,392**
Loss allowance	**–**	**(345)**	**(583)**	**–**	**(928)**	**(613)**
Carrying amount	**7,154**	**149**	**–**	**–**	**7,303**	**6,779**

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

Loss allowances

The allowance for ECL is recognised in each reporting period and is impacted by a variety of factors, as described below:

- Transfers between stages due to financial assets experiencing significant movement in credit risk or becoming credit-impaired during the period;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to inputs used in the calculation including the movement between 12-month and lifetime ECL; and
- Impacts on the measurement of ECL due to changes made to models and model assumptions.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $
Debt securities – amortised cost					
Loss allowance as at July 1, 2018	**617**	**–**	**525**	**–**	**1,142**
New financial assets originated or purchased	378	–	–	–	378
Financial assets fully derecognised during the year	(97)	–	–	–	(97)
Changes to inputs used in ECL calculation	(220)	–	–	–	(220)
Loss allowance as at June 30, 2019	**678**	**–**	**525**	**–**	**1,203**

	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $
Debt securities – FVOCI					
Loss allowance as at July 1, 2018	**52**	**156**	**–**	**–**	**208**
Transfers:					
Transfer from Stage 1 to Stage 2	(1)	1	–	–	–
New financial assets originated or purchased	30	1	–	–	31
Financial assets fully derecognised during the year	(27)	–	–	–	(27)
Changes to inputs used in ECL calculation	9	(11)	–	–	(2)
Loss allowance as at June 30, 2019	**63**	**147**	**–**	**–**	**210**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

Loss allowances *...continued*

	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $
Overdrafts – amortised cost					
Loss allowance as at July 1, 2018	**128**	**–**	**24,529**	**–**	**24,657**
Transfers:					
Transfer from Stage 3 to Stage 1	283	–	(283)	–	–
New financial assets originated or purchased	108	–	–	–	108
Financial assets fully derecognised during the year	(6)	–	(13,726)	–	(13,732)
Changes to inputs used in ECL calculation	66	–	22,824	–	22,890
Loss allowance as at June 30, 2019	**579**	**–**	**33,344**	**–**	**33,923**

	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $
Loans – amortised cost					
Loss allowance as at July 1, 2018	**927**	**236**	**40,396**	**–**	**41,559**
Transfers:					
Transfer from Stage 1 to Stage 2	(10)	10	–	–	–
Transfer from Stage 1 to Stage 3	(135)	–	135	–	–
Transfer from Stage 2 to Stage 1	6	(6)	–	–	–
Transfer from Stage 2 to Stage 3	–	(226)	226	–	–
Transfer from Stage 3 to Stage 1	101	–	(101)	–	–
Transfer from Stage 3 to Stage 2	–	73	(73)	–	–
New financial assets originated or purchased	579	23	1,777	–	2,379
Financial assets fully derecognised during the year	(47)	(1)	(7,802)	–	(7,850)
Changes to inputs used in ECL calculation	(128)	153	6,887	–	6,912
Loss allowance as at June 30, 2019	**1,293**	**262**	**41,445**	**–**	**43,000**

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

Loss allowances *...continued*

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Purchased credit-impaired $	Total $
Credit cards – amortised cost					
Loss allowance as at July 1, 2018	**492**	**121**	**613**	–	**1,226**
Transfers:					
Transfer from Stage 1 to Stage 2	(24)	24	–	–	–
Transfer from Stage 1 to Stage 3	(12)	–	12	–	–
Transfer from Stage 2 to Stage 1	93	(93)	–	–	–
Transfer from Stage 2 to Stage 3	–	(6)	6	–	–
Transfer from Stage 3 to Stage 1	189	–	(189)	–	–
Transfer from Stage 3 to Stage 2	–	14	(14)	–	–
New financial assets originated or purchased	19	1	–	–	20
Financial assets fully derecognised during the year	(7)	(14)	(14)	–	(35)
Changes to inputs used in ECL calculation	(750)	298	169	–	(283)
Loss Allowance as at June 30, 2019	–	**345**	**583**	–	**928**

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $83,352 (2018: $69,861). The loan loss provision calculated under IFRS 9 (2018: IAS 39) for the loans held by the Bank amounted to $76,880 (2018: $64,609). When the ECCB loan loss provision is greater than the loan loss provision calculated under IFRS 9 (2018: IAS 39), the difference is set aside as a non-distributable reserve through equity. As of June 30, 2019, the loan loss provision calculated under IFRS 9 (2018: IAS 39) was less than the ECCB provision for the loans held by the Bank. Therefore, a non-distributable reserve through equity was required at the reporting date and is included in other reserves in equity (note 20). The gross carrying value of impaired loans at the year-end was $486,501 (2018: $505,884).

Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $68,849 (2018: $56,055) and is included in other reserves in equity (note 20).

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

IFRS 9 carrying values

The following tables explain the changes in the carrying value between the beginning and the end of the period due to these factors. The gross carrying amounts of investments below represent the Group's maximum exposure to credit risk on these assets.

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Purchased credit-impaired $	Total $
Debt securities – amortised cost					
Gross carrying amount as at July 1, 2018	**450,964**	**–**	**43,422**	**–**	**494,386**
New financial assets originated or purchased	276,467	–	–	–	276,467
Financial assets fully derecognised during the year	(220,208)	–	–	–	(220,208)
Changes in principal and interest	(27,216)	–	(795)	–	(28,011)
Gross carrying amount as at June 30, 2019	**480,007**	**–**	**42,627**	**–**	**522,634**

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Purchased credit-impaired $	Total $
Debt securities – FVOCI					
Gross carrying amount as at July 1, 2018	**13,413**	**250**	**–**	**–**	**13,663**
Transfers:					
Transfer from Stage 1 to Stage 2	(55)	55	–	–	–
New financial assets originated or purchased	56,701	26	–	–	56,727
Financial assets fully derecognised during the year	(6,960)	–	–	–	(6,960)
Changes in principal and interest	24,957	438	–	–	25,395
Gross carrying amount as at June 30, 2019	**88,056**	**769**	**–**	**–**	**88,825**

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

IFRS 9 carrying values *...continued*

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Purchased credit-impaired $	Total $
Overdrafts – amortized cost					
Gross carrying amount as at July 1, 2018	**6,990**	**14**	**226,982**	**–**	**233,986**
Transfers:					
Transfer from Stage 1 to Stage 2	(4)	4	–	–	–
Transfer from Stage 1 to Stage 3	(44)	–	44	–	–
Transfer from Stage 2 to Stage 1	14	(14)	–	–	–
Transfer from Stage 3 to Stage 1	2,045	–	(2,045)	–	–
New financial assets originated or purchased	3,299	6	35	–	3,340
Financial assets fully derecognised during the year	(2,874)	(6)	(98,865)	–	(101,745)
Changes in principal and interest	36	–	(241)	–	(205)
Gross carrying amount as at June 30, 2019	**9,462**	**4**	**125,910**	**–**	**135,376**

	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $
Loans – amortized cost					
Gross carrying amount as at July 1, 2018	**235,122**	**73,456**	**279,274**	**–**	**587,852**
Transfers:					
Transfer from Stage 1 to Stage 2	(2,594)	2,594	–	–	–
Transfer from Stage 1 to Stage 3	(34,342)	–	34,342	–	–
Transfer from Stage 2 to Stage 1	1,689	(1,689)	–	–	–
Transfer from Stage 2 to Stage 3	–	(68,386)	68,386	–	–
Transfer from Stage 3 to Stage 1	689	–	(689)	–	–
Transfer from Stage 3 to Stage 2	–	498	(498)	–	–
New financial assets originated or purchased	176,335	357	22,876	–	199,568
Financial assets fully derecognised during the year	(11,878)	(1,592)	(41,719)	–	(55,189)
Changes in principal and interest	27,888	(383)	(1,609)	–	25,896
Gross carrying amount as at June 30, 2019	**392,909**	**4,855**	**360,363**	**–**	**758,127**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

IFRS 9 carrying values *...continued*

	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Purchased credit-impaired $	Total $
Credit cards – amortised cost					
Gross carrying amount as at July 1, 2018	**6,708**	**170**	**514**	**–**	**7,392**
Transfers:					
Transfer from Stage 1 to Stage 2	(339)	339	–	–	–
Transfer from Stage 1 to Stage 3	(162)	–	162	–	–
Transfer from Stage 2 to Stage 1	130	(130)	–	–	–
Transfer from Stage 2 to Stage 3	–	(8)	8	–	–
Transfer from Stage 3 to Stage 1	189	–	(189)	–	–
Transfer from Stage 3 to Stage 2	–	14	(14)	–	–
New financial assets originated or purchased	262	14	–	–	276
Financial assets fully derecognised during the period	(319)	(20)	(14)	–	(353)
Changes in principal and interest	685	115	116	–	916
Gross carrying amount as at June 30, 2019	**7,154**	**494**	**583**	**–**	**8,231**

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at July 01, 2018 are set out below.

		2019	2020
World GDP growth rate	Base	3.9%	3.8%
	Upside	5.1%	5.1%
	Downside	2.7%	2.6%
US unemployment rate	Base	3.8%	3.7%
	Upside	3.7%	3.6%
	Downside	5.4%	5.3%
US inflation rate	Base	2.4%	2.2%
	Upside	3.4%	3.2%
	Downside	1.4%	1.3%
St. Kitts and Nevis GDP growth rate	Base	3.4%	3.7%
	Upside	7.2%	7.4%
	Downside	(0.3)%	(0.1)%
St. Lucia GDP growth rate	Base	2.3%	2.7%
	Upside	6.5%	6.9%
	Downside	(1.9)%	(1.5)%

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

Economic variable assumptions *...continued*

The most significant period-end assumptions used for the ECL estimate as at June 30, 2019 are set out below.

		2020	2021
World GDP growth rate	Base	3.5%	3.6%
	Upside	4.7%	4.8%
	Downside	2.2%	2.4%
US GDP growth rate	Base	2.2%	1.8%
	Upside	3.8%	3.5%
	Downside	0.5%	0.2%
US inflation rate	Base	2.0%	2.1%
	Upside	2.9%	3.1%
	Downside	1.0%	1.1%
St. Kitts and Nevis GDP growth rate	Base	2.8%	2.8%
	Upside	6.7%	6.7%
	Downside	(1.1)%	(1.1)%
St. Lucia GDP growth rate	Base	2.8%	2.8%
	Upside	7.0%	7.0%
	Downside	(1.5)%	(1.5)%

The scenario weightings assigned to each economic scenario were as follows:

	Base	Upside	Downside
July 1, 2018	80%	10%	10%
June 30, 2019	80%	10%	10%

Set out below are the changes to the ECL as at June 30, 2019 that would result from reasonably possible variations in the most significant assumption affecting the ECL allowance:

	ECL impact of		
Loss Given Default	Change in threshold	Increase in value	Decrease in value
Debt securities – amortised cost	+/- 5 %	325	(325)
Debt securities – FVOCI	+/- 5 %	20	(20)
	ECL impact of:		
Collateral haircut	Change in threshold	Increase in value	Decrease in value
Loans	+/- 5 %	229	(218)
Advances	+/- 5 %	22	(22)

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

Purchased or originated credit-impaired (POCI) financial assets

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL is less than the amount of ECL included in the estimated cash flows on initial recognition.

Loans and advances to customers renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans at the reporting date stood at $nil (2018: $932).

Credit risk management policies applied until June 30, 2018

3.1.2 Impairment and provisioning

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

		2018	
		Loans and advances (%)	**Impairment provision (%)**
	Group's rating		
1	Pass	31.90	2.96
2	Special mention	12.54	0.64
3	Substandard	48.51	33.03
4	Doubtful	5.25	42.63
5	Loss	1.80	20.74
		100.00	100.00

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

Credit risk management policies applied until June 30, 2018…*continued*

3.1.2 Impairment and provisioning *...continued*

The rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria:

(a) Loans
- Cash flow difficulties experienced by the borrower;
- Delinquency in contractual payments of principal and interest;
- Breach of loan covenants or conditions; and
- Deterioration in the value of collateral.

(b) Advances (overdrafts)
- Approval limit has been exceeded for three months;
- Interest charges for three (3) months or more have not been covered by deposits; and
- Account has developed a hardcode which was not converted.

The Group requires the review of individual financial assets that are above materiality thresholds on an annual basis or more regularly when individual circumstances require.

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis and are applied where necessary. Assessments take into account collateral held and anticipated cash receipts for individually assessed accounts.

Credit risk exposure relating to on/off balance sheet assets is as follows:

	Maximum exposure 2018 $
Cash and balances with Central Bank*	35,829
Treasury bills	102,928
Deposits with other financial institutions	434,132
Loans and advances to customers	763,692
Originated debt	257,050
Acceptances, guarantees and letters of credit	7,552
Available-for-sale debt investment securities	125,128
Financial asset	783,036
Other assets	25,502
Credit risk exposures relating to off-balance sheet assets are as follows:	
Credit commitments	80,163
Total	2,615,012

**Excluding cash on hand and mandatory deposits with Central Bank.*

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

Credit risk management policies applied until June 30, 2018…*continued*

3.1.2 Impairment and provisioning *...continued*

The above table represents a worst-case scenario of credit risk exposure at end of reporting period, 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 statement of financial position. As shown above 29% of the total maximum exposure is derived from loans and advances to customers. 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 portfolio and debt securities based on the following:

- 42% of the loans and advances portfolio are categorised in the top two grades of the internal rating system;
- 23% of the loans and advances portfolio are considered to be neither past due nor impaired;
- The Group continues to grant loans and advances in accordance with its lending policies and guidelines; and
- A number of issuers and debt instruments in the region are not rated; consequently 94% of these investments are not rated (Government securities – treasury bills, etc.).

Loans and advances to customers are summarised as follows:

	2018 **$**
Loans and advances to customers	
Neither past due nor impaired	194,190
Past due not impaired	128,811
Impaired	505,884
	828,885
Interest receivable	345
Less allowance for impairment loss	(65,538)
Net	763,692

The total allowance for impairment losses on loans and advances is $65,538. Further information of the allowance for impairment losses on loans and advances to customers is provided in note 8.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.1.4 Loans and advances *...continued*

(a) Loans and advances to customers 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 rating system utilised by the Group.

As of June 30, 2018	**Overdrafts**	**Term loans**	**Mortgages**	**Corporate customers**	**Total**
Classifications:	**$**	**$**	**$**	**$**	**$**
1. Pass	14,478	60,383	108,245	7,299	190,405
2. Special mention	692	366	1,310	–	2,368
3. Sub-standard	112	134	1,171	–	1,417
Gross	**15,282**	**60,883**	**110,726**	**7,299**	**194,190**

(b) Loans and advances to customers past due but not 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 rating system utilised by the Group.

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term loans	**Mortgages**	**Corporate customers**	**Total**
	$	**$**	**$**	**$**
As of June 30, 2018				
Past due up to 30 days	1,990	15,225	38,737	55,952
Past due 31 – 60 days	380	1,043	–	1,423
Past due 61 – 90 days	156	2,075	67,240	69,471
Over 90 days	239	1,699	27	1,965
Gross	**2,765**	**20,042**	**106,004**	**128,811**
Fair value of collateral	**13,878**	**36,652**	**109,021**	**159,551**

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets sales in the same geographical area.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.1.4 Loans and advances*...continued*

(c) Loans and advances to customers individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $505,884.

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

As of June 30, 2018	Overdrafts $	Terms loans $	Mortgages $	Corporate customers $	Total $
Individually impaired	179,267	76,702	23,502	145,362	424,833
Interest receivable	13,417	4,044	17,459	46,131	81,051
Gross	**192,684**	**80,746**	**40,961**	**191,493**	**505,884**
Fair value of collateral	**212,140**	**38,079**	**39,695**	**376,864**	**666,778**

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at the reporting date and based on Standard & Poor's ratings or equivalent:

As of June 30, 2018	Treasury bills $	Available-for-sale debt investments $	Loans and Receivables – originated debts $	Total $
AAA	–	285	–	285
AA- to AA+	–	3,689	–	3,689
A- to A+	–	7,141	–	7,141
Lower than A-	–	18,902	–	18,902
Unrated/internally rated	102,928	95,111	257,050	455,089
	102,928	**125,128**	**257,050**	**485,106**

As of June 30, 2018, the loans and receivables – originated debts include certificates of participation in Government of Antigua and Barbuda long term notes, which were past due amounting to $36,243. Refer to note 9.

3.1.6 Geographical concentrations of on balance sheet and off-balance sheet assets with credit risk exposure

The Group operates three (3) business segments as follows:

- commercial and retail banking;
- insurance coverage; and
- Real estate and trust services.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.1.6 Geographical concentrations of on balance sheet and off balance sheet assets with credit risk exposure *...continued*

These are predominantly localised to St. Kitts and Nevis. Commercial banking activities, however, account for a significant portion of credit risk exposure.

The credit risk exposure is, therefore, spread geographically and over a diversity of personal and commercial customers.

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean States $	Total $
As of June 30, 2019					
Cash and balances with Central Bank	23,685	–	–	–	23,685
Treasury bills	69,615	–	–	–	69,615
Deposits with other financial institutions	37,687	432,832	116,670	4,580	591,769
Loans and advances to customers	717,382	99,663	1,928	4,910	823,883
Originated debt	22,137	101,665	–	100,413	224,215
Acceptances, guarantees and letters of credit	6,375	–	–	–	6,375
Investment securities – Debt securities	–	151,379	1,806	–	153,185
Financial asset	682,075	-	–	–	682,075
Other assets	26,265	8,682	–	–	34,947
	1,585,221	**794,221**	**120,404**	**109,903**	**2,609,749**
As of June 30, 2018					
Cash and balances with the Central Bank	35,829	–	–	–	35,829
Treasury bills	102,928	–	–	–	102,928
Deposits with other financial institutions	40,449	349,487	39,461	4,735	434,132
Loans and advances to customers	662,113	94,161	2,030	5,388	763,692
Originated debt	20,364	135,435	–	101,251	257,050
Acceptances, guarantees and letters of credit	7,552	–	–	–	7,552
Available-for-sale debt investment securities	–	125,128	–	–	125,128
Financial asset	783,036	–	–	–	783,036
Other assets	25,037	465	–	–	25,502
	1,677,308	**704,676**	**41,491**	**111,374**	**2,534,849**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1.7 Concentration of risks of financial assets with credit exposure

The following tables break down the Group's main credit exposure at their carrying amounts, as categorised by industry sectors of our counterparties:

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2019							
Cash and balances with Central Bank	–	–	–	23,685	–	–	23,685
Treasury Bills	69,615	–	–	–	–	–	69,615
Deposits with other financial institutions	30,361	–	–	561,408	–	–	591,769
Loans and advances to customers	242,983	103,811	183,407	7,222	188,046	98,414	823,883
Originated debt	120,252	–	–	103,963	–	–	224,215
Acceptances, guarantees and letters of credit	2,299	–	–	–	–	4,076	6,375
Investment securities – Debt securities	40,572	79	80	77,385	–	35,069	153,185
Financial asset	682,075	–	–	–	–	–	682,075
Other assets	–	–	–	20,557	540	13,850	34,947
	1,188,157	**103,890**	**183,487**	**794,220**	**188,586**	**151,409**	**2,609,749**

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.1.7 Concentration of risks of financial assets with credit exposure *...continued*

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2018							
Cash and balances with Central Bank	–	–	–	35,829	–	–	35,829
Treasury bills	102,928	–	–	–	–	–	102,928
Deposits with other financial institutions	30,469	–	–	403,580	83	–	434,132
Loans and advances	204,195	107,649	170,922	5,154	179,672	96,100	763,692
Originated debt	120,296	–	–	136,754	–	–	257,050
Acceptances, guarantees and letters of credit	2,299	–	–	–	–	5,253	7,552
Available-for-sale debt investment securities	2,906	77	812	70,500	–	50,833	125,128
Financial asset	783,036	–	–	–	–	–	783,036
Other assets	–	–	–	18,108	680	6,714	25,502
	1,246,129	**107,726**	**171,734**	**669,925**	**180,435**	**158,900**	**2,534,849**

3 Management of financial and insurance risks *...continued*

3.1.7 Concentration of risks of financial assets with credit exposure *…continued*

The Government of St. Kitts and Nevis accounts for $897,276 (2018: $1,042,046) or 34% (2018: 41%) of $2,609,749 (2018: $2,534,849) the total credit exposure, which represents a significant concentration of credit risk. The amounts due from the Government are included in the Public Sector category.

3.2 Market risk

The Group is exposed 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 risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of the market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Group's exposure to market risks primarily arise from the interest rate management of the Group's retail and commercial banking assets and liabilities, debt investment securities and equity risks arising from its available-for-sale investments.

3.2.1 Price risk

The Group is exposed to equities price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale. To manage this price risk arising from investments in equity securities, the Group diversifies its investment portfolio.

3.2.2 Foreign exchange risk

The Group is exposed to foreign exchange risk through fluctuation in certain prevailing foreign exchange rates on its financial position and cash flows. The Board of Directors limits the level of exposure by currency and in total 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 Group uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollars (EC$). The Group has set the mid-rate of exchange rate of the Eastern Caribbean (EC$) to the United States dollar (US$) at EC$2.7026 = US$1.00 since 1976.

The following table summarises the Group's exposure to foreign currency exchange rate risk at the reporting date. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk

As of June 30, 2019	ECD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	213,452	6,897	25	107	8	16	–	220,505
Treasury bills	69,615	–	–	-	–	–	–	69,615
Deposits with other financial institutions	40,891	536,671	9,554	2,194	1,710	716	33	591,769
Loans and advances to customers	500,357	323,526	–	–	–	–	–	823,883
Originated debts	81,897	142,318	–	–	–	–	–	224,215
Acceptances, guarantees and letters of credit	6,375	–	–	–	–	–	–	6,375
Investment securities – FVOCI	11,661	185,706	–	–	–	–	–	197,367
Investment securities – FVTPL	1,030	735,801	–	–	–	–	–	736,831
Financial asset	682,075	–	–	–	–	–	–	682,075
Other assets	24,832	10,115	–	–	–	–	–	34,947
Total financial assets	**1,632,185**	**1,941,034**	**9,579**	**2,301**	**1,718**	**732**	**33**	**3,587,582**
Liabilities								
Customers' deposits	2,357,385	482,325	36	53	309	–	–	2,840,108
Due to other financial institutions	–	124	–	–	–	–	–	124
Acceptances, guarantees and letters of credit	6,375	–	–	–	–	–	–	6,375
Other liabilities	184,125	30,498	44	498	57	137	–	215,359
Total financial liabilities	**2,547,885**	**512,947**	**80**	**551**	**366**	**137**	–	**3,061,966**
Net on-consolidated statement of financial position	**(915,700)**	**1,428,087**	**9,499**	**1,750**	**1,352**	**595**	**33**	**525,616**
Credit commitments	**28,935**	**2,283**	**–**	**–**	**–**	**–**	**–**	**31,218**

(expressed in thousands of Eastern Caribbean dollars)

Management of financial and insurance risks *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk *...continued*

As of June 30, 2018	**ECD $**	**USD $**	**EURO $**	**GBP $**	**CAN $**	**BDS $**	**GUY $**	**Total $**
Assets								
Cash and balances with Central Bank	218,472	4,933	53	56	19	19	–	223,552
Treasury bills	102,928	–	–	–	–	–	–	102,928
Deposits with other financial institutions	43,690	384,642	1,502	2,114	1,445	710	29	434,132
Loans and advances to customers	495,783	267,909	–	–	–	–	–	763,692
Originated debts	81,378	175,672	–	–	–	–	–	257,050
Acceptances, guarantees and letters of credit	7,552	–	–	–	–	–	–	7,552
Available-for-sale investment securities	9,394	984,322	–	–	–	–	–	993,716
Financial asset	783,036	–	–	–	–	–	–	783,036
Other assets	19,147	6,355	–	–	–	–	–	25,502
Total financial assets	**1,761,380**	**1,823,833**	**1,555**	**2,170**	**1,464**	**729**	**29**	**3,591,160**
Liabilities								
Customers' deposits	2,292,417	541,363	136	81	303	–	–	2,834,300
Acceptances, guarantees and letters of credit	7,552	–	–	–	–	–	–	7,552
Other liabilities	174,490	27,440	43	3,011	49	136	–	205,169
Total financial liabilities	**2,474,459**	**568,803**	**179**	**3,092**	**352**	**136**	**–**	**3,047,021**
Net on-consolidated statement of financial position	**(713,079)**	**1,255,030**	**1,376**	**(922)**	**1,112**	**593**	**29**	**544,139**
Credit commitments	**80,163**	–	–	–	–	–	–	**80,163**

3 Management of financial and insurance risks *...continued*

3.2.3 Interest rate risk

The Bank's fair value market rate risk arises from debt securities classified as fair value through other comprehensive income and fair value through profit or loss (2018: available-for-sale). Had market interest rates at the reporting date been 100 basis points higher/lower with all variables held constant, equity for the year would have been $390,292 (2018: $838,366) lower/higher as a result of the decrease/increase in revaluation reserve for fair value through other comprehensive income debt securities (2018: fair value of available-for- sale debt securities) and profit or loss for the year would have been $645,697 lower/higher due to an decrease/increase in fair value of debt securities measured at fair value through profit or loss.

Cash flow interest rate risk arises from loans and advances to customers at available rates. Had variable rates at the reporting date been 100 basis points higher/lower with all other variables held constant, profits for the year would have been $3,991,489 (2018: $4,259,384) higher/lower, mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.2.3 Interest rate risk *...continued*

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

As of June 30, 2019	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	220,505	220,505
Treasury bills	11,427	3,070	54,711	–	–	407	69,615
Deposit with other financial institutions	339,779	43,538	27,106	–	–	181,346	591,769
Loans and advances to customers	370,675	356	47,366	31,347	373,317	822	823,883
Originated debt	151,046	–	24,382	25,194	22,373	1,220	224,215
Investment securities – FVOCI	40,156	–	294	21,672	14,243	121,002	197,367
Investment securities – FVTPL	1,248	–	11,963	51,359	–	672,261	736,831
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,375	6,375
Financial asset	–	–	–	659,525	–	22,550	682,075
Other assets	276	–	–	–	–	34,671	34,947
Total assets	**914,607**	**46,964**	**165,822**	**789,097**	**409,933**	**1,261,159**	**3,587,582**
Liabilities							
Customers' deposits	801,911	224,982	951,665	1,012	–	860,538	2,840,108
Due to Financial Institutions	124	–	–	–	–	–	124
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,375	6,375
Other liabilities	3	–	–	–	51,567	163,789	215,359
Total liabilities	**802,038**	**224,982**	**951,665**	**1,012**	**51,567**	**1,030,702**	**3,061,966**
Total interest repricing gap	**112,569**	**(178,018)**	**(785,843)**	**788,085**	**358,366**	**230,457**	**525,616**

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

Management of financial and insurance risks...*continued*

3.2.3 Interest rate risk ...*continued*

As of June 30, 2018	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	223,552	223,552
Treasury bills	–	13,909	88,417	–	–	602	102,928
Deposit with other financial institutions	234,414	–	27,198	–	–	172,520	434,132
Loans and advances to customers	430,706	990	5,993	71,672	253,986	345	763,692
Originated debt	128,398	25,404	7,038	37,067	21,682	37,461	257,050
Available-for-sale investments	124,792	–	–	–	–	868,924	993,716
Acceptances, guarantees and letters of credit	–	–	–	–	–	7,552	7,552
Financial asset	–	–	–	759,867	–	23,169	783,036
Other assets	280	–	–	–	–	25,222	25,502
Total assets	**918,590**	**40,303**	**128,646**	**868,606**	**275,668**	**1,359,347**	**3,591,160**
Liabilities							
Customers' deposits	1,089,089	208,254	794,120	–	–	742,837	2,834,300
Acceptances, guarantees and letters of credit	–	–	–	–	–	7,552	7,552
Other liabilities	155	–	–	–	48,699	156,315	205,169
Total liabilities	**1,089,244**	**208,254**	**794,120**	**–**	**48,699**	**906,704**	**3,047,021**
Total interest repricing gap	**(170,654)**	**(167,951)**	**(665,474)**	**868,606**	**226,969**	**452,643**	**544,139**

3 Management of financial and insurance risks *...continued*

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

3.3.1 Liquidity risk management

The Group's liquidity is managed and monitored by the Comptroller Division with guidance, where necessary, from the Board of Directors. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This includes:

- Daily monitoring of the Group's liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers.
- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, industry and term.
- Daily monitoring of the statement of financial position liquidity ratios against internal and regulatory requirements.
- Managing the concentration and profile of debt maturities.
- Formalised arrangements with non-regional financial institutions to fund any liquidity needs that may arise.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification of geography, currency, providers, products and terms. The Group holds a diversified portfolio of cash loans and investment securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk include the following:

- Cash and balances with Central Bank;
- Deposits with other financial institutions;
- Loans and advances to customers
- Treasury bills; and
- FVOCI debt and equity investment securities (2018: Available-for-sale investment securities)

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.3.3 Cash flows

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

As of June 30, 2019	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
Financial liabilities						
Customers' deposits	1,651,209	228,699	980,101	1,013	–	2,861,022
Due to Financial Institutions	124	–	–	–	–	124
Acceptances, guarantees and letters of credit	–	–	6,375	–	–	6,375
Other liabilities	149,137	12,560	–	–	53,662	215,359
Total financial liabilities	**1,800,470**	**241,259**	**986,476**	**1,013**	**53,662**	**3,082,880**
Assets held to manage liquidity risk	**2,160,031**	**28,196**	**169,513**	**789,865**	**388,637**	**3,536,242**
As of June 30, 2018						
Financial liabilities						
Customers' deposits	1,820,992	211,486	823,153	–	–	2,855,631
Acceptances, guarantees and letters of credit	–	–	7,552	–	–	7,552
Other liabilities	56,275	5,780	576	2,898	139,640	205,169
Total financial assets	**1,877,267**	**217,266**	**831,281**	**2,898**	**139,640**	**3,068,352**
Assets held to manage liquidity risk	**2,214,645**	**50,152**	**147,136**	**881,216**	**275,998**	**3,569,147**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.3.4 Off-balance sheet items

Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (note 31), are summarised in the table below.

As of June 30, 2019	Up to 1 year $	1 to 3 years $	Over 3 years $	Total $
Loan commitments	10,412	84	11,526	22,022
Credit card commitments	9,196	–	–	9,196
	19,608	**84**	**11,526**	**31,218**
As of June 30, 2018				
Loan commitments	8,234	372	62,549	71,155
Credit card commitments	9,008	–	–	9,008
	17,242	**372**	**62,549**	**80,163**

3.4 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

To limit the Group's exposure of potential loss on an insurance policy, the Group ceded certain levels of risk to a reinsurer. The Group selects reinsurers which have a well-established capability to meet their contractual obligations and which generally have high credit ratings.

For its property risks, the Group uses quota share and excess of loss catastrophe reinsurance treaties to obtain reinsurance coverage. Catastrophe reinsurance is obtained for multiple claims arising from one event or occurring within a specified time period. However, treaty limits may apply and may expose the insurer to further claim exposure.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefits payments exceed the carrying amount of the insurance liabilities. This could occur because of the frequency or severity of claims and if benefits payments are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.4 Insurance risk *...continued*

The concentration of insurance risk before and after reinsurance by risk category is summarised below, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from insurance contracts:

	Gross liability		Reinsurers' share		Net liability	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**	**$**	**$**
St. Kitts	**5,553**	6,874	–	–	**5,553**	6,874
Nevis	**594**	317	–	–	**594**	317
Anguilla	**170**	549	–	–	**170**	549
	6,317	7,740	–	–	**6,317**	7,740
Health & Life	**3,340**	3,417	–	–	**3,340**	3,417
Motor	**2,598**	2,962	–	–	**2,598**	2,962
Property	**347**	1,330	–	–	**347**	1,330
Liability	**32**	31	–	–	**32**	31
	6,317	7,740	–	–	**6,317**	7,740

i) Property insurance

Property insurance contracts are underwritten using the following main risk categories: fire, business interruption, weather damage and theft.

Frequency and severity of claims
For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, flooding, hurricanes, earthquake, etc), increase the frequency and severity of claims and their consequences. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from fire, hurricane and earthquake damage. The Group has reinsurance cover for such damage to limit losses to $0.50 million (2018: $0.50 million) in any one occurrence, per individual property risk.

3 Management of financial and insurance risks *...continued*

3.4 Insurance risk *...continued*

i) Property insurance *...continued*

Sources of uncertainty in the estimation of future claim payments
Claims on property contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. There are several variables that affect the amount and timing of cash flows from these contracts. The compensation paid on these contracts is the monetary awards granted for property damage caused by insured perils as stated in the contract of insurance.

The estimated costs of claims include direct expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Property claims are less sensitive as the shorter settlement period for these claims allows the Group to achieve a higher degree of certainty about the estimated cost of claims. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported (IBNR) and a provision for reported claims not yet paid (outstanding claims) at the reporting date.

ii) Casualty insurance

The Group's casualty insurance is motor, marine and liability insurance.

Frequency and severity of claims
The frequency and severity of claims can be affected by several factors. The most significant is the number of cases coming to Court that have been inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period required to settle these cases.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

Frequency and severity of claims *...continued*
Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Furthermore, the Group's strategy limits the total exposure to the Group only by the use of reinsurance treaty arrangements. The reinsurance arrangements include excess of loss cover. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance loss of more than $0.30 million (2018: $0.30 million) per risk for casualty insurance.

Sources of uncertainty in the estimation of future claim payments
Claims on casualty contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. As a result, casualty and financial risk claims are settled over a longer period of time. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employers' liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur because of the accident.

3 Management of financial and insurance risks *...continued*

3.4 Insurance risk *...continued*

ii) Casualty insurance *...continued*

Sources of uncertainty in the estimation of future claim payments*...continued*

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported (IBNR) and a provision for reported claims not yet paid (outstanding claims) and a provision for unexpired risks at the reporting date. The Group's IBNR loss reserves are derived using paid loss development estimation method (triangular method). Each business classes' IBNR was calculated using claims data and loss history. The quantum of casualty claims is particularly sensitive to the level of Court awards and to the development of legal precedent on matters of contract and tort.

iii) Life insurance contracts

The Group is exposed to potential loss on its life insurance policies from the possibility that an insured event occurs. The Group has no reinsurance on its life insurance contracts. Hence, this risk is fully borne by the Group.

iv) Claims development

The Group employs loss (claims) development tables as a means of measuring actual claims compared with previous estimates. Claims are typically resolved within one year and are assessed on a case-by-case basis. The claims that tend to extend beyond one year are normally from the Accident line of business and to a lesser extent, the Motor line.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.4 Insurance risk *...continued*

iv) Claims development *...continued*

Claims reserve for the individual accident years at the respective reporting dates (gross)

EC$ Date	Accident year 2010 $	2011 $	2012 $	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	Total $
30/6/2010	18,255	–	–	–	–	–	–	–	–	–	**18,255**
30/6/2011	16,077	2,698	–	–	–	–	–	–	–	–	**18,775**
30/6/2012	14,322	542	2,526	–	–	–	–	–	–	–	**17,390**
30/6/2013	2,221	521	747	4,422	–	–	–	–	–	–	**7,911**
30/6/2014	1,194	505	693	1,571	2,707	–	–	–	–	–	**6,670**
30/6/2015	480	461	523	1,307	358	3,384	–	–	–	–	**6,513**
30/6/2016	93	355	432	758	561	358	3,455	–	–	–	**6,012**
30/6/2017	93	–	374	675	380	212	256	3,244	–	–	**5,234**
30/6/2018	93	–	259	619	343	114	205	474	5,633	–	**7,740**
30/6/2019	–	–	115	–	331	61	145	417	1,102	4,146	**6,317**

Claims reserves are made up as follows:

	$
Outstanding claims – Life	**923**
Outstanding claims – Non-life	**3,007**
Claims IBNR – Non-life	**2,387**
	6,317

3 Management of financial and insurance risks *...continued*

3.5 Fair values of financial assets and liabilities

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

The fair values of cash resources, other assets and liabilities, items in transit are assumed to approximate their carrying values due to their short-term nature. The fair values of off-balance sheet commitments are also assumed to approximate the amount disclosed in note 30. Fair values of financial assets and financial liabilities are also determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with pricing models based on discounted cash flow analysis using prices from observable current market transactions.

(a) Treasury bills
Treasury bills are assumed to approximate their carrying value due to their short-term nature.

(b) Deposits with other financial institutions
Deposits with other financial institutions include cash on operating accounts fixed deposits. These deposits are estimated to approximate their carrying values due to their short-term nature.

(c) Loans and advances to customers
The estimated fair values of loans and advances represent the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rate to determine fair value. Initial loan values are taken as fair value and where observed values are different, adjustments are made.

(d) Originated debts
Originated debt securities include only interest-bearing financial assets.

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

(f) Due to financial institutions
The estimated fair value of 'due to financial institutions' is the amount payable on demand which is the amount recorded.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.5 Fair values of financial assets and liabilities *...continued*

(g) Acceptances, guarantees and letters of credit

Acceptances, guarantees and letters of credit are short-term in nature therefore fair value in this category is estimated to approximate carrying value.

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

	Carrying value		Fair value	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with Central Bank	**220,505**	223,552	**220,505**	223,552
Treasury bills	**69,615**	102,928	**69,615**	102,928
Deposits with other financial institutions	**591,769**	434,132	**591,769**	434,132
Financial asset	**682,075**	783,036	**682,075**	783,036
Loans and advances:				
Loans and advances to customers	**823,883**	763,692	**828,983**	764,121
Originated debt	**224,215**	257,050	**224,215**	257,050
Acceptances, guarantees and letters of credit	**6,375**	7,552	**6,375**	7,552
Other assets	**34,947**	25,502	**34,947**	25,502
	2,653,384	2,597,444	**2,658,484**	2,597,873
Financial liabilities				
Customers' deposits	**2,840,108**	2,834,300	**2,840,108**	2,834,300
Acceptances, guarantees and letters of credit	**6,375**	7,552	**6,375**	7,552
Due to other financial institutions	**124**	–	**124**	–
Other liabilities	**215,359**	205,169	**215,359**	205,169
	3,061,966	3,047,021	**3,061,966**	3,047,021

3.5.1 Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observed.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair values measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.5.1 Fair value measurements recognised in the consolidated statement of financial position *...continued*

FVTPL and FVOCI (2018: AFS financial assets)

As of June 30, 2019	Level 1 $	Level 2 $	Level 3 $	Total $
Debt securities	77,635	2,706	72,844	153,185
Equities	768,310	1,497	11,206	781,013
	845,945	**4,203**	**84,050**	**934,198**
As of June 30, 2018				
Debt securities	112,733	1,178	10,880	124,791
Equities	858,572	590	2,052	861,214
	971,305	**1,768**	**12,932**	**986,005**

3.6 Fair value measurement of non-financial assets

The following table shows the level within the hierarchy of non-financial assets measured at fair value:

	Level 1 $	Level 2 $	Level 3 $	Total $
As of June 30, 2019				
Land and property	–	**27,962**	–	**27,962**
As of June 30, 2018				
Land and property	–	28,927	–	28,927

The fair value of the Group's land and buildings included in property, plant and equipment is estimated based on appraisals performed by an independent property valuer. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the Board of Directors. The appraisal was carried out primarily using a market based approach that reflects the selling prices for similar properties and incorporates adjustments for factors specific to the properties in question, including square footage, location and current condition/use.

3.7 Capital management

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 requirement set by the Eastern Caribbean Central Bank (the "Central Bank" or "ECCB");
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Central Bank for supervisory purposes.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.7 Capital management *...continued*

In addition, there are also capital requirements for the insurance business based on the Insurance Act No. 8 of 2009. According to the Act, the required paid-up capital is $2,000 (2018: $2,000). The Group has met this capital requirement for its insurance business.

The Central Bank requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of $20,000 and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the international agreed minimum of 8%.

The commercial bank's regulatory capital as managed by management is divided into two tiers:

- Tier 1 Capital: share capital, retained earnings and reserves created by appropriation of retained earnings.
- Tier 2 Capital: qualifying subordinated loan capital, collective impairment allowance and unrealised gains arising on the fair valuation of security instruments held as available for sale.

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the two-year presentation. During those two years, the commercial bank complied with all of the externally imposed capital requirements to which it must comply.

	2019	**2018**
	$	**$**
Tier 1 capital		
Issued share capital	**135,000**	135,000
Share premium	**3,877**	3,877
Issued bonus shares from capitalisation of unrealised assets revaluation gain reserve	**(4,500)**	(4,500)
Reserves	**339,773**	379,663
Add/deduct revaluation reserve – FVOCI investment securities (2018: AFS)	**39,443**	(6,654)
Less revaluation reserve – property, plant and equipment	**(19,661)**	(19,661)
Retained earnings	**128,208**	76,508
Total qualifying Tier 1 capital	**622,140**	564,233
Tier 2 capital		
Revaluation reserve – available-for-sale investment securities (2018: AFS)	**(39,443)**	6,654
Revaluation reserve – property, plant and equipment	**19,661**	19,661
Bonus shares capitalisation	**4,500**	4,500
Total qualifying Tier 2 capital	**(15,282)**	30,815
Total regulatory capital	**606,858**	595,048

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

3 Management of financial and insurance risks *...continued*

3.7 Capital management *...continued*

	2019 $	2018 $
Risk-weighted assets:		
On-balance sheet	**1,569,537**	1,719,908
Off-balance sheet	**31,211**	40,626
Total risk-weighted assets	**1,600,748**	1,760,534
Tier 1 capital ratio	**39%**	32%
Basel ratio	**38%**	34%

4 Critical accounting estimates and judgements

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below:

i) Fair value of financial instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Group's financial assets at FVOCI and FVTPL and the amounts of fair value changes recognised on those assets are disclosed in Note 10.

ii) Evaluation of business model applied in managing financial instruments

Upon adoption of IFRS 9, the Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

(expressed in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *…continued*

ii) Evaluation of business model applied in managing financial instruments …continued

In determining the classification of a financial instrument under IFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment and trading strategies.

iii) Testing of cash flow characteristics of financial assets and continuing evaluation of the business model

In determining the classification of financial assets under IFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortised cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, IFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortised cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

iv) Measurement of the expected credit loss allowance

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 earlier detailed, which also sets out key sensitivities of the ECL to changes in these elements.

4 Critical accounting estimates and judgements *...continued*

iv) Measurement of the expected credit loss allowance ...continued

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out before in note 3.1.2 “Impairment and provisioning”.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences in estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision for loans and advances to customers would be estimated as ($4,618) lower or ($4,222) higher (2018: $4,030 lower or $4,060 higher).

v) Estimate of insurance actuarial liabilities

The Group issues whole life, limited payment life, endowment, term insurance, health and medical insurance policies. The estimation of the actuarial liabilities arising under these insurance contracts is dependent on estimates made by the Group. The estimate is subject to several sources of uncertainty that need to be considered in determining the future benefit payments.

i. Mortality – Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to the risk. The Group bases these estimates on the UK A67/70 for assured lives. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments. An increase in the rate of mortality will lead to a larger number of claims, resulting in lower income. Were the mortality rate to differ by +/- 10% from management’s estimate, the actuarial liabilities would decrease by approximately $5,645 or increase by approximately $4,704.

ii. Discount rate – Estimates are also made as to the discount rate use in the valuation of the insurance plans to determine the actuarial liabilities. A net rate of 2.95% (2018: 2.95%) was used as the discount rate in the valuation of insurance plans having a reversionary bonus, which is used to distribute profits to the policies. A net rate of 3.70% (2018: 3.70%) is used in the valuation for plans which do not participate in profits. Were the discount rate to differ by +/-50 basis points from management’s estimate, the actuarial liabilities would decrease by approximately $11,289 or increase by approximately $15,994.

4 Critical accounting estimates and judgements *...continued*

v) Estimate of insurance actuarial liabilities ...continued

The estimation of the ultimate liability arising from claims incurred under property and casualty insurance contracts is subject to several sources of uncertainty that need to be considered in determining the amount that the insurer will ultimately pay for such claims. Provisions are made at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. These are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions, economic conditions and changes in medical condition of claimants.

However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (“IBNR”) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claims has happened.

If the IBNR rates were adjusted by +/-1%, the change in the statement of comprehensive income would be to decrease or increase reported profits by approximately -/+$97

Management engages loss adjusters and independent actuaries, either to assist in making or to confirm the estimate of claim liabilities. The ultimate liability arising from claims incurred under property and casualty insurance contracts may be mitigated by recovery arising from reinsurance contracts held.

vi) Pension benefits

The present value of the defined benefit 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 high quality corporate 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 obligation. Additional information is disclosed in note 32.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

4 Critical accounting estimates and judgements *…continued*

vii) Recognition of deferred tax assets

Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The extent to which deferred tax assets and tax credits can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. The estimated deferred tax asset and tax credit may vary from the actual amounts recovered in the future.

5 Cash and balances with Central Bank

	2019 $	2018 $
Cash on hand	**24,854**	15,891
Balances with Central Bank other than mandatory deposits	**23,685**	35,829
Included in cash and cash equivalents (note 32)	**48,539**	51,720
Mandatory deposits with Central Bank	**171,966**	171,832
	220,505	223,552

The Bank is required to maintain an Automated Clearing Housing (ACH) collateral amount with the Central Bank. This amount can be in the form of cash and/or ECCU member Government securities issued on the Regional Government Securities Market. The Bank's collateral amount held with the Central Bank at June 30, 2019 amounted to $6,079 (2018: $5,939).

Commercial banks are also required under Section 57 of the Banking Act, 2015 to maintain a reserve deposit with the Central Bank equivalent to 6 percent of their total customer deposits. This reserve deposit is not available to finance the Bank's day-to-day operations.

Cash and balances with Central Bank, which include mandatory and ACH collateral deposits are not interest bearing.

(expressed in thousands of Eastern Caribbean dollars)

6 Treasury bills

	2019 $	2018 $
Treasury bills	**69,314**	102,326
Interest receivable	**407**	602
Treasury bills, gross	**69,721**	102,928
Less: Provision for expected credit losses	**(106)**	–
Total treasury bills, net	**69,615**	102,928

	2019 $	2018 $
Treasury bills with original maturities of 3 months or less	**11,625**	11,037
Interest receivable	**119**	137
Treasury bills included in cash and cash equivalents (note 32)	**11,744**	11,174
Treasury bills with original maturities of more than 3 months	**57,689**	91,289
Interest receivable	**288**	465
	69,721	102,928
Less: Provision for expected credit losses	**(106)**	–
	69,615	102,928

Treasury bills are held with the Government of Saint Kitts and Nevis with maturities of 30 days to one year. Interest on treasury bills is accrued at rates ranging from 3.75% to 5.5% (2018: 4.0% to 5.5%).

The movement in the treasury bills during the year is as follows:

	2019 $	2018 $
Balance at beginning of year under IAS 39	**102,928**	120,756
Amount restated through retained earnings on initial application of IFRS 9 (note 2)	**(162)**	–
Restated opening balance under IFRS 9 as at July 1, 2018	**102,766**	120,756
Additions	**73,598**	102,326
Disposals (sales/redemptions)	**(106,610)**	(120,046)
Impairment recoveries during the year	**56**	–
Movement of interest receivable	**(195)**	(108)
Balance at end of year	**69,615**	102,928

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

6 Treasury bills *...continued*

The movement in the provision for expected credit losses is as follows:

	2019 $	2018 $
Balance at beginning of year under IAS 39	**–**	–
Amounts restated through opening retained earnings on initial application of IFRS 9 (note 2)	**162**	–
Restated opening balance under IFRS 9 as at July 1, 2018	**162**	–
Expected credit losses (net of recoveries) (note 25)	**(56)**	–
Balance at end of year	**106**	–

7 Deposits with other financial institutions

	2019 $	2018 $
Operating cash balances	**369,415**	303,332
Interest bearing term deposits	**171,747**	107,706
Items in the course of collection	**7,070**	10,128
Included in cash and cash equivalents (note 32)	**548,232**	421,166
Restricted term deposits	**42,791**	12,265
	591,023	433,431
Less: Provision for expected credit losses	**(177)**	–
	590,846	433,431
Interest receivable	**923**	701
Gross	**591,769**	434,132

The operating balances earn interest at rates of 0% to 4% (2018: 0% to 4%). The amounts held in these accounts are to facilitate the short-term commitments and day-to-day operations of the Group.

Interest bearing term deposits are interest bearing fixed which earn interest at a rate of 2.37% to 3.25% per annum (2018: 0.8% to 3.25%) and have original terms of maturity of one year ending within the period July 2019 to June 2020 (2018: July 2018 to June 2019).

The movement in expected credit losses is as follows:

	2019 $	2018 $
Balance at beginning of year under IAS 39	**–**	796
Amounts restated through opening retained earnings on initial application of IFRS 9 (note 2)	**46**	–
Restated opening balance under IFRS 9 as at July 1, 2018	**46**	796
Expected credit losses (net of recoveries) (note 25)	**131**	(796)
Balance at end of year	**177**	–

(expressed in thousands of Eastern Caribbean dollars)

7 Deposits with other financial institutions …*continued*

Restricted term deposits are interest bearing fixed deposits collateral used in the Group's international business operations. These deposits are not available for use in the day-to-day operations of the Group.

Interest earned on interest bearing term deposits is credited to income. The effective interest rate on 'Deposits with other financial institutions' at June 30, 2019 was 2.12% (2018: 0.6248%).

8 Loans and advances to customers

	2019 $	2018 $
Performing		
Demand	**255,151**	–
Mortgages	**109,009**	–
Other secured	**23,041**	–
Overdrafts	**9,462**	–
Credit cards	**7,154**	–
Consumer	**5,514**	–
Under-performing		–
Demand	**1,031**	–
Mortgages	**3,123**	–
Other secured	**41**	–
Overdrafts	**4**	–
Credit cards	**494**	–
Consumer	**38**	–
Non-performing	**486,501**	–
Demand	–	172,532
Mortgages	–	106,339
Other secured	–	23,973
Overdrafts	–	7,890
Credit cards	–	7,392
Consumer	–	4,875
Impaired loans and advances	–	505,884
Interest receivable	**1,171**	345
Total loans and advances to customers, gross	**901,734**	829,230
Less: Provision for expected credit losses	**(77,851)**	(65,538)
Total loans and advances to customers, net	**823,883**	763,692
Current	**425,556**	438,034
Non-current	**398,327**	325,658
	823,883	763,692

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

8 Loans and advances to customers …*continued*

The weighted average effective interest rate on performing loans and advances excluding overdrafts at June 30, 2019 was 6.5% (2018: 6.60%) and overdrafts were 6.8% (2018: 6.64%).

Provision for expected credit losses

The movement in provision for expected credit losses (2018: allowance for loan impairment) is as follows:

	2019 $	2018 $
Beginning balance under IAS 39	**65,538**	63,539
Amounts restated through opening retained earnings (note 2)	**1,904**	–
Restated balance under IFRS 9 as at July 1, 2018	**67,442**	63,539
Expected credit losses, net of recoveries (note 25)	**10,436**	2,022
Write offs	**(27)**	(23)
Balance end of year	**77,851**	65,538

9 Originated debts

	2019 $	2018 $
Local sovereign bonds	**21,104**	20,363
Regional sovereign bonds	**62,472**	62,472
Certificates of participation	**36,243**	36,243
Regional corporate bond	**2,270**	1,319
International corporate bonds	**–**	67,800
	122,089	188,197
Included in cash and cash equivalents:		
International commercial paper (note 32)	**101,301**	67,635
	223,390	255,832
Interest receivable	**1,220**	1,218
Less: Provision for expected credit losses	**(395)**	–
	224,215	257,050
Current	**176,648**	198,300
Non-current	**47,567**	58,750
	224,215	257,050

Originated debts are bonds held with sovereigns in the Eastern Caribbean Currency Union (ECCU), a certificate of participation in Government of Antigua and Barbuda, bonds in a regional financial institution and international financial institutions as well as short term commercial paper in an international financial institution.

9 Originated debts *…continued*

a) Local and regional sovereign bonds

The Group has certain investment securities which comprise of sovereign fixed rate held with sovereigns in the ECCU. Bonds yield interest at rates of 1.5% - 7.5% (2018: 1.5% - 7.5%). Bonds have terms ranging from 2 – 45 years (2018: 2 – 45 years) and will mature between July 17, 2019 and April 18, 2057 (2018: September 5, 2018 and April 18, 2057) and pay semi-annual coupon interest payments until maturity.

a) Certificates of participation in Government of Antigua and Barbuda 7-Year Long Term Note

The Bank placed funds on deposit with ABI Bank Limited (ABIB). These deposits were placed with ABIB, which at the time was facing serious liquidity challenges, at the request of the ECCB, having regard to the contagion effect on the ECCU and the Bank that would result if ABIB were unable to mitigate its liquidity risks.

By April 28, 2010, the Bank had placed total deposits of $32,000 with ABIB. On May 7, 2010, these deposits, along with an additional $6,710 were used to purchase from ABIB a series of certificates of participation (COPs) in the cash flows from a Long-Term Note issued by the Government of Antigua and Barbuda (GoAB), which had been securitized by ABIB.

On July 22, 2011, ECCB was directed by the Monetary Council to exercise the special emergency powers conferred on it by Part IIA, Article 5B of the ECCB Agreement Act 1983 to assume control of the ABIB. During the years of ECCB’s control of ABIB, the Bank received an annual confirmation from ECCB of the total outstanding amounts of the COPs, with the stated objective of stabilizing the operations of ABIB so that all obligations would be settled in the normal course of business. ABIB was placed in receivership on November 27, 2015 by ECCB.

On March 2, 2017, the Monetary Council of the ECCU decided that ECCB would work in conjunction with the GoAB towards finding a resolution of the matter in the best interest and mutual benefit of all parties involved, including the Bank and that all efforts would be made to ensure that the Bank would not incur any impairment loss on the amount of the COPs it holds. The ECCB advised that the Monetary Council deemed the resolution of this matter as a priority for all stakeholders and indicated its intention to ensure that the matter was resolved expeditiously.

As mandated by the Monetary Council, ECCB engaged with the GoAB and, on July 25, 2017, advised the Bank that the GoAB offered the Bank a settlement of $11,900 to be serviced with a 2%, 20-year bond with semi-annual payments, with the remaining balance of $25,700 to be resolved by ABIB (in receivership). The Bank responded to the offer presented by the ECCB on July 28, 2017 indicating that, while it appreciated their efforts to obtain a resolution to this matter, the Bank was dissatisfied with the GoAB offer.

Discussions are ongoing between the Bank and the ECCB to find a resolution which, as mandated by the Monetary Council, is in the best interest and mutual benefit of all parties, including the Bank. The Bank is continuing to pursue its entitlement under the COPs, and is of the view that it would not be appropriate for the COPs to be written down at the reporting date.

On July 11, 2019 the Bank wrote to Caribbean Financial services Corporation informing them that the Bank intends to exercise its rights under clause 9.2 of the Trust Deed to bring proceedings against the Government of Antigua and Barbuda and/or any holder of the proceeds of the Note.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

9 Originated debts*…continued*

b) Certificates of participation in Government of Antigua and Barbuda 7-Year Long Term Note *…continued*

As at June 30, 2019, the Bank's interest under the COP's amounted to $36,243 (2018: $36,243). All of the COP's have now matured and are past due. As at the date of approval of these Group consolidated financial statements, the Group has not been advised of any time frame for payment of the outstanding balance.

c) Regional corporate bond

The Bank holds a bond with Antigua Commercial Bank Limited which is denominated in Eastern Caribbean Dollars and which yields interest rate at a rate of 9% (2018: 9%). The bond will mature on September 30, 2025.

d) International corporate bond

The Bank held various corporate bonds with Wells Fargo which were denominated in United States Dollars and which accrued interest at rates of 0.85% – 6.30%. The bonds matured on July 25, 2018 and April 23, 2019.

The Bank also holds 30-day commercial paper with Wells Fargo which yield interest rate at rates of 1.98% – 2.15% (2018: 1.35%) which matures between July 15, 2019 and July 22, 2019 (2018: July 18, 2018). These financial instruments are included as cash and cash equivalents.

The movement in the originated debts during the year is as follows:

	2019 **$**	**2018** **$**
Balance at beginning of year under IAS 39	**257,050**	113,209
Amount restated through retained earnings (note 2)	**(409)**	–
Restated opening balance under IFRS 9 as at July 1, 2018	**256,641**	113,209
Additions	**830,606**	215,199
Disposals (sales/redemptions)	**(863,048)**	(71,669)
Impairment recovery during the year	**14**	–
Movement in interest receivable	**2**	311
Balance at end of year	**224,215**	257,050

The movement in the provision for expected credit losses is as follows:

	2019 **$**	**2018** **$**
Balance at beginning of year under IAS 39	**–**	–
Amounts restated through opening retained earnings	**409**	–
Restated opening balance under IFRS 9 as at July 1, 2018	**409**	–
Expected credit losses (net of recoveries) (note 25)	**(14)**	–
Balance at end of year	**395**	–

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities

FVTPL

	2019 $
Equity investments	**672,261**
Debt investments	**64,570**
	736,831

FVOCI – equity securities

	2019 $
Quoted equity investments	**97,546**
Unquoted equity investments	**11,206**
	108,752

FVOCI – debt securities

	2019 $
Quoted corporate bonds	**44,119**
Quoted sovereign bonds	**43,435**
Interest receivable	**1,271**
Total debt securities – FVOCI (gross)	**88,825**
Less provision for expected credit losses	**(210)**
Total debt securities – FVOCI (net)	**88,615**
Total investment securities	**934,198**
Current	**846,458**
Non-current	**87,740**
Total investment securities	**934,198**

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

10 Investment securities

The movement in investment securities during the year is as follows:

	FVTPL $	Equity securities – FVOCI $	Debt securities – FVOCI $	Total $
Balance at beginning of year under IAS 39	–	–	–	–
Effects of adoption of IFRS 9				
- Reclassification	862,136	95,527	36,053	993,716
- Remeasurement	–	1,802	(208)	1,594
Balance at beginning of year under IFRS 9, as restated	862,136	97,329	35,845	995,310
Additions	705,004	56,040	151,858	912,902
Disposals (sales/redemptions)	(819,862)	(3,174)	(102,033)	(925,069)
Fair value losses – net	(10,447)	(41,443)	2,014	(49,876)
Expected credit loss allowance	–	–	(2)	(2)
Interest receivable	–	–	933	933
Balance at end of year	**736,831**	**108,752**	**88,615**	**934,198**

a) FVTPL – quoted instruments

The Group maintains certain debt and equity instruments trading in regional and international markets denominated in USD and XCD currency.

b) FVOCI – equity instruments

The Group maintains certain equity instruments which are quoted and unquoted. The instruments are denominated in USD and XCD currency. The Group has made the irrevocable election to classify these securities as FVOCI – equity instruments as management has not obtained these instruments for the purposes of speculation or active trading.

For unquoted securities, the Group undertakes a fair value assessment at each reporting date to assess the gains or losses attributable to such assets. During the financial year, net fair value gains related to financial assets in equity securities which are not trading in an active market amounted to $2,092 (2018: $nil).

c) FVOCI – debt securities – Quoted corporate and sovereign bonds

The Group has certain investment securities which comprise of quoted corporate and sovereign fixed rate bonds trading. Bonds have coupon rates of 0.88% to 9.00%; whilst, the effective interest rate for these bonds ranges from 2.00% to 13.00%. Bonds have a maximum term of ten (10) years and will mature between July 2019 and February 2029 and pay semi-annual coupon interest payments until maturity. As at June 30, 2019, the fair values of these amounted to $88,615, which were derived using Level 1 inputs as these bonds are quoted in active markets.

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *…continued*

c) FVOCI – debt securities – Quoted corporate and sovereign bonds *…continued*

The movement in the provision for expected credit losses is as follows:

	2019 $
Balance at beginning of year under IAS 39	5,006
Amounts transferred to FVOCI equity securities on transition to IFRS 9	(5,006)
Amounts restated through opening retained earnings	208
Restated opening balance under IFRS 9 as at July 1, 2018	208
Expected credit losses, net during the year (note 25)	2
Balance at end of year	**210**

Under IAS 39, the investment securities were as follows:

(A) Available-for-sale investment securities

	2018 $
Securities at fair value	
Listed	971,305
Unlisted	27,080
Total available-for-sale securities, gross	998,385
Less provision for impairment	(5,006)
	993,379
Interest receivable	337
Total available-for-sale securities, net	993,716

(B) The movement in available-for-sale investment securities during the year is as follows:

	2018 $
Balance, beginning of year	916,845
Additions	1,157,906
Disposals (sales/redemption)	(1,092,035)
Fair value gains – net	11,444
Impairment losses	–
Interest receivable	(444)
Balance, end of year	993,716

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

10 Investment securities *...continued*

(C) Provision for impairment – available-for-sale investment securities include:

	2018 $
Beginning and ending balance	5,006

(D) Available-for-sale investment securities are as follows:

	2018 $
Listed securities:	
- Equity securities – US	857,102
- Debt securities – US	112,733
- Equity securities – Caribbean	1,470
Total listed securities	971,305
Unlisted securities:	
- Equity securities – Caribbean	12,931
- Debt securities – US	12,058
- Equity securities – US	2,091
Total unlisted securities	27,080
Total available-for-sale investment securities, gross	998,385
Less provision for impairment	(5,006)
	993,379
Interest receivable	337
Total available-for-sale investment securities, net	993,716

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *...continued*

(E) Available-for-sale investment securities are denominated in the following currencies:

	2018 $
Listed:	
US dollars	969,835
EC dollars	1,470
Total listed securities	971,305
Unlisted:	
US dollars	14,149
EC dollars	12,931
Total unlisted securities	27,080
Total available-for-sale investment securities, gross	998,385
Less: Provision for impairment loss	(5,006)
	993,379
Interest receivable	337
Total available-for-sale investment securities, net	993,716

11 Property inventory

	2019 $	2018 $
Balance at beginning of year	**8,751**	7,902
Additions	**–**	938
Disposal of property	**(339)**	–
Provision for impairment (note 25)	**–**	(89)
Derecognition of impairment provision on sale	**141**	–
Balance at end of year	**8,553**	8,751

Property inventory relates mainly to land and buildings held for sale by certain companies within the Group and, is measured at the lower of cost and net realisable value.

	2019 $	2018 $
Cost	**8,783**	9,131
Net realisable value	**8,553**	8,751

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

12 Investment property

	2019 $	2018 $
Land at Camps	**2,021**	2,021
Land at Brighton	**2,019**	2,019
	4,040	4,040

All of the Group's investment property is held under freehold interests. The estimated fair market value of the investment property is $4,574 based on an independent valuation that was performed in 2015.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

13 Property, plant and equipment

	Land and Buildings $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
At June 30, 2017						
Cost or valuation	33,056	20,961	1,023	161	1,408	56,609
Accumulated depreciation	(3,165)	(16,018)	(723)	(160)	–	(20,066)
Net book value	**29,891**	**4,943**	**300**	**1**	**1,408**	**36,543**
Year ended June 30, 2018						
Opening net book value	**29,891**	**4,943**	**300**	**1**	**1,408**	**36,543**
Additions	–	487	105	–	133	725
Disposals	–	(77)	(97)	–	–	(174)
Depreciation charge	(964)	(1,497)	(122)	–	–	(2,583)
Write-back on disposals	–	77	97	–	–	174
Closing net book value	**28,927**	**3,933**	**283**	**1**	**1,541**	**34,685**
At June 30, 2018						
Cost or valuation	33,056	21,371	1,031	161	1,541	57,160
Accumulated depreciation	(4,129)	(17,438)	(748)	(160)	–	(22,475)
Net book value	**28,927**	**3,933**	**283**	**1**	**1,541**	**34,685**

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

13 Property, plant and equipment *...continued*

	Land and Buildings $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2019						
Opening net book value	**28,927**	**3,933**	**283**	**1**	**1,541**	**34,685**
Additions	–	1,342	245	–	–	1,587
Disposals	–	(231)	(180)	–	(455)	(866)
Depreciation charge	(965)	(1,369)	(134)	–	–	(2,468)
Write-back on disposals	–	230	180	–	–	410
Closing net book value	**27,962**	**3,905**	**394**	**1**	**1,086**	**33,348**
At June 30, 2019						
Cost or valuation	33,056	22,482	1,096	161	1,086	57,881
Accumulated depreciation	(5,094)	(18,577)	(702)	(160)	–	(24,533)
Net book value	**27,962**	**3,905**	**394**	**1**	**1,086**	**33,348**

(expressed in thousands of Eastern Caribbean dollars)

13 Property, plant and equipment *...continued*

In 2015, the Group's land and buildings were revalued based on the appraisal made by an independent firm of appraisers. Valuations were made on the basis of comparative recent market transactions on arm's length terms. The revaluation surplus was credited to 'revaluation reserve' in shareholders' equity.

The following is the historical cost carrying amount of land and buildings carried at revalued amounts.

	Land $	Buildings $	Total $
Cost	3,792	17,935	21,727
Accumulated depreciation	–	(6,091)	(6,091)
Net book value as of June 30, 2019	**3,792**	**11,844**	**15,636**
Cost	3,792	17,935	21,727
Accumulated depreciation	–	(5,555)	(5,555)
Net book value as of June 30, 2018	**3,792**	**12,380**	**16,172**

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

14 Intangible assets

	Computer Software licenses $
At June 30, 2017	
Cost	7,480
Accumulated amortisation	(7,181)
Net book value	**299**
Year ended June 30, 2018	
Opening net book value	**299**
Additions	235
Amortisation charge	(184)
Closing net book value	**350**
At June 30, 2018	
Cost	7,715
Accumulated amortisation	(7,365)
Net book value	**350**
Year ended June 30, 2019	
Opening net book value	**350**
Additions	467
Amortisation charge	(159)
Closing net book value	**658**
At June 30, 2019	
Cost	8,182
Accumulated amortisation	(7,524)
Net book value	**658**

(expressed in thousands of Eastern Caribbean dollars)

15 Other assets

	2019 $	2018 $
Insurance and other receivables	**22,910**	27,544
Net defined benefit asset (note 33)	**18,740**	20,971
Acceptances, guarantees and letters of credit	**6,375**	7,552
Prepayments	**13,701**	3,769
Stationery and card stock	**991**	767
	62,717	60,603
Provision for expected credit losses	**(525)**	(525)
	62,192	60,078
Current	**37,715**	33,372
Non-current	**24,477**	26,706
	62,192	60,078

Provision for expected credit losses

The movement in the provision for expected credit losses during the year is as follows:

	2019 $	2018 $
Balance, beginning of year	**525**	1,525
Provision during the year (note 25)	–	6,107
Write-down	–	(7,107)
Balance, end of year	**525**	525

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

16 Customers' deposits

	2019 $	2018 $
Fixed deposit accounts	**1,307,970**	1,323,047
Direct demand accounts	**831,436**	738,443
Savings accounts	**506,079**	471,709
Call accounts	**183,148**	289,492
	2,828,633	2,822,691
Interest payable	**11,475**	11,609
	2,840,108	2,834,300

Customers' deposits represent all types of deposit accounts held by the Group on behalf of customers. The deposits include demand deposit accounts, call accounts, savings accounts and fixed deposits. All customers' deposits were current for both years.

As of the reporting date, total interest paid on deposit accounts for the year amounted to $43,735 (2018: $50,547). The average effective rate of interest paid on customers' deposits was 1.64% (2018: 1.66%).

17 Accumulated provisions, creditors and accruals

	2019 $	2018 $
Actuarial liabilities	**94,083**	89,574
Deposit pension funds	**51,567**	48,699
Insurance contract liabilities	**21,780**	24,379
Other payables	**54,249**	52,468
Unpaid drafts on other banks	**2,713**	2,361
Managers' cheques and bankers' payments	**2,332**	1,866
	226,724	219,347

	2019 $	2018 $
Current	**175,157**	170,648
Non-current	**51,567**	48,699
	226,724	219,347

(expressed in thousands of Eastern Caribbean dollars)

17 Accumulated provisions, creditors and accruals *...continued*

Actuarial liabilities

Actuarial liabilities comprise the reserves maintained on the Group's individual life insurance business. The actuarial liabilities are calculated using the Net Level Premium (NLP) reserve method. This reserve method is a net premium reserve method that does not use lapse rates or expenses.

	2019 $	2018 $
Whole life plans	**81,082**	77,289
Endowment plans	**7,722**	7,448
Limited payment life plans	**3,918**	3,517
Other plans	**1,361**	1,320
Total actuarial liabilities	**94,083**	89,574

The actuarial liabilities are largely backed by short-term deposits, cash and treasury bills. The valuation rate for insurance plans is based on an expected ultimate short-term (one year or less) reinvestment rate assumption. Non-participating plans use an ultimate rate of 3.7% (2018: 3.7%). A spread of 0.75% is deducted for the plans with reversionary bonuses in support of bonus payments for a net rate of 2.95% (2018: 2.95%).

Insurance contract liabilities

The insurance contract liabilities primarily relate to the non-life insurance business and are comprised of the following:

	2019 $	2018 $
Life		
Outstanding claims	**923**	939
Non-life		
Unexpired risks	**10,248**	10,683
Reinsurance premiums payable	**4,098**	4,676
Outstanding claims	**3,007**	4,242
IBNR	**2,387**	2,559
Premiums received in advance	**1,117**	1,280
	20,857	23,440
	21,780	24,379

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

17 Accumulated provisions, creditors and accruals *...continued*

Deposit pension funds

	2019 $	2018 $
Contributions	**2,144**	4,921
Interest	**1,985**	1,844
	4,129	6,765
Less expenses		
Management expenses	**103**	105
Group pension benefits	**1,158**	582
	1,261	687
Fund at beginning of the year	**48,699**	42,621
Surplus for the year	**2,868**	6,078
Fund at end of the year	**51,567**	48,699

The deposit pension funds represent pension funds which the Group manages for its employees and certain other entities. The fund provides a guaranteed minimum rate of 5% (2018: 5%). The fund balance represents the amount standing on account of the contributors to the fund and those liabilities are supported by term deposits and treasury bills.

(expressed in thousands of Eastern Caribbean dollars)

18 Taxation

	2019 $	2018 $
Net income before tax	**65,883**	82,527
Income tax expense at rate of 33%	**21,741**	27,234
Non-deductible expenses and other permanent differences	**13,429**	10,978
Adjustment to income tax expense from prior years	–	10,430
Deferred tax movement not recorded	**160**	184
Effect of losses utilised	–	51
Prior year's deferred income tax	**222**	2
Income not subject to tax	**(6,248)**	(6,367)
Tax credit from discounted interest on government loans	**(15,689)**	(12,072)
Income tax expense	**13,615**	30,440
Represented as follows:		
Current income tax expense		
Current year's income tax expense	**28,539**	32,276
Adjustment to income tax expense from prior years	–	10,430
Tax credit from discounted interest on government loans	**(15,689)**	(12,072)
	12,850	30,634
Deferred tax expense/(credit)	**765**	(194)
Income tax expense	**13,615**	30,440

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

18 Taxation *...continued*

Deferred tax (liability)/ asset

The net deferred tax asset/(liability) is comprised as follows:

	2019 $	2018 $
Items recognised in profit or loss:		
Decelerated depreciation	**1,177**	1,165
Net defined benefit asset	**(2,967)**	(2,190)
	(1,790)	(1,025)
Items recognised directly in other comprehensive income:		
Unrealised losses/(gains) on FVOCI equity instruments (2018: AFS securities)	**21,326**	(3,289)
Revaluation of land and building	**(1,330)**	(1,330)
Net defined benefit asset	**(3,219)**	(4,353)
	16,777	(8,972)
	14,987	(9,997)

	2019 $	2018 $
Comprised as follows on the consolidated statement of financial position:		
Deferred tax asset	**18,302**	–
Deferred tax liability	**(3,315)**	(9,997)
	14,987	(9,997)

The movements on deferred tax asset/(liability) are as follows:

	2019 $	2018 $
Balance, beginning of year	**(9,997)**	(6,732)
Movement is net unrealised (losses)/gains on investment securities	**24,615**	(3,777)
Deferred tax movement for pension asset in profit and loss	**(777)**	14
Deferred taxes on depreciation of property and equipment	**12**	180
Re-measurement loss of defined benefit asset	**1,134**	318
Balance, ending of year	**14,987**	(9,997)

(expressed in thousands of Eastern Caribbean dollars)

18 Taxation *...continued*

Deferred tax (liability)/ asset *...continued*

The movement in the current income tax liability is as follows:

	2019 $	2018 $
Balance at beginning of year	**17,557**	3,624
Transfer to income tax recoverable	**19**	–
Tax expense for the year (not offset against the income tax recoverable)	**5,358**	6,275
Taxes paid during the year	**(17,576)**	(2,772)
Adjustments to income tax from prior years	**1,439**	10,430
Balance at end of year	**6,797**	17,557

Tax losses

The Group has incurred income tax losses amounting to $3,402 (2018: $3,845) which may be carried forward and applied to reduce taxable income by an amount not exceeding one half of taxable income in any one year of assessment within 5 years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department.

During the prior year, the Bank refiled its tax returns for the years 2012 to 2016 as a result of a change in the treatment of the tax-free Government loans. The refiled tax returns were agreed and accepted by the IRD during the year on April 27, 2018. The change in treatment of the tax-free loans resulted in the elimination of the brought forward tax losses from the prior years. The calculation of the estimate of the current income tax expense of the subsidiaries has not changed during the year.

The losses expire as follows:

	$
2020	890
2021	772
2022	648
2023	579
2024	526
	3,415

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

18 Taxation *...continued*

Deferred tax asset

At the year end, the Group had a deferred tax asset of $16 (2017: $1,273) which was not recognized in the consolidated financial statements due to the uncertainty of its recovery. The deferred tax asset is comprised as follows:

	2019 $	2018 $
Unutilised tax losses	**16**	1,269
Unclaimed capital allowances	**–**	2
Depreciation on furniture and equipment	**–**	2
Total unrecognised deferred tax asset	**16**	1,273

Income tax recoverable

Included in the consolidated statement of financial position is an amount of $16,948 (2018: $17,791) that relates to income tax credits/advance tax payments due from the IRD in respect of tax assessments that were finalised up to the year ended June 30, 2014 and the change in the Bank's estimate of the current income tax expense based on a settlement agreement with the IRD. The amount may be applied against any future taxes payable by the Group, with certain agreed restrictions.

The movement in the income tax recoverable is as follows:

	2019 $	2018 $
Balance, beginning of year	**17,791**	30,134
Transfer from income tax payable	**(19)**	–
Current year's income tax credit	**15,689**	12,072
Taxes paid during the year	**6,668**	1,586
Current year's income tax expense offset	**(23,181)**	(26,001)
Balance, end of year	**16,948**	17,791

(expressed in thousands of Eastern Caribbean dollars)

19 Issued share capital

	2019 $	2018 $
Authorised		
270,000,000 ordinary shares of $1 each	**270,000**	270,000
Issued and fully paid		
135,000,000 ordinary shares of $1 each	**135,000**	135,000

20 Reserves

The reserves are comprised as follows:

	2019 $	2018 $
Statutory reserve	**140,646**	133,792
Revaluation reserve	**19,661**	26,315
Fair value reserves – FVOCI	**(39,443)**	–
Other reserves	**218,909**	219,556
	339,773	379,663

a) Statutory reserve

	2019 $	2018 $
Balance at beginning of year	**133,792**	123,766
Addition	**6,854**	10,026
Balance at end of year	**140,646**	133,792

In accordance with Section 45 (1) of Saint Christopher and Nevis Banking Act, 2015, the Bank is required to maintain a reserve fund into which it shall transfer not less than 20% of its net income of each year whenever the reserve fund is less than the Bank's paid-up capital.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

20 Reserves *...continued*

b) Revaluation reserve

	2019 $	2018 $
Balance at beginning of year under IAS 39	**26,315**	18,648
Transfer of opening balance on AFS investments to FVOCI reserves and retained earnings	**(6,654)**	–
Restated opening balance under IFRS 9 as at July 1, 2018	**19,661**	18,648
Movement in market value of investment securities available-for-sale, net	–	7,667
Balance at end of year	**19,661**	26,315
Revaluation reserve is represented by:		
Land and property	**19,661**	19,661
Available-for-sale investment securities	–	6,654
	19,661	26,315

c) FVOCI reserves

	2019 $	2018 $
Balance at beginning of year under IAS 39	–	–
Transfer of opening net unrealised losses on AFS securities reclassified to FVOCI	**(14,817)**	–
Restated opening balance under IFRS 9 as at July 1, 2018	**(14,817)**	–
Movement in market value of securities, net	**(24,626)**	–
Balance, ending of year	**(39,443)**	–

(expressed in thousands of Eastern Caribbean dollars)

20 Reserves *...continued*

d) Other reserves

	2019 $	2018 $
Balance at beginning of year	**219,556**	218,639
Remeasurement loss on defined benefit asset net of tax	**(2,304)**	(645)
Transfer from retained earnings	**1,657**	1,562
Balance at end of year	**218,909**	219,556
Other reserves is represented by:		
General reserve	**100,184**	114,199
Insurance and claims equalisation reserves	**36,869**	35,212
Regulatory reserve for loan impairment (note 3.1.1)	**6,473**	5,252
Regulatory reserve for interest accrued on non-performing loans (note 3.1.1)	**68,849**	56,055
Defined benefit pension plan reserve	**6,534**	8,838
	218,909	219,556

General reserve
General reserve is used from time to time to transfer profits from retained earnings. There is no policy of regular transfer.

Insurance and claims equalisation reserves
The insurance reserve is a discretionary reserve for the health and public liability insurance business. The underlying assets are included in the Group's cash balances which form part of 'Cash and cash equivalents' (note 32).

Claims equalisation reserves represent cumulative amounts appropriated from retained earnings based on the discretion of the Board of Directors as part of the subsidiary's risk management strategies to mitigate against catastrophic events. Annually the claims equalisation reserves are assessed and transfers made as considered necessary by the Board of Directors. These reserves are in addition to the catastrophe reinsurance cover.

Regulatory reserve for loan impairment
Regulatory reserve represents cumulative amounts appropriated from retained earnings based on the prudential guidelines of the ECCB. When the ECCB loan for provision is greater than the loan provision calculated under IFRS 9 (2018: IAS 39), the difference is set aside in equity

Reserve for interest accrued on non-performing loans
This reserve is created to set aside interest accrued on non-performing loans where certain conditions are met in accordance with IFRS 9 (2018: IAS 39). The prudential guidelines of the ECCB do not allow for the accrual of such interest. As a result, the interest is set aside in a reserve and it is not available for distribution to shareholders until received.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

20 Reserves *...continued*

d) Other reserves *...continued*

Defined benefit pension plan reserve
This reserve is used to record the actuarial re-measurement of the defined benefit pension asset in other comprehensive income.

21 Net interest income

	2019 $	2018 $
Interest income		
Loans and advances to customers	**47,476**	43,732
Financial asset (note 31)	**20,242**	21,550
Deposits with other financial institutions	**4,493**	4,722
Others	**3,569**	4,542
Investment securities at FVTPL and FVOCI (2018: AFS)	**6,634**	4,258
Originated debts	**6,867**	4,095
Interest income for the year	**89,281**	82,899
Interest expense		
Fixed deposits	**33,646**	36,485
Savings accounts	**8,998**	8,484
Direct demand accounts	**634**	534
Call accounts	**323**	371
Interest expense for the year	**43,601**	45,874
Net interest income	**45,680**	37,025

22 Net fees and commission income

	2019 $	2018 $
Fees and commission income		
International business and foreign exchange	**9,043**	8,321
Brokerage and other fees and commission	**4,312**	4,117
Credit related fees and commission	**3,486**	2,421
Fees and commission income for the year	**16,841**	14,859
Fee expenses		
International business and foreign exchange	**8,604**	8,236
Other fee expenses	**6,127**	5,323
Brokerage and other related fee expenses	**1,516**	1,469
Fee expenses for the year	**16,247**	15,028
Net fees and commission income/(expense)	**594**	(169)

(expressed in thousands of Eastern Caribbean dollars)

23 Other income

	2019 $	2018 $
Fair value through profit and loss investment securities:		
- Realised gains on investments securities – FVTPL	**53,128**	–
- Net unrealised losses on investments securities – FVTPL	**(2,713)**	–
Net losses on financial assets measured at FVOCI reclassified to profit or loss	**(750)**	–
Available-for-sale investment securities:		
- Net realised gains on investments	–	74,783
- Net unrealised losses on investments	–	(130)
Net insurance premium income (note 35)	**36,060**	34,051
Dividend income	**10,846**	10,349
Foreign exchange gain	**7,597**	5,447
Other operating income	**470**	1,404
	104,638	125,904

24 Administrative and general expenses

	2019 $	2018 $
Employee cost	**33,386**	28,871
Repairs and maintenance	**5,659**	5,261
Other general	**1,361**	1,278
Advertisement and marketing	**1,030**	727
Communication	**1,003**	957
Stationery and supplies	**880**	820
Utilities	**784**	753
Rent and occupancy	**628**	585
Insurance	**589**	514
Security services	**529**	330
Legal fees and expenses	**358**	594
Taxes and licences	**252**	197
Shareholders’ expenses	**238**	422
Sundry losses	**134**	1,545
Premises upkeep	**30**	43
Property management	–	5
	46,861	42,902

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

24 Administrative and general expenses *…continued*

Employee cost

	2019 $	2018 $
Salaries and wages	**19,631**	18,644
Other staff cost	**11,053**	7,808
Insurance and other benefits	**2,159**	1,854
Pension expense (note 33)	**543**	565
	33,386	28,871

25 Impairment expense

For the year ended June 30, 2019, credit impairment losses were as follows:

	2019 $
Loans and advances to customers (note 8)	**10,409**
Investment securities and other financial assets at amortised cost (notes 6, 7, 9 and 10)	**63**
	10,472

For the year ended June 30, 2018, impairment charges/write-off net were as follows:

	2018 $
Other assets (note 15)	6,107
Loans and advances to customers, net (note 8)	2,022
Property inventory (note 11)	89
	8,218

26 Other expenses

	2019 $	2018 $
Net claims incurred (note 35)	**23,189**	24,600
Depreciation and amortisation (note 13 and 14)	**2,627**	2,767
Directors' fees and expenses	**1,113**	1,057
Professional fees and related expenses	**767**	689
	27,696	29,113

27 Earnings per share

'Earnings per share' is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2019 $	2018 $
Net income attributable to shareholders	**52,268**	52,087
Weighted average number of ordinary shares in issue (in thousands)	**135,000**	135,000
Basic and diluted earnings per share	**0.39**	0.39

28 Dividends

The consolidated financial statements reflect dividends of $13,500 or $0.10 per share for the financial year ended June 30, 2019 (2018: $13,500 or $0.10 per share paid on December 20, 2018). Approval of the payment was given at the Forty-eighth Annual General Meeting held on December 20, 2018.

29 Related parties balances and transactions

A related party relationship exists when one party has the ability to control directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between or among entities under common control, with the reporting enterprise and its key management personnel, directors and shareholders.

Government of St. Kitts and Nevis

The Government of St. Kitts and Nevis holds 51% of the Group issued share capital. The remaining 49% of the issued share capital is held by individuals and other institutions (over 5,200 shareholders). The Government is a customer of the Group and, as such, all transactions executed by the Group on behalf of the government are performed on strict commercial banking terms at existing market rates.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

29 Related parties balances and transactions *...continued*

	2019 $	2018 $
Public sector		
Customers' deposits	**1,701,618**	1,727,554
Financial asset	**682,075**	783,036
Loans and advances to customers	**353,128**	346,602
Interest on deposits	**28,741**	39,610
Interest on financial asset	**20,242**	21,550
Gross premiums written	**18,872**	19,064
Interest on loans and advances to customers	**12,642**	12,240
Gross claims incurred	**10,645**	9,362
Insurance contract liabilities	**3,213**	1,783
Associated companies		
Customers' deposits	**69,830**	70,006
Loans and advances to customers	**11,355**	11,473
Interest on customers' deposits	**110**	109
Interest from loans and advances to customers	**–**	1
Directors and associates		
Loans and advances to customers	**1,296**	990
Directors' fees and expenses	**1,020**	1,057
Customers' deposits	**594**	475
Interest from loans and advances to customers	**79**	70
Gross premiums written	**5**	5
Interest on customers' deposits	**4**	6
Key management		
Salaries and short-term benefits	**5,368**	3,988
Loans and advances to customers	**2,728**	3,906
Customers' deposits	**907**	825
Interest from loans and advances to customers	**195**	255
Gross written premiums	**92**	82
Interest on customers' deposits	**16**	14
Insurance contract liabialities	**12**	12

As at June 30, 2019, directors held total shares in the Bank of 107,232 (2018: 133,134) and key management held total shares in the Bank of 11,433 (2018: 30,765).

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.0% (2018: 6.0%). Secured loans are collaterised by cash and mortgages over properties.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

29 Related parties balances and transactions *...continued*

A provision of $18,578 (2018: $13,046) has been recognised in respect to advances made to related parties (associated company).

30 Contingent liabilities and commitments

Contingent tax liability

On January 29, 2016, the Inland Revenue Department (IRD) assessed the Bank with additional corporate income taxes for the financial years 2012 to 2014. The Bank disputed the assessment and filed an objection with the IRD. A settlement agreement was reached during the financial year in July 2018 and as such, there are no further outstanding corporate tax liabilities to the IRD in respect of the financial years 2012 to 2014.

Insurance claims

The Group, like all other insurers, is subject to litigation in the normal course of its business. The Group does not believe that such litigation will have a material effect on its financial statements.

Commitments

As of the reporting date the Group had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	2019 $	2018 $
Loan commitments	**22,022**	71,155
Credit card commitments	**9,196**	9,008
	31,218	80,163

31 Financial asset

The financial asset of $682,075 (2018: $783,036) represents the Bank's right to that amount of cash flows from the sale of certain lands pursuant to a Shareholder's Agreement (Agreement) dated April 18, 2012 and September 4, 2014 between the Bank and its majority shareholder, the Government of St. Kitts & Nevis ("GOSKN"), and the Nevis Island Administration ("NIA") respectively. Under the terms of the Agreement, the secured debt obligations owed to the Bank by the GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain land assets to the Bank. Further, the unsecured debt obligations owed to the Bank by GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain unencumbered land assets to a specially created entity, Special Land Sales Company (St. Kitts) Limited ("SLSC") and the allocation of certain shares in SLSC to the Bank. SLSC was incorporated for the purpose of selling land assets in order to fulfill the terms of the Agreement of the contracting parties. Other lands would be transferred to the SLSC for sale, if necessary, in order to satisfy the agreement of the contracting parties.

31 Financial asset *...continued*

By way of supplemental agreements, the effective date of the Agreement was amended to July 1, 2013. Accordingly, the first step in the 'Land for Debt' swap took place on July 1, 2013 in the amount of $565,070, which is the value of the 1,200 acres of land in the first tranche based on an independent valuation. The second and third tranches were completed during 2015 and the amounts swapped amounted to $230,951 which is the value of 735 acres of land.

Based on the terms of the Agreement:

1. On the effective date, SLSC shall use all appropriate commercial efforts to sell the secured land assets that were vested to the Bank at the best price reasonably possible and as soon as reasonably practicable.

2. Commencing from the effective date of the Agreement, July 1, 2013, the Bank is entitled to receive interest payments at a rate of 3.5% per annum on the face value of the eligible secured debt that was exchanged for the secured land assets. The amount is to be paid by the GOSKN annually from the effective date. Subsequently, the interest rate was reduced to 2.75% for the period July 1, 2017 to June 30, 2019.

3. Distribution of sales proceeds of the Bank land assets shall be applied as follows:

   a. First towards the payment of selling and operational costs of SLSC;

   b. Secondly to the Bank until the Bank has received the face amount of the eligible secured debt immediately prior to the effective date and the interest payments, less amounts paid to the Bank;

   c. Thirdly to the Bank in exchange for the redemption of its relative interest in SLSC which was allotted for the release of eligible unsecured debt that was owed to the Bank prior to the effective date; and

   d. Fourthly to the Government of St. Kitts and Nevis.

For the year ended June 30, 2019, the Group's consolidated statement of income includes interest income amounting to $20,242 (2018: $21,550). Further, as of June 30, 2019 interest receivable of $22,550 (2018: $23,170) was pending from the GOSKN. During the year, $28,861 (2018: $27,235) of cumulative interest payments were received from the GOSKN.

Based on the terms of the Agreement, all of the risks and rewards of ownership of the secured land assets have not been transferred to the Bank. The Bank is only entitled to receive cash flows from the sales of said lands up to the face value of the eligible secured debt that was exchanged and any interest payments as noted above. Additionally, if the lands are sold for less than the value that was transferred, the GOSKN and NIA is obligated to transfer additional lands to make up for the shortfall. The Bank's interest in the land assets is not subject to variation of returns as there is no risk of loss for the Bank, and also the Bank does not stand to benefit should the lands be sold for more than the value. Therefore, the Bank has not classified the amounts received in exchange for the loans as inventory, but as a financial asset based on its rights to the cash flows from the sales of the land assets under the Agreement.

The Bank has not included in these consolidated financial statements any investment in SLSC. Further, the Bank has not invested any funds in SLSC.

(expressed in thousands of Eastern Caribbean dollars)

32 Cash and cash equivalents

	2019 $	2018 $
Deposits with other financial institutions (note 7)	**548,232**	421,166
Originated debts (note 9)	**101,301**	67,635
Cash and balances with Central Bank (note 5)	**48,539**	51,720
Treasury bills (note 6)	**11,744**	11,174
	709,816	551,695

33 Defined benefit asset

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of June 30, 2019 by independent actuaries. The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2019 Per annum %	2018 Per annum %
Actuarial assumptions		
Discount rate	**3.75**	4.0
Return on plan assets	**5.00**	5.0
Future salary increases	**3.25**	3.5

Mortality table – (UP94 table projected to 2020 using Scale AA) in both years.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

33 Defined benefit asset *...continued*

	2019 $	2018 $
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	**41,211**	38,158
Current service cost	**1,968**	1,846
Interest cost	**1,545**	1,526
Actuarial losses	**2,781**	393
Benefits paid	**(1,386)**	(712)
Closing defined benefit obligation	**46,119**	41,211
Changes in the fair value of the plan assets		
Opening fair value of plan assets	**62,182**	58,990
Interest income	**3,109**	2,950
Return on plan assets (other than net interest)	**(658)**	(570)
Employer's contribution	**1,751**	1,667
Benefit paid	**(1,386)**	(712)
Management fees	**(139)**	(143)
Closing fair value of plan assets	**64,859**	62,182
Benefit cost		
Current service cost	**1,968**	1,846
Interest cost	**1,545**	1,526
Expense	**139**	143
Interest on plan assets	**(3,109)**	(2,950)
Increase in employee benefit expense (note 24)	**543**	565
Amount recognised in other comprehensive income		
Actuarial losses	**2,781**	393
Interest income on plan assets	**3,109**	2,950
Actual return on plan assets	**(2,451)**	(2,380)
Loss on re-measurement of net defined benefit asset	**3,439**	963
Net defined benefit asset recognised in the consolidated statement of financial position		
Fair value of plan assets	**64,859**	62,182
Present value of defined benefit obligation	**(46,119)**	(41,211)
Net defined benefit asset	**18,740**	20,971

(expressed in thousands of Eastern Caribbean dollars)

33 Defined benefit asset *...continued*

	2019 $	2018 $
Reconciliation: Net defined benefit asset		
Opening balance	**20,971**	20,832
Employer's contribution	**1,751**	1,667
Period cost	**(543)**	(565)
Effect of other comprehensive income	**(3,439)**	(963)
Closing balance (note 15)	**18,740**	20,971

Plan assets allocation is as follows:

	2019 %	2018 %
Certificates of deposits	**99.5**	99.20
Shares and treasury bills	**0.5**	0.80
	100	100

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit obligation.

	Discount rate plus 50 basis points $	Discount rate minus 50 basis points $
Increase/(decrease) in obligation	**(2,609)**	2,389

	Mortality plus 10% $	Mortality minus 10% $
Increase/(decrease) in obligation	**(1,057)**	931

34 Subsidiaries

	Percentage of direct and indirect equity interest held	
	2019	**2018**
	%	**%**
National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited	**100**	100
National Caribbean Insurance Company Limited	**100**	100
St. Kitts and Nevis Mortgage and Investment Company Limited	**100**	100

(expressed in thousands of Eastern Caribbean dollars)

35 Segmental statement of insurance related income – product line

Year ended of June 30, 2019	Medical $	Fire $	Motor $	Marine $	Public liability $	Sundry $	Other $	Total non-life $	Life assurance $	Total $
Gross premiums written	18,665	10,968	6,118	280	1,580	36	1,081	38,728	8,963	47,691
Reinsurers' share of gross premiums	–	(8,148)	(269)	(154)	(1,372)	–	(1,081)	(11,024)	–	(11,024)
	18,665	2,820	5,849	126	208	36	–	27,704	8,963	36,667
Net change in provision for unearned premiums	–	(121)	(175)	(1)	(132)	13	–	(416)	(191)	(607)
Net insurance premium income (note 23)	**18,665**	**2,699**	**5,674**	**125**	**76**	**49**	–	**27,288**	**8,772**	**36,060**
Claims and benefits	12,667	453	3,238	2	–	–	–	16,360	3,743	20,103
Change in insurance contract liabilities	(61)	(985)	(361)	–	–	–	–	(1,407)	(16)	(1,423)
Change in actuarial liabilities	–	–	–	–	–	–	–	–	4,509	4,509
Net claims incurred (note 26)	**12,606**	**(532)**	**2,877**	**2**	–	–	–	**14,953**	**8,236**	**23,189**

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

35 Segmental statement of insurance related income – product line *...continued*

Year ended of June 30, 2018	Medical $	Fire $	Motor $	Marine $	Public liability $	Sundry $	Other $	Total non-life $	Life assurance $	Total $
Gross premiums written	17,195	13,582	5,716	218	1,605	62	1,180	39,558	8,562	48,120
Reinsurance share of gross premiums	–	(10,599)	(260)	(169)	(1,482)	(21)	(1,180)	(13,711)	–	(13,711)
	17,195	2,983	5,456	49	123	41	–	25,847	8,562	34,409
Change in unearned premiums	–	(167)	(136)	2	(11)	–	–	(312)	(46)	(358)
Net insurance premium income (note 23)	**17,195**	**2,816**	**5,320**	**51**	**112**	**41**	**–**	**25,535**	**8,516**	**34,051**
Claims and benefits	11,836	1,083	2,137	–	7	–	–	15,063	3,066	18,129
Change in insurance liabilities	320	963	468	–	(17)	–	–	1,734	771	2,505
Change in actuarial liabilities	–	–	–	–	–	–	–	–	3,966	3,966
Net claims incurred (note 26)	**12,156**	**2,046**	**2,605**	**–**	**(10)**	**–**	**–**	**16,797**	**7,803**	**24,600**

36 Business segments

As of June 30, 2019, the operating segments of the Group were as follows:

1. Commercial and retail banking incorporating deposit accounts, loans and advances, investment brokerage services and debit, prepaid and gift cards;
2. Insurance including coverage of life assurance, non-life assurance and pension schemes; and
3. Real estate, property management and the provision of trustee services.

Transactions between the business segments are carried out on normal commercial terms and conditions. These operating segments are monitored by the Group’s chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results.

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

36 Business segments *...continued*

The table below gives the results and balances of those transactions:

	Commercial and retail banking $	Insurance $	Real estate and trust services $	Consolidation and other adjustments $	Total $
June 30, 2019					
Total segment revenues	172,355	44,052	950	–	**217,357**
Intersegment revenues	(580)	(5,794)	(223)	–	**(6,597)**
Revenue for the year from external customers	171,775	38,258	727	–	**210,760**
Cost of revenue generation	(113,026)	(38,456)	(847)	–	**(152,329)**
Cost of revenue generation	6,011	1,439	2	–	**7,452**
Income tax expense	(11,765)	(1,797)	(53)	–	**(13,615)**
Net income for the year	**52,995**	**(556)**	**(171)**	–	**52,268**
Property and equipment and intangible assets	26,444	7,541	21	–	**34,006**
Depreciation and amortisation	2,086	538	3	–	**2,627**
Segment assets	3,647,759	271,052	7,215	(235,725)	**3,690,301**
Segment liabilities	3,105,527	187,800	721	(210,605)	**3,083,443**
June 30, 2018					
Total segment revenues	187,556	41,907	678	–	**230,141**
Intersegment revenues	(576)	(5,637)	(266)	–	**(6,479)**
Revenue for the year from external customers	186,980	36,270	412	–	**223,662**
Cost of revenue generation	(102,232)	(38,183)	(720)	–	**(141,135)**
Income tax expense	(29,299)	(1,112)	(29)	–	**(30,440)**
Net income for the year	**55,449**	**(3,025)**	**(337)**	**–**	**52,087**
Property and equipment and intangible assets	27,217	7,798	20	–	**35,035**
Depreciation and amortisation	2,240	525	2	–	**2,767**
Segment assets	3,652,251	264,580	8,418	(241,448)	**3,683,801**
Segment liabilities	3,118,160	182,284	2,005	(213,696)	**3,088,753**

Segment information is based on internal reporting about the results of operating segments, such as revenue, expenses, profits or losses, assets, liabilities and other information on operations that are regularly reviewed by the Boards of Directors of the various Group companies.

SUMMARY SEPARATE FINANCIAL STATEMENTS

June 30, 2019

Grant Thornton

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Independent Auditor's Report

To the Shareholders of
St. Kitts-Nevis-Anguilla National Bank Limited

Opinion

The summary separate financial statements, which comprise the summary separate statement of financial position as of June 30, 2019, the summary separate statement of comprehensive income, summary separate statement of changes in shareholders' equity and summary separate statement of cash flows for the year then ended, and the related note, are derived from the audited separate financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** (the "Bank") for the year ended June 30, 2019. We expressed a qualified opinion in our report dated October 17, 2019.

In our opinion, the accompanying summary separate financial statements are consistent, in all material respects, with the audited separate financial statements, on the basis described in Note 1. However, the summary separate financial statements are misstated to the equivalent extent as the audited separate financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** for the year ended June 30, 2019.

Summary Separate Financial Statements

The summary separate financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary separate financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited separate financial statements and the auditor's report thereon.

The Audited Separate Financial Statements and Our Report Thereon

We expressed a qualified audit opinion on the audited separate financial statements in our report dated October 17, 2019. The basis for our qualified audit opinion was that originated debts on the Bank's separate statement of financial position includes certain long term notes issued by a third party, ABI Bank Limited (in receivership) ("ABIB"), amounting to $36,242,620, which have matured and remain outstanding. The loans were to be fully repaid by cash flows from loans ABIB made to the Government of Antigua and Barbuda. However, on November 27, 2015, ABIB was placed in receivership. No provision for potential losses has been made in the separate financial statements in respect of these notes.

We were unable to obtain sufficient appropriate audit evidence or satisfy ourselves by alternative methods, as to the recoverability of the $36,242,620 due to the Bank. Consequently, we were unable to determine whether any adjustment to this amount was necessary in the separate financial statements.

Our report also includes the communication of key audit matters. Key audit matters are those matters that in our professional judgement, were of most significance in our audit of the separate financial statements of the current period.

Management's Responsibility for the Summary Separate Financial Statements

Management is responsible for the preparation of the summary separate financial statements on the basis described in Note 1.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary separate financial statements are consistent, in all material respects, with the audited separate financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Grant Thornton

Chartered Accountants
October 17, 2019
Basseterre, St. Kitts

Summary Separate Statement of Financial Position

As at June 30, 2019

(expressed in Eastern Caribbean dollars)

	2019 $	2018 $
Assets		
Cash and balances with Central Bank	**213,144,357**	222,110,317
Treasury bills	**55,001,900**	88,881,733
Deposits with other financial institutions	**590,561,782**	432,946,064
Loans and advances to customers	**835,944,866**	774,871,530
Originated debts	**224,214,629**	257,049,535
Financial asset	**682,074,899**	783,036,376
Investment securities		
Available-for-sale	–	993,165,765
Investment securities – FVTPL	**733,230,408**	–
Equity investment securities – FVOCI	**108,285,907**	–
Debt investment securities – FVOCI	**83,531,528**	–
Investment in subsidiaries	**26,750,000**	26,750,000
Acceptances, guarantees and letters of credit	**6,374,705**	7,551,552
Income tax recoverable	**16,567,010**	16,748,669
Property and equipment	**25,853,099**	26,937,490
Intangible assets	**590,741**	279,145
Other assets	**27,331,063**	21,941,501
Deferred tax asset	**18,302,402**	–
Total assets	**3,647,759,296**	3,652,269,677
Liabilities		
Customers' deposits	**3,038,721,022**	3,036,917,374
Due to other financial institutions	**124,223**	–
Accumulated provisions, creditors and accruals	**53,511,226**	49,853,301
Acceptances, guarantees and letters of credit	**6,374,705**	7,551,552
Income tax payable	**6,797,243**	17,576,399
Deferred tax liability	–	6,280,708
Total liabilities	**3,105,528,419**	3,118,179,334
Shareholders' equity		
Issued share capital	**135,000,000**	135,000,000
Share premium	**3,877,424**	3,877,424
Reserves	**298,355,520**	338,866,584
Retained earnings	**104,997,933**	56,346,335
Total shareholders' equity	**542,230,877**	534,090,343
Total liabilities and shareholders' equity	**3,647,759,296**	3,652,269,677

Approved for issue by the Board of Directors on October 17, 2019.

Chairman

Director

Summary Separate Statement of Income

For the year ended June 30, 2019

(expressed in Eastern Caribbean dollars)

	2019 $	2018 $
Interest income	**88,702,725**	82,412,535
Interest expense	**(49,711,997)**	(51,852,682)
Net interest income	**38,990,728**	30,559,853
Fees and commission income	**15,599,931**	13,740,802
Fees expense	**(14,831,273)**	(13,673,498)
Net fees and commission income	**768,658**	67,304
Net gains on investments in debt and equity instruments	**49,485,361**	74,652,648
Dividend income	**10,774,252**	10,348,983
Gain on foreign exchange (net)	**7,596,838**	5,447,318
Other operating income	**195,432**	953,761
Other income	**68,051,883**	91,402,710
Total operating income	**107,811,269**	122,029,867
Operating expenses		
Administrative and general expenses	**34,593,931**	30,966,612
Credit and other impairment charges	**10,420,590**	8,129,411
Depreciation and amortisation	**2,085,061**	2,239,325
Directors’ fees and expenses	**879,173**	789,714
Professional fees and related expenses	**504,167**	477,068
Total operating expenses	**48,482,922**	42,602,130
Operating profit before tax	**59,328,347**	79,427,737
Income tax expense	**(11,765,238)**	(29,298,765)
Net income for the year	**47,563,109**	50,128,972
Basic earnings per share (basic and diluted)	**0.35**	0.37

(expressed in Eastern Caribbean dollars)

	2019 $	2018 $
Net income for the year	**47,563,109**	50,128,972
Other comprehensive (loss)/income, net of tax:		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Financial assets measures at FVOCI – debt instruments:		
Net unrealised net gains on investment securities, net of tax	**1,209,807**	–
Reclassification adjustments for net losses included in income, net of tax	**(25,567)**	–
Available-for-sale financial assets:		
Net unrealised gains on investment securities, net of tax	–	42,635,734
Reclassification adjustments for gains included in income	–	(35,001,961)
	1,184,240	7,633,773
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Financial assets measured at FVOCI – equity instruments:		
Net unrealised losses due to changes in fair value, net of tax	**(25,739,142)**	–
Re-measurement loss on defined benefit asset, net of tax	**(1,339,969)**	(338,211)
	(27,079,111)	(338,211)
Total other comprehensive (loss)/income for the year, net of tax	**(25,894,871)**	7,295,562
Total comprehensive income for the year	**21,668,238**	57,424,534

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Summary Separate Statement of Changes in Shareholders' Equity
For the year ended June 30, 2019

(expressed in Eastern Caribbean dollars)

	Issued share capital $	Share premium $	Statutory reserve $	Other reserves $	Revaluation reserves $	FVOCI reserves $	Property revaluation reserve $	Retained earnings $	Total $
Balance as of June 30, 2017	**135,000,000**	**3,877,424**	**123,765,725**	**183,083,732**	**(1,217,042)**	–	**15,912,813**	**29,743,157**	**490,165,809**
Net income for the year	–	–	–	–	–	–	–	50,128,972	50,128,972
Other comprehensive income	–	–	–	(338,211)	7,633,773	–	–	–	7,295,562
Total comprehensive income for the year	**–**	**–**	**–**	**(338,211)**	**7,633,773**	–	**–**	**50,128,972**	**57,424,534**
Transfer to reserve	–	–	10,025,794	–	–	–	–	(10,025,794)	–
Transaction with owners									
Dividends	–	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2018	**135,000,000**	**3,877,424**	**133,791,519**	**182,745,521**	**6,416,731**	–	**15,912,813**	**56,346,335**	**534,090,343**
Changes on initial application of IFRS 9	**–**	**–**	**–**	**–**	**(6,416,731)**	**(15,053,576)**	**–**	**21,442,603**	**(27,704)**
Balance as of July 1, 2018, restated	**135,000,000**	**3,877,424**	**133,791,519**	**182,745,521**	**–**	**(15,053,576)**	**15,912,813**	**77,788,938**	**534,062,639**
Net income for the year	–	–	–	–	–	–	–	47,563,109	47,563,109
Other comprehensive loss	–	–	–	(1,339,969)	–	(24,554,902)	–	–	(25,894,871)
Total comprehensive income for the year	**–**	**–**	**–**	**(1,339,969)**	**–**	**(24,554,902)**	**–**	**47,563,109**	**21,668,238**
Transfer to reserve	–	–	6,854,114	–	–	–	–	(6,854,114)	–
Transaction with owners									
Dividends	–	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2019	**135,000,000**	**3,877,424**	**140,645,633**	**181,405,552**	**–**	**(39,608,478)**	**15,912,813**	**104,997,933**	**542,230,877**

Summary Separate Statement of Cash Flows

For the year ended June 30, 2019

(expressed in Eastern Caribbean dollars)

	2019 $	2018 $
Cash flows from operating activities		
Operating profit before tax	**59,328,347**	79,427,737
Adjustments for:		
Interest expense	**49,711,997**	51,852,682
Credit and other impairment charges	**10,420,590**	8,129,411
Unrealised losses on FVTPL investment securities	**2,886,496**	–
Depreciation and amortisation	**2,085,061**	2,239,325
Retirement benefit expense	**532,931**	539,460
Gain on disposal of equipment	**(23,249)**	(14,999)
Dividend income	**(10,774,252)**	(10,348,983)
Interest income	**(88,702,725)**	(82,412,535)
Operating income before changes in operating assets and liabilities	**25,465,196**	49,412,098
(Increase)/decrease in operating assets:		
Loans and advances to customers	**(73,344,096)**	(62,112,702)
Mandatory deposits with Central Bank	**(133,790)**	2,749,420
Other assets	**(6,690,631)**	(4,843,756)
Increase/(decrease) in operating liabilities:		
Customers' deposits	**1,631,718**	(183,259,977)
Due to other financial institutions	**124,223**	–
Accumulated provisions, creditors and accruals	**3,657,925**	23,234,386
Cash used in operations	**(49,289,455)**	(174,820,531)
Interest received	**75,774,242**	78,199,998
Pension contributions paid	**(1,231,815)**	(1,145,008)
Income taxes paid	**(23,137,901)**	(2,601,710)
Interest paid	**(49,540,067)**	(54,382,051)
Net cash used in operating activities	**(47,424,996)**	(154,749,302)
Cash flows from investing activities		
Proceeds from sale of investment securities and originated debts	**1,787,326,867**	1,163,705,272
Payments received from the financial asset	**100,341,552**	34,403,322
Decrease in restricted term deposits and treasury bills	**33,600,000**	18,168,519
Dividends received	**10,774,252**	10,348,983
Interest received from investment securities and originated debts	**12,565,441**	13,131,861
Proceeds from sale of equipment	**479,540**	15,000
Purchase of equipment and intangible assets	**(1,768,557)**	(750,605)
Decrease in special term deposit	**(30,526,555)**	20,269,500
Increase in investment securities and originated debts	**(1,700,257,751)**	(1,305,469,483)
Net cash from/(used) in investing activities	**212,534,789**	(46,177,631)
Cash flows from financing activities		
Dividends paid	**(13,500,000)**	(13,500,000)
Net increase/(decrease) in cash and cash equivalents	**151,609,793**	(214,426,933)
Cash and cash equivalents, beginning of year	**537,892,596**	752,319,529
Cash and cash equivalents, end of year	**689,502,389**	537,892,596

(expressed in Eastern Caribbean dollars)

1 Basis of preparation

These summary separate financial statements are derived from the audited separate financial statements of St. Kitts-Nevis-Anguilla National Bank for the year ended June 30, 2019.

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ST. KITTS-NEVIS-ANGUILLA
NATIONAL BANK LIMITED

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