Grant Thornton

Bank of St. Vincent and the Grenadines Ltd.

Consolidated Financial Statements
For the Year Ended December 31, 2022
(in Eastern Caribbean Dollars)

Contents

Pages 2 - 6	Independent Auditor’s Report
Page 7	Consolidated Statement of Financial Position
Page 8	Consolidated Statement of Changes in Equity
Page 9	Consolidated Statement of Income
Page 10	Consolidated Statement of Comprehensive Income
Page 11	Consolidated Statement of Cash Flows
Pages 13 - 86	Notes to the Financial Statements

Grant Thornton

Independent Auditor's Report

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To the Shareholders
Bank of St. Vincent and the Grenadines Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank of St. Vincent and the Grenadines Ltd. and its subsidiary (collectively, "the Group"), which comprise the consolidated statement of financial position as at December 31, 2022 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, 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 Opinion

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) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in St. Vincent and the Grenadines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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.

Key Audit Matters ……Cont'd

<table>
<tr><th>Key Audit Matter 1:
IFRS 9 Expected Credit Losses</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Refer to Notes 2 and 9 to the Consolidation Financial Statements:

The estimation of expected credit losses (ECL) on loans and advances is highly subjective and involves significant judgements and estimates. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus on the Group's ECL are:

• Model estimations – inherently judgmental modelling and assumptions are used to estimate ECL, which involves determining Probation of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"). ECL may be inappropriate if certain models or assumptions do not accurately predict default or recoveries over time or become out of line with experience or fail to reflect the credit risk of financial assets. As a result, certain IFRS 9 models and model assumptions are the drivers of complexity and uncertainty in the Group's calculation of the ECL estimate.

• Economic scenarios – IFRS 9 requires ECL in an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the forward-looking economic scenarios used as an input to calculate ECL, the probability weightings associated with the scenarios and the complexity of the models used to derive the probability weightings.

• Qualitative adjustments – Adjustments, referred to as management overlays, to model driven ECL results are raised by management to address known model limitations or emerging trends as well as risk not captured by models. These adjustments are inherently uncertain and significant management judgement is involved in estimating management overlays.</td><td>Our procedures to address the risks included:

Risk assessment: We performed detailed risks assessment procedures over loans and advances at amortized costs within the Group's financial statements.

Control testing: We performed end to end walkthroughs to identify the key systems, application and controls used in the ECL processes. We tested the relevant manual, general IT and application controls over key systems used in the ECL process.

Key aspects of our control testing involved evaluating the design and implementation and testing the operating effectiveness of the key controls over the:
- completeness and accuracy of the key inputs in the IFRS 9 model
- application of staging criteria
- model validation, implementation and monitoring
- selection and implementation of economic variables and controls over economic scenarios and probabilities
- calculation of management overlays
- credit reviews that determine customers credit ratings used in the model.

We involved our specialist to assist us in evaluating the appropriateness of the Group's impairment methodologies, including criteria used to determine significant increase in credit risks. We independently, assessed the assumptions underlying the probability of default, loss given default and exposure at default.

We evaluated the appropriateness of the Group's methodology for incorporating forward-looking information, management's overlays, and economic scenarios used along with the probability weighting applied to them.
- We assessed the adequacy of the disclosures, including key judgements, assumptions and sensitivity analysis related to uncertainty in estimating the ECL.</td></tr>
</table>

Key Audit Matters ….. Cont'd

Key Audit Matter 2: **Fair Value of Unlisted Investments measured at FVOCI**	**How the matter was addressed in our audit**
Refer to Notes 2, 3 and 8 to the Consolidated Financial Statements. The Group invests in various investment securities for which no published prices in active markets are available and have been classified as Level 3 assets within the IFRS fair value hierarchy. Valuation techniques for these investments can be subjective in nature and involve various assumptions regarding pricing factors. Associated risk management disclosure is complex and dependent on high quality data. A specific area of audit focus includes the valuation of fair value Level 3 assets where valuation techniques are applied in which unobservable inputs are used. These techniques include the use of dividend discount model, comparable company multiples, namely enterprise value to earnings before interest, taxes, depreciation and amortization, price-to-earnings and price-to-tangible book value multiples and adjusted net book value. This is a key audit matter due to the complexity and use of different valuation techniques and assumptions. This could result in significantly different estimates of fair value.	As part of our procedures, we performed the following: - We tested the effectiveness of controls over valuation of investment securities ensuring accounting criteria were met. - We reviewed the market prices applied to the Bank's debt securities by comparing the prices used to an independent external source. - We involved our internal valuation specialist to assess the reasonableness of the fair value of which has no observable market prices. - We assessed the adequacy of the disclosures in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the Group's 2022 Annual Report but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Group's 2022 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements …..Cont'd

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, 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.

Grant Thornton

March 22, 2023

Bank of St. Vincent and the Grenadines Ltd.

Consolidated Statement of Financial Position

As of December 31, 2022

(in Eastern Caribbean dollars)

	Notes	**2022** $	2021 $
ASSETS			
Cash and balances with Eastern Caribbean Central Bank	5	**151,014,111**	154,928,122
Deposits with other banks	6	**271,456,696**	269,797,307
Treasury bills	7	**11,359,198**	10,975,207
Investment securities	8	**174,079,538**	154,294,510
Income tax refundable		**-**	1,653,586
Loans and advances to customers	9	**637,300,272**	628,118,551
Other assets	10	**14,795,887**	12,464,555
Investment properties	11	**2,262,000**	2,412,000
Property and equipment	12	**57,793,363**	55,395,437
Deferred tax asset	13	**3,170,136**	4,379,923
Total Assets		**1,323,231,201**	1,294,419,198
LIABILITIES			
Deposits due to banks	14	**19,798,819**	18,338,965
Due to customers	15	**1,112,403,167**	1,081,376,200
Corporation tax payable		**100,996**	-
Provisions and other liabilities	16	**32,758,229**	37,258,258
Borrowings	17	**17,094,011**	22,762,599
Total Liabilities		**1,182,155,222**	1,159,736,022
EQUITY			
Share capital	18	**20,753,306**	20,753,306
Statutory reserves	19	**20,753,306**	20,753,306
General provision reserves	20	**5,475,297**	5,184,573
Unrealized gain on investments		**15,211,136**	11,725,576
Retained earnings		**78,882,934**	76,266,415
Total Equity		**141,075,979**	134,683,176
Total Liabilities and Equity		**1,323,231,201**	1,294,419,198

These financial statements were approved by the Board of Directors and authorized for issue on March 22, 2023, and signed on its behalf by:

Judith Veira
Chairperson

Saibrina Brewster-Dickson
Director

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

Bank of St. Vincent and the Grenadines Ltd.

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2022

(in Eastern Caribbean dollars)

	Notes	Share Capital $	Statutory Reserves $	General Provision Reserves $	Unrealized Gain (Loss) on Investments $	Retained Earnings $	Total $
Balance at January 1, 2021		20,753,306	20,753,306	4,907,450	11,792,233	75,572,293	133,778,588
Total comprehensive income		-	-	-	(66,657)	2,771,227	2,704,570
Transfer to general provision reserves	20	-	-	277,123	-	(277,123)	-
Dividend paid		-	-	-	-	(1,799,982)	(1,799,982)
Balance at December 31, 2021		20,753,306	20,753,306	5,184,573	11,725,576	76,266,415	134,683,176
Balance at January 1, 2022		**20,753,306**	**20,753,306**	**5,184,573**	**11,725,576**	**76,266,415**	**134,683,176**
Total comprehensive income		**-**	**-**	**-**	**3,485,560**	**2,907,243**	**6,392,803**
Transfer to general provision reserves	20	**-**	**-**	**290,724**	**-**	**(290,724)**	**-**
Dividend paid		**-**	**-**	**-**	**-**	**-**	**-**
Balance at December 31, 2022		**20,753,306**	**20,753,306**	**5,475,297**	**15,211,136**	**78,882,934**	**141,075,979**

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

Bank of St. Vincent and the Grenadines Ltd.

Consolidated Statement of Income

For the Year Ended December 31, 2022

(in Eastern Caribbean dollars)

	Notes	**2022** **$**	2021 $
Interest income using the effective interest method	22	**54,427,590**	50,790,365
Interest expense	22	**(15,672,360)**	(16,700,067)
Net Interest Income	22	**38,755,230**	34,090,298
Fee, commission and other income	23	**22,349,440**	17,054,949
Dividend income		**359,348**	124,044
Unrealized losses on financial assets		**(5,638,455)**	(39,552)
Loss on sales of financial assets		**(1,784,228)**	-
Allowances for credit losses on financial assets	24	**(2,751,617)**	(7,690,484)
Operating expenses	25	**(45,418,106)**	(40,913,932)
Profit before Income Tax		**5,871,612**	2,625,323
Income tax (expense) credit	27	**(2,964,369)**	145,904
Profit for the Year		**2,907,243**	2,771,227
Basic and Diluted Earnings per Share	28	**0.19**	0.19

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

Bank of St. Vincent and the Grenadines Ltd.

Consolidated Statement of Comprehensive Income

For the Year Ended December 31, 2022

(in Eastern Caribbean dollars)

	Notes	**2022** **$**	2021 $
Profit for the Year		**2,907,243**	2,771,227
Other Comprehensive Income			
Other Comprehensive Income that will not be Reclassified to Profit or Loss in Subsequent Periods (Net of Tax):			
Net change in fair value of equity instruments measured at FVOCI	8	**3,534,500**	-
Other Comprehensive Income that will be Reclassified to Profit or Loss in Subsequent Periods (Net of Tax):			
Net change in fair value of debt instruments measured at FVOCI	8	**(48,940)**	(66,657)
Net Other Comprehensive Income to be Reclassified to Profit or Loss in Subsequent Periods		**3,485,560**	(66,657)
Total Comprehensive Income for the Year, Net of Tax		**6,392,803**	2,704,570

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

Bank of St. Vincent and the Grenadines Ltd.

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2022

(in Eastern Caribbean dollars)

	Notes	**2022** **$**	2021 $
Operating Activities			
Profit before tax		**5,871,612**	2,625,323
Adjustments for:			
Interest income – investment securities and deposits		**(7,751,673)**	(4,715,535)
Interest expense – borrowings		**875,566**	1,102,094
Impairment losses – loans and advances		**4,347,089**	7,808,159
Changes in fair value investment securities		**5,638,432**	39,552
Loss on sales of securities		**1,784,228**	-
Impairment on investment securities	24	**(967,482)**	81,684
Depreciation	12	**3,040,151**	2,894,968
Dividend income		**(359,348)**	(124,044)
Fair value loss on investment property		**150,000**	-
Unrealized loss on foreign exchange	8	**23**	33
(Gain) loss on disposal of property and equipment		**(14,489)**	4,755
Net Profit before Changes in Operating Assets and Liabilities		**12,614,109**	9,716,989
Increase in mandatory deposits with Eastern Caribbean Central Bank		**(1,861,618)**	(5,463,810)
(Increase) decrease in loans and advances to customers		**(13,528,809)**	5,138,138
Increase in other assets		**(2,331,332)**	(3,603,290)
Increase in due to customers		**31,026,967**	91,063,504
Decrease (increase) in deposits due to banks		**1,459,854**	(2,857,282)
Decrease in provisions and other liabilities		**(4,500,029)**	(849,548)
		22,879,142	93,144,701
Dividends received		**359,348**	124,044
Interest received		**9,919,891**	5,692,874
Interest paid		**(875,566)**	(1,162,691)
Income tax paid		**-**	(5,025,774)
Net Cash Generated from Operating Activities		**32,282,815**	92,773,154
Cash Flows from Investing Activities			
(Increase) decrease in interest bearing deposits with financial institutions		**(86,254,403)**	5,345,727
Proceeds from disposal and redemption of investment securities	8	**65,091,678**	122,761,310
Proceeds from disposal of property and equipment		**14,580**	-
Change in treasury bills		**(4,734)**	(963,671)
Purchase of investment securities	8	**(90,014,566)**	(153,994,156)
Purchase of property and equipment	12	**(5,438,168)**	(2,943,828)
Net Cash Used in Investing Activities		**(116,605,613)**	(29,794,618)
Cash flows from Financing Activities			
Dividends paid		**-**	(1,799,982)
Repayment of borrowings		**(5,668,588)**	(5,454,253)
Net Cash Used in Financing Activities		**(5,668,588)**	(7,254,235)
Net (Decrease) Increase in Cash and Cash Equivalents		**(89,991,386)**	55,724,301
Cash and Cash Equivalents at Beginning of Year		**364,950,424**	309,226,123
Cash and Cash Equivalents at End of Year	29	**274,959,038**	364,950,424

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

Note 1	Reporting Entity
Note 2	Summary of Significant Accounting Policies
Note 3	Financial Risk Management
Note 4	Critical Accounting Estimates and Judgements in Applying Accounting Policies
Note 5	Cash and Balances with Eastern Caribbean Central Bank
Note 6	Deposits with Other Banks
Note 7	Treasury Bills
Note 8	Investment Securities
Note 9	Loans and Advances to Customers
Note 10	Other Assets
Note 11	Investment Properties
Note 12	Property and Equipment
Note 13	Deferred Tax Asset
Note 14	Deposits Due to Banks
Note 15	Due to Customers
Note 16	Provisions and Other Liabilities
Note 17	Borrowings
Note 18	Share Capital
Note 19	Statutory Reserves
Note 20	General Provision Reserves
Note 21	Contingent Liabilities and Commitments
Note 22	Net Interest Income
Note 23	Fees Commission and Other Income
Note 24	Allowance for Credit Losses on Financial Assets
Note 25	Operating Expenses
Note 26	Employee Benefit Expense
Note 27	Income Tax Expense
Note 28	Earnings per Share
Note 29	Cash and Cash Equivalents
Note 30	Leases
Note 31	Related Party Balances and Transactions
Note 32	Commitment
Note 33	Subsequent Event
Note 34	Comparative Figures

(in Eastern Caribbean dollars)

1. Reporting Entity

The Bank of St. Vincent and the Grenadines Ltd. ("the Bank") and its wholly owned subsidiary, Property Holdings SVG Ltd., are incorporated under the laws of St. Vincent and the Grenadines and carry the registration numbers 17 of 2009 and 135 of 2010 respectively. The Bank is licensed with the Eastern Caribbean Central Bank to engage in commercial banking activities in St. Vincent and the Grenadines and its subsidiary's principal activities are the development and management of real estate. The Bank is listed on the Eastern Caribbean Securities Exchange (ECSE) and carries the ticker symbol BOSV.

The Group's principal place of business and registered office is located at Reigate, Granby Street, Kingstown, St. Vincent.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these 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 Accounting

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB), effective for reporting periods commencing after January 1, 2022.

2.2 Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention except for the following material items that are measured at fair value in the consolidated statement of financial position.

- Financial assets and liabilities measured at fair value through profit or loss (FVTPL)
- Financial assets and liabilities designated at fair value through profit or loss (FVTPL)
- Equity instruments designated at fair value through other comprehensive income (FVTOCI)
- Debt instruments measured at fair value through other comprehensive income (FVTOCI)
- Investment properties

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

Application of the Going Concern Principle

The Board (including its sub-committees) has assessed the Group's budgets and cash flow forecasts in considering the Group's going concern assumption in respect to the existing trends and expected future economic events. This included the impact that projected cashflows will have on the Group's liquidity risk, credit risk, interest rate risk, regulatory capital and market risks, as well as other related risks; all of which have remained within the risk parameters of the Group's risk appetite framework.

The assessment entailed the consideration of the adequacy of the Group's capital and liquidity to meet its operations and strategies during economic downturns. This was done by analyzing the impact of the macro economic outlook on the Group's forecast growth in earnings and assets and liabilities management to determine the impact to the Group's financial outlook and operations. Multiple scenarios were completed and tested for sensitivity. The assessment undertaken by the Group demonstrated a positive future outlook for the Group. The going concern assumptions continues to apply and is applicable.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.3 New and Amended Standards and Interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2022. The adoption of the new standards during the year have not had any significant impact on the consolidated financial statements. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Management anticipates that all the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not adopted or listed below are not expected to have a material impact on the Group's financial statements.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On May 28, 2020, the IASB issued Covid-19 Related Rent Concessions – amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification.

The amendment was intended to apply until June 30, 2021, but as the impact of the Covid-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient to June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 1, 2021. This amendment had no impact on the consolidated financial statements of the Group.

- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

2.4 New and Amended Standards and Interpretations Issued but not yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. The new and amended standards and interpretations are not expected to have any significant impact on the Group's consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, and must be applied retrospectively. The Group does not expect any effect on its consolidated financial statements.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.4 New and Amended Standards and Interpretations Issued but not yet Effective …..*Cont'd*

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, The IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023, with earlier adoption permitted. Since the amendments to the Practice Statement 2 provide for non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

Insurance Contracts – IFRS 17

In May 2017, the IASB issue IFRS 17, Insurance Contracts, a comprehensive new accounting for insurance contracts covering recognition and measurement presentation and disclosure. IFRS 17 will replace IFRS 4 Insurance Contracts that was issued in 2005. In June 2020, the IASB published amendments to IFRS 17 to include scope exclusions for certain credit card contracts and similar contracts that provide insurance coverage, the optional scope exclusion for loan contracts that transfer significant insurance risk, and the clarification that only financial guarantees issued are in scope of IFRS 9.

IFRS 17 applies to all types of insurance contracts regardless of the type of entity that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

IFRS 17 is effective for accounting periods beginning on or after January 1, 2023. The Group does not expect the impact of IFRS 17 to be material.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.5 Consolidation

The consolidated financial statements of the Group comprise the financial statements of the parent entity and its subsidiary (collectively referred to as the "Group") for the year ended December 31, 2022.

A subsidiary is an entity controlled by the Group. Control is achieved when the Group is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure to, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.5 Consolidation …..*Cont'd*

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of income.

Inter-company transactions, balances and unrealized gains on transactions between Group companies have been eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting methods.

Transactions with Non-Controlling Interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Any losses applicable to the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in a deficit balance. Non-controlling interests are presented separately within equity in the consolidated statement of financial position.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.6 Fair Value Measurement

The Group measures investment securities and investment properties at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the following notes:

• Disclosures of valuation methods, significant estimates and assumptions	Notes 2 and 4
• Quantitative disclosures of fair value measurement hierarchy	Note 3
• Investment properties	Note 11
• Financial instruments (including those carried at amortised cost)	Notes 3, 8 and 9

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.6 Fair Value Measurement …..*Cont'd*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value of a non-financial asset takes into account a market participants ability to generate economic benefits by using the assets in its highest and the best use or by selling to another participant that would use the asset in its highest and best use.

The Group determines the policies and procedures for both recurring and non-recurring fair value measurement.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.7 Financial Assets and Liabilities

a) Recognition and Initial Measurement

The Group initially recognises financial assets on the date they originate. Financial assets, except in cases of a financial asset recorded at FVTPL, are measured initially at fair value plus transaction costs are added to or subtracted from this amount.

The Group classifies all of its financial assets into one of the following categories as explained in **Note 2.7(b)**:

- Amortised cost,
- FVTPL, or
- FVOCI.

IFRS 9 classification is generally based on the business model in which a financial asset is managed and the contractual terms.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

b) Classification of Financial Instruments

Financial instruments are classified into various categories and are accounted for as shown in the table below.

Classification Category	Instruments	Measurement Category	Recognition at FVTPL	Recognition at FVOCI
Amortised cost	**Assets** • Cash and cash equivalents • Loans and advances to customers • Debt securities held to collect • Deposits with other banks **Liabilities** • Deposits due to banks • Due to customers • Borrowings • Other liabilities	Amortised cost	• Interest income • Interest expense • ECLs and reversals	
Fair value through other comprehensive income	• Equity instruments • Debt instruments	Fair value	• Dividend income • ECLs and reversals	Unrealised gains/losses from fair value changes
Fair value through profit or loss	• Equity instruments • Debt instruments	Fair value	• Gains or losses from fair value changes • ECLs and reversals • Dividend income	

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

b) Classification of Financial Instruments …..*Cont'd*

Business Model Assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Group's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of assets are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held to collect nor held to collect and for sale.

The Bank assesses business model at a portfolio level reflective of how groups of assets are managed to achieve a particular business objective. For the assessment of a business model, the Bank takes into consideration the following factors:

- How the performance of assets in a portfolio is evaluated and reported to key decision makers within the Bank's business lines;
- How compensation is determined for the Bank's business lines' management that manages the assets;
- Whether the assets are held for trading purposes i.e., assets that the Bank acquires or originate principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking;
- The risks that affect the performance of assets held within a business model and how those risks are managed; and
- The frequency and volume of sales in prior periods and expectations about future sales activity.

Contractual Cash Flow Characteristics Assessment (SPPI Test)

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount.

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If the Group identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

In contrast, the contractual terms that introduce a more than de minimis exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases the financial asset is required to be measured at either FVTPL or FVOCI without recycling.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

b) Classification of Financial Instruments …..*Cont'd*

Debt Instruments Measured at Amortised Cost

Financial assets are classified as measured at amortised cost if the following criteria are met:

- The financial assets are held within a business model with the objective of holding the assets to collect the contractual cash flows and;
- The contractual terms for the financial assets give rise to cash flows that are solely payment of principal or interest.

Financial assets are measured amortised cost using the effective interest rate method, with the carrying value adjusted by the expected credit loss (ECL) for each asset. Interest is included in the consolidated statement of income under interest revenue or interest expense on an accrual basis. The movement in ECL for these assets is recognised in the consolidated statement of income.

Debt Instruments Measured at Fair Value through Other Comprehensive Income (FVOCI)

Debt instruments are classified as FVOCI if the following criteria are met:

- The financial assets are held within a business model with the objective of collecting the contractual cash flows or potentially selling the assets, and;
- The contractual terms for the financial assets give rise to cash flows that are solely payment of principal or interest.

Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in non-interest income in the consolidated statement of income on an average cost basis. Foreign exchange gains and losses that relate to the amortised cost of the debt instrument are recognised in the consolidated statement of income.

Premiums, discounts and related transaction costs are amortised over the expected life of the instrument to interest income in the consolidated statement of income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the consolidated statement of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to an allowance for credit losses in the consolidated statement of income. The accumulated allowance recognised in OCI is recycled to the consolidated statement of income upon derecognition of the debt instrument.

Debt instruments are measured at FVTPL for assets:

- held for trading purposes;
- held as part of a portfolio managed on a fair value basis; or
- whose cash flows do not represent payments that are SPPI.

These instruments are measured at fair value in the consolidated statement of financial position, with transaction cost recognised immediately in the consolidated statement of income as part of non-interest income. Realised and unrealized gains and losses are recognised as part of non-interest income in the consolidated statement of income.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

b) Classification of Financial Instruments …..*Cont'd*

Equity Instruments

Equity instruments are classified into one of the following measurement categories:

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

Equity Instruments Designated at FVTPL

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognised immediately in the consolidated statement of income as part of non-interest income. Subsequent to initial recognition the changes in fair value are recognised as part of non-interest income in the consolidated statement of income.

Equity Instruments Designated at FVOCI

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

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

Financial Liabilities

The Group classifies financial liabilities other than guarantees and loan commitments as measured at amortised cost.

Reclassification of Financial Assets and Liabilities

The Group classifies its financial assets and liabilities in accordance with its existing business models. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. Changes in contractual cash flows are considered under the accounting policy on modification and de-recognition of financial assets described below.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

c) Derecognition of Financial Assets and Liabilities

Derecognition of Financial Assets

The derecognition criteria are applied to the transfer of part of an asset, rather than the asset as a whole, only if such part comprises specifically identified cash flows from the asset, a fully proportionate share of the cash flows from the asset or a fully proportionate share of specifically identified cash flows from the asset.

A financial asset is derecognised when the contractual rights to the cash flows from the asset has expired; or the Group transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party; or the Group has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Group has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Group derecognizes the transferred asset only if it has lost control over that asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Group retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. At times such continuing involvement may be in the form of investment in senior or subordinated tranches of notes issued by non-consolidated structured entities.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the consolidated statement of income. Transfers of financial assets that do not qualify for derecognition are reported as secured financing in the consolidated statement of financial position.

Derecognition of Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled, or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognised as a gain/loss in the consolidated statement of income.

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

d) Impairment of Financial Assets

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

- debt instruments measured at amortised cost;
- fair value through other comprehensive income;
- loans and advances to customers;
- loan commitments; and
- financial guarantee contracts.

The measurement of expected credit loss involves complex judgement that includes:

Determining a Significant Increase in Credit Risk since Initial Recognition

The assessment of significant deterioration in credit risks since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12 months ECL and one that is based on lifetime ECL. The quantitative and qualitative assessments to estimate a significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition. The Group applies a three-stage approach based on the change in credit quality since initial recognition.

Expected Credit Loss Impairment Model

The Group's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either:

(i) over the following twelve months; or
(ii) over the expected life of a financial instrument depending on credit deterioration since origination.

This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- **Stage 1 – 12-month ECL**

  The Group collectively assesses ECL on exposures where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument. An amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to the remaining term to maturity is used.

- **Stage 2 – Lifetime ECL, not Credit Impaired**

  The Group collectively assesses ECLs on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. For these exposures, the Group recognises a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset).

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

d) Impairment of Financial Assets …..*Cont'd*

Expected Credit Loss Impairment Model…Cont'd

- **Stage 3 – Credit Impaired**

  The Group identifies, both collectively and individually, ECLs on those exposures that are assessed as credit impaired based on whether one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of allowance) rather than the gross carrying amount. If the asset is no longer credit impaired, then the calculation of the interest income reverts to the gross basis.

Measurement of Expected Credit Loss

Expected credit losses are computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information, including that which is forward looking.

ECLs are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- For undrawn loan commitments the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life and calculates the ECL as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.
- Financial guarantee contracts as the expected payments to reimburse the holder less any amounts the Group expects to recover.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD — The Probability of Default is an estimate of the likelihood of default over a given period of time. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

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

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

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

d) Impairment of Financial Assets …..*Cont'd*

Incorporation of Forward–Looking Information

Forward looking assumptions surrounding GDP growth rates, unemployment and general business sentiments are taken into consideration in developing the probability of default (PD), loss given default (LGD), and exposure at default (EAD) in assessing credit risk and expected credit losses inherent in the Group's financial assets. The assumptions are incorporated in the Group's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed modules and those available externally.

In cases where there is low correlation between credit losses and macroeconomic indicators, a range of scenarios incorporating management's overlays are assessed for possible outcomes on all significant portfolios.

Assessment of Significant Increase in Credit Risk (SICR)

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that was available.

The assessment of an increase in credit risk included macroeconomic outlook, management judgement, and delinquency and monitoring. The importance and relevance of each specific factor depends on the type of product, characteristics of the financial instruments and the borrower and the industry. With regards to delinquency and monitoring, there was a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

Some of the indicators which were incorporated included:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the actual or expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower.

Quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime determined PD by comparing the remaining lifetime PD at reporting date with the remaining lifetime PD at the point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For loans and advances there is particular focus on assets that are included on a 'watch list' once there is a concern that the creditworthiness of the specific counterparty has deteriorated Events such as unemployment, bankruptcy or death are also considered.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

d) Impairment of Financial Assets …..*Cont'd*

Assessment of Significant Increase in Credit Risk (SICR) …..*Cont'd*

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD. Financial assets that are 30 or more days past due and are not credit impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or churn rate approach is applied to compute expected credit losses, significant increase in credit risk is primarily based on 30 days past due on the contractual payment.

Credit Impaired (or Defaulted) Exposures (Stage 3)

Financial assets that are credit impaired (or in default) are referred to as Stage 3 assets and represent those that are at least 90 days past due in respect of principal and/or interest. The contractual terms that introduce a more than de minimis exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases the financial asset is required to be measured at FVTPL or FVOCI without recycling. Lifetime ECL is recognised for loans where there is objective evidence of impairment.

Expected credit losses are determined based on an assessment of the recoverable cash flows using a probability weighted range of possible future economic scenarios and applying this to the estimated exposure of the Group at the point of default (exposure at default) after taking into account the value of any collateral held or other mitigants of loss (loss given default), while allowing for the impact of discounting for the time value of money and assumptions about past and future events discounted at the asset's effective interest rate (EIR).

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

- significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- the likelihood that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties or;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

It may not be possible to identify a single discrete event instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

d) Impairment of Financial Assets …..*Cont'd*

Credit Impaired (or Defaulted) Exposures (Stage 3) …..*Cont'd*

Definition of Default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12 month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The definition of default is appropriately tailored to reflect different characteristics of different assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

Improvement in Credit Risk/Curing

A period may elapse from the point at which financial instruments enter lifetime expected credit losses (stage 2 and stage 3) and are reclassified back to 12 month expected credit losses (stage 1). For financial assets that are credit impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit impaired. An instrument will no longer be considered credit impaired when there is no shortfall of cash flows compared to the original contractual terms.

For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in credit risk.

Where a significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to stage 1 when the original transfer criteria are no longer valid. Where instruments were transferred to stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to stage 1.

A forborne loan can only be removed from the category (cured) if the loan is performing (stage 1 or 2) and a further one-year probation is met.

In order for a forbearance loan to become performing, the following criteria have to be satisfied:

- At least a year has passed with no default upon the forborne contract terms
- The customer is likely to repay its obligations in full without realising security
- The customer has no accumulated impairment against amount outstanding

Subsequent to the criteria above being met, probation continues to assess if regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

Expected Life

When measuring expected credit loss, the Group considers the maximum contractual period over which the Group is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, extension and rollover options. For certain revolving credit facilities, such as credit cards, the expected life is estimated based on the period over which the Group is exposed to credit risk and how the credit losses are mitigated by Management's actions.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

d) Impairment of Financial Assets …..*Cont'd*

Presentation of Allowance for Credit Losses in the Consolidated Statement of Financial Position

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;
- Debt instruments measured at fair value through other comprehensive income: no allowance is recognised in the consolidated statement of financial position because the carrying values of these assets is their fair values. However, the allowance determined is presented in accumulated other comprehensive income;
- Off-balance sheet credit risks include undrawn lending commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

e) Modified Financial Assets

When a financial asset is modified or an existing financial asset is replaced with a new one, the Group conducts an assessment to determine if the existing financial asset should be derecognised. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors such as contractual cash flows after modification are no longer SPPI, change in currency or change in counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest rate.

If the modification does not result in cash flows that are substantially different, it does not result in derecognition. Based on the change in cash flows discounted at the original rate, the Group records a modification gain or loss to the extent that an impairment loss has not already been recorded. For all loans, performing and credit-impaired, where the modification of terms did not result in the derecognition of the loan, the gross carrying amount of the modified loan is recalculated based on the present value of the modified cash flows discounted at the original effective interest rate and any gain or loss from the modification is recorded in the provision for credit losses line in the consolidated statement of income.

f) Write-Offs of Credit Impaired Assets and Reversal of Impairment

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or source of income that could generate sufficient cash flows to repay the amounts subject to the write off. A write off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Subsequent recoveries of amounts previously written off decrease the amount of the provision for impairment in the consolidated statement of income. If, in a subsequent period, the amount of the credit impairment losses decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the provision account. The amount of reversals is recognised in the consolidated statement of income.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

f) Write-Offs of Credit Impaired Assets and Reversal of Impairment …..*Cont'd*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

(i) Loans and Advances

All non-performing and performing loans and advances are individually reviewed and specific provisions made for impaired portion based on the realisable value of the loan collateral and discounted by the original effective rate of the loan. The provision made is the difference between the loan balance and the discounted value of the collateral. Previously accrued income is reversed, and further interest income not accrued. Loans and advances with similar characteristics are assessed for impairment on a group basis. Where possible the Group seeks to restructure loans instead of taking possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms are renegotiated, any impairment is measured using the original effective interest rate and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and the future payments likely to occur. The loans continue to be subject to an impairment assessment.

When all efforts have been exhausted to recover a non-performing loan, that loan is deemed uncollectible and written off against the related provision for loan losses.

(ii) Investment Securities

The Group individually assesses each investment security for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to accrue at the effective interest rate on the reduced carrying amount of the asset and is recorded as part of "interest income". If the fair value of the instrument increases in a subsequent year, the impairment loss is reversed through the consolidated statement of income.

If there is objective evidence that the cost of an equity instrument may not be recovered, the instrument is considered to be impaired. Objective evidence that the cost may not be recovered includes qualitative impairment criteria as well as a significant or prolonged decline in the fair value below cost.

If an equity instrument is impaired based upon the Group's qualitative and quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognised as impairment losses. Therefore, at each reporting period, for an equity security that is determined to be impaired based on the Group's impairment criteria, an impairment loss is recognised for the difference between the fair value and the original cost, less any previously recognised impairment losses.

Any subsequent increases in value of previously impaired securities are recognised in the consolidated statement of income.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.7 Financial Assets and Liabilities …..*Cont'd*

g) 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.

2.8 Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the 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).

2.9 Property and Equipment

(a) Recognition and Measurement

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Work in progress is stated at historical cost, less accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in the consolidated statement of income.

(b) Subsequent Costs

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to the consolidated statement of income during the financial year in which they are incurred.

(c) Depreciation

Land is not depreciated. Depreciation on other assets is calculated on a straight-line basis to write down their cost to their residual values over their estimated useful lives as follows:

Leasehold improvements	20%
Motor vehicles	25%
Equipment	15%
Furniture	10%
Buildings	2%
Computer equipment and software	20%

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.9 Property and Equipment …..*Cont'd*

(d) Depreciation …..*Cont'd*

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carry amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

2.10 Investment Properties

Properties that are held for long term rental or for capital appreciation or both, and that are not occupied by the Group, are classified as investment properties. Investment property comprises of land held for capital appreciation.

Recognition of investment property takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. Investment properties are measured initially at cost including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the cost of day-to-day servicing of an investment property.

Subsequent expenditure is included in the assets carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of income during the financial year in which they are incurred.

Investment property is carried at fair value, representing open market value determined annually by external professionally qualified valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Investment property is reviewed annually by independent external evaluators.

Investment property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.11 Income Tax

(a) Current Tax

Income tax expense is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the year except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to the consolidated statement of income.

Where the Group has tax losses that can be relieved against a tax liability for a previous year, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. Where tax losses can be relieved only by carry-forward against taxable profits of future years, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position.

The Group does not offset income tax liabilities and income tax assets.

(b) Deferred Tax

Deferred income tax is provided in full on temporary differences arising between the tax base 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 or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realized, or the deferred income tax liability is settled.

The rates enacted or substantively enacted at the reporting date are used to determine deferred income tax. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting, nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are only offset if certain criteria are met.

2.12 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income using the effective interest method.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is more likely that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.14 Employee Benefits

(a) Defined Contribution Pension Plan

The Group operates a defined contribution pension plan. The plan is generally funded through payments to a trustee-administered fund, as determined by the provisions of the plan. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Short-Term Employee Benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in other liabilities and accrued expenses, measured at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.15 Financial Guarantees and Loan Commitments

Guarantees and letters of credit comprise undertakings by the Group to pay bills of exchange. The Group expects most guarantees and letters of credit to be settled simultaneously by reimbursement from customers. Such financial guarantees are given to banks, financial institutions, and other bodies on behalf of customers.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised as premium less cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

2.16 Share Capital

(a) Share Issue Costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, from the proceeds.

(b) Dividends on Ordinary Shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year that are declared after the reporting date are disclosed in the subsequent events note.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.17 Revenue Recognition

The Effective Interest Rate Method

Interest income and expense is recorded using the Effective Interest Rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

Interest Income and Expense

The Group calculates interest income and expense by applying the EIR to the gross carrying amount of financial assets and liabilities other than credit-impaired assets. For purchased or originated credit impaired financial assets a credit, adjusted effective interest rate is applied to the amortised cost of the financial asset.

Interest income on all trading assets and financial assets mandatorily required to be measured at FTVPL is recognised using the contractual interest rate in net trading income and net gains/(losses) on financial assets at fair value through profit or loss, respectively.

Fees and Commission Income

Fees and commissions are recognised on an accruals 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. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of a business, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportioned basis.

Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

Dividend Income

Dividend income is recognised when the right to receive payment is established.

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.18 Foreign Currency Translation

(a) Functional and Presentation Currency

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

(b) Transactions and Balances

Foreign currency transactions that are transactions denominated, or that require settlement in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated at the closing rates as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate as at the date of initial recognition.

Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of other comprehensive income.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as hold to collect and sell a distinction is made between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the monetary assets. Translation differences related to changes in the amortized cost are recognized in profit and loss, and other changes in the carrying amount, except impairment, are recognized in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as fair value through other comprehensive income, are included in the other comprehensive income.

2.19 Leases

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

As a Lessee

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

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies …..*Cont'd*

2.19 Leases …..*Cont'd*

As a Lessee …..Cont'd

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

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

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

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

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

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

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

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

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

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

(in Eastern Caribbean dollars)

2. Summary of Significant Accounting Policies ……*Cont'd*

2.19 Leases …..*Cont'd*

Short-Term Leases and Leases of Low-Value Assets

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

3. Financial Risk Management

Financial Instruments

Financial instruments carried on the consolidated statement of financial position include cash resources, investment securities, loans and advances to customers, deposits with other banks, and deposits from banks, due to customers and borrowings. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

(a) Strategy in using Financial Instruments

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

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

Risk management is carried out by the Management Committee under policies approved by the Board of Directors. The Group's Management Committee identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and non-derivative financial instruments. In addition, the Internal Audit Department 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 and other operational risk. Market risk includes currency risk and interest rate risk.

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(b) Credit Risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfill their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances to customers, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from balances with central bank, deposits with other banks and non-bank financial institutions, loans and advances to customers, investments in debt securities, treasury bills and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio and other assets and other assets.

The Group's credit risk management process operates on the basis of a hierarchy delegated authorities. The Credit Committee is a sub-committee of the Board of Directors with the authority to exercise the powers of the Board on all risk management decisions.

The debt securities within the Group's investment security portfolio are exposed to credit risk and are management by investment grading or country exposure with pre-set exposure limits as approved the Board of Directors. The credit quality of each individual security is assessed based on the financial strength, reputation and market position of the issuing entity and the ability of that entity to service the debt.

The Group avoids exposure to undue concentrations of risk by placing limits on the amount of risk accepted from a number of borrowers engaged in similar business activities, or activities in the same geographic region or with similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Such risks are controlled and monitored on a revolving basis and are subject to an annual or more frequent review.

Limits on the level of credit risk by product, industry sector or geography are approved by the Board of Directors.

Loans and Advances to Customers

The Group takes on exposure to credit risk which, is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses based on an expected credit loss model using counter party probabilities of default across the various loan categories. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk.

Debt Securities and Other Bills

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

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(b) Credit Risk …..*Cont'd*

Cash and Balances with Banks and Other Financial Institutions

Credit risk from balances with banks and financial institutions is managed by the Group in accordance with the Group's policy. Counterparty credit limits are reviewed by the Group's Risk Department on an annual basis and may be updated throughout the year subject to approval of the Group's Investment Committee and where necessary the Board of Directors. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

Risk Limit Control and Mitigation Policies

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

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

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.

Some other specific control and mitigation measures are outlined below.

Collateral

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

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

The Group's credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Group's credit exposure.

Longer-term finance and lending to corporate customers and individuals are generally secured. In addition, in order to minimise the 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.

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(b) Credit Risk …..*Cont'd*

Risk Limit Control and Mitigation Policies…..Cont'd

Collateral …..Cont'd

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.

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 authorisations by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

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

Impairment and Allowance Policies

The internal rating systems focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment allowance is recognised for financial reporting purposes an expected loss model using a three-stage approach.

Management determines whether objective evidence of impairment exists based on the following criteria set out by the Group:

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

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

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(b) Credit Risk …..*Cont'd*

Impairment and Allowance Policies …..Cont'd

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

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

Instruments will transfer to stage 2 and a lifetime expected credit loss provision recognised when there has been a significant increase in credit risk compared with what was expected at origination.

The framework used to determine a significant increase in credit risk is set out above (page 30).

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

Maximum Exposure to Credit Risk

Credit risk exposures relating to the financial assets in the statement of financial position:

	Maximum Exposure	
	2022	2021
	$	$
Deposit with Central Bank	**119,706,517**	132,244,031
Deposits with other banks	**271,456,696**	269,797,307
Treasury bills	**11,359,198**	10,975,207
Investment securities	**174,079,538**	154,294,510
Loans and advances to customers:		
− Overdrafts	**64,808,391**	53,443,621
− Term loans	**72,576,203**	73,350,499
− Business and sovereign	**173,838,204**	174,206,263
− Mortgage loans	**323,303,897**	324,888,225
− Credit cards	**2,773,577**	2,229,943
Other assets	**13,031,033**	10,432,102
	1,226,933,254	1,205,861,708
Credit Risk Exposures Relating to the Financial Assets		
Guarantees and letters of credit	**390,000**	390,000
Loan commitments	**13,348,621**	4,591,307
	13,738,621	4,981,307
	1,240,671,875	1,210,843,014

The above table represents a worst-case scenario of credit risk exposure to the Group at December 31, 2022 and December 2021, without taking account of any collateral held or other credit enhancements attached thereto. For assets included "on" statement of financial position, the exposures set out above are based on net amounts.

As shown above 52% (2021: 52%) of the total maximum exposure is derived from loans and advances and commitments to customers; 10% (2021: 8%) represents investments in debt securities.

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(b) Credit Risk …..*Cont'd*

Maximum Exposure to Credit Risk …..Cont'd

Collateral

The value of identifiable collateral for credit impaired loans and advances was $100,699,579 (2021: $83,578,421).

	Over Collateralized $	Under Collateralized $	Cash Collateral $	No Collateral $	Total $
December 31, 2022					
Loans and advances	**34,821,285**	**4,189,179**	**353,647**	**4,164,930**	**43,529,041**
Collateral (FV)	**96,698,185**	**3,344,074**	**657,320**	**-**	**100,699,579**
December 31, 2021					
Loans and advances	28,723,665	4,084,950	994,701	3,473,312	37,276,628
Collateral (FV)	79,636,103	2,645,240	1,297,078	-	83,578,421

Analysis of Credit Quality

Loans and Advances to Customers

	Stage 1 12 months Expected Credit Losses not Credit Impaired		Stage 2 Lifetime Expected Credit Losses not Credit Impaired		Stage 3 Lifetime Expected Credit Losses Credit Impaired	
	2022	2021	**2022**	2021	**2022**	2021
	$	$	**$**	$	**$**	$
Gross exposure	**487,502,343**	470,583,175	**137,405,751**	151,236,778	**43,529,041**	37,276,628
Less allowance for impairment on loans and advances	**(3,873,631)**	(3,639,511)	**(7,492,720)**	(11,589,097)	**(19,770,512)**	(15,749,422)
Net Exposure	**483,628,712**	466,943,664	**129,913,031**	139,647,681	**23,758,529**	21,527,206

The total credit impairment for loans and advances to customers is $31,136,863 (2021: $30,978,030) of which $19,770,512 (2021: $15,749,422) represents the individually impaired loans (stage 3) and the remaining amount of $11,366,351 (2021: $15,228,608) represents the credit impairment for stage 1 and stage 2 loans. Further information on the staging and allowance for impairment losses on loans and advances to customers is disclosed in **Note 9.**

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(b) Credit Risk …..*Cont'd*

Analysis of Credit Quality …..Cont'd

Debt Securities and Other Eligible Bills

The table below presents an analysis of debt securities and treasury bills by rating agency designation at December 31, 2022 and 2021, based on Standard & Poor's and Caricris ratings:

	Treasury Bills	**Investment Securities at Amortised Cost**	**Investment Securities at FVOCI**	**Total**
	$	**$**	**$**	**$**
At December 31, 2022				
AA- to A+				
Lower than A+	**10,390,793**	**79,198,285**	**3,509,318**	**93,098,396**
Unrated	**968,405**	**32,134,990**	**-**	**33,103,395**
	11,359,198	**111,333,275**	**3,509,318**	**126,201,791**

	Treasury Bills	Investment Securities at Amortised Cost	Investment Securities at FVOCI	Total
	$	$	$	$
At December 31, 2021				
AA- to A+	-	4,010,137	631,456	4,641,593
Lower than A+	10,011,536	55,976,898	-	65,988,434
Unrated	963,671	26,535,399	-	27,499,070
	10,975,207	86,522,434	631,456	98,129,097

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(b) Credit Risk …..*Cont'd*

Analysis of Credit Quality …..Cont'd

Concentrations of Risks of Financial Assets with Credit Exposure

Geographical Sectors

The Group operates primarily in St. Vincent and the Grenadines. The following summarized the geographical distribution of the Group's financial assets and liabilities:

2022	St. Vincent $	ECCB Currency Union $	United States $	United Kingdom $	Canada $	Other $	Total $
Financial Assets							
Cash and balances with ECCB	31,307,594	119,706,517	-	-	-	-	151,014,111
Deposits with other banks	6,022,010	28,414,087	214,348,062	21,785,411	712,481	174,645	271,456,696
Treasury bills	-	11,359,198	-	-	-	-	11,359,198
Investment securities:							
- At amortised cost	88,999,278	4,891,072	-	-	-	17,442,925	111,333,275
- At FVOCI	-	18,329,500	3,509,318	-	-	356	21,839,174
- At FVTPL	-	-	40,353,589	-	-	553,500	40,907,089
Loans and receivables:							
- Loans and advances to customers	637,300,272	-	-	-	-	-	637,300,272
Other assets	13,031,033	-	-	-	-	-	13,031,033
Total Financial Assets	776,660,187	182,700,374	258,210,969	21,785,411	712,481	18,171,426	1,258,240,848
Financial Liabilities							
Deposits from banks	77,420	19,285,339	-	-	-	436,060	19,798,819
Due to customers	1,112,403,167	-	-	-	-	-	1,112,403,167
Borrowed funds	4,158,082	-	-	-	-	12,935,929	17,094,011
Provisions and other liabilities	32,758,229	-	-	-	-	-	32,758,229
Total Financial Liabilities	1,149,396,898	19,285,339	-	-	-	13,371,989	1,182,054,226
Net Position	(372,736,711)	163,415,035	258,210,969	21,785,411	712,481	4,799,437	76,186,622

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(b) Credit Risk …..*Cont'd*

Analysis of Credit Quality …..Cont'd

Concentrations of Risks of Financial Assets with Credit Exposure …..*Cont'd*

Geographical Sectors …..Cont'd

2021	St. Vincent $	ECCB Currency Union $	United States $	United Kingdom $	Canada $	Other $	Total $
Financial Assets							
Cash and balances with ECCB	22,684,091	132,244,031	-	-	-	-	154,928,122
Deposits with other banks	1,421,690	10,634,474	210,339,567	46,971,860	311,453	118,263	269,797,307
Treasury bills	-	10,975,207	-	-	-	-	10,975,207
Investment securities:							
- At amortised cost	66,535,736	16,246,606	-	-	-	3,740,092	86,522,434
- At FVOCI	-	14,795,000	631,455	-	-	380	15,426,835
- At FVTPL	-	-	51,771,491	-	-	573,750	52,345,241
Loans and receivables:							
- Loans and advances to customers	628,118,551	-	-	-	-	-	628,118,551
Other assets	10,432,102	-	-	-	-	-	10,432,102
Total Financial Assets	729,192,170	184,895,318	262,742,513	46,971,860	311,453	4,432,485	1,228,545,799
Financial Liabilities							
Deposits from banks	77,542	18,113,900	-	-	-	147,522	18,338,965
Due to customers	1,081,376,200	-	-	-	-	-	1,081,376,200
Borrowed funds	7,897,340	-	-	-	-	14,865,259	22,762,599
Provisions and other liabilities	37,258,258	-	-	-	-	-	37,258,258
Total Financial Liabilities	1,126,609,340	18,113,900	-	-	-	15,012,782	1,159,736,022
Net Position	(397,417,170)	166,781,419	262,742,514	46,971,860	311,453	(10,580,297)	68,809,779

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(b) Credit Risk …..*Cont'd*

Concentrations of Risks of Financial Assets with Credit Exposure …..*Cont'd*

Industry Sectors

The following table breaks down the Group's credit exposure at carrying amounts, without considering either collateral held or other credit support, by the industry sectors of the Group's counterparties.

Industry and Economic Concentrations of Assets

	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	Other Industries $	Total $
Cash and balances with ECCB	151,014,111	-	-	-	-	-	-	151,014,111
Deposits with other banks	271,456,696	-	-	-	-	-	-	271,456,696
Treasury bills	-	-	-	11,359,198	-	-	-	11,359,198
Investment securities:								
- At amortised cost	18,192,925	-	-	69,357,027	-	-	23,783,323	111,333,275
- At FVOCI	18,329,856	-	-	-	-	-	3,509,318	21,836,174
- At FVTPL	553,500	-	-	-	-	-	40,353,589	40,907,089
Loans and advances to customers:								
- Business and sovereign	3,247	1,965,470	4,496,012	62,739,313	11,391,357	6,960,962	86,281,843	173,838,204
- Term loans	-	42,198	-	-	4,346	71,928,522	601,137	72,576,203
- Mortgages loans	-	-	-	-	401,367	18,825,948	304,076,582	323,303,897
- Overdrafts	74,338	141,805	2,224,171	43,023,928	2,223,264	2,944,599	14,176,286	64,808,391
- Credit cards	16,667	-	3,795	35,461	1,791	2,675,313	40,550	2,773,577
Other assets	-	-	-	-	-	-	13,031,033	13,031,033
At December 31, 2022	**459,641,340**	**2,149,473**	**6,723,978**	**186,514,927**	**14,022,125**	**103,335,344**	**485,853,661**	**1,258,240,848**
Guarantees, Letters of Credit and Loan Commitments	**-**	**-**	**340,000**	**87,500**	**323,000**	**12,478,121**	**500,000**	**13,738,621**

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(b) Credit Risk …..*Cont'd*

Industry and Economic Concentrations of Assets …..Cont'd

	Financial Institutions $	Manu-facturing $	Tourism $	Government $	Professional and Other Services $	Personal $	Other Industries $	Total $
Cash and balances with ECCB	154,928,122	-	-	-	-	-	-	154,928,122
Deposits with other banks	269,797,307	-	-	-	-	-	-	269,797,307
Treasury bills	-	-	-	10,975,207	-	-	-	10,975,207
Investment securities:								
- At amortised cost	41,276,165	-	-	45,246,269	-	-	-	86,522,434
- At FVOCI	14,795,379	-	-	-	-	-	631,456	15,426,835
- At FVTPL	573,750	-	-	-	-	-	51,771,491	52,345,241
Loans and advances to customers:								
- Business and sovereign	8,558	1,985,975	4,677,375	70,073,781	8,741,042	6,644,399	82,075,133	174,206,263
- Term loans	-	29,543	-	-	31,383	72,655,738	633,835	73,350,499
- Mortgages loans	-	-	-	-	481,788	19,220,382	305,186,055	324,888,225
- Overdrafts	47,996	469,972	1,326,137	37,160,785	1,002,353	2,213,074	11,223,304	53,443,621
- Credit cards	8,619	-	-	-	-	2,184,464	36,860	2,229,943
Other assets	-	-	-	-	-	-	10,432,102	10,432,102
At December 31, 2021	481,435,896	2,485,490	6,003,512	163,456,042	10,256,566	102,918,057	461,990,236	1,228,545,799
Guarantees, Letters of Credit and Loan Commitments	-	-	350,000	-	-	4,282,307	349,000	4,981,307

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(c) Market Risk

The Group takes on exposure to market risks, 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 rates and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group exposure to market risks arises from its non-trading and trading portfolios. Senior management of the Group monitors and manages market through the Asset Liability Committee which advises on financial risks and assigns risk limits for the Group.

Non-trading portfolios market risk primarily arises from the interest rate management of the Group's retail and commercial banking assets and liabilities.

(d) Currency Risk

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

The following table summarizes the Group exposure to foreign currency exchange risk as at December 31.

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(d) Currency Risk …..*Cont'd*

	ECD $	USD $	BDS $	EURO $	GBP $	CAD $	Other $	Total $
As at December 31, 2022								
Financial Assets								
Cash and balances with ECCB	148,142,831	1,570,703	189,147	467,915	167,411	475,768	336	151,014,111
Deposit with other banks	27,568,570	241,755,457	115,459	769,679	475,864	712,481	59,186	271,456,696
Treasury bills	11,359,198	-	-	-	-	-	-	11,359,198
Investment securities:								
– at amortised cost	106,842,693	4,490,582	-	-	-	-	-	111,333,275
– at FVOCI	18,329,856	3,509,318	-	-	-	-	-	21,839,174
– at FVTPL	-	40,353,589	553,500	-	-	-	-	40,907,089
Loans and advances to customers	637,300,272	-	-	-	-	-	-	637,300,272
Other assets	13,031,033	-	-	-	-	-	-	13,031,033
Total Financial Assets	962,574,453	291,679,649	858,106	1,237,594	643,275	1,188,249	59,522	1,258,240,848
Financial Liabilities								
Deposits due to banks	19,798,819	-	-	-	-	-	-	19,798,819
Due to customers	1,045,561,017	66,528,410	-	309,051	2,069	2,620	-	1,112,403,167
Provisions and other liabilities	32,758,229	-	-	-	-	-	-	32,758,229
Borrowings	4,158,082	12,935,929	-	-	-	-	-	17,094,011
Total Financial Liabilities	1,102,276,147	79,464,339	-	309,051	2,069	2,620	-	1,182,054,226
Net (Liabilities) Assets	(139,701,694)	212,215,310	858,106	928,543	641,206	1,185,629	59,522	76,186,622
Guarantees, Letters of Credit and Loan Commitments	13,738,621	-	-	-	-	-	-	13,738,621

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(d) Currency Risk …..*Cont'd*

	ECD $	USD $	BDS $	EURO $	GBP $	CAD $	Other $	Total $
As at December 31, 2021								
Financial Assets								
Cash and balances with ECCB	152,238,807	1,293,454	183,163	563,550	166,826	465,036	17,286	154,928,122
Deposit with other banks	8,842,200	259,074,044	41,050	806,156	645,192	311,453	77,212	269,797,307
Treasury bills	10,975,207	-	-	-	-	-	-	10,975,207
Investment securities:								
– at amortised cost	85,847,857	674,577	-	-	-	-	-	86,522,434
– at FVOCI	14,795,379	631,456	-	-	-	-	-	15,426,835
– at FVTPL	-	51,771,491	573,750	-	-	-	-	52,345,241
Loans and advances to customers	628,118,551	-	-	-	-	-	-	628,118,551
Other assets	10,432,102	-	-	-	-	-	-	10,432,102
Total Financial Assets	911,250,103	313,445,022	797,963	1,369,706	812,018	776,489	94,498	1,228,545,799
Financial Liabilities								
Deposits due to banks	18,338,965	-	-	-	-	-	-	18,338,965
Due to customers	1,022,929,550	57,732,277	-	593,613	117,972	2,788	-	1,081,376,200
Provisions and other liabilities	37,258,258	-	-	-	-	-	-	37,258,258
Borrowings	7,897,340	14,865,259	-	-	-	-	-	22,762,599
Total Financial Liabilities	1,086,424,113	72,597,536	-	593,613	117,972	2,788	-	1,159,736,022
Net (Liabilities) Assets	(175,174,010)	240,847,486	797,963	776,093	694,046	773,701	94,498	68,809,777
Guarantees, Letters of Credit and Loan Commitments	4,981,307	-	-	-	-	-	-	4,981,307

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(e) Interest Rate Risk

The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	Up to 1 Month $	1 – 3 Months $	3 – 12 Months $	1 – 5 Years $	Over 5 Years $	Non-Interest Bearing $	Total $
As at December 31, 2022							
Financial Assets							
Cash and balances with ECCB	-	-	-	-	-	151,014,111	151,014,111
Deposits with other banks	-	-	91,158,566	-	-	180,298,130	271,456,696
Treasury bills	-	10,392,285	-	966,913	-	-	11,359,198
Investment securities:							
– at amortised cost	751,996	7,850,677	10,593,312	50,002,357	42,134,933	-	111,333,275
– at FVTPL	-	-	-	-	-	40,907,089	40,907,089
– at FVOCI	-	-	-	3,509,318	-	18,329,856	21,839,174
Loans and advances to customers	21,907,425	54,300,456	12,736,934	82,173,713	466,181,744	-	637,300,272
Other assets	-	-	-	-	-	13,031,033	13,031,033
Total Financial Assets	22,659,421	72,543,418	114,488,812	136,652,301	508,316,677	403,580,219	1,258,240,848
Financial Liabilities							
Deposits due to banks	-	-	15,451,439	-	-	4,347,380	19,798,819
Due to customers	621,315,293	24,274,106	74,019,814	-	-	392,793,954	1,112,403,167
Provisions and other liabilities	7,407,661	-	-	-	-	25,350,568	32,758,229
Borrowings	625,621	621,415	3,382,951	8,944,207	3,519,817	-	17,094,011
Total Financial Liabilities	629,348,575	24,895,521	92,854,204	8,944,207	3,519,817	422,491,902	1,182,054,226
Net Interest Re-Pricing Gap	(606,689,154)	47,647,897	21,634,608	127,708,097	504,796,860	(18,911,683)	76,186,622

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(e) Interest Rate Risk …..*Cont'd*

	Up to 1 Month $	1 – 3 Months $	3 – 12 Months $	1 – 5 Years $	Over 5 Years $	Non-Interest Bearing $	Total $
As at December 31, 2021							
Financial Assets							
Cash and balances with ECCB	-	-	-	-	-	154,928,122	154,928,122
Deposits with other banks	14,874,945	14,878,880	10,496,751	-	-	229,546,731	269,797,307
Treasury bills		10,011,536	963,671	-	-	-	10,975,207
Investment securities:							
– at amortised cost	754,353	8,825,604	13,461,418	33,882,370	29,598,689	-	86,522,434
– at FVTPL	-	-	-	-	-	52,345,242	52,345,242
– at FVOCI	-	-	-	631,456	-	14,795,379	15,426,834
Loans and advances to customers	18,152,254	42,183,790	18,214,250	78,814,151	470,754,106	-	628,118,551
Other assets	-	-	-	-	-	10,432,102	10,432,102
Total Financial Assets	33,781,552	75,899,810	43,136,090	113,327,977	500,352,795	462,047,575	1,228,545,799
Financial Liabilities							
Deposits due to banks	-	-	15,359,584	-	-	2,979,381	18,338,965
Due to customers	753,475,300	24,020,673	73,059,537	-	-	230,820,690	1,081,376,200
Provisions and other liabilities	8,667,434	-	-	-	-	28,590,824	37,258,258
Borrowings	618,664	909,747	4,277,941	11,676,522	5,279,725	-	22,762,599
Total Financial Liabilities	762,761,398	24,930,420	92,697,062	11,676,522	5,279,725	262,390,895	1,159,736,022
Net Interest Re-Pricing Gap	(728,979,846)	50,969,390	(49,560,972)	101,651,455	495,073,070	199,656,680	68,809,777

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(e) Interest Rate Risk …..*Cont'd*

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

	2022	2021
Loans and Advances to Customers:		
- Overdrafts	5.25%-14%	7.5%-14%
- Term loans	4.75%-14%	4%-14%
- Business and sovereign	5.25%-14%	3.4% -14%
- Mortgage loans	4.5%-14%	3.4%-12.5%
- Credit cards	19.5%	19.5%
Investment Security at Amortised Cost	4.86%	4.69%
Investment Securities:		
Government treasury bills and bonds	3.25%-7.25%	3.4%-4%
Other securities	3.47%-6.83%	0.5%-6%
Deposits with banks	0%-3.85%	0%-2.75%
Deposits Due to Customers:		
Term deposits	1.5%-2.5%	1%-3.25%
Savings deposits	2%-3.5%	2%-3.5%
Demand deposits	0%-3.5%	0%-3.5%
Deposits due to banks	0%-1.5%	0%-1.5%
Borrowings	2.5%-6.0%	2.5%-6.75%

Interest rate risk arises from loans and advances to customers and borrowings at variable rates. During the year, had variable interest rates been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been $3,186,808 (2021: $3,140,593) higher/lower on variable rate loans.

(f) Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, payment of cash requirements from contractual commitments, or other cash out flows.

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(f) Liquidity Risk …..*Cont'd*

The Group is exposed to daily cash calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Group does not maintain cash resources to meet all these needs, as experience shows that a minimum level of reinvestments of maturing funds can be predicted with a high level of certainty. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowings facilities that should be in place to cover withdrawals at unexpected levels of demand.

Liquidity Risk Management Process

The matching and controlled mismatching of the contractual maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The contractual maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Funding approach: Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

Non-derivative cash flows: The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(f) Liquidity Risk …..*Cont'd*

	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Total $
As at December 31, 2022						
Financial Liabilities						
Deposits due to banks	**4,441,286**	**-**	**15,569,352**	**-**	**-**	**20,010,638**
Due to customers	**1,014,897,535**	**24,336,125**	**74,871,303**	**-**	**-**	**1,114,104,963**
Provisions and other liabilities	**32,758,228**	**-**	**-**	**-**	**-**	**32,758,228**
Borrowings	**625,621**	**681,687**	**3,891,248**	**10,264,958**	**3,693,093**	**19,156,607**
Total Financial Liabilities	**1,052,722,670**	**25,017,812**	**94,331,903**	**10,264,958**	**3,693,093**	**1,186,030,436**
Financial Assets						
Cash and balances with ECCB	**151,014,111**	**-**	**-**	**-**	**-**	**151,014,111**
Deposits with other banks	**180,298,130**	**-**	**93,472,145**	**-**	**-**	**273,770,275**
Treasury bills	**-**	**10,440,341**	**-**	**1,029,975**	**-**	**11,470,316**
Investment securities:						
- at amortised cost	**755,866**	**7,887,641**	**15,462,486**	**75,599,871**	**33,954,021**	**133,659,885**
- at FVTPL	**-**	**4,558,952**	**-**	**-**	**36,348,137**	**40,907,089**
- at FVOCI	**-**	**-**	**-**	**3,509,318**	**18,329,856**	**21,839,174**
Loans and advances to customers	**21,591,463**	**68,988,916**	**81,600,346**	**304,616,472**	**423,564,323**	**900,361,520**
Other assets	**13,031,033**	**-**	**-**	**-**	**-**	**13,031,033**
Total Financial Assets held-for-managing Liquidity	**366,690,603**	**91,875,850**	**190,534,977**	**384,755,636**	**512,196,337**	**1,546,053,403**
Guarantees, Letters of Credit and Loan Commitments	**13,348,621**	**-**	**390,000**	**-**	**-**	**13,738,621**

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(f) Liquidity Risk …..*Cont'd*

	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Total $
As at December 31, 2021						
Financial Liabilities						
Deposits due to banks	3,073,006	-	15,476,557	-	-	18,549,563
Due to customers	983,539,632	24,082,141	73,899,079	-	-	1,081,520,852
Provisions and other liabilities	37,258,258	-	-	-	-	37,258,258
Borrowings	618,663	1,027,509	4,994,193	13,516,489	5,658,734	25,815,588
Total Financial Liabilities	1,024,489,559	25,109,650	94,369,829	13,516,489	5,658,734	1,163,144,261
Financial Assets						
Cash and balances with ECCB	154,928,122	-	-	-	-	154,928,122
Deposits with other banks	244,453,231	14,896,913	10,665,584	-	-	270,015,728
Treasury bills	-	9,651,125	991,781	-	-	10,642,906
Investment securities:						
- at amortised cost	380,076	8,884,911	16,854,136	51,246,734	28,397,757	105,763,614
- at FVTPL	-	5,390,233	1,163,734	-	45,791,274	52,345,241
- at FVOCI	-	-	-	631,456	14,795,379	15,426,835
Loans and advances to customers	24,040,300	62,973,333	84,347,554	298,445,598	435,769,626	905,576,411
Other assets	12,464,553	-	-	-	-	12,464,553
Total Financial Assets held-for-managing Liquidity	436,266,282	107,796,515	114,022,789	350,323,788	524,754,036	1,527,163,410
Guarantees, Letters of Credit and Loan Commitments	4,591,307	-	390,000	-	-	4,981,307

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(f) Liquidity Risk …..*Cont'd*

Assets held-for-managing Liquidity Risk

The Group holds a diversified portfolio of cash and investment securities to support payment obligations.

The Group's assets held for managing liquidity risk comprise cash and balances with central banks, certificates of deposits, government bonds that are readily acceptable in repurchase agreements, treasury and other eligible bills, loans and advances to financial institutions, loans and advances to customers and other items in the course of collection.

The Group would also be able to meet unexpected net cash outflows by selling investment securities and accessing additional funding sources.

(g) Off-Balance Sheet Items

(i) 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 as disclosed in **(Note 21)**, are summarised in the table below.

(ii) Financial Guarantees and Other Financial Facilities

Financial guarantees **(Note 21)** are also included below based on the earliest contractual maturity date.

	1 Year $	Total $
At December 31, 2022		
Loan commitments	**13,348,621**	**13,348,621**
Guarantees and letters of credit	**390,000**	**390,000**
Total	**13,738,621**	**13,738,621**
At December 31, 2021		
Loan commitments	4,591,307	4,591,307
Guarantees and letters of credit	390,000	390,000
Total	4,981,307	4,981,307

(h) 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 used to estimate the fair value of financial instruments are described below:

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(h) Fair Values of Financial Assets and Liabilities …..*Cont'd*

The fair values of cash, other assets and liabilities, deposits with other banks and due from other banks are assumed to approximate their carrying values due to their short-term nature.

Due to Customers

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

Investment Securities

Investment securities include interest bearing debt and equity securities are classified at amortised cost and at fair value through other comprehensive income. Assets held for sale are measured at fair value based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

Loans and Advances

Loans and advances are carried net of allowance for impairment. The estimated fair value of loans and advances represents 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.

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

	Carrying Value		Fair Value	
	2022	2021	**2022**	2021
	$	$	**$**	$
Financial assets				
Loans and advances to customers:				
− Term loans	**72,576,203**	73,350,499	**71,533,664**	74,640,095
− Business and sovereign	**173,838,204**	174,206,263	**166,643,240**	175,764,269
− Mortgage loans	**323,303,897**	324,888,225	**314,956,681**	327,510,065
− Overdrafts	**64,808,391**	53,443,621	**64,808,391**	53,443,621
− Credit cards	**2,773,577**	2,229,943	**2,773,577**	2,229,943
Investment securities:				
− At amortised cost	**111,333,275**	86,522,434	**110,253,234**	87,178,207
Financial liabilities				
Deposits due to banks	**19,798,819**	18,338,965	**19,798,819**	18,338,965
Due to customers	**1,112,403,167**	1,081,376,200	**1,112,403,167**	1,081,376,200
Provisions and other liabilities	**32,758,229**	37,258,258	**32,758,229**	37,258,258
Borrowings	**17,094,011**	22,762,599	**17,094,011**	22,630,064

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(h) Fair Values of Financial Assets and Liabilities …..*Cont'd*

Management assessed that cash and short-term deposits with other banks, treasury bills, loans and advances, provisions and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values of assets and liabilities:

- The Group's interest-bearing borrowings and loans are determined by using DCF method using the discount rate that reflects the market rate at the end of the period; and
- The value of regional bonds classified as amortised cost with evidence of open market trades at par plus accrued interest is deemed to approximate fair value.

Fair Value Hierarchy

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

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on actively traded exchanges.

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

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

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

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(h) Fair Values of Financial Assets and Liabilities …..*Cont'd*

The following table sets out information about significant unobservable inputs used in measuring fair value at December 2022 and 2021 in measuring financial instruments at level 3 in the fair value hierarchy.

Type of Financial Instrument	**Fair Value at December 2022**	Fair Value at December 2021	Valuation Techniques	Significant Unobservable Input	Range of Estimates (weighted-average) for Unobservable Input	Fair Value Measurement Sensitivity to Unobservable Input
Equity securities measured at FVOCI	**18,304,674**	14,795,379	Discounted cash flows	Expected cash flows derived from the entity historical performance	Investment based	A significant increase in in expected cash flows would result in a higher fair value
Loans and advances to customers	**620,715,553**	633,587,993	Discounted cash flows	Discounted at the market rate	6.8 – 12.5%	A significant increase in the discount rate would result in a lower fair value

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(h) Fair Values of Financial Assets and Liabilities …..*Cont'd*

Fair Value Hierarchy

The following table outlines the fair value hierarchy of instruments carried at fair value on a recurring basis and instruments not carried at fair value.

	2022				2021			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	$	**$**	**$**	**$**	$	$	$	$
As at December 31								
Financial Assets								
Investment securities at FVTPL	**40,907,088**	**-**	**-**	**40,907,088**	52,345,242	-	-	52,345,242
Investment securities at FVOCI	**3,509,318**	**-**	**18,329,856**	**21,839,174**	631,623	-	14,795,211	15,426,834
Financial Assets for which Fair Values are disclosed								
Investment securities at amortised cost	**-**	**110,253,234**	**-**	**110,253,234**	-	87,178,207	-	87,178,207
Loans and advances to customers	**-**	**-**	**620,715,553**	**620,715,553**	-	-	633,587,993	633,587,993
Total Financial Assets	**44,416,406**	**110,253,234**	**639,045,409**	**793,715,049**	52,976,865	87,178,207	648,383,204	788,538,276
Liabilities for which Fair Values are disclosed								
Deposits due to banks	**-**	**-**	**19,798,819**	**19,788,819**	-	-	18,338,965	18,338,965
Due to customers	**-**	**-**	**1,112,403,167**	**1,112,403,167**	-	-	1,081,376,200	1,081,376,200
Provisions and other liabilities	**-**	**-**	**32,758,229**	**32,758,229**	-	-	37,258,258	37,258,258
Borrowings	**-**	**17,094,011**	**-**	**17,094,011**	-	22,762,599	-	22,762,599
	-	**17,094,011**	**1,164,960,215**	**1,182,044,226**	-	22,762,599	1,136,973,423	1,159,736,022

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(h) Fair Values of Financial Assets and Liabilities …..*Cont'd*

The fair value of financial instruments that are traded in an active market is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, deal, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily DAX, FTSE 100 and Dow Jones debt securities classified as trading securities at FVTPL.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter fixed income securities) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, dividend discount model, comparable company multiples, namely enterprise value to earnings before interest, taxes, depreciation and amortization, price-to-earnings and price-to-tangible book value multiples and adjusted net book value, are used to determine fair value for the remaining financial instruments.

There were no transfers between levels in the fair value hierarchy during the year.

Level 3 Investments

	2022	2021
	$	$
As at January 1	**14,795,379**	14,795,412
Total gains and losses in OCI	**3,534,500**	-
Currency revaluation	**(23)**	(33)
As at December 31	**18,329,856**	14,795,379

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(i) Capital Management

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

- To comply with the capital requirements of the Banking Act No. 4 of 2015.
- To comply with the capital requirements set by the regulators of the banking markets where the Group operates;
- 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 Eastern Caribbean Central Bank the "Authority" for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Regulators requires each bank or banking group to hold the minimum level of the regulatory capital to the risk-weighted asset (the 'Basel capital adequacy ratio') at or above the internationally agreed minimum of 8% of Tier 1 capital.

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

- Tier 1 capital: share capital (net of any book value of the treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealized gains arising on the fair valuation of equity instruments held at FVOCI and fixed asset revaluation reserves (limited to 50% of Tier 1 capital).

Investments in "associated companies" are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

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

The table below summarises the composition of regulatory capital and the ratios of the Group for the year ended December 31, 2022 and 2021. During those two years, the Group complied with all of the externally imposed capital requirements to which it is subject.

(in Eastern Caribbean dollars)

3. Financial Risk Management …..*Cont'd*

(i) Capital Management …..*Cont'd*

	2022	2021
	$	$
Tier 1 Capital		
Share capital	**20,753,306**	20,753,306
Statutory reserves	**20,753,306**	20,753,306
General provision reserves	**5,475,297**	5,184,573
Retained earnings	**78,882,935**	76,266,415
Total Qualifying Tier 1 Capital	**125,864,844**	122,957,600
Tier 2 Capital		
Unrealized gain on investments	**15,211,136**	11,725,576
Collective impairment allowance	**11,366,351**	15,228,609
Total Qualifying Tier 2 Capital	**26,577,487**	26,954,185
Total Regulatory Capital	**152,442,331**	149,911,785
Risk-Weighted Assets:		
On-balance sheet	**586,521,000**	584,321,000
Off-balance sheet	**33,433,914**	28,859,902
Total Risk-Weighted Assets	**619,954,914**	613,180,902
Basel Capital Adequacy Ratio	**24.59%**	24.45%

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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.

Impact of COVID-19

COVID-19 has materially impacted and continues to materially impact the Group's operations. Governments around the world imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, quarantines and cancellations of gatherings and events. These measures have caused increased volatility and uncertainty in financial markets. This has given rise to heightened uncertainty as it relates to the key areas of estimation uncertainty.

Going Concern

The Group's management is satisfied that it has the resources to continue in business for the foreseeable future.

(in Eastern Caribbean dollars)

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies …..*Cont'd*

Measurement of the Expected Credit Loss Allowance

The Group's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions. The significant judgements and estimates in determining expected credit loss include:

- The Group's criteria for assessing if there has been a significant increase in credit risk; and
- Development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit impairment provisions also involves expert credit judgement to be applied by the credit risk management team based upon counterparty information they receive including relationship managers and on external market information.

Impairment Losses on Loans and Advances to Customers

The Group reviews its loan portfolio to assess impairment at least annually. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated at $2,615,890/$2,521,666 (2021: $1,100,920/$1,008,346) lower/higher respectively.

Impairment of Non-Financial Assets

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

Fair Value of Financial Instruments

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

Deferred Taxes

In calculating the provision for deferred taxation, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise. The deferred tax assets recognised at December 31, 2022 have been based on future profitability assumptions over a five-year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

Revaluation of Investment Property

The Group measures its investment properties at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect.

(in Eastern Caribbean dollars)

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies …..*Cont'd*

Revaluation of Investment Property …..Cont'd

The Group engages independent valuation specialists to determine fair value of its investment properties. The valuer uses judgment in the application of valuation techniques such as replacement cost, capitalization of potential rentals and the market price of comparable properties, as applicable in each case.

Corporate Income Taxes

Significant estimates are required in determining the provision for income taxes. 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 income tax and deferred tax provisions.

5. Cash and Balances with Eastern Caribbean Central Bank

	2022	2021
	$	$
Cash in hand	**31,307,595**	22,684,091
Balances with ECCB other than mandatory reserve deposits	**52,962,326**	67,361,459
Included in cash and cash equivalents **(Note 29)**	**84,269,921**	90,045,550
Mandatory reserve deposits with ECCB	**66,744,190**	64,882,572
	151,014,111	154,928,122

Pursuant to the Banking Act of 2015, Banking institutions are required to hold a reserve balance with ECCB in relation to the deposit liabilities of the institution.

Mandatory reserve deposits are not available for use in the Banking institutions' day-to-day operations. The balances with the ECCB are non-interest bearing. Pursuant to the Saint Vincent and the Grenadines Banking Act 2015, the Group is required to maintain specified assets as a reserve requirement for its deposit liabilities. The minimum requirement is 6% of the average deposit liabilities over a four-week period.

6. Deposits with Other Banks

	2022	2021
	$	$
Items in the course of collection with other banks **(Note 29)**	**6,022,011**	1,421,690
Placements with other banks **(Note 29)**	**174,276,313**	263,471,648
Interest bearing deposits (more than 3 months)	**91,158,372**	4,903,969
	271,456,696	269,797,307

The weighted average effective interest rate in respect of interest-bearing deposits at December 31, 2022 was 3.56% (2021: 0.66%)

(in Eastern Caribbean dollars)

7. Treasury Bills

	2022	2021
	$	$
Treasury bills – cash and cash equivalents	**10,403,151**	10,403,151
Treasury bills- more than 90 days to maturity	**968,405**	963,671
Less allowance for impairment losses	**(12,358)**	(391,615)
	11,359,198	10,975,207

Treasury bills are debt securities issued by the Government of Saint Lucia and Government of Grenada. The weighted average effective interest rate on treasury bills at December 31, 2022 was 3.1% (2021: 3.8%).

8. Investment Securities

	2022	2021
	$	$
Securities Measured at Amortised Cost		
Debt securities at amortised cost		
- Listed	**14,387,847**	20,235,331
- Unlisted	**97,029,049**	66,958,875
	111,416,896	87,194,206
Less allowance for impairment losses	**(83,621)**	(671,772)
	111,333,275	86,522,434
Securities Measured at FVOCI		
Debt securities at fair value		
- Listed	**3,509,411**	631,623
Equity securities at fair value		
- Unlisted	**18,329,856**	14,795,379
Less: Allowance for impairment	**(93)**	(167)
	21,839,174	15,426,835
Securities Measured at FVTPL		
Equity securities at fair value		
- Listed	**3,394,563**	6,787,977
- Unlisted	**37,512,526**	45,557,264
	40,907,089	52,345,241
Total securities	**174,079,538**	154,294,510

The weighted average effective interest rate on securities stated at amortized cost as at December 31, 2022 was 4.8% (2021: 4.7%).

(in Eastern Caribbean dollars)

8. Investment Securities …..*Cont'd*

	2022			
	Stage 1 12-Month ECL $	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Loss Allowance - Investment Securities at Amortised Cost				
Loss Allowance as at January 1, 2022	**674,363**	**389,024**	**-**	**1,063,387**
– Transfer to stage 1	**11,272**	**(389,024)**	**-**	**(377,752)**
– Transfer to stage 2	**-**	**-**	**-**	**-**
– Transfer to stage 3	**-**	**-**	**-**	**-**
– Increases due to change in credit risk	**-**	**-**	**-**	**-**
– Decreases due to change in credit risk	**(589,656)**	**-**	**-**	**(589,656)**
– Write offs	**-**	**-**	**-**	**-**
Loss Allowance as at December 31, 2022	**95,979**	**-**	**-**	**95,979**
Loss Allowance - Investment Securities at FVOCI				
Loss Allowance as at January 1, 2022	**167**	**-**	**-**	**167**
– Transfer to stage 1	**-**	**-**	**-**	**-**
– Transfer to stage 2	**-**	**-**	**-**	**-**
– Transfer to stage 3	**-**	**-**	**-**	**-**
– Increases due to change in credit risk	**-**	**-**	**-**	**-**
– Decreases due to change in credit risk	**(74)**	**-**	**-**	**(74)**
– Write offs	**-**	**-**	**-**	**-**
Loss Allowance as at December 31, 2022	**93**	**-**	**-**	**93**
Total Loss Allowance - Investment securities				
Loss Allowance as at January 1, 2022	**674,530**	**389,024**	**-**	**1,063,554**
– Transfer to stage 1	**11,272**	**(389,024)**	**-**	**(377,752)**
– Transfer to stage 2	**-**	**-**	**-**	**-**
– Transfer to stage 3	**-**	**-**	**-**	**-**
– Increases due to change in credit risk	**-**	**-**	**-**	**-**
– Decreases due to change in credit risk	**(589,730)**	**-**	**-**	**(589,730)**
–Write offs	**-**	**-**	**-**	**-**
Total Loss Allowance as at December 31, 2022	**96,072**	**-**	**-**	**96,072**

(in Eastern Caribbean dollars)

8. Investment Securities …..*Cont'd*

	2021			
	Stage 1 12-Month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Loss Allowance - Investment Securities at Amortised Cost				
Loss Allowance as at January 1, 2021	599,255	374,601	905,127	1,878,983
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	75,108	14,423	-	89,531
– Decreases due to change in credit risk	-	-	-	-
– Write offs	-	-	(905,127)	(905,127)
Loss Allowance as at December 31, 2021	674,363	389,024	-	1,063,387
Loss Allowance - Investment Securities at FVOCI				
Loss Allowance as at January 1, 2021	6,997	-	-	6,997
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	-	-	-	-
– Decreases due to change in credit risk	(6,830)	-	-	(6,830)
– Write offs	-	-	-	-
Loss Allowance as at December 31, 2021	167	-	-	167
Total Loss Allowance - Investment securities				
Loss Allowance as at January 1, 2021	606,252	374,601	905,127	1,885,980
– Transfer to stage 1	-	-	-	-
– Transfer to stage 2	-	-	-	-
– Transfer to stage 3	-	-	-	-
– Increases due to change in credit risk	75,108	14,423	-	89,531
– Decreases due to change in credit risk	(6,830)	-	-	(6,830)
–Write offs	-	-	(905,127)	(905,127)
Total Loss Allowance as at December 31, 2021	674,530	389,024	-	1,063,554

(in Eastern Caribbean dollars)

8. Investment Securities …..*Cont'd*

Movements of the Group's investments are summarised as follows:

	Debt Securities at Amortised Cost $	Debt Securities at FVOCI $	Equity Securities at FVOCI $	Equity Securities at FVTPL $	Treasury Bills at Amortised Cost $	Total $
At January 1, 2022	**86,522,434**	**631,456**	**14,795,379**	**52,345,241**	**10,975,207**	**165,269,717**
Opening ECLs	**671,772**	**167**	**-**	**-**	**391,615**	**1,063,554**
Gross carrying amount January 1, 2022	**87,194,206**	**631,623**	**14,795,379**	**52,345,241**	**11,366,822**	**166,333,271**
Additions	**64,610,685**	**2,926,728**	**-**	**15,541,978**	**6,935,175**	**90,014,566**
Sales and redemptions	**(40,387,995)**	**-**	**-**	**(19,557,470)**	**(6,930,441)**	**(66,875,906)**
Unrealised gain on foreign exchange	**-**	**-**	**(23)**	**-**	**-**	**(23)**
Changes in fair value	**-**	**(48,940)**	**3,534,500**	**(5,638,432)**	**-**	**(2,152,872)**
Trade loss incurred	**-**	**-**	**-**	**(1,784,228)**	**-**	**(1,784,228)**
Write offs	**-**	**-**	**-**	**-**	**-**	**-**
Closing ECLs	**(83,621)**	**(93)**	**-**	**-**	**(12,358)**	**(96,072)**
At December 31, 2022	**111,333,275**	**3,509,318**	**18,329,856**	**40,907,089**	**11,359,198**	**185,438,736**
At January 1, 2021	75,383,091	4,801,184	14,795,412	29,247,242	9,998,875	134,225,804
Opening ECLs	1,518,406	6,997	-	-	360,577	1,885,980
Gross carrying amount January 1, 2021	76,901,497	4,808,181	14,795,412	29,247,242	10,359,452	136,111,784
Additions	25,300,065	7,366,518	-	99,237,110	22,090,463	153,994,156
Sales and redemptions	(14,102,229)	(11,476,419)	-	(76,099,569)	(21,083,093)	(122,761,310)
Unrealised loss on foreign exchange	-	-	(33)	-	-	(33)
(Loss) gain from changes in fair value	-	(66,657)	-	(39,542)	-	(106,199)
Write offs	(905,127)	-	-	-	-	(905,127)
Closing ECLs	(671,772)	(167)	-	-	(391,615)	(1,063,554)
At December 31, 2021	86,522,434	631,456	14,795,379	52,345,241	10,975,207	165,269,717

(in Eastern Caribbean dollars)

9. Loans and Advances to Customers

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Credit cards	**2,832,359**	**30,609**	**246,522**	**3,109,490**
Overdrafts	**15,772,141**	**50,400,555**	**1,358,664**	**67,531,360**
Term loans	**65,677,899**	**6,451,233**	**7,414,236**	**79,543,368**
Mortgages	**258,197,660**	**52,312,062**	**24,196,490**	**334,706,212**
Business and sovereign	**145,022,284**	**28,211,292**	**10,313,129**	**183,546,705**
	487,502,343	**137,405,751**	**43,529,041**	**668,437,135**
ECL allowance	**(3,873,631)**	**(7,492,718)**	**(19,770,514)**	**(31,136,863)**
	483,628,712	**129,913,033**	**23,758,527**	**637,300,272**

	2021			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Credit cards	2,227,807	99,075	139,081	2,465,963
Overdrafts	10,917,804	43,870,713	1,622,052	56,410,569
Term loans	65,091,579	10,319,158	6,078,163	81,488,900
Mortgages	254,167,690	61,390,208	17,188,198	332,746,096
Business and sovereign	138,178,295	35,557,624	12,249,134	185,985,053
	470,583,175	151,236,778	37,276,628	659,096,581
ECL allowance	(3,639,513)	(11,589,095)	(15,749,422)	(30,978,030)
	466,943,662	139,647,683	21,527,206	628,118,551

The weighted average effective interest rate on loans and advances stated at amortised cost as at December 31, 2022 was 8.0% (2021: 8.2%).

(in Eastern Caribbean dollars)

9. Loans and Advances to Customers …..*Cont'd*

Analysis of Allowance on Business and Sovereign and Mortgages

	2022				2021			
	Stage 1 12-month ECL $	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Business and Sovereign								
Loss Allowance as at January 1	**2,309,845**	**3,179,874**	**6,289,071**	**11,778,790**	1,462,305	3,207,451	10,259,358	14,929,114
Changes in the loss allowance								
- Transfer to stage 1	**(32,336)**	**24,400**	**7,936**	**-**	-	-	-	-
- Transfer to stage 2	**20,898**	**(20,898)**	**-**	**-**	36,309	(36,309)	-	-
- Transfer to stage 3	**-**	**(255,620)**	**255,620**	**-**	(450)	(167,786)	168,236	-
- Increases due to change in credit risk	**552,068**	**232,250**	**643,373**	**1,427,691**	933,818	967,892	2,137,407	4,039,117
- Decreases due to change in credit risk	**(459,305)**	**(666,378)**	**(150,425)**	**(1,276,108)**	(122,137)	(791,374)	(485,310)	(1,398,821)
- Write-offs	**-**	**-**	**(2,221,872)**	**(2,221,872)**	-	-	(5,790,620)	(5,790,620)
Loss Allowance as at December 31	**2,391,170**	**2,493,628**	**4,823,703**	**9,708,501**	2,309,845	3,179,874	6,289,071	11,778,790
Mortgages								
Loss Allowance as at January 1	**449,161**	**2,695,722**	**4,712,988**	**7,857,871**	343,094	2,188,302	3,604,644	6,136,040
Changes in the loss allowance								
- Transfer to stage 1	**(24,364)**	**13,577**	**10,787**	**-**	-	-	-	-
- Transfer to stage 2	**140,145**	**(474,880)**	**334,735**	**-**	77,468	(77,468)	-	-
- Transfer to stage 3	**61,403**	**39,866**	**(101,269)**	**-**	(1,749)	(56,975)	58,724	-
- Increases due to change in credit risk	**92,835**	**238,455**	**5,430,969**	**5,762,259**	150,117	953,065	2,037,374	3,140,556
- Decreases due to change in credit risk	**(271,602)**	**(403,102)**	**(358,739)**	**(1,033,443)**	(119,769)	(311,202)	(250,285)	(681,256)
- Write-offs	**-**	**-**	**(1,184,371)**	**(1,184,371)**	-	-	(737,469)	(737,469)
Loss Allowance as at December 31	**447,578**	**2,109,638**	**8,845,100**	**11,402,316**	449,161	2,695,722	4,712,988	7,857,871

(in Eastern Caribbean dollars)

9. Loans and Advances to Customers …..*Cont'd*

Analysis of Allowance on Term Loans and Overdrafts

	2022				2021			
	Stage 1 – 12-month ECL $	**Stage 2 Lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**	Stage 1 – 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Term Loans								
Loss Allowance as at January 1	**514,831**	**4,302,317**	**3,321,253**	**8,138,401**	447,708	3,809,394	3,046,635	7,303,737
Changes in the loss								
- Transfer to stage 1	**(24,951)**	**10,648**	**14,303**	**-**	-	-	-	-
- Transfer to stage 2	**38,350**	**(1,261,905)**	**1,223,555**	**-**	161,688	(161,688)	-	-
- Transfer to stage 3	**-**	**-**	**-**	**-**	(4,767)	(68,417)	73,184	-
- Increases due to change in credit risk	**387,686**	**366,386**	**1,532,174**	**2,286,246**	358,397	1,800,293	1,848,034	4,006,724
- Decreases due to change in credit risk	**(352,810)**	**(1,806,359)**	**(718,406)**	**(2,877,575)**	(411,772)	(1,070,337)	(212,523)	(1,694,632)
- Write-offs	**(22,945)**	**(194)**	**(556,768)**	**(579,907)**	(36,423)	(6,928)	(1,434,077)	(1,477,428)
Loss Allowance as at December 31	**540,161**	**1,610,893**	**4,816,111**	**6,967,165**	514,831	4,302,317	3,321,253	8,138,401
Overdrafts								
Loss Allowance as at January 1	**334,289**	**1,345,627**	**1,287,032**	**2,966,948**	415,764	1,096,664	1,165,374	2,677,802
Changes in the loss allowance								
- Transfer to stage 1	**(46,881)**	**46,881**	**-**	**-**	-	-	-	-
- Transfer to stage 2	**58,205**	**(58,543)**	**338**	**-**	(116,917)	116,917	-	-
- Transfer to stage 3	**-**	**-**	**-**	**-**	-	(6,152)	6,152	-
- Increases due to change in credit risk	**177,673**	**68,518**	**10,119**	**256,310**	114,378	187,344	480,913	782,635
- Decreases due to change in credit risk	**(57,911)**	**(123,501)**	**(116,773)**	**(298,185)**	(78,936)	(49,146)	(360,834)	(488,916)
- Write-offs	**(4,803)**	**(22,095)**	**(175,206)**	**(202,104)**	-	-	(4,573)	(4,573)
Loss Allowance as at December 31	**460,572**	**1,256,887**	**1,005,510**	**2,722,969**	334,289	1,345,627	1,287,032	2,966,948

(in Eastern Caribbean dollars)

9. Loans and Advances to Customers …..*Cont'd*

Analysis of Allowance on Credit Cards and Credit Provisioning

	2022				2021			
	Stage 1 – 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $	Stage 1 – 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Credit Cards								
Loss Allowance as at January 1	**31,387**	**65,555**	**139,078**	**236,020**	32,271	27,569	129,691	189,531
Changes in the loss allowance								
- Transfer to stage 1	**(737)**	**140**	**597**	**-**	-	-	-	-
- Transfer to stage 2	**25,355**	**(65,439)**	**40,084**	**-**	6,282	(6,282)	-	-
- Transfer to stage 3	**13,974**	**16,453**	**(30,427)**	**-**	46,293	(10,212)	(36,081)	-
- Increases due to change in credit risk	**3,818**	**14,055**	**130,759**	**148,632**	30,367	64,630	110,905	205,902
- Decreases due to change in credit risk	**(39,647)**	**(9,092)**	**-**	**(48,739)**	(54,389)	(446)	(48,314)	(103,149)
- Write-offs	**-**	**-**	**-**	**-**	(29,437)	(9,704)	(17,123)	(56,264)
Loss Allowance as at December 31	**34,150**	**21,672**	**280,091**	**335,913**	31,387	65,555	139,078	236,020
Total Credit Provisioning								
Loss Allowance as at January 1	**3,639,513**	**11,589,095**	**15,749,422**	**30,978,030**	2,701,142	10,329,380	18,205,702	31,236,224
Changes in the loss allowance								
- Transfer to stage 1	**(129,269)**	**95,646**	**33,623**	**-**	-	-	-	-
- Transfer to stage 2	**282,953**	**(1,881,665)**	**1,598,712**	**-**	164,830	(164,830)	-	-
- Transfer to stage 3	**75,377**	**(199,301)**	**123,924**	**-**	39,327	(309,542)	270,215	-
- Increases due to change in credit risk	**1,214,080**	**919,664**	**7,747,393**	**9,881,137**	1,587,077	3,973,224	6,614,633	12,174,934
- Decreases due to change in credit risk	**(1,181,275)**	**(3,008,432)**	**(1,344,343)**	**(5,534,050)**	(787,003)	(2,222,505)	(1,357,266)	(4,366,774)
- Write-offs	**(27,748)**	**(22,289)**	**(4,138,217)**	**(4,188,254)**	(65,860)	(16,632)	(7,983,862)	(8,066,354)
Loss Allowance as at December 31	**3,873,631**	**7,492,718**	**19,770,514**	**31,136,863**	3,639,513	11,589,095	15,749,422	30,978,030

(in Eastern Caribbean dollars)

10. Other Assets

	2022	2021
	$	$
Other receivables	**13,031,033**	10,432,102
Prepaid expenses	**1,764,854**	2,032,453
	14,795,887	12,464,555

11. Investment Properties

	2022	2021
	$	$
Fair value at January 1	**2,412,000**	2,412,000
Fair value loss	**(150,000)**	-
Fair value at December 31	**2,262,000**	2,412,000

Investment properties were valued, on an open market basis, by an independent valuator who holds a recognized and relevant professional qualification.

The investment properties are held for appreciation. The decline of $150,000 in the fair value of the investment properties was charged to profit or loss under other income.

(in Eastern Caribbean dollars)

12. Property and Equipment

	Land and building $	Leasehold Improvements $	Office Furniture and Equipment $	Work in Progress $	Computer Equipment and Software $	Motor Vehicles $	Total $
As at December 31, 2021							
Opening net book amount	44,546,499	13,119	4,913,292	3,865,118	1,799,166	214,138	55,351,332
Additions	-	132,594	784,882	-	1,774,488	251,864	2,943,828
Transfers	-	50,000	515,292	(627,357)	62,065	-	-
Disposals	-	-	(4,755)	-	-	-	(4,755)
Depreciation charge **(Note 25)**	(626,848)	(28,140)	(1,437,610)	-	(679,048)	(123,322)	(2,894,968)
Closing net book amount	43,919,651	167,573	4,771,101	3,237,761	2,956,671	342,680	55,395,437
At December 31, 2021							
Cost	50,665,738	231,494	20,386,247	3,237,761	14,627,595	829,999	89,978,834
Accumulated depreciation	(6,746,087)	(63,921)	(15,615,146)	-	(11,670,924)	(487,319)	(34,583,397)
Net book amount	43,919,651	167,573	4,771,101	3,237,761	2,956,671	342,680	55,395,437
As at December 31, 2022							
Opening net book amount	**43,919,651**	**167,573**	**4,771,101**	**3,237,761**	**2,956,671**	**342,680**	**55,395,437**
Additions	**479,850**	**97,899**	**1,561,065**	**1,687,316**	**1,612,038**	**-**	**5,438,168**
Transfers	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**(27)**	**-**	**(63)**	**(1)**	**(91)**
Depreciation charge **(Note 25)**	**(627,914)**	**(50,136)**	**(1,311,267)**	**-**	**(916,304)**	**(134,530)**	**(3,040,151)**
Closing net book amount	**43,771,587**	**215,336**	**5,020,872**	**4,925,077**	**3,652,342**	**208,149**	**57,793,363**
At December 31, 2022							
Cost	**51,145,588**	**329,393**	**21,745,542**	**4,925,077**	**15,878,666**	**769,870**	**94,794,136**
Accumulated depreciation	**(7,374,001)**	**(114,057)**	**(16,724,670)**	**-**	**(12,226,324)**	**(561,721)**	**(37,000,773)**
Net book amount	**43,771,587**	**215,336**	**5,020,872**	**4,925,077**	**3,652,342**	**208,149**	**57,793,363**

As at December 31, 2022, property with a carrying amount of $24,232,923 (2021: $24,562,989) was pledged as security for related party borrowings (**Note 17**).

(in Eastern Caribbean dollars)

13. Deferred Tax Asset

The movement on the deferred tax asset is as follows:

	2022	2021
	$	$
At beginning of year	**4,379,923**	3,772,347
Current year charge **(Note 27)**	**(1,209,787)**	607,576
At end of year	**3,170,136**	4,379,923

As of reporting date, the Group's deferred tax comprise, as follows:

	2022	2021
	$	$
At beginning of year	**4,379,923**	-
Capital assets	**(51,110)**	(51,850)
Taxed provisions	**(1,158,677)**	4,431,773
	3,170,136	4,379,923

Deferred income taxes and liabilities are offset when there are legally enforceable rights to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

14. Deposits Due to Banks

	2022	2021
	$	$
Deposits due to banks	**19,798,819**	**18,338,965**

Interest rates range from 0% to 1.50% (2021: 0% to 1.75%).

15. Due to Customers

	2022	2021
	$	$
Term deposits	**104,678,741**	103,262,025
Savings deposits	**485,787,136**	480,113,522
Demand deposits	**521,937,290**	498,000,653
	1,112,403,167	1,081,376,200

The weighted average effective interest rate of customers' deposits at December 31, 2022 was 1.28% (2021: 1.42%).

16. Provisions and Other Liabilities

	2022	2021
	$	$
Managers' cheques outstanding	**3,983,004**	**3,717,166**
Other payables	**13,229,491**	**17,186,817**
Undrawn commitments	**24,083**	**32,951**
Customers' security deposits	**15,521,651**	**16,321,324**
	32,758,229	**37,258,258**

(in Eastern Caribbean dollars)

17. Borrowings

	Due	**Average Interest Rate**	**2022 $**	Average Interest Rate	2021 $
Caribbean Development Bank	2024 – 2029	**4.31%**	**12,935,929**	3.27%	14,865,259
National Insurance Services	2022 – 2025	**5.80%**	**4,158,082**	5.92%	7,897,340
			17,094,011		22,762,599

Security

The Caribbean Development Bank borrowings are secured by a Government of St. Vincent and the Grenadines guarantee.

The Group has pledged property having a carrying value of $24,232,923 (2021: $24,562,989) as security for its borrowings from the National Insurance Services.

As at December 31, 2022, the Group had no undrawn facilities with either of the above-mentioned institutions.

18. Share Capital

Authorised share capital – an unlimited number of shares of no-par value.

	2022 $	2021 $
Issued and fully paid – 14,999,844 (2021: 14,999,844)	**20,753,306**	20,753,306

19. Statutory Reserves

	2022 $	2021 $
Balance at beginning and end of the year	**20,753,306**	20,753,306

Pursuant to Section 45 (1) of the Banking Act of 2015, the Group shall, maintain a general reserve fund and shall, out of its net profits of each year transfer to that fund a sum equal to not less than twenty per cent of profits whenever the amount of the reserve fund is less than a hundred per cent of the issued share capital. The reserve is not available for distribution as dividends or any form of appropriation.

20. General Provision Reserves

	2022 $	2021 $
Balance at beginning of the year	**5,184,573**	4,907,450
Transfer from retained earnings	**290,724**	277,123
Balance at end of the year	**5,475,297**	5,184,573

A general contingency reserve totalling $5,475,297 (2021: $5,184,573) was created as a voluntary appropriation from retained earnings. This reserve will be funded on an annual basis at a rate to be decided by the Board of Directors.

(in Eastern Caribbean dollars)

21. Contingent Liabilities and Commitments

(i) Commitments

The following table indicates the contractual amounts of the Group's financial instruments that commit it to extend credit to customers.

	2022	2021
	$	$
Loan commitments	**13,348,621**	4,591,307
Guarantees and letters of credit	**390,000**	390,000
	13,738,621	4,981,307

(ii) Pending Litigation

In the ordinary course of business, the Group is routinely a defendant in or party to a number of pending and threatened legal actions and proceedings.

In view of the inherent difficulty of predicting the outcome of such matters, the Group cannot state what the eventual outcome of such matters will be. However, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the financial position or results of operations of the Group.

22. Net Interest Income

	2022	2021
	$	$
Interest Income using the effective Interest Method		
Loans and advances	**45,907,605**	45,335,174
Loan origination fees	**768,312**	739,656
Treasury bills and investment securities	**6,776,014**	4,634,886
Deposits with banks	**975,659**	80,649
	54,427,590	50,790,365
Interest Expense		
Savings deposits	**10,738,522**	13,478,011
Time deposits	**4,058,272**	2,105,106
Other borrowed funds	**875,566**	1,102,094
Correspondent banks	**-**	14,856
	15,672,360	16,700,067
Net Interest Income	**38,755,230**	34,090,298

(in Eastern Caribbean dollars)

23. Fees Commission and Other Income

	2022 $	2021 $
Fees and Commission	**15,661,872**	11,758,499
Foreign Exchange		
- Trading	**7,091,387**	5,426,248
- Unrealized	**(327,040)**	(125,043)
	6,764,347	5,301,205
Other		
Gain (loss) on disposal of property, plant and equipment	**14,489**	(4,755)
Diminution in value of investment properties	**(150,000)**	-
Miscellaneous	**58,732**	-
	(76,779)	(4,755)
	22,349,440	17,054,949

24. Allowances for Credit Losses on Financial Assets

	2022 $	2021 $
Credit impairment against profit for the year on loans and advances to customers	**4,347,089**	7,808,159
Credit impairment (improvement) against profit for the year relating to debt securities	**(967,482)**	81,684
Credit (improvement) impairment relating to financial guarantees and loan commitments	**-**	(6,010)
Recoveries of amounts previously written off	**(627,990)**	(193,349)
	2,751,617	7,690,484

25. Operating Expenses

	2022 $	2021 $
Depreciation **(Note 12)**	**3,040,151**	2,894,968
Employee benefit expense **(Note 26)**	**12,687,203**	13,011,547
Interest levy expense	**6,905,982**	6,479,062
Rent	**306,257**	312,311
Audit	**277,515**	271,456
Directors' fees	**415,451**	394,273
Computer expense	**508,110**	394,939
Insurance	**801,579**	790,727
Repairs and maintenance	**649,022**	815,148
Subscription and donations	**160,229**	294,447
Commission and fees	**2,363,264**	1,990,713
Utilities	**2,527,994**	2,288,595
Credit card expenses	**3,478,409**	2,111,927
Advertisement and sponsorship	**405,840**	670,396
Legal and professional fees	**1,828,962**	1,286,829
Postage and stationery	**939,579**	700,350
Bank and other licences	**4,170,057**	3,377,240
Security	**324,256**	326,845
Other expenses	**3,628,246**	2,502,159
	45,418,106	40,913,932

(in Eastern Caribbean dollars)

26. Employee Benefit Expense

	2022 $	2021 $
Wages and salaries	**9,838,890**	10,498,131
Other staff costs	**2,484,018**	2,148,962
Pension cost	**364,295**	364,454
	12,687,203	13,011,547

The Group operates a defined contribution pension plan for its employees. The plan provides for: contributions at the rates of 5% and 3%, of basic remunerations, by the Group and employees, respectively; and normal retirement on attainment of employees' 60th birthday. The Group's contributions become fully vested in employees after 5 years membership.

27. Income Tax Expense

	2022 $	2021 $
Current tax	**1,754,582**	461,672
Deferred tax credit **(Note 13)**	**1,209,787**	(607,576)
	2,964,369	(145,904)

Tax on the Group's profit before taxation differs from the theoretical amount that would arise using the statutory tax rate of 30% (2021: 30%) as follows:

	2022 $	2021 $
Profit before income tax	**5,871,612**	2,625,323
Tax calculated at the applicable tax rate of 30%	**1,761,484**	787,597
Tax effect of exempt income	**(4,613,865)**	(5,657,265)
Tax effect of expenses not deductible for tax purposes	**5,816,750**	4,721,948
Other differences	**-**	1,816
	2,964,369	(145,904)

28. Earnings per Share

Earnings per share (EPS) are calculated by dividing the profit for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2022 $	2021 $
Net profit attributable to shareholders	**2,907,243**	2,771,227
Weighted average number of ordinary shares in issue	**14,999,844**	14,999,844
Basic and Diluted Earnings per Share	**0.19**	0.19

(in Eastern Caribbean dollars)

29. Cash and Cash Equivalents

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

	2022	2021
	$	$
Cash in hand and balances with ECCB **(Note 5)**	**84,269,921**	90,045,550
Treasury bills **(Note 7)**	**10,390,793**	10,011,536
Items in the course of collection with banks **(Note 6)**	**6,022,011**	1,421,690
Placements with other banks **(Note 6)**	**174,276,313**	263,471,648
	274,959,038	364,950,424

For the purposes of presentation in the statement of cash flows, cash and cash equivalents comprise highly liquid investments with less than three months maturity from the date of acquisition, cash and non-restricted balances with the Eastern Caribbean Central Bank (ECCB), treasury bills, deposits with other banks, deposits with non-bank financial institutions and other short-term securities.

30. Leases

The Group mainly leases storage and ATM spaces used in its operations. Rental contracts for these leases are typically made for fixed periods but may have extension options. Extension options are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

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

These leases are short-term in nature. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases.

Commitments for minimum lease payment in relation to operating leases are payable as follows:

	2022	2021
	$	$
Within one year	**306,257**	312,311

(in Eastern Caribbean dollars)

31. Related Party Balances and Transactions

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

The following accounts maintained by related parties are included under investment securities, deposits with other banks and deposits from banks:

	2022 $	2021 $
Bank of Saint Lucia Limited		
Deposits with other bank	**2,169,296**	2,142,515
Deposits from banks	**(7,444,319)**	(7,352,413)
Government of St. Vincent and the Grenadines		
Debt securities at amortised cost	**64,616,904**	42,366,017
Less: allowance for impairment loss	**(56,908)**	(368,914)
	64,559,996	41,997,103
Statutory Bodies		
Debt securities at amortised cost	**16,750,000**	19,440,510
Less: allowance for impairment loss	**(15,108)**	(212,401)
	16,734,892	19,228,109

Transactions carried out with Related Parties:

	2022 $	2021 $
Income		
Interest income	**3,926,489**	2,676,812
Expenses		
Interest expense	**91,905**	116,054
Professional fees	**147,600**	147,600

Other Related Parties

A number of banking transactions are entered into with other related parties in the normal course of business. These include loans, deposits and borrowings. These transactions were carried out on commercial terms and at market rates.

(in Eastern Caribbean dollars)

31. Related Party Balances and Transactions ……*Cont'd*

Other related party balances with the Group:

	2022		2021	
	Loans	**Deposits**	Loans	Deposits
	$	**$**	$	$
Government of St. Vincent and the Grenadines	**107,457,275**	**15,251,610**	108,800,731	6,140,367
Statutory bodies	**6,700,973**	**40,700,753**	5,601,769	48,272,541
National Insurance Services	**2,989**	**46,280,103**	2,989	52,408,304
Staff pension plan	**-**	**7,407,661**	-	8,667,434
	114,161,237	**109,640,127**	114,405,489	115,488,646
Directors and key management	**3,195,173**	**3,579,607**	2,503,791	3,091,891
Less: allowance for impairment losses	**(2,188,526)**	**-**	(2,038,833)	-
	115,164,884	**113,219,734**	114,870,447	118,580,537

The loans issued to directors and other key management personnel are repayable monthly over an average of 11.3 years and have a weighted average effective interest rate of 5.4% (2021: 4.52%).

Interest income and interest expense with other related parties:

	2022		2021	
	Income	**Expenses**	Income	Expenses
	$	**$**	$	$
Government of St. Vincent and the Grenadines	**9,256,677**	**76,867**	9,205,366	22,370
Statutory bodies	**417,067**	**322,465**	127,615	559,859
National Insurance Services	**-**	**1,415,682**	-	1,358,500
Staff pension plan	**-**	**289,786**	-	282,712
Directors and key management	**118,106**	**56,024**	124,498	57,819
	9,791,850	**2,160,824**	9,457,479	2,281,260

Key Management Compensation

Key management includes the Executive Management team. The compensation paid or payable to key management for employee services is shown below:

	2022	2021
	$	$
Salaries and other short-term benefits	**2,193,171**	2,455,476
Pension cost	**70,958**	67,172
	2,264,129	2,522,648

(in Eastern Caribbean dollars)

32. Commitment

Pursuant to a sales purchase agreement of October 12, 2021, which was approved by the regulator on July 15, 2022, between the Bank and CIBC FirstCaribbean International Bank (Barbados) Ltd., the Bank agreed to acquire and assume certain of the latter's assets and liabilities respectively of the St. Vincent and the Grenadines branch. The aforementioned transaction is scheduled to close on March 24, 2023. The final consideration will be subject to the determination of the Branch's financial position on the closing date.

33. Subsequent Event

Dividend

On March 17, the directors declared a dividend of $0.10 per ordinary share to shareholders of record as of May 24, 2023.

34. Comparative Figures

Certain of the comparative figures were restated to accord with the current year's presentation.