# THE FUTURE IS NOW

## 2019 ANNUAL REPORT

East Caribbean Financial Holding Company

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# MISSION & VISION

## VISION

Our Bank • Strong • Secure • Profitable

## MISSION

We are the bank of choice, dedicated to meeting the needs and aspirations of our people in a professional and efficient manner.

## OUR CORE VALUES "I CARE"

- Integrity & Ethics
- Commitment to Results
- Accountability
- Respect for the Individual
- Excellence in Service

# AGENDA OF NINETEENTH ANNUAL MEETING

1. To consider and adopt the Report of Directors
2. To consider and adopt the Report of the Auditor and the Audited Financial Statements for the year ended December 31, 2019
3. To sanction Dividends paid for the twelve-month period ended December 31, 2019
4. To appoint the Auditor and to authorise Directors to fix its remuneration
5. To elect Directors

BY ORDER OF THE BOARD

**Estherlita Cumberbatch**
Corporate Secretary

**NOTE**

**Notice of Postponement**
The Directors of East Caribbean Financial Holding Company Limited (ECFH) wish to inform the shareholders of the Company, that the Annual Meeting of Shareholders customarily held in May has been postponed. This postponement is due to the COVID-19 pandemic and the resulting social distancing protocols implemented by the Government. Given the uncertainty associated with this pandemic, the Directors are unable to set a new date for the Annual Meeting at this time. ECFH will continue to keep you, our valuable shareholders, updated on this situation. We look forward to your patience and understanding in these challenging times. Please continue to follow the instructions issued by the authorities and remain safe.

# ECFH GROUP
## CORPORATE INFORMATION

### REGISTERED OFFICE
# 1 Bridge Street
P O Box 1860
Castries, Saint Lucia, West Indies.
Tel: (758) 456 6000
Fax: (758) 456 6702
Email: ecfh@candw.lc
Website: www.ecfh.com

### CHAIRMAN
Frank V. Myers BSc (Hons), FCCA

### CORPORATE SECRETARY
Estherlita Cumberbatch B.Sc. (Mgmt.),
LLB (Hons), FCIS

### LEGAL COUNSELS
Deterville, Thomas & Co
99 Chaussee Road
P.O. Box 835,
Castries, Saint Lucia

Gordon, Gordon & Co.
10 Manoel Street
P.O. Box 161
Castries, Saint Lucia

Du Boulay, Anthony & Co.
Noble House, 6 Brazil Street
P.O. Box 1761
Castries, Saint Lucia

### SUBSIDIARIES
Bank of Saint Lucia Limited
# 1 Bridge Street
P.O. Box 1862
Castries, Saint Lucia, West Indies
Tel: (758) 456 6000
Fax: (758) 456 6720
Email: info@bankofsaintlucia.com
Website: www.bankofsaintlucia.com

### REGULATORS
Eastern Caribbean Central Bank
Eastern Caribbean Securities Regulatory Commission
Financial Services Regulatory Authority - Saint Lucia

### EXTERNAL AUDITORS
KPMG
Chartered Accountants
204 Johnsons Centre
Rodney Bay, Gros Islet, Saint Lucia

# CORRESPONDENT
## BANKS & RELATIONSHIPS

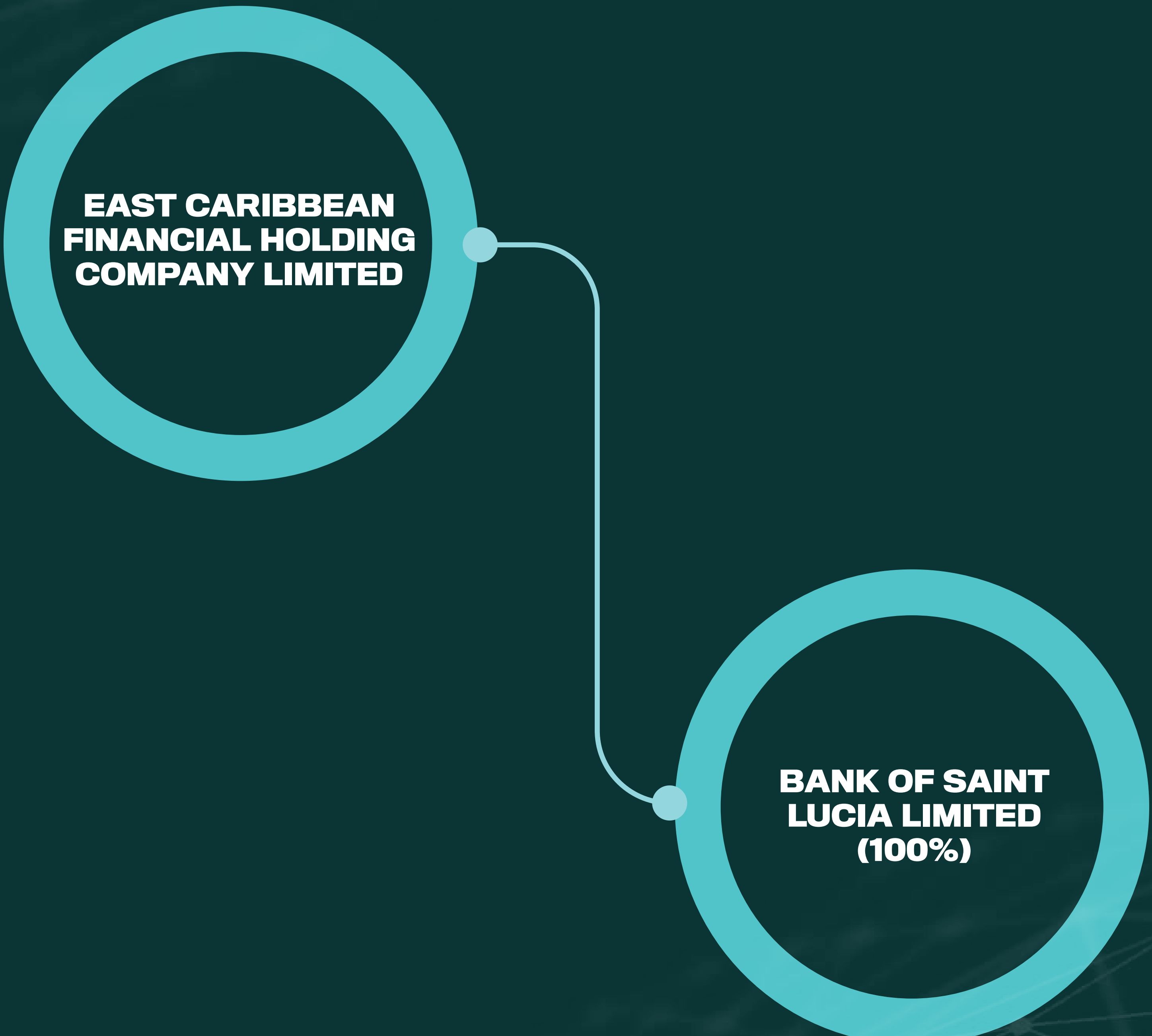
### ECFH OWNERSHIP

| Name | Percentage of ownership |
|---|---|
| Government of Saint Lucia | 20% |
| National Insurance Corporation (Saint Lucia) | 20% |
| Republic Bank Limited | 16% |
| OECS Indigenous Banks & Financial Institutions | 14% |
| Private Individuals & Institutions | 30% |

### CORRESPONDENT BANKS AND RELATIONSHIPS

| OECS | Regional | International |
|---|---|---|
| Antigua Commercial Bank | First Citizens Bank Limited | Bank of America Merrill Lynch |
| Bank of Monsterrat Ltd. | National Commercial Bank of Jamaica Limited | Banque Cramer & Cie SA |
| Bank of Nevis | Republic Bank Ltd | Citibank NA |
| Bank of St. Vincent & the Grenadines | Republic Bank (Barbados) Ltd | Crown Agents Financial Services Limited |
| Eastern Caribbean Amalgamented Bank (ECAB) | Republic Bank (Guyana) Ltd | London & Capital |
| First Citizen Investment Services Limited | RBC Dominion Securities Global Limited | Lloyds TSB Bank Plc |
| National Bank of Anguilla Limited | Unit Trust Corporation | Morgan Stanley Smith Barney |
| National Bank of Dominica Limited | | Oppenheimer & Co |
| Republic Bank (Grenada) Limited | | RBC Emerging Market Securities |
| Saint Kitts Nevis Anguilla National Bank Limited | | Tellco AG |
| | | Toronto Dominion Bank |
| | | UBS International Inc. |

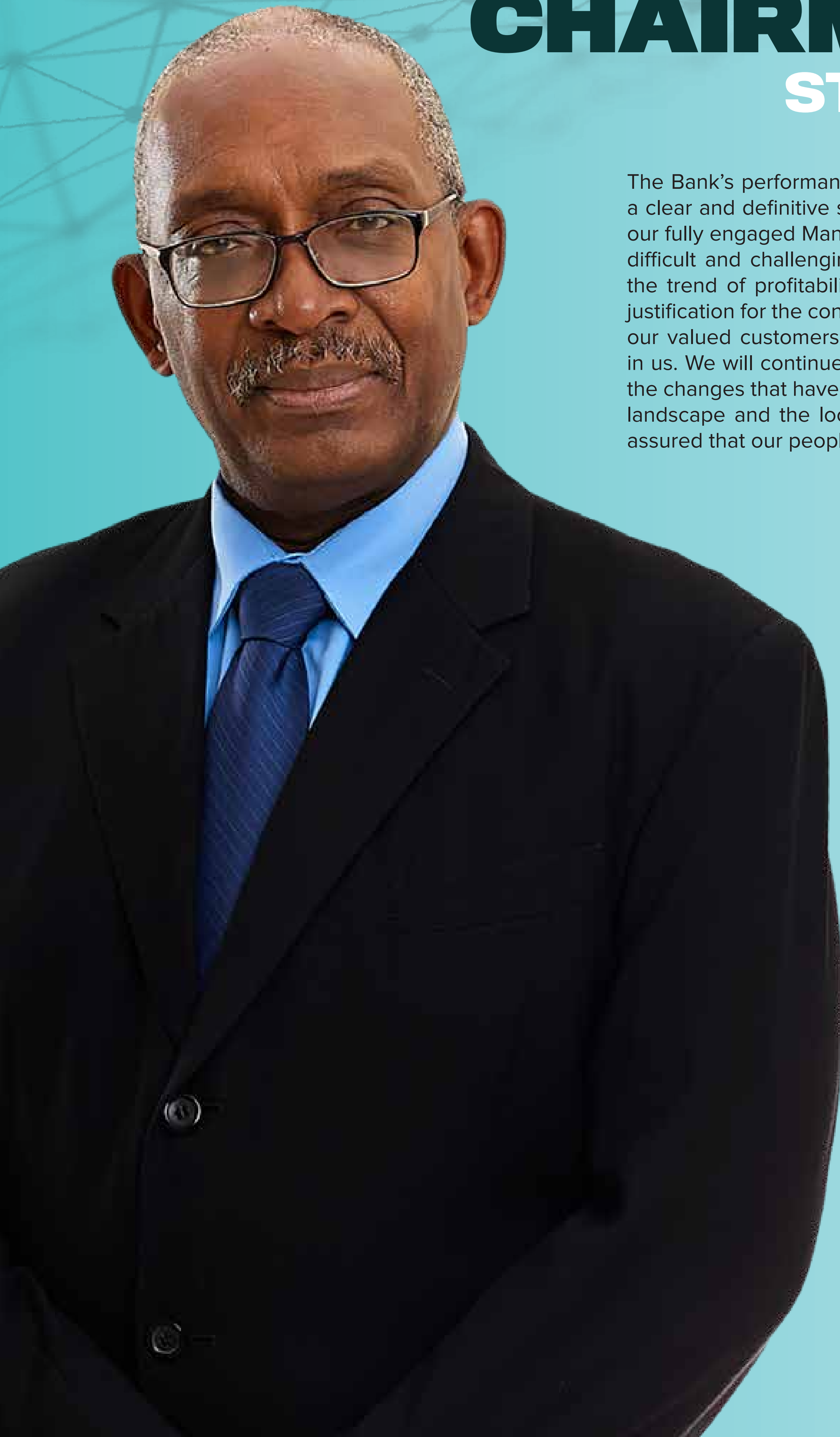
# ECFH
## CORPORATE STRUCTURE



# ECFH FINANCIAL HIGHLIGHTS

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|
| | EC $000 | EC $000 | EC $000 | EC $000 | EC $000 | EC $000 | EC $000 |
| **Income Statement** | | | | | | | |
| Interest Income | 88,218 | 84,157 | 80,503 | 76,981 | 155,803 | 162,911 | 169,806 |
| - Interest Expense | 28,854 | 27,919 | 32,145 | 35,490 | 64,717 | 77,879 | 84,237 |
| **= Net Interest Income** | **59,364** | **56,238** | **48,358** | **41,491** | **91,086** | **85,032** | **85,569** |
| + Other Income | 72,579 | 62,597 | 59,916 | 51,020 | 62,218 | 62,284 | 67,895 |
| **= Operating Income** | **131,943** | **118,835** | **108,274** | **92,511** | **153,304** | **147,316** | **153,464** |
| - Staff Costs | 28,790 | 26,247 | 25,609 | 29,917 | 47,093 | 44,318 | 46,539 |
| - Administrative Costs | 40,142 | 38,056 | 36,915 | 37,018 | 62,578 | 64,054 | 59,536 |
| - Impairment Losses - Loans & Investments | 6,470 | 8,920 | 16,431 | 128,782 | 45,009 | 20,431 | 41,250 |
| **= Profit before Taxes and Dividends** | **56,541** | **45,612** | **29,319** | **(103,206)** | **(1,376)** | **18,513** | **6,139** |
| + Profit for the year from discontinued operations | - | - | 683 | 12,882 | - | - | - |
| + Gain on disposal of controlling interest in subsidiary | - | - | 4,472 | - | - | - | - |
| - Provision for loss on disposal of subsidiary | - | - | - | 15,453 | | | |
| - Taxes | 1,259 | 355 | (2,806) | 5,726 | 4,045 | 7,158 | 2,156 |
| - Dividends on Preference Shares | 291 | 291 | 291 | 291 | 291 | 291 | 291 |
| - Minority Interest | - | - | | 2,419 | 2,871 | 1,516 | 3,504 |
| **= Net Income after Taxes** | **54,991** | **44,966** | **36,989** | **(114,213)** | **(8,583)** | **9,548** | **188** |
| **Balance Sheet** | | | | | | | |
| Cash and Balances with Central Bank | 184,245 | 223,983 | 347,950 | 366,874 | 344,212 | 291,837 | 166,613 |
| + Investments | 995,534 | 913,045 | 686,651 | 813,572 | 1,518,013 | 1,415,748 | 1,399,482 |
| + Loans | 838,730 | 849,215 | 874,051 | 1,474,613 | 1,667,579 | 1,770,710 | 1,868,728 |
| + Other | 212,212 | 200,979 | 209,338 | 994,052 | 243,686 | 244,711 | 289,511 |
| **= Total Assets** | **2,230,721** | **2,187,222** | **2,117,990** | **3,649,111** | **3,773,490** | **3,723,006** | **3,724,334** |
| Deposits | 1,862,902 | 1,877,168 | 1,842,886 | 2,527,787 | 3,312,414 | 3,235,180 | 3,181,671 |
| + Borrowings | 63,844 | 71,519 | 79,181 | 139,710 | 116,646 | 152,883 | 213,125 |
| + Other Liabilities | 53,147 | 48,614 | 47,350 | 836,032 | 92,756 | 65,262 | 68,827 |
| + Capital | 250,828 | 189,921 | 148,573 | 145,582 | 251,674 | 269,681 | 260,711 |
| **= Total Liabilities and Capital** | **2,230,721** | **2,187,222** | **2,117,990** | **3,649,111** | **3,773,490** | **3,723,006** | **3,724,334** |
| **Other Information** | | | | | | | |
| **ROE** | **25.0%** | **26.6%** | **25.1%** | **-57.5%** | **-3.3%** | **3.6%** | **3.6%** |
| **ROA** | **2.5%** | **2.1%** | **1.3%** | **-3.1%** | **-0.2%** | **0.3%** | **0.3%** |
| **Ordinary Dividend Payout % age** | **14.4%** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **0.0%** |
| **Book Value of Ordinary Shares ($)** | **$10.25** | **$7.76** | **$6.07** | **$3.83** | **$8.22** | **$9.03** | **$9.03** |
| **Average Market Value of Ordinary shares ($)** | **$4.45** | **$4.13** | **$4.75** | **$5.44** | **$6.22** | **$6.42** | **$6.42** |
| **Earnings / (Loss) per Ordinary Share ($)** | **$2.25** | **$1.84** | **$1.30** | **($4.46)** | **($0.69)** | **$0.39** | **$0.39** |
| **Dividends per Ordinary Share ($)** | **0.30** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Provisions as % of Loan Portfolio** | **7.0%** | **6.9%** | **9.9%** | **7.1%** | **7.4%** | **5.1%** | **5.1%** |
| **Provisions as % of Non-performing** | **69.7%** | **60.8%** | **59.1%** | **49.1%** | **39.6%** | **28.7%** | **28.7%** |

# CHAIRMAN'S STATEMENT



The Bank's performance for the 2019 financial year is a clear and definitive statement of the commitment of our fully engaged Management and Staff, even in very difficult and challenging times. It is a continuation of the trend of profitability that began in 2017 and is a justification for the continued trust and confidence that our valued customers and shareholders have placed in us. We will continue to need that support in light of the changes that have taken place both in the banking landscape and the local and global economies. Rest assured that our people are up to it.

## ECONOMIC OUTLOOK

Positive growth prospects for Saint Lucia and the wider region were considerably dampened when, on March 11, 2020, the World Health Organisation ("WHO") declared COVID-19 a pandemic, pointing to the over 118,000 cases of the coronavirus illness in over 118 countries and territories around the world at the time, and the sustained risk of further global spread. In making the announcement, WHO Director General Dr. Tedros Adhanom Ghebreyesus said "This is not just a public health crisis, it is a crisis that will touch every sector....". The International Monetary Fund ("IMF") described the subsequent global decline as the worst since the Great Depression of the 1930s, stating that the global economy would contract by 3% in 2020. The Fund's Chief Economist Gita Gopinath, in stating that the crisis could knock US$9 trillion off global GDP over the next two years, said that for the first time since the Great Depression, both advanced and developing economies were expected to fall into recession. She further warned that growth in advanced economies would not get back to its pre-virus peak until at least 2022.

In the United States, our largest source of foreign exchange by virtue of our tourism industry, the economy is expected to contract by 5.9% in 2020, making this the biggest annual decline since 1946. The economy in the United Kingdom, our other major tourism market, is predicted to shrink by 6.5% in 2020 as against the previous IMF forecast in January 2020 of 1.4% growth. This would make it the biggest annual fall since 1921.

In an April 2020 address, Governor of the Eastern Caribbean Central Bank (ECCB), Timothy J Antoine, intimated that economic activity for 2020 in the Eastern Caribbean Currency Union (ECCU) is projected to contract between 5.0% and 7.0%, and by early April this was amended to 10% and 20%. This was a far cry from the pre-COVID-19 growth projection of 3.3% and is reflective of the rapidly changing landscape in these times. The predicted spike in unemployment also materialized right across the ECCU, resulting in rates as high as 50% in some countries.

While the IMF 2019 Article IV consultation for Saint Lucia, which was released in February 2020, considered the island's near-term growth prospects as favorable, it also presented a deeper than expected slowdown in major source markets for tourism and disruptions to global financial markets as downside risks. Both these risks have crystallised with the declaration of the global pandemic, and the impact on the economy was immediate with the closure of all major hotels in Saint Lucia. The accompanying unprecedented level of unemployment together with the closure of borders to limit the spread of COVID-19, and later the full and partial lockdowns, put severe pressure on the Government to prioritize between the economic viability of the nation and the medical health of the population.

Our Bank joined the rest of the banking community in responding with measures towards cushioning the effects of this pandemic on our customers. These measures include a 6-month moratorium on loan facilities and associated charges. Even if this is well managed, the economic impact will be extensive. However, the associated risks will be addressed with the Bank's risk parameters. We have also made an initial contribution towards the acquisition of respiratory equipment for the health sector and will respond again as the need arises. The Bank has a proud history of corporate social responsibility and while the scale of our response to the pandemic may cause a redirection of funding from certain areas, we will as far as is reasonably possible maintain our commitments.

## FINANCIAL PERFORMANCE

The consolidated financial statements of the ECFH group for the year ended December 31, 2019 disclosed a total comprehensive income of EC$70.79 million (2018 - $33.89 million), with net profit after tax standing at EC$54.99 million (2018 - $44.97 million). For Bank of Saint Lucia, total comprehensive income recorded was EC$62.68 million (2018 - $28 million) with after tax of EC$47.94 million (2018 - $39.68 million). Its Tier 1 Capital Ratio, a key measure of its financial strength, improved to 17.1% (2018 – 14.86%) and its Capital Adequacy Ratio, another important measure of the Bank's capital, increased to 22.7% (2018 – 19.67%).

The 2019 performance, though commendable, will be overshone by the impact of COVID-19, which will present significant economic challenges into the long term. Despite the prevailing circumstances, the Board has accepted the recommendation of management and approved a dividend payment of 25 cents per share to ordinary shareholders.

**Frank V. Myers**
Chairman

# THE FUTURE IS NOW

# CORPORATE GOVERNANCE


The Board of Directors of the East Caribbean Financial Holding Company Limited is responsible for the governance of the Bank, and is committed to adhering to the highest standards of Corporate Governance. It is guided by a formal Corporate Governance Policy and has adopted the ECCB Guidelines on Corporate Governance.

The Board comprises appointed and elected directors who govern the affairs of the Bank. It approves the Bank's strategies, financial objectives, operating plans and plans for management succession. The Board meets bimonthly and other meetings are held as necessary.

## BOARD RESPONSIBILITIES

The Board provides leadership of its subsidiary Bank of Saint Lucia Limited within a framework of sound corporate governance practices, prudent and effective controls that facilitate risk assessment and management. It sets the Bank's strategic goals and objectives, through strategic plans, budgets and work plans. This ensures that the company would continue to achieve sustained growth, efficiency and profitability. The Board establishes the company's values and ensures that its obligations to shareholders and other stakeholders are understood and met. All Directors must take decisions objectively in the interest of the company.

## INDEPENDENCE OF THE BOARD

The majority of Directors on the Board are independent in accordance with established Corporate Governance principles and must take decisions in the best interest of the Company.

There is a clear delineation of responsibilities between the running of the Board and the executive responsibility for the running of the Bank. No one individual has unrestricted powers of decision making. The roles of Chairman and Managing Director cannot be exercised by the same individual. To facilitate accountability and transparency, no one individual or group of individuals dominates the decision making process.

## SIZE OF THE BOARD

The Board comprises eleven members, ten of whom are elected or appointed by the holders of ordinary shares and the Managing Director who is an Executive Director. Collectively, the members of the Board must demonstrate a balance of skills and experience appropriate for the requirements of the business.

## CONFLICT OF INTEREST

Directors are required to complete and sign a Directors Declaration of Interest Form upon their appointment to Office. This form shall also be completed annually during their term of office and any material changes shall be reported immediately to the Corporate Secretary.

A member of the Board of Directors having a conflict of interest concerning a decision to be taken by the Board shall declare it to the Chairman or Secretary of the Board Meeting at the start of that meeting and shall absent him/herself from the discussion on the matter and voting on such decision.

## SUBSIDIARY BOARD

ECFH has one subsidiary, Bank of Saint Lucia Limited the Board of which is comprised of the same Directors.

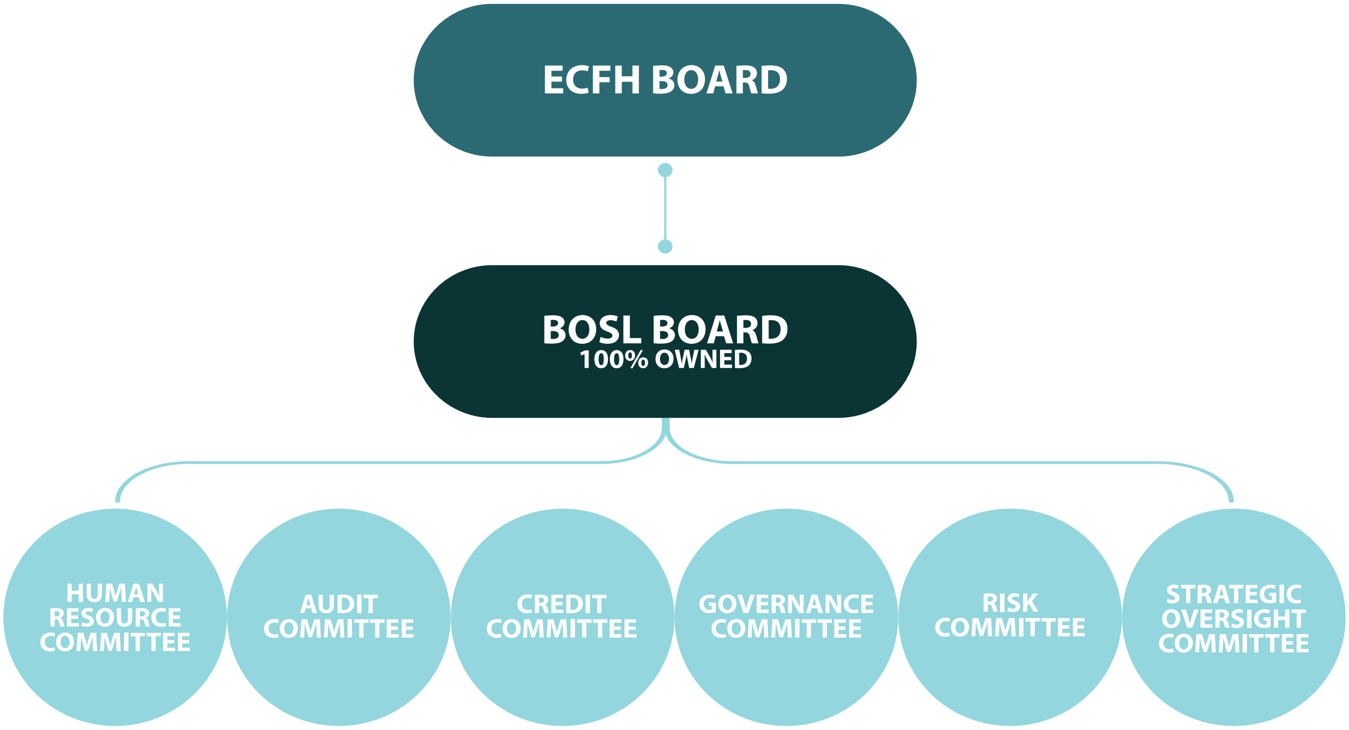
The ECFH Board has to be aware of all material risks and other issues that may ultimately affect its subsidiary to be able to exercise adequate oversight over the activities of the subsidiary.

The Board shall ensure that adequate risk management procedures are in place to identify, assess and monitor risk activities and to provide the desired balance between risk acceptance and returns. The Risk Management committee meets at least quarterly and reports to the Board quarterly.

## BOARD COMMITTEES

In an effort to effectively allocate tasks and responsibilities at the Board level, the Board has established committees with clearly defined objectives, authorities, responsibilities and tenure. These committees may serve the Boards of subsidiary companies. The Board shall not delegate matters requiring special approvals to any of its committees.

Committees consist mainly of independent directors and meet at least three times a year or when the need may arise. The Committees are as follows:




## 1. HUMAN RESOURCE COMMITTEE

This Committee enables the Bank to attract, retain and motivate highly qualified management and staff and is responsible for the following:

- Approving staff compensation
- Development of staff policies
- Appointment of Senior Management
- Management succession planning
- Approval of staff structure
- Ensuring that the right skills exist for the jobs within the Bank.

### MEMBERS

- Martin Dorville – Chairman
- Pat Payne
- Llewellyn Gill
- Trevor Louisy

## 2. AUDIT COMMITTEE

This Committee is responsible for providing oversight of the company's operations, in particular:

- The quality and integrity of the financial statements of the Bank
- The internal and external audit processes
- The Bank's processes for monitoring compliance with applicable laws and regulations, risk management processes and the code of conduct.
- Review of significant accounting and reporting issues.
- The effectiveness of the Bank's system of internal controls including information technology controls and its impact over annual and interim financial reporting.

### MEMBERS

- Omar Davis – Chairman
- Marcus Joseph
- Martin Dorville
- Llewellyn Gill
- Stewart Haynes

## 3. CREDIT COMMITTEE

This Committee's goal is to assist the Board of Directors in exercising their responsibility for the supervisory oversight of the loan and investment portfolio. It is responsible for:

- Reviewing and recommending the approval of all policies regarding loans, credit facilities and investments.
- Establishing and monitoring portfolio (credit and investment) concentration limits
- Setting lending limits and approving loans above management's limit and making appropriate recommendations to the Board for approval.
- Monitoring the implementation of the Board-approved policies regarding loans and investments.

### MEMBERS

- Llewellyn Gill – Chairman
- Frank V. Myers
- Orricia Denbow - Bullen
- Marcus Joseph
- Stewart Haynes

## 4. GOVERNANCE COMMITTEE

This Committee assists the Board in fulfilling its responsibilities in particular:

- Providing for qualified board succession
- Promoting the integrity of the Company through the establishment of appropriate corporate governance principles.
- Making recommendations to the Board regarding the membership and/or the structure of the Board's Committees.
- Making recommendations to the Board regarding the filling of vacant elective Directorships.

### MEMBERS

- Trevor Louisy – Chairman
- Omar Davis
- Pat Payne
- Orricia Denbow - Bullen

- Developing guidelines on the criteria for the selection of directors including criteria for the selection of nominees submitted by minority shareholders.
- Making nominations and recommendations on behalf of minority shareholders concerning new director candidates in view of pending additions, resignations or retirements.
- Overseeing, through the Committee Chair, the process for the annual assessment of Board performance

## 5. RISK MANAGEMENT

The purpose of the Board's Risk Management Committee is to assist the board to oversee the Bank's risk profile and approve the risk management framework of the Bank and its subsidiary within the context of the strategy determined by the Board. The committee will:

- Review and monitor aggregate risk levels in the business and the quality of risk mitigation and control for all areas of risk to the business.
- Make recommendations to the Board on areas for improvement in risk management policies and practices
- Apprise the Board of progress in implementing improvements in risk mitigation plans and actions.

### MEMBERS

- Stewart Haynes- Chairman
- Frank V. Myers
- Marcus Joseph
- Orricia Denbow – Bullen
- Omar Davis

## 6. STRATEGIC OVERSIGHT

The mandate of this Committee is to perform oversight of matters relating to, or affecting the Bank's strategic direction, in accordance with the approved Strategic Plan. The Committee:

- Provides oversight and advice to Management in the development and implementation of all such strategic initiatives.
- Makes recommendations to the Board on matters relating to the Bank's future direction which may include performing the following:
  a. consider proposals on the Bank's strategic direction in accordance with the Bank's mission
  b. receive reports from management on corporate performance with a view to ensuring that the Bank delivers its mandate in a consistent, effective and efficient manner;
  c. receive reports from management on trends and techniques with a view to evaluating the impact of such trends, techniques and technologies on the Bank's strategic direction

### MEMBERS

- Frank V. Myers - Chairman
- Martin Dorville
- Pat Payne
- Trevor Louisy

# PROFILE OF DIRECTORS

**FRANK V. MYERS**

**Date Appointed**
September 2019

**Profession**
Chartered Accountant

**Qualifications**
BSc. (Hons) Mathematics & Statistics, FCCA, AccDir

**TREVOR LOUISY**

**Date Appointed**
September 2014

**Profession**
Engineer

**Qualifications**
BSc. (Hons) Electrical Engineering

**ORRICIA DENBOW - BULLEN**

**Date Appointed**
September 2019

**Profession**
Retired Banker

**Qualifications**
FICB

**OMAR DAVIS**

**Date Appointed**
May 2012

**Profession**
Consultant

**Qualifications**
FCCA, AccDir, Member-ICSA

**MARTIN DORVILLE**

**Date Appointed**
April 2014

**Profession**
Management

**Qualifications**
MBA-Marketing & Finance

**LLEWELLYN GILL**

**Date Appointed**
May 2016

**Profession**
Chartered Accountant

**Qualifications**
FCPA, FCGA, FCIS, FCCA, AccDir, CAMS, GPC.D

**MARCUS JOSEPH**

**Date Appointed**
September 2016

**Profession**
Attorney at Law

**Qualifications**
BPTC

**STEWART HAYNES**

**Date Appointed**
August 2017

**Profession**
Actuary

**Qualifications**
FIA, CFA

**PAT PAYNE**

**Date Appointed**
January 2019

**Profession**
HR Professional

**Qualifications**
MSc Human Resource Development, Cert. Strategic HR

# DIRECTORS' REPORT

The Directors submit their Report for the Financial Year ended December 31, 2019.

## CHANGES TO THE BOARD

The following changes were made on the Board during the financial year:

- Director André Chastanet, who was Chairman of the Board and appointed by the Government of Saint Lucia, resigned effective April 30, 2019.
- Director Jacqueline Emmanuel – Flood's tenure came to end at the close of the AGM on May 16, 2019 and she did not offer herself for re-appointment.
- Mr. Llewellyn Gill was appointed as Interim Chairman of the Board for the period May 1, 2019 to September 25, 2019.
- Director Frank V. Myers was appointed by the National Insurance Corporation as their second representative on the Board, after the entity purchased shares to taking their shareholding to 20% in September 2019. He was subsequently appointed as the Chairman by the Directors in accordance with the provisions of the Bye Laws of the company.
- Director Orricia Denbow - Bullen was appointed by the Government of Saint Lucia as their second representative on the Board, after the entity purchased shares taking their shareholding to 20% in September 2019.

## DIRECTORS' INTEREST

The interests of the Directors holding office at the end of the Company's Financial Year 2019 in the Ordinary Shares of the Company were as follows:

| Director | Beneficial Interest |
|---|---|
| Frank V. Myers | 350 |
| Omar Davis | 3,530 |
| Marcus Joseph | 2,710 |
| Orricia Denbow - Bullen | 3,262 |
| Llewellyn Gill | 200 |
| Trevor Louisy | 200 |
| Stewart Haynes | Nil |
| Martin Dorville | Nil |
| Pat Payne | Nil |

There has been no change in these interests occurring between the end of the Company's Financial Year and one month prior to the date of the Notice convening the Annual Meeting.

At no time during or at the end of the Financial Year has any Director had any material interests in any contract or arrangement in relation to the business of the Company or any of its subsidiaries.

## RESTRICTIONS OF TRADING OF SHARES BY DIRECTORS

In accordance with the Securities Act No. 23 of 2001, and the Company's policy on Trading of shares by Directors and staff, Directors are restricted from trading in the shares of the company except during two (2) thirty-day (30) periods per year.

# AUDITORS

The Group's Auditor, KPMG, retire and offers themselves for re-appointment. The Directors have agreed that a resolution for the re-appointment of the auditor will be proposed at the Annual Meeting.

## SUBSTANTIAL INTERESTS IN SHARE CAPITAL AS AT DECEMBER 31, 2019

| Name of shareholder | Class of shareholder | No. of shares | Percentage of ownership |
|---|---|---|---|
| GOSL | Ordinary | 4,893,118 | 20% |
| National Insurance Corporation | Ordinary | 4,893,126 | 20% |
| Republic Bank Limited | Ordinary | 3,945,364 | 16% |
| National Insurance Corporation | Preference | 830,000 | 100% |

# SHAREHOLDER RELATIONS

The shares of the East Caribbean Financial Holding Company Limited (ECFH) have been listed on the Eastern Caribbean Securities Exchange (ECSE) from October 19, 2001. As a result, all shares are traded on the exchange, and records maintained by the ECSE in accordance with the regulations. A total of 15,702 shares were traded during the 2019 financial year.

As the issuer of the shares, the ECFH has the responsibility to ensure that all necessary information is communicated to shareholders on a timely basis and that dividends are paid in accordance with the dividend policy approved by the Board of Directors.

During the year, Directors approved and granted two new secondary school scholarships to children of shareholders residing in St. Lucia. The total number of scholarships granted is ten (10) at an annual cost of Fifteen Thousand dollars ($15,000). The scholarships are awarded annually on the basis of the students obtaining highest scores at the Common Entrance Examinations.

# SENIOR MANAGEMENT TEAM

**MEDFORD FRANCIS**
Managing Director (Acting)

**LYNDON ARNOLD**
Deputy Managing Director - Operations

**KETHA AUGUSTE**
Chief Financial Officer

**ESTHERLITA CUMBERBATCH**
Corporate Secretary

**MINELVA OCULIEN - MOSES**
Senior Manager - Human Resource Management & Development

**CEDRIC CHARLES**
Senior Manager - Investment Banking Services

**SHANTA LOUIS**
Senior Manager - Risk Management & Compliance Services

**MELISSA SIMON**
Senior Manager -
Internal Audit

**CYNTHIA LAURENT**
Senior Manager -
Operations

**ARLETA RATE-MITCHEL**
Senior Manager -
Retail Banking

**RICHARD SUTHERLAND**
Senior Manager -
Corporate Banking

**CECILIA FERDINAND LA-CORBINIÈRE**
Senior Manager -
Credit Administration

**OMARI FREDERICK**
Senior Manager -
Marketing & Corporate
Communications

# EASTERN CARIBBEAN CENTRAL BANK (ECCB) BANK OF THE YEAR AWARD - TECHNOLOGICAL INNOVATION


The award programme recognizes Banks within the Eastern Caribbean which have demonstrated excellence in “developing new products and services to enhance the customer experience; employ new technology and continuously improve their operations; demonstrate best practices in corporate governance and risk management; and highly company values through community programmes.”

On November 6, 2019, Bank of Saint Lucia was awarded the Bank of the Year Award in Technological Innovation. Enhancing the customer experience is at the core of all that we do. Over the years, Bank of Saint Lucia has continued to drive innovation in the local banking sector, recognizing the importance of time to our customers. The Bank continues to explore key projects and initiatives aimed at empowering customers with greater convenience and access to their funds. Investments will continue to be made in appropriate technology to assist in this regard. Since the inception of these awards in the 1997, Bank of Saint Lucia and predecessor institution, NCB Saint Lucia have won this prestigious award over half a dozen times.

Bank of Saint Lucia has the broadest ATM network on island which is just shy of 30 ATMs and Cash Dispensers, and over 800 Point of Sale and Wireless Point of Sale Devices, Mobile and Online Banking, Debit and Credit Card Services. In 2019, the island’s first dual currency ATMs were launched in the north and south of the island - The first such ATMs to be launched in Saint Lucia. The Bank launched the Visa My Rewards platform in the same year, which gives all personal BOSL Credit Cardholders the opportunity to generate and redeem points for a wide range of rewards every time they use their credit card. In 2020, the Bank will unveil the new customer Online & Mobile Banking powered by MobilEArth, which will give customers even greater functionality with person to person transfers and the initiating of wire transfers. Bank of Saint Lucia will also be the first indigenous Bank on island to launch VISA Contactless Debit and Credit Card Services in keeping with efforts to enhance the customer convenience service experience.

Customer accessibility is a key pillar of the Bank’s strategy, with technology at the core. Customers have the option of face to face interaction through the branch and convenience center networks; social media platforms; email; live chat facilitated through the Bank website; and extended hours from our Customer Support Centre. The Bank undertook an upgrade of the automated telephone greeting system, which allows telephone users to reach their respective party by voice activation - simply saying the name of the party they are trying to reach. Project teams are currently working towards enhancements to the account opening process and the loan origination system, using new and emerging technology, which will give customers greater convenience and ease in doing so.

**The Future is NOW!**

# SAFE SPACES: PEACE LEAGUE

# LUCELEC BOSL YOUTH FOOTBALL LEAGUE

The Lucelec BOSL Youth Football League in 2019, celebrated over a decade of partnership, impacting the lives of hundreds of young boys and young men, many of whom have gone on to represent Saint Lucia regionally and internationally.

The Bank was pleased to collaborate with co-sponsors Lucelec for another instalment of the league. This league is the largest youth league on the island and we are pleased to be a part of its growth over the years. Kudos must be extended to the Castries Football Council, our partners from inception, for organizing such an exceptional league for another consecutive year.

The Lucelec BOSL Football League is the largest on island, and caters to four different divisions in the Castries Basin, Under 11, Under 13, Under 15 and Under 17 divisions. Support of the league forms part of the Bank's overall Corporate Social Responsibility mandate of youth development through sports. Our support represents our commitment to the most important beneficiaries, the young players who continue to have a remarkable opportunity to develop their skills both on and off the field.

Bank of Saint Lucia threw its full backing behind the Rise St. Lucia Safe Spaces programme. This forms a major part of our Corporate Social Responsibility strategy and we were pleased to partner with Rise Saint Lucia Inc. The programme builds community leaders and peace through conflict resolution, violence interruption, community development, networking, entrepreneurship and life skills building. program in launching a community-based initiative to reduce crime and promote safe spaces in Saint Lucia.
We joined other partners for the full unveiling of the Peace League Futsal Tournament which was launched fittingly on Emancipation Day and was intended to end on Independence Day 2020. The league was an extension of the Safe Spaces programme, and comprised of 25 teams with approximately 370 people that were judged by their performance in not only futsal, but in community development and peace building activities. Teams were ranked by points in both areas. The tournament all-stars faced against the Bank of Saint Lucia team in an exciting exhibition match in which the Bank was defeated 4-2. Without communities there would be no Bank of Saint Lucia, therefore it was more than fitting to lend our support to ensure the success of this program.


# BANK OF SAINT LUCIA OWN YOUR HOME SHOWCASE

In keeping with ongoing outreach and engagement programmes, Bank of Saint Lucia launched its inaugural Own Your Home Showcase in November 2019 in Rodney Bay, Gros Islet. "The "Own Your Home Showcase" is our way of ensuring our existing and prospective customers make the right decision on buying or constructing a home. Owning a home is one of the most significant investments an individual can make in their life, and it is our responsibility to provide the expertise to guide our customers and prospective customers along this journey.

The showcase was the first of its kind in Saint Lucia and brought together customers and professional stakeholders involved in home construction and home purchase, including selected developers, contractors, engineers, architects and lawyers.

The second installment in the series, the Own Your Home Showcase and Seminar – South Edition was held in Vieux Fort in February 2020.

As an indigenous institution, we strive to empower our customers in making sound financial decisions not only for the near future but for a lifetime.


BANK OF SAINT LUCIA
OWN
YOUR
HOME
Banking
Bank of Saint Lucia

# MANAGEMENT
# DISCUSSION & ANALYSIS


## OVERVIEW

The Bank achieved many successes in 2019 and has delivered a third consecutive and incrementally stronger financial performance. This was facilitated through significant strides in achieving some of our strategic priorities through the consistent efforts of the team of dedicated employees. We remain steadfast on executing the remainder of our strategic plans with focus on our core banking activities to ensure we deliver sustainable profits in the long term.

Notwithstanding the financial turnaround of the company, we continue to be mindful and focused on both internal and external factors which can affect our performance. The competitive landscape is evolving with new ownership structures, the entry of financial technology firms (FinTechs) and changing customer preferences and behaviors. The Bank has expended significant time, research and capital outlay in improving its current suite of convenience banking services to introduce modern digital technology to keep pace with updated trends in the financial services sector and enhance our customer experience. Within the coming months, we expect to see upgrades to our ATM network, which will improve reliability and enhance customer experience.

We continue to review our Strategic Plan on an annual basis in light of the ever-changing environment. Our balance sheet benefited from the rally in the financial market during 2019 due to the dovish stance of the Federal Reserve on interest rates and the general easing of trade tensions between the United States and China.

The global and regional economy however, continues to be fraught with instability as these encouraging developments are over-shadowed by potential challenges with Brexit, global slowdown and the Corona Virus.

In Saint Lucia, increased economic activity with the new airport development project and the completion of St. Jude's Hospital was expected to fuel growth in 2020 and spill-over benefits to the financial sector. This is now shadowed by doubt as the Corona Virus forces government to close the borders and partially shutdown the island to non-essential services.

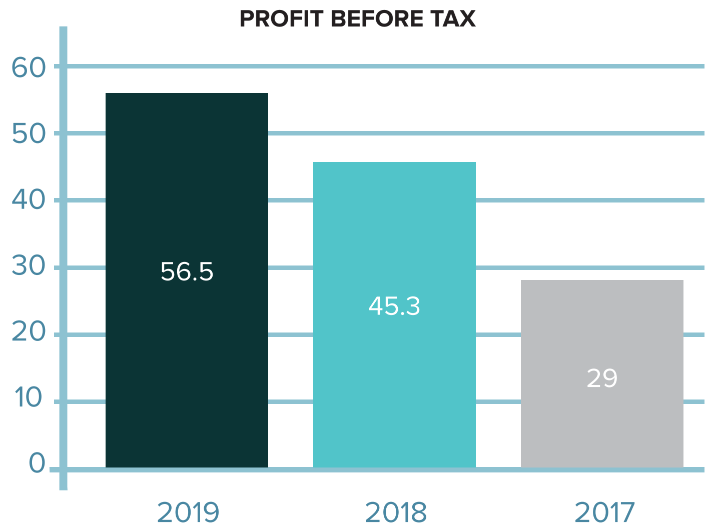
The Bank continues to direct resources towards ensuring compliance with new statutory and regulatory requirements including Foreign Account Tax Compliance Act (FATCA), Common Reporting Standards (CRS), General Data Protection Regulation (GDPR) and efforts to counter money laundering and Combating Financing of Terrorism (CFT). The Central Bank will be implementing BASEL II/III in the near future and the Bank has been working with the ECCB in that regard.

The Bank's market leading returns for 2019 were achieved through its conservative strategic asset liability management in the spate of a very competitive environment and a very successful recovery strategy. Additionally, the balance sheet benefited from the buoyant international market during 2019. The strength of the balance sheet has grown significantly over the past three years ensuring we are well placed to better serve our customers and drive core business to deliver sustainable returns to our shareholders. To this end in March 2019, in light of the profit reported in 2018, the Group made its first dividend payout since 2011. The dividend payment policy ensures that sufficient capital is retained to fuel future growth and provide a conservative buffer. The credit quality of the Bank's loan portfolio continues to improve due to stronger underwriting policies and this is also prevalent through the continued downward trajectory of the non-performing loan ratio. The Bank continues to maintain a very prudent level of loan loss provisioning with the level of provisions to NPLs increasing even further in 2019 from 60.8% in 2018 to 69.7%.

## FINANCIAL ANALYSIS

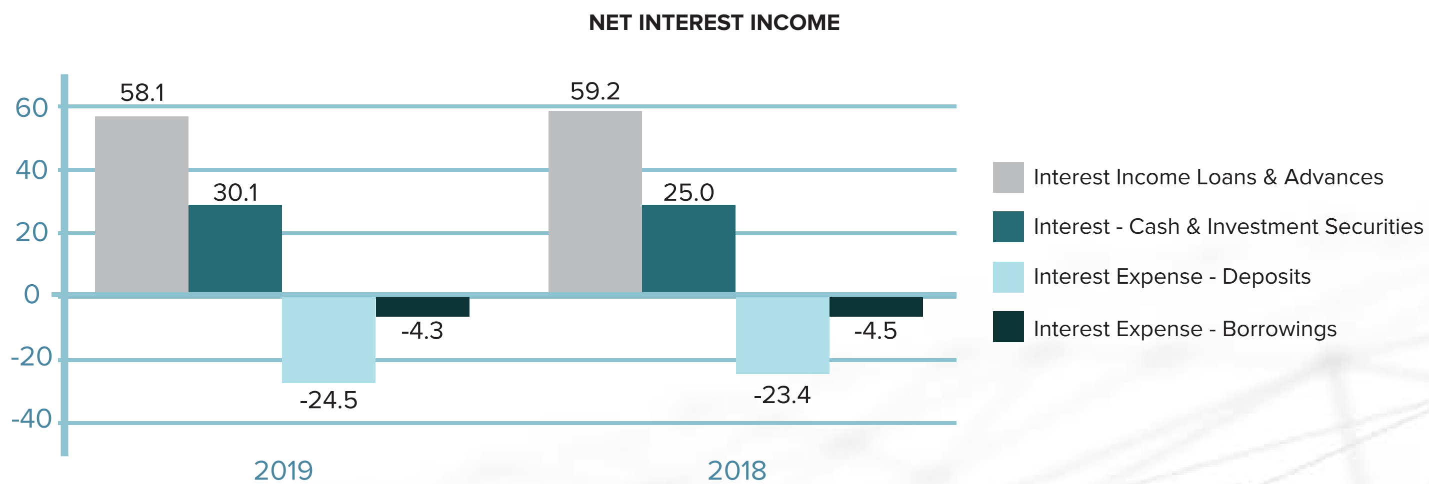
The Group's reported solid profits for the year of $55 million ($2.25 basic earnings per share) represents an enhancement of 22.29% from the previous year. This performance, in addition to other comprehensive income of $15.8 million largely arising from market value increases on financial instruments carried at fair value, has further solidified the Group's capital and accordingly value creation for our shareholders. Removing the impact of tax, the profits grew by 24.1% from $45.3 million to $56.3 million.

Return on equity was 25% compared to 26.6 % in the prior year.




## NET INTEREST INCOME

Net interest income of $59.4 million grew by $3.1 million or 5.6% mainly due to an increase of $5.2 million or 20.7% in interest on investments and short-term Certificates of Deposit (CDs) arising from the continued redirection of idle funds to medium and short-term investment instruments. This was offset by a decline in loan interest income of $1.11 million or 1.9% because 2018 benefited from the receipt of long outstanding interest on non-performing loans. Interest expense increased by $0.94 million or 3.3% to correspond with growth in the savings portfolio and an allocation for a share of returns on the portfolio of the retirement savings funds.



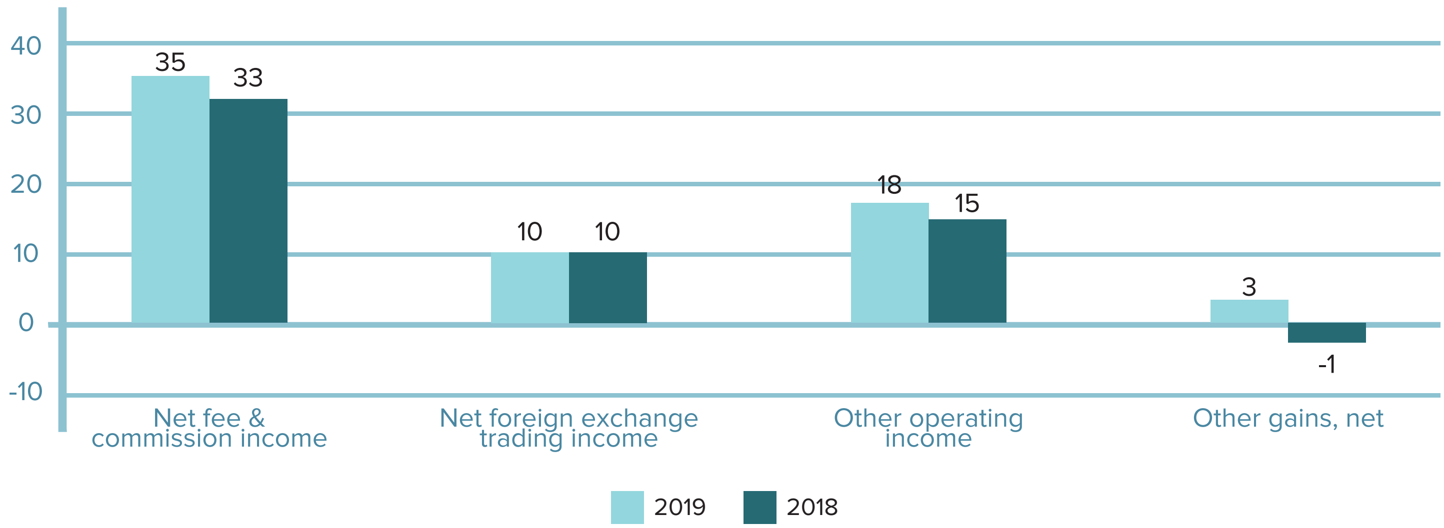
## NON-INTEREST INCOME

There was a 14.1% ($8.1 million) increase in non-interest income to $65.3 million. This was largely due a $4.6 million increase in realized and unrealized gains on internationally traded investments arising from a buoyant international market. Recovery income was up $2.7 million due to continued persistent efforts to regain some of the losses incurred from impaired loans in prior periods. Commission and fee income was up $1.8 million primarily from growth in credit card business. Reductions in foreign exchange gains and rental income totaling $1 million partially offset the increases above.

## IMPAIRMENT LOSSES

Impairment losses on loans was down by $2.3 million from $8.7 million in 2018 to $6.4 million in 2019. This is due to a general reduction in the migration rate of loans to non-performing status from 1.6% to 1% in 2019 as the Bank continues to aggressively pursue delinquent clients to safeguard our depositors' funds and shareholder wealth. The Bank continued to apply prudent provisioning measures by ensuring that provisions on non-performing loans and loans with increased credit risk accurately reflects recoverability based on historical trends and the particulars of the credit. To this end, the provisions for loan losses to non-performing loans increased to 69.7% compared to 60.8% last year. In addition, this year the Group achieved its targeted ratio of 100% provisioning plus contingency reserve to non-performing loans.

NON-INTEREST INCOME




## OPERATING EXPENSES

The operating efficiency was 58.8% compared to 59.6% in the prior year as the increase in operating income more than compensated for the increases in operating expenses.

The 7.2% ($4.6 million) increase in operating expenses, was largely attributed to $2.6 million increase in staff costs due to settlement of wage negotiations for the triennium period 2016 to 2019, increase pension cost from annual revaluation of defined benefit pension liability and other strategic expenses to engender staff development and engagement. Other noteworthy increases in other operating expenses included Heating, Ventilation and Air Conditioning (HVAC) costs to correct air quality issues and technical and professional costs related to improved operational efficiency and service delivery.

## SHARE OF PROFITS OF ASSOCIATES

Share of profits in associates was up $1.9 million or 34.9% from the prior year. This reflects the share of profits from its 20% shareholding in East Caribbean Amalgamated Bank Limited (ECAB) and Bank of Saint Vincent and the Grenadines (BOSVG).

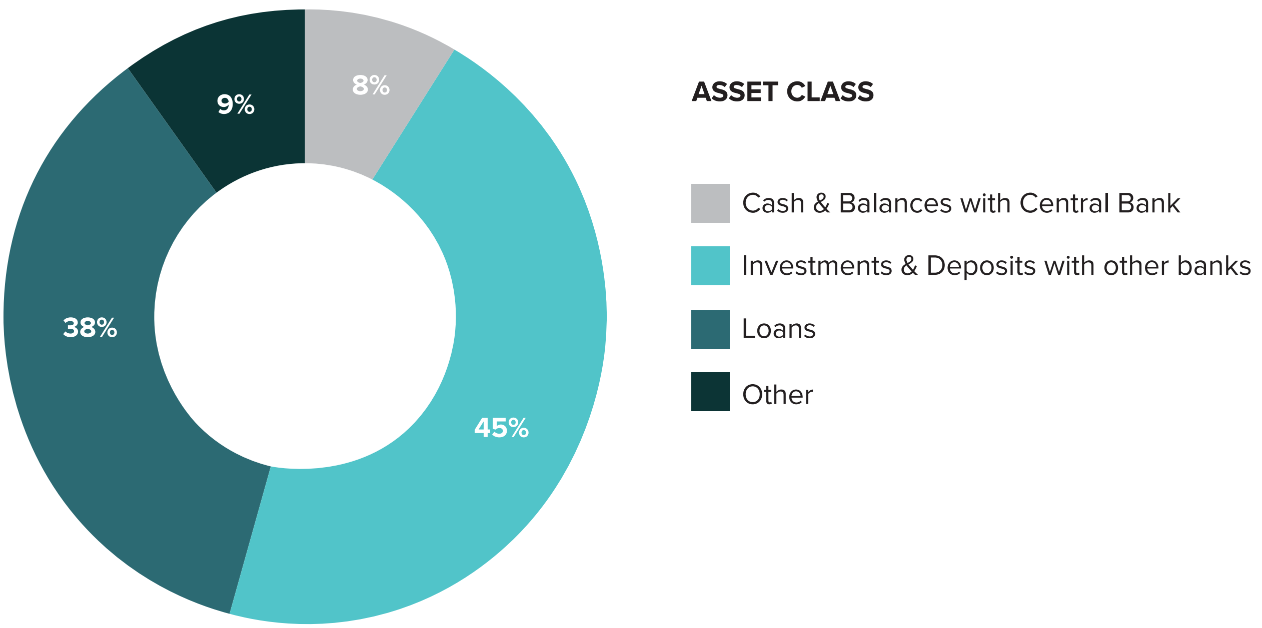
## INCOME TAX

The tax expense of $1.3 million was $0.9 million or 254.7% higher than the prior year. This is largely attributed to higher profits for the year. The Bank continues to benefit from the utilization of tax losses which expire in 2022.

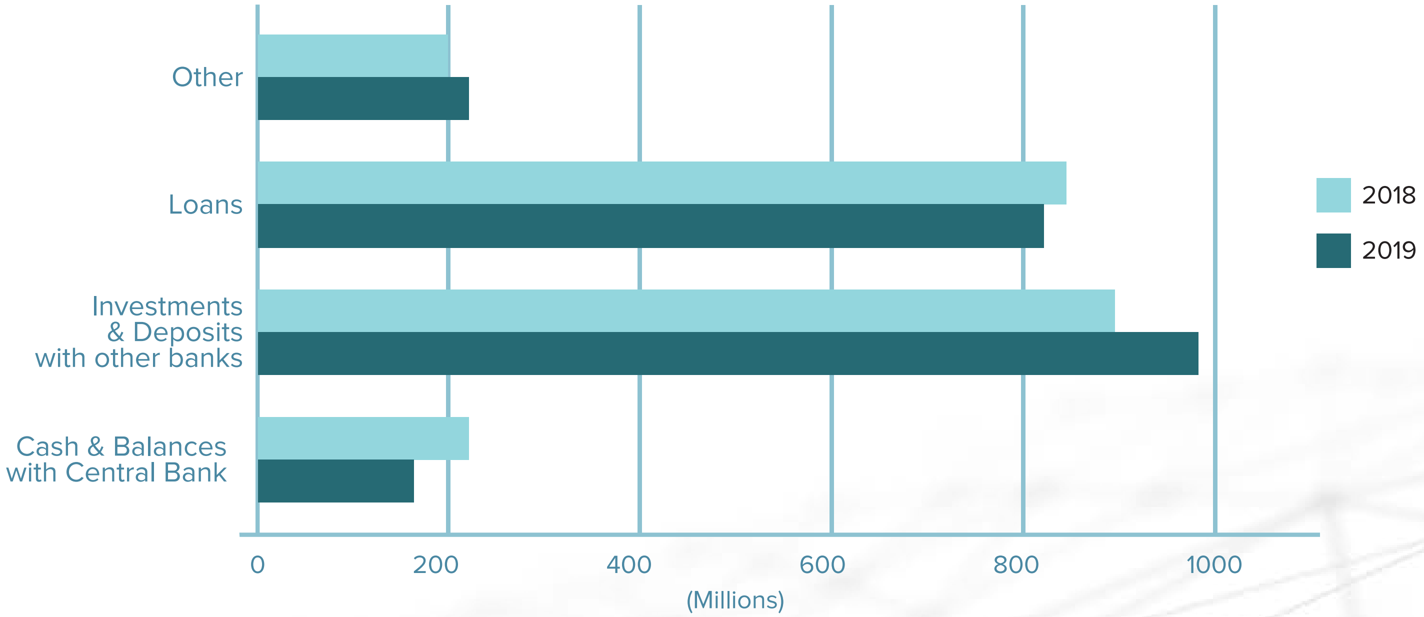
## GROUP BALANCE SHEET

The Group's balance sheet is managed in a conservative manner to allow us to drive the core business whilst maintaining adequate levels of liquidity, ensure sustainable results, and maintain a strong capital base in order to create value for our shareholders.

The $43.5 million (2% growth) in the Group's assets was driven by the Bank's notable performance for the year. The Group was able to record an increased return on assets from 2.1% to 2.5% partly through prudent asset liability management as more idle funds were placed on investment securities and short-term certificates of deposit.




**BALANCE SHEET GROWTH**



## CUSTOMER DEPOSITS

The 0.44% or $8.1 million decline in customer deposits were due to institutional customer deposits held on call which tend to be volatile. The core deposit base including savings deposits recorded increases year on year.

| | 2019 | 2018 | Change |
|---|---|---|---|
| Term Deposits | 357.5 | 368.1 | (10.6) |
| Savings | 675.7 | 645.4 | 30.3 |
| Call deposits | 281.0 | 336.5 | (55.5) |
| Demand deposits | 499.0 | 471.3 | 27.7 |
| | 1,813.2 | 1,821.3 | (8.1) |

## LOANS AND ADVANCES

The contraction of the net loans portfolio by $10.5 million or 1.2%, was evident in corporate loans as repayments surpassed disbursements for the year. However, there was success in the growth of the Retail portfolio. The Group remains mindful to exercise due care in its underwriting practices and not to forfeit quality at the expense of achieving targets. The quality of the portfolio improved as the ratio of non-performing loans to total loans declined 1.3 percentage points to 10%.

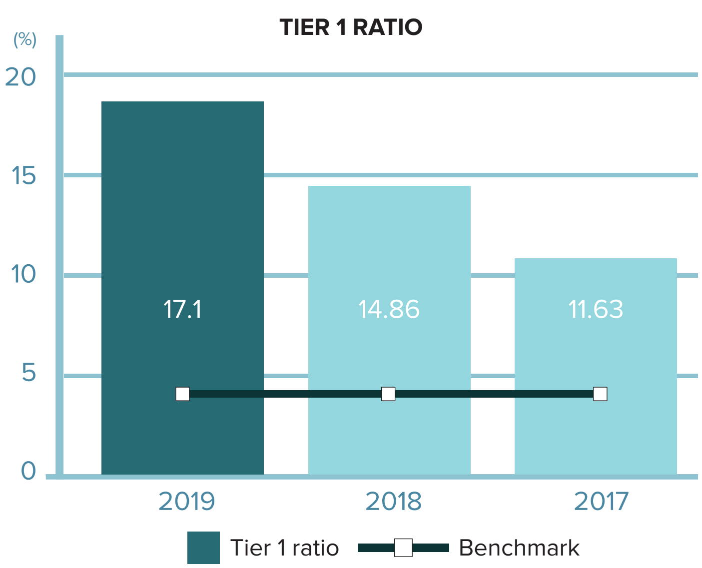
## SHAREHOLDERS' EQUITY

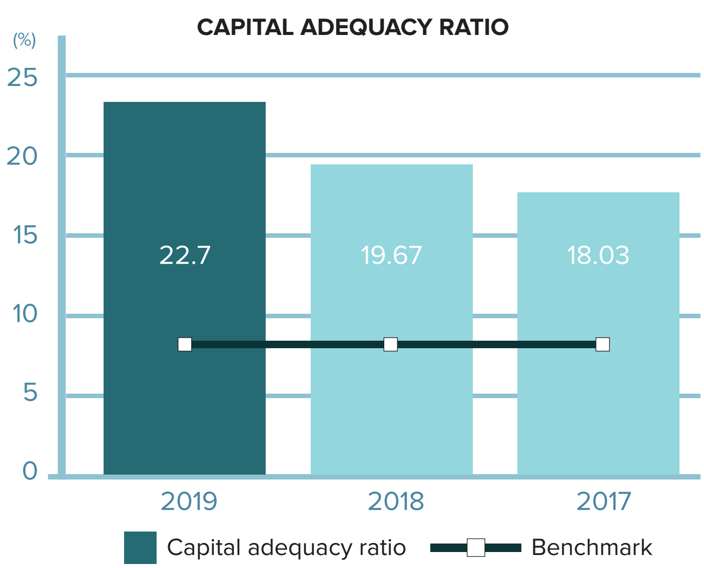
Total shareholder's equity was up 32.1% or $60.9 million. This arose from profits for the year and fair value gains recorded on investment held at fair value through other comprehensive income. Book value of ordinary shares has increased from $7.76 in 2018 to $10.25.

During the year, the Group paid dividends on ordinary shares of $0.30 per share relating to the results of 2018. The board has proposed a dividend of 25 cents per share for the year ended 2019.

Return on average equity of 25% was down from 26.6% in 2018. Despite the growth in profits, the reduction in ROE was attributed to unrealized gains on the portfolio of investments held at fair value through Other Comprehensive Income causing a disproportionate increase in average equity. The Group's ROE has been recorded above its 15% internal benchmark for the past three years.

Bank of Saint Lucia's capital adequacy ratios remain well above regulatory benchmarks with the tier 1 ratio at 17.1% a 2.24 percentage point improvement from 2018 and total capital ratio (Tier 1 and Tier 2) of 22.7%.



## STRATEGIC PLAN UPDATE

The Strategic Plan has guided the performance of the Bank from 2018 to present, and is subject to formal review to determine relevance in a rapidly changing local, regional and global financial space. A full review is being undertaken to align our strategy going forward with what is predicted to be very challenging times for the global and local economy brought about by the COVID-19 pandemic. Notwithstanding this, significant progress was made in the areas of credit underwriting but much more work is required here as we aim to streamline our lending process to meet the demands of customers with appropriate technology as the catalyst in this regard.

Additionally, attention was also paid to development of our human capital and we continue to work towards the strengthening of our talent management, developing more engaged, motivated and productive employees and fostering a change of organizational culture towards service excellence and enterprise risk awareness. We also expect that during the 2020 fiscal period, we will complete our refresh brand initiative which will bring all of these initiatives noted here together to cultivate a culture of respect and positivity, where the value systems are lived out throughout as we reimagine banking to forge the future of our community and island nation.

## OUTLOOK

The onset of the Corona virus Pandemic has drastically altered the global economic and financial landscape. The Pandemic has altered global demand for discretionary products and services and has disrupted supply chains. As a result, the world economy will go into recession in 2020 with developed and developing countries alike being severely impacted.

Saint Lucia, with its heavy reliance on tourism and its linkages to all other sectors will be significantly challenged. Apart from hotel closures, restaurants and entertainment activities as well as retail and distribution services will all be curtailed resulting in significant loss of employment. By extension, losses are anticipated within the Financial Services Sector as bank and nonbank financial institutions would be forced to provide relief packages to customers or face mounting nonperforming debt.

The planned review of BOSL's current Strategic Plan is therefore imperative. The pillars of (1) Sustained Profitability (2) Enhance Customer Value (3) Operational Excellence and (4) Intangible Asset Development will be reevaluated in the context of the new world dispensation brought on by the Corona virus Pandemic. This new dispensation is characterized by a greater focus on social distancing which will find expression in a greater use of telecommuting, e-conferencing, virtual learning, digitalization and use of electronic channels for delivering products and services.

We expect that some of the major infrastructural projects slated for 2020 which was expected to spur economic growth in the local economy, particularly in the construction sector, will be delayed. Once we get beyond the current Pandemic, economic activity should rebound strongly with growth in employment and robust revenue generation in both the public and private sectors. A significant injection of funding would however be required initially to jumpstart activity and boost investor confidence.

# RISK MANAGEMENT

The Bank continued to operate in an environment where financial institutions are invariably faced with a myriad of risks, spanning local, regional and international levels. Whilst these risks evolve at varying intensities and magnitudes compared with historic periods, the Bank heightened its risk posture to safeguard its financial safety and soundness. For instance, the Bank altered its Risk Appetite Statement to comprehensively account for current and evolving risks that can potentially impact the Bank's ability to achieve its strategic goals and objectives.

The Bank fashioned its Risk Appetite Statement by integrating a high level of research, assessment and analysis of the economic, financial and operating environment of the Bank. In addition, the Risk Appetite statement was informed by stipulations and pronouncements of regulators, key stakeholders, and global best practices. The Board of Directors, Committees of the Board, Executive Management and Business Units played significant roles in ensuring the implementation of and adherence to the enterprise risk framework and policies.

The Bank adopted a 'Three Lines of Defense' model in its enterprise risk management framework to strengthen the coordination and awareness of the roles and responsibilities across operational management, risk management and internal audit. The first line of defense comprises the business units that own and manage risks on a granular basis and ensure timely implementation of risk mitigation actions and controls. The second line of defense involves the risk and compliance manager that monitors, challenges and reports risk-related practices and information. This oversight function is independent to the first line of defense and has access to the Board through the Risk Management Committee. The internal audit function forms the third line of defense. This line provides independent assurance to Senior Management, Board Committees, and the Board. The Board ensures that this line operates with the highest level of independence and objectivity by providing unrestricted access to the Board through the Audit Committee. The Bank also ensures its risk management processes are watertight and agile by ensuring that the roles, functions, activities and insights of the external auditors and regulators are enshrined in the risk management culture, practices and mechanisms.

Collectively, these lines of defense are integrated and coordinated to achieve the Board's risk appetite, which is classified as "cautious". This means that the Board's primary focus and preference are aligned to the safety and soundness of the Bank.

The Bank has implemented a robust Enterprise Risk Management framework to identify, assess, measure, monitor, and report on the existing and emerging risks. To this end, the Bank utilized appropriate and effective risk management tools including Risk Registers, Stress Testing, Trend Analysis, Scenario Analysis, and Risk Tolerance Dashboards in its risk management processes.

The importance of effective risk management is etched highly in the strategic objectives of the Bank as evidenced by the Bank's inclusion of the objective "Enhancement of the Risk Culture" as a strategic priority area. Consequently, the Risk Management and Compliance Services Department, along with all other Risk Owners within the organization, implemented various controls and measures to influence and align employees' values, knowledge and behaviors towards the risk appetite of the Bank. In this regard, the Bank employed various risk treatment techniques around avoidance, reduction, transfer, acceptance and sharing of risk. The competent Risk Officers were responsible for timely risk identification, risk assessments, risk monitoring and review, and risk control assessments. Further, the Risk Officers have responsibilities for communication, training and consultation with risk owners with the view of towards influencing decisions which assist in risk mitigation.

During the period under review, the Bank noted its residual exposure to credit, market and operational risks remained high and outside the Board's risk appetite. As such, the Bank heightened its risk management functions in this area to ensure risk findings are reported and acted upon in a timely manner to the Managing Director and Risk Committee of the Board, along with the other risk assessments of other areas. The following are the main considerations for these high-risk areas:

## CREDIT RISK

Credit risk is the risk of a loss resulting from the Bank's borrowers' or counterparties' failure to fulfil their contractual obligations to the Bank. As such, credit risk is inherent in the business activity of banks, specific to both the loan and investment portfolios, as well as with deposits held by the Bank with other financial institutions. Given that exposure to credit risk continues to be the leading source of problems in banks world-wide, the Bank has drawn useful lessons from past experiences, and continues to implement strategic and effective approaches to managing this inherent risk. In addition, the Bank implemented proper and strong controls in its credit screening and monitoring processes to identify and accept only these credit considerations which fall within the risk appetite of the Bank.

Also, a Credit Risk Unit and Credit Administration Department are well placed to effectively mitigate existing and emerging credit-related risks in the loan adjudication processes. This involves documented credit underwriting methodologies and procedures to effectively and efficiently manage credit risks.

In addition, the Bank has embarked on a significant project to bolster loan administration, training of all credit staff and loan recovery management.

To take advantage of its mature technology platform, the Bank utilized Information Systems and Analytical Techniques to monitor the gross exposure of the Bank to existing credit facilities, with special considerations to key factors such as legislation, economic indicators, environmental and social factors. A comprehensive rating system is also applied to individual loans as well as portfolios, to assist as part of the early warning signals. Notwithstanding the aforementioned systems and policies, the Bank maintains a robust policy for determining the adequacy of loan loss provisions held for any loan deemed impaired or past due.

The Bank's Risk professionals analyze the concentration of credit risk across borrowers, industries, and economic sectors. Also, the Bank adopted a comprehensive approach to credit risk management by taking account of the challenges posed by the outdated foreclosure legislation, the quality of valuations and robustness of legal documents used for collateral, the looming recessionary pressures, the volume of non-performing and non-accrual loans, and the results of the stress tests in the provision of forward-looking metrics specific to the current portfolio. The enhanced credit risk management assisted with the improvement in the quality of the credit portfolio and provided a further buffer for the timely and robust provisioning.

Whilst a revision of the foreclosure legislation of Saint Lucia remains a longstanding expectation, the Bank is hopeful that the efforts of the ECCB towards harmonized foreclosure legislation for the ECCU, shall add tremendous strength to the Bank in this regard. Also, ECCB's additional efforts towards the establishment of the ECCU Credit Bureau and ECCU Partial Credit Guarantee Corporation are expected to further grow the portfolio in a stronger and more resilient manner.

## OPERATIONAL RISK

Operational risk is the risk of loss, resulting from people, inadequate or failed processes and systems, or from external events. Risk management practices to mitigate against such risks are continuously enhanced, through strengthening internal controls, sound governance, strengthening of risk culture, and compliance with the Bank's code of conduct and the ethics policy. The operational risks which pose significant threats to BOSL are cyber risk, money laundering risks and threats to correspondent banking relationships.

However, the Bank adopted a robust risk and compliance management framework which positioned the bank to effectively mitigate t these associated risks. The Bank also employs continuous training of all staff on the subject areas, implements strict internal controls and maintains trained compliance professionals. Whilst all these key operational risks, continue to pose significant threat to all financial institutions globally and continue to grow in sophistication, the Bank would continuously tweak and strengthen its risk management framework and methodologies to safeguard the Bank's assets, information, systems and reputation.

## MARKET RISK

Market risk is mainly related to the Bank's participation in the financial markets. It is the risk of loss arising from unfavorable movements in market factors such as equity prices, commodity prices, interest rates and inflation rates. The Bank mitigates this risk category by astutely monitoring global financial and market events and taking key timely decisions to manage the investment and loan portfolio to limit the exposure market related risks. The Bank's Investment Unit and Asset and Liability Committee play pivotal roles in safeguarding the Bank's assets and liabilities against market related risk.

In addition to the above risk management systems employed by the Bank, keen attention is directed to all emerging risks and shocks. In the context of COVID-19, the Bank has taken bold and considerable steps to protect the health and safety of employees. Also, the Bank tweaked its risk management and strategic positions to mitigate the likely impact of this pandemic on the Bank's safety and soundness. For instance, the asset allocation strategies have been tilted to a more conservative basis and the Bank has strengthened its ICT risk posture address the likely increase in incidents of cyber security risks. At the writing of this report, the COVID-19 situation remains unpredictable. As such, the Bank would be prudent, agile and practical in its response to this pandemic.

# BANK OF SAINT LUCIA LIMITED

## OUR VISION

OUR BANK

STRONG SECURE PROFITABLE

## OUR MISSION

WE ARE THE BANK OF CHOICE, DEDICATED TO MEETING THE NEEDS AND ASPIRATIONS OF OUR PEOPLE IN A PROFESSIONAL AND EFFICIENT MANNER

## OUR VALUES

INTEGRITY & ETHICS

COMMITMENT

ACCOUNTABILITY

RESPECT FOR THE INDIVIDUAL

EXCELLENCE IN SERVICE

# Bank of Saint Lucia Limited

Statement of Financial Position

**As at 31 December 2019**

(expressed in Eastern Caribbean dollars)

| | Notes | **2019** **$** | 2018 $ |
|---|---|---|---|
| **Assets** | | | |
| **Cash and balances with Central Bank** | 5 | **184,245,453** | 223,982,801 |
| **Deposits with other banks** | 6 | **205,294,891** | 167,216,263 |
| **Deposits with non-bank financial institutions** | 7 | **53,026,053** | 33,436,996 |
| **Treasury bills** | 8 | **12,879,957** | 17,409,437 |
| **Financial assets held for trading** | 9 | **21,367,656** | 18,622,966 |
| **Investment securities** | 12 | **695,492,442** | 668,963,580 |
| **Financial instruments-pledged assets** | 13 | **8,265,705** | 8,189,148 |
| **Due from related parties** | 14 | **78,033,099** | 82,015,212 |
| **Loans and receivables - loans and advances to customers** | 10 | **838,730,158** | 849,214,664 |
| **Property and equipment** | 15 | **47,581,798** | 46,452,536 |
| **Right-of-use-lease asset** | 16 | **1,056,752** | - |
| **Other assets** | 17 | **48,636,128** | 48,544,546 |
| **Investment in associates** | 19 | **4,800,000** | 4,800,000 |
| **Investment properties** | 20 | **31,954,500** | 31,954,500 |
| **Retirement benefit asset** | 21 | **15,032,050** | 10,445,137 |
| **Income tax recoverable** | | **643,851** | 3,777,327 |
| **Deferred tax asset** | 22 | **7,227,827** | 3,999,622 |
| **Total assets** | | **2,254,268,320** | 2,219,024,735 |
| **Liabilities** | | | |
| **Deposits from banks** | 23 | **49,631,408** | 55,844,642 |
| **Due to customers** | 24 | **1,816,277,749** | 1,824,329,511 |
| **Lease liability** | | **1,056,752** | - |
| **Repurchase agreements** | 13 | **8,001,405** | 7,952,878 |
| **Borrowings** | 25 | **63,843,875** | 71,519,093 |
| **Dividends payable** | | **290,500** | 581,000 |
| **Preference shares** | 26 | **4,150,000** | 4,150,000 |
| **Other liabilities** | 27 | **39,647,589** | 35,930,214 |
| **Total liabilities** | | **1,982,899,278** | 2,000,307,338 |
| **Equity** | | | |
| **Share capital** | 28 | **265,102,745** | 265,102,745 |
| **Reserves** | 29 | **204,695,603** | 191,633,284 |
| **Revaluation surplus** | | **13,855,322** | 13,855,322 |
| **Unrealised gain/(loss) on investments** | | **7,721,221** | (5,139,264) |
| **Accumulated deficit** | | **(220,005,849)** | (246,734,690) |
| **Total equity** | | **271,369,042** | 218,717,397 |
| **Total liabilities and equity** | | **2,254,268,320** | 2,219,024,735 |

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

Approved by the Board of Directors on March 26, 2020.

_______________________ Director _______________________ Director

# Bank of Saint Lucia Limited

Statement of Profit or Loss

**For the year ended 31 December 2019**

(expressed in Eastern Caribbean dollars)

| | Notes | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Interest income** | 31 | **88,217,512** | 84,012,242 |
| **Interest expense** | 31 | **(28,853,875)** | (27,918,582) |
| **Net interest income** | | **59,363,637** | 56,093,660 |
| **Fee and commission income** | 32 | **34,509,961** | 32,682,559 |
| **Dividend income** | 33 | **469,239** | 538,034 |
| **Net foreign exchange trading income** | 34 | **9,825,206** | 10,279,335 |
| **Other income** | 35 | **17,381,236** | 15,178,870 |
| **Other gains/(losses), net** | 36 | **3,339,716** | (1,229,804) |
| **Impairment losses on loans and advances** | 11 | **(6,383,428)** | (8,675,280) |
| **Impairment losses on investments** | | **(87,103)** | (244,737) |
| **Operating expenses** | 37 | **(68,932,382)** | (64,303,301) |
| **Profit before income tax and preference shares** | | **49,486,082** | 40,319,336 |
| **Dividends on preference shares** | 26 | **(290,500)** | (290,500) |
| **Profit before income tax** | | **49,195,582** | 40,028,836 |
| **Income tax expense** | 39 | **(1,258,765)** | (354,531) |
| **Profit for the year after taxation** | | **47,936,817** | 39,674,305 |

# FINANCIAL
## REPORTING RESPONSIBILITIES

The management of the East Caribbean Financial Holdings Company is responsible for the preparation and fair presentation of the financial statements and other financial information contained within this Annual Report. The accompanying financial statements were prepared in accordance with International Financial Reporting Standards. Where amounts had to be based on estimates and judgments, these represent the best estimates and judgments of Management.

In discharging its responsibility for the integrity and fairness of the financial statements, and for the accounting systems from which they were derived, Management has developed and maintains a system of accounting and reporting which provides the necessary internal controls that ensure transactions are properly authorized, assets are safeguarded against unauthorized use of or disposition and liabilities are recognized. This is supported by written policies and procedures; quality standards in recruiting and training employees; and an established organizational structure that permits accountability for performance within appropriate and well-defined areas of responsibility. An Audit Unit that conducts periodic audits of all aspects of the Group's operations further supports the system of internal controls.

The Board of Directors oversees Management responsibility for financial reporting through the Audit Committee, which comprises only Directors who are neither officers nor staff of the Bank. The primary responsibility of the Audit Committee is to review the Group's internal control procedures and plan revision of those procedures, and to advise Directors on auditing matters and financial reporting issues. The Group's Head of Internal Audit has full and unrestricted access to the Audit Committee.

The Eastern Caribbean Central Bank makes such examination and enquiry into the affairs of the Group as deemed necessary to ensure that the provision of the Banking Act relating to safety of depositors' funds and shareholders' equity is being observed and that the Group is in a sound financial condition.

KPMG appointed as Auditors by the shareholders of the Group, have examined the financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Group's financial reporting and adequacy of the systems of internal control.

**Medford Francis**
Managing Director (Ag.)

**Ketha Auguste**
Chief Financial Officer

# CONSOLIDATED ECFH FINANCIAL STATEMENTS

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# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of East Caribbean Financial Holding Company Limited**

## Report on the Audit of the Consolidated Financial Statements

### *Opinion*

We have audited the consolidated financial statements of East Caribbean Financial Holding Company Limited and its subsidiary (collectively, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statements of profit or loss, 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 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRs).

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *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 Ethic 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 the Eastern Caribbean, and we have fulfilled out 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.

**INDEPENDENT AUDITOR'S REPORT, continued**

**To the Shareholders of East Caribbean Financial Holding Company Limited**

***Key Audit Matters, continued***

| Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| **IFRS 9 Expected Credit Losses** | |
| *Refer to Notes 2, 11 and 12 of the consolidated financial statements*<br><br>IFRS 9, *Financial Instruments*, was implemented by the Group on January 1, 2018. The standard, which replaced IAS 39 *Financial Instruments: Recognition and Measurement* is new and complex and requires the Group to 2 expected credit losses ('ECL') on financial assets, the determination of which is highly subjective and requires management to make significant judgement and estimates.<br><br>The key areas requiring a greater level of judgement by management and therefore increased audit focus include the identification of significant increase in credit risk ('SICR') and the application of forward-looking information.<br><br>The identification of significant increase in credit risk is a key area of judgement as these criteria determine whether a 12 month or lifetime provision is recorded (i.e. the Stage allocation process). IFRS 9 requires the Group to measure expected credit losses on a forward-looking basis reflecting a range of future economic conditions.<br><br>Significant management judgement is used in determining the economic scenarios and management overlay. | **General**<br><br>We understood management's process and reviewed key activities around the determination of expected credit loss allowances including:<br><br>- Appropriateness of modeling methodology;<br>- Model approval;<br>- The identification of credit impairment events; and<br>- The review, challenge and approval of the expected credit loss allowances, including the impairment model outputs, key management judgments and overlays applied.<br><br>**Stage 1 and Stage 2 Loans and advances**<br><br>• Obtained an understanding of the impairment model used by management for the calculation of expected credit losses.<br><br>• Tested the completeness and accuracy of the key data inputs used in the model to the underlying accounting records. |

INDEPENDENT AUDITOR'S REPORT, continued

**To the Shareholders of East Caribbean Financial Holding Company Limited**

***Key Audit Matters, continued***

| Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| **IFRS 9 Expected Credit Losses (cont'd)** | |
| For the Group's loans and advances in Stage 1 and 2 (i.e. *Stage 1* - loans which had not experienced a significant increase in credit risk since origination and; *Stage 2* - those that had experienced such), the allowance is determined on a collective basis with the use of impairment models. These models use a number of key assumptions including probability of default, loss given default and valuation of recoveries. Management also apply overlays where they believe the model calculated assumptions and allowances require refinement due to historical trends or due to the model limitations.<br><br>For the Group's loans and advances in Stage 3 (i.e. credit impaired facilities) expected credit losses are estimated on an individual basis. Specific criteria has been developed to identify loans that have become credit impaired. However judgement is exercised to determine whether any additional loans are exhibiting specific characteristics that would lead to such classification. The Group then estimates the expected future cash flows related to those loans.<br><br>We therefore determined that the impairment of loans and advances has a high degree of estimation uncertainty. | • Involved our actuarial specialists to evaluate the reasonableness of the Group's ECL estimates based on the underlying ECL models produced by the Group. As part of this, the specialists reviewed the methodologies and assumptions employed within the models for reasonableness. This included a review of the SICR criteria used, the derivation and assumptions selected for probability of default, loss given default and the exposure at default. Additionally the specialists considered the appropriateness of using a management's overlay approach in lieu of a regression model based on the statistical credibility results provided.<br><br>**Stage 3 Loans and advances**<br><br>• We critically assessed the criteria for determining whether a credit impairment event had occurred. This involved reviewing a sample of loan facilities in Stage 1 and 2 for indicators of a credit impairment event based on determined risk characteristics.<br><br>• We assessed the adequacy of the impairment allowance for loans and advances by testing the key assumptions used in the Group's ECL calculations including forecasts of future cash flows and timing of such. |

**INDEPENDENT AUDITOR'S REPORT, continued**

**To the Shareholders of East Caribbean Financial Holding Company Limited**

***Key Audit Matters, continued***

| Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| **IFRS 9 Expected Credit Losses (cont'd)** | |
| | • We involved our internal valuation specialists in the review of third party valuations of the underlying collateral security supporting a sample of loans and advances.<br><br>• We also considered the current market conditions and compared these against the Group's historical experience of the realization of security and actual collection of cash flows.<br><br>• Re-performed management's allowance calculation. |

KPMG

**INDEPENDENT AUDITOR'S REPORT, continued**

**To the Shareholders of East Caribbean Financial Holding Company Limited**

***Key Audit Matters, continued***

| **Key Audit Matter** | **How the matter was addressed in our audit** |
|---|---|
| **Valuation of financial instruments held at fair value** | |
| *Refer to Notes 2, 3 and 14 of the consolidated financial statements*<br><br>The Group invests in various investment securities for which no published prices in active markets are available. These have been classified as Level 2 assets within the IFRS fair value hierarchy.<br><br>Valuation techniques for these financial instruments can therefore be subjective in nature. Fair value is determined through the application of valuation techniques which often involve the exercise of judgment by management and the use of assumptions, estimates and valuation models.<br><br>For Level 2 assets, valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analyses making maximum use of market inputs, such as market risk free yield curve. | With the support of our valuation specialists, we performed the following tests:<br><br>- Challenged the appropriateness of assumptions and valuation methodologies used in calculating fair values and testing their application.<br>- Independently assessed the fair value of the investments by developing an independent model.<br>- Compared the valuation provided by the Group to those calculated using our model.<br><br>We also reviewed and verified that the financial statement disclosures were appropriate and included the required IFRS 13 fair value measurement disclosures which are key to explaining the valuation techniques, key judgments, assumptions and material inputs. |

## INDEPENDENT AUDITOR'S REPORT, continued

**To the Shareholders of East Caribbean Financial Holding Company Limited**

***Other Information***

Management is responsible for the other information. The other information comprises the Group's 2019 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this 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 2019 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT, continued**

**To the Shareholders of East Caribbean Financial Holding Company Limited**

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

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

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT, continued**

**To the Shareholders of East Caribbean Financial Holding Company Limited**

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern

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

- 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.

KPMG

**INDEPENDENT AUDITOR'S REPORT, continued**

**To the Shareholders of East Caribbean Financial Holding Company Limited**

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

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.

The engagement partner on the audit resulting in this independent auditor's report is Baldwin Alcindor.

KPMG

Chartered Accountants
March 26, 2020
Castries, Saint Lucia

# East Caribbean Financial Holding Company Limited

Consolidated Statement of Financial Position

**As at 31 December 2019**

(in thousands of Eastern Caribbean dollars)

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| **Assets** | | | |
| **Cash and balances with Central Bank** | 6 | **184,245** | 223,983 |
| **Treasury bills** | 7 | **12,880** | 17,409 |
| **Deposits with other banks** | 8 | **205,295** | 167,216 |
| **Financial assets held for trading** | 9 | **21,368** | 18,623 |
| **Deposits with non-bank financial institutions** | 10 | **53,026** | 33,437 |
| **Investment securities** | 14 | **694,699** | 668,171 |
| **Financial instruments - pledged assets** | 15 | **8,266** | 8,189 |
| **Loans and receivables - loans and advances to customers** | 11 | **838,730** | 849,215 |
| **Investment in associates** | 16 | **59,986** | 55,793 |
| **Property and equipment** | 17 | **47,582** | 46,453 |
| **Investment properties** | 18 | **31,955** | 31,955 |
| **Right-of-use lease asset** | 19 | **1,057** | - |
| **Other assets** | 20 | **48,728** | 48,555 |
| **Retirement benefit asset** | 22 | **15,032** | 10,446 |
| **Deferred tax asset** | 27 | **7,228** | 4,000 |
| **Income tax recoverable** | | **644** | 3,777 |
| **Total assets** | | **2,230,721** | 2,187,222 |
| **Liabilities** | | | |
| **Deposits from banks** | 23 | **49,631** | 55,845 |
| **Due to customers** | 24 | **1,813,271** | 1,821,323 |
| **Lease liability** | 19 | **1,057** | - |
| **Repurchase agreements** | 15 | **8,001** | 7,953 |
| **Dividends payable** | | **291** | 581 |
| **Borrowings** | 25 | **63,844** | 71,519 |
| **Cumulative preference shares** | 44 | **4,150** | 4,150 |
| **Other liabilities** | 26 | **39,648** | 35,930 |
| **Total liabilities** | | **1,979,893** | 1,997,301 |

# East Caribbean Financial Holding Company Limited

Consolidated Statement of Financial Position...*continued*

**As at 31 December 2019**

(in thousands of Eastern Caribbean dollars)

| | Notes | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Equity** | | | |
| **Share capital** | 28 | **170,081** | 170,081 |
| **Contributed capital** | 29 | **1,118** | 1,118 |
| **Reserves** | 30 | **219,520** | 206,377 |
| **Revaluation surplus** | | **13,855** | 13,855 |
| **Fair value through OCI reserve** | | **7,304** | 1,040 |
| **Accumulated deficit** | | **(161,050)** | (202,550) |
| **Total equity** | | **250,828** | 189,921 |
| **Total liabilities and equity** | | **2,230,721** | 2,187,222 |

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

Approved by the Board of Directors on March 26, 2020.

____________________ Director ____________________ Director

# East Caribbean Financial Holding Company Limited

Consolidated Statement of Changes in Equity

**For the year ended 31 December 2019**

(in thousands of Eastern Caribbean dollars)

| | Share Capital $ | Contributed Capital $ | Reserves $ | Revaluation Surplus $ | Unrealised Gain/(Loss) on Available for sale investments $ | Fair value through OCI securities $ | Accumulated Deficit $ | Total Equity $ |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2018** | 170,081 | 4,118 | 184,420 | 13,855 | 7,017 | - | (230,918) | 148,573 |
| Changes on initial application of IFRS 9 | - | - | 16,599 | - | (7,017) | 8,282 | (384) | 17,480 |
| Restated balance at 1 January 2018 | 170,081 | 4,118 | 201,019 | 13,855 | - | 8,282 | (231,302) | 166,053 |
| Total comprehensive income for the year | - | - | - | - | - | (7,242) | 41,131 | 33,889 |
| Transfers to reserves | - | - | 12,379 | - | - | - | (12,379) | - |
| Contributions withdrawn | - | (3,000) | (7,021) | - | - | - | - | (10,021) |
| **Balance at 31 December 2018** | 170,081 | 1,118 | 206,377 | 13,855 | - | 1,040 | (202,550) | 189,921 |
| **Balance at 1 January 2019** | **170,081** | **1,118** | **206,377** | **13,855** | **-** | **1,040** | **(202,550)** | **189,921** |
| Adjustment for share of Associate's IFRS 9 impact | **-** | **-** | **-** | **-** | **-** | **(7,650)** | **5,025** | **(2,625)** |
| Adjusted balance at January 1, 2019 | **170,081** | **1,118** | **206,377** | **13,855** | | **(6,610)** | **(197,525)** | **187,296** |
| Total comprehensive income for the year | **-** | **-** | **-** | **-** | **-** | **13,914** | **56,877** | **70,791** |
| Transfers to reserves | **-** | **-** | **13,062** | **-** | **-** | - | **(13,062)** | **-** |
| Contributions | **-** | **-** | **81** | **-** | **-** | - | **-** | **81** |
| Dividends | **-** | **-** | **-** | **-** | **-** | - | **(7,340)** | **(7,340)** |
| **Balance at 31 December 2019** | **170,081** | **1,118** | **219,520** | **13,855** | **-** | **7,304** | **(161,050)** | **250,828** |

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

# East Caribbean Financial Holding Company Limited

Consolidated Statement of Profit or Loss

**For the year ended 31 December 2019**

(in thousands of Eastern Caribbean dollars)

| | Notes | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Interest income** | 32 | **88,218** | 84,157 |
| **Interest expense** | 32 | **(28,854)** | (27,919) |
| **Net interest income** | | **59,364** | 56,238 |
| **Other operating income** | 33 - 36 | **65,261** | 57,173 |
| **Impairment losses - loans** | 12 | **(6,383)** | (8,675) |
| **Impairment losses - investments** | 7, 13 | **(87)** | (245) |
| **Operating expenses** | 37 | **(68,932)** | (64,303) |
| **Operating profit** | | **49,223** | 40,188 |
| **Share of profit of associates** | 16 | **7,318** | 5,424 |
| **Profit for the year before income tax and dividends** | | **56,541** | 45,612 |
| **Dividends on preference shares** | | **(291)** | (291) |
| **Profit for the year before income tax** | | **56,250** | 45,321 |
| **Income tax expense** | 39 | **(1,259)** | (355) |
| **Profit for the year after taxation** | | **54,991** | 44,966 |
| Profit per share attributable to the equity holders of the Company during the year | 40 | | |
| - basic | | **2.25** | 1.84 |
| - diluted | | **2.16** | 1.78 |

# East Caribbean Financial Holding Company Limited

Consolidated Statement of Comprehensive Income

**For the year ended 31 December 2019**

(in thousands of Eastern Caribbean dollars)

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Profit for the year** | **54,991** | 44,966 |
| **Other comprehensive income** | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):* | | |
| Unrealised gain/(loss) on debt FVOCI instruments | **11,105** | (7,466) |
| Realised gains/(loss) transferred to profit or loss | **1,755** | (188) |
| Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods | **12,860** | (7,654) |
| Share of fair value gains on assets carried at fair value of associated companies | **1,054** | 412 |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):* | | |
| Re-measurement gains/(losses)on defined benefit pension scheme | **2,694** | (5,478) |
| Income tax effect | **(808)** | 1,643 |
| Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods | **1,886** | (3,835) |
| **Other comprehensive income/(loss)** | **15,800** | (11,077) |
| **Total comprehensive income for the year** | **70,791** | 33,889 |

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

# East Caribbean Financial Holding Company Limited

Consolidated Statement of Cash Flows

**For the year ended 31 December 2019**

(in thousands of Eastern Caribbean dollars)

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit after tax | **54,991** | 44,966 |
| Adjustments for: | | |
| Interest income on investments | **(25,794)** | (23,520) |
| Depreciation and amortisation | **4,638** | 4,500 |
| Impairment losses on loans | **6,383** | 8,675 |
| Impairment loss on investment securities | **87** | 245 |
| Unrealised (gain)/loss on investments held for trading | **(858)** | 796 |
| Retirement benefit expense | **1,051** | 611 |
| Loss/(gain) on disposal of property and equipment | **6** | (132) |
| Loss on disposal of investment properties | **-** | 500 |
| Share of profit of associate | **(7,318)** | (5,424) |
| Net gains on disposal of investments | **(2,481)** | (58) |
| Unamortised premium on investments | **391** | 362 |
| Retirement benefit contributions paid | **(2,943)** | (2,920) |
| Dividends on preference shares | **291** | 291 |
| Income tax expense | **1,259** | 355 |
| Cash flows before changes in operating assets and liabilities | **29,703** | 29,247 |
| Changes in: | | |
| Mandatory deposits with Eastern Caribbean Central Bank | **(1,633)** | 1,328 |
| Loans and advances to customers | **4,102** | 32,802 |
| Other assets | **(173)** | 6,781 |
| Due to customers | **(8,052)** | 21,735 |
| Deposits with banks | **(40,209)** | (54,609) |
| Deposits with non-bank financial institutions | **(32,842)** | (10,120) |
| Repurchase agreements | **49** | (5,750) |
| Deposits from banks | **(6,214)** | 12,547 |
| Other liabilities | **3,717** | 6,683 |
| Financial instruments - pledged assets | **(48)** | 2,494 |
| Trading assets | **(1,574)** | 141 |
| Treasury bills | **(10,443)** | 1,634 |
| Cash (used in)/ from operations | **(63,617)** | 44,913 |
| Income tax paid | **(2,162)** | (317) |
| Interest received | **25,988** | 22,538 |
| Dividend received | **1,554** | 774 |
| Net cash (used in)/ from operating activities | **(38,237)** | 67,908 |

# East Caribbean Financial Holding Company Limited

Consolidated Statement of Cash Flows...*continued*

**For the year ended 31 December 2019**

(in thousands of Eastern Caribbean dollars)

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Cash flows from investing activities** | | |
| Purchase of investment securities | **(317,517)** | (300,104) |
| Proceeds from disposal and redemption of investment securities | **305,654** | 155,292 |
| Purchase of property and equipment | **(5,830)** | (3,975) |
| Proceeds from disposal of investment properties | **-** | 5,000 |
| Proceeds from disposal of property and equipment | **57** | 132 |
| Net cash used in investing activities | **(17,637)** | (143,655) |
| **Cash flows from financing activities** | | |
| Dividends paid | **(7,921)** | - |
| Reserve reduction | **-** | (10,021) |
| Proceeds from capital contributions | **81** | - |
| Repayment of borrowings | **(7,675)** | (7,662) |
| Net cash used in financing activities | **(15,515)** | (17,683) |
| **Decrease in cash and cash equivalents during the year** | **(71,389)** | (93,430) |
| **Cash and cash equivalents at beginning of year** | **257,615** | 351,045 |
| **Cash and cash equivalents at end of year** | **186,226** | 257,615 |

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

## 1 General information

In October 2016 the East Caribbean Financial Holding Company Limited (ECFH) was amalgamated with Bank of Saint Lucia Limited and ECFH Global Investment Solutions in accordance with the provisions of the Companies Act CAP 13.01, Revised Laws of Saint Lucia and continued as Bank of Saint Lucia Limited. Another company with the same name East Caribbean Financial Holding Company Limited was then reincorporated under the same act to hold the shares of Bank of Saint Lucia Limited, Bank of Saint Lucia International Limited and Bank of St. Vincent & the Grenadines.

Bank of Saint Lucia Limited, and ECFH are in compliance with the Companies Acts and Banking Acts and the provisions of the Insurance Act, 1995.

The principal activity of the Company and its subsidiary (the "Group") is the provision of financial services. The registered office and principal place of business of the Company is located at No.1 Bridge Street, Castries, Saint Lucia.

The principal shareholding of the Group is stated in Note 43.

The Company is listed on the Eastern Caribbean Securities Exchange.

## 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.

**Statement of compliance**
East Caribbean Financial Holding Company Limited's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as at 31 December 2019 (the reporting date).

**Basis of preparation**
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 measured at fair value through profit or loss
- Financial assets designated at fair value through profit or loss
- Equity instruments designated at fair value through other comprehensive income
- Debt instruments measured at fair value through other comprehensive income

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 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.

## 2 Summary of significant accounting policies*...continued*

**Basis of preparation***...continued*

### (a) Changes in accounting policies and disclosures

The Group applied for the first time certain standards and amendments, which are effective for annual reporting periods beginning on or after 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Of these new standards and amendments applied for the first time in 2019, only IFRS 16 had a material impact on the annual financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

- **IFRS 16 Leases**

  In January 2016, the IASB issued IFRS 16 Leases, the standard that replaced IAS 17 for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. The bank did not early adopt IFRS 16. IFRS 16 specifies how leases will be recognised, measured, presented and disclosed. IFRS 16 does not significantly change the accounting for leases for Lessors. However; the standard does require lessees to recognise most leases on their balance sheet as lease liabilities with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise "short-term" leases and leases of "low-value" assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to finance lease accounting under the predecessor standard IAS 17, with interest and depreciation expense recognised separately in the statement of income. The impact of IFRS 16 is disclosed in note 19

- **Amendments to IAS 12 Income Taxes – Annual Improvements to IFRS Standards 2015-2017**

  The IASB issued an amendment to IAS 12 in December 2017. The amendment clarified the recognition and measurement of current and deferred taxes on dividends. The amendment clarified the recognition of income tax consequences of dividends where the transactions or events that generated distributable profits are recognised, apply to all income tax consequences of dividends. This amendment is effective for annual reporting periods beginning on or after January 1, 2019 and did not have a significant impact on the Group.

- **Amendments to IAS 19 Employee Benefits**

  In February 2018, through issuing amendments to IAS 19, the IASB made changes relating to defined benefit plan to include Plan Amendment, Curtailment and Settlement as follows:

  I. If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement
  II. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The amendments to standard are applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019 with early adoption permitted.

**2 Summary of significant accounting policies***...continued*

**Basis of preparation***...continued*

**(a) Changes in accounting policies and disclosures***.... continued*

- **Amendments to IAS 23 Borrowing Costs - Annual Improvements to IFRS Standards 2015-2017**

  The amendment to IAS 23 clarified that when a qualifying asset is ready for its intended use or sale, any outstanding borrowings made specifically to obtain that qualifying asset, becomes part of general borrowings. It therefore means that an organization should calculate the capitalization rate on general borrowings taking into account the specific borrowing on completed assets if outstanding.

  The amendment was issued in December 2017 and is applicable for annual reporting periods beginning on or after January 1, 2019.

- **Amendments to IAS 28 Investments in Associates and Joint Ventures**
  The IASB published Long-Term Interests in Associates and Joint Ventures (Amendments to IAS 28) to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in associates or joint ventures that form part of the net investment in the associate or joint venture but to which the equity method is applied.

  The amendments are effective for reporting periods beginning on or after January 1, 2019, however, earlier application is permitted.

  **Amendments to IFRS 9 – Financial Instruments**
- The IASB issued "Prepayment Features with Negative Compensation (Amendments to IFRS 9)" to address the concerns about how IFRS 9 – Financial Instruments classifies particular prepayable financial assets. Under the current standard, financial assets are classified as at amortized cost only when the business model test and the contractual cash flow characteristics (SPPI) test are met. However, when financial institutions generate loans with prepayment features with negative compensation, the cash flows from such loans might not represent solely payments of principal and interest and as such, the contractual cash flow test is not met. As a result, all the loans with similar prepayment features could not be classified at amortized cost. Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

  Besides changes related to classification of financial assets with prepayment options, this amendment also clarified accounting for modification or exchange of financial liabilities measured at amortised cost that does not result in derecognition of the financial liability. The adjustment arising from a modification or exchange should be recognised in profit or loss at the date of the modification or exchange.

  The amendments are applicable for reporting periods beginning on or after January 1, 2019 with early adoption permitted. The changes in the standard have not had a material impact on the financial statements.

**2 Summary of significant accounting policies***...continued*

**Basis of preparation***...continued*

**(a) Changes in accounting policies and disclosures***...continued*

- **IFRS 3 - Business Combinations – Annual Improvements to IFRS standards 2015 - 2017**
  The amendments to IFRS 3 clarified that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.

- **IFRS 11 – Joint Arrangements (Annual Improvements to IFRS Standards 2015-2017 cycle)**
  The amendments to IFRS 11 clarified that when an entity obtains control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

  The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier adoption is permitted.

- **IFRIC Interpretation 23**
  IFRIC 23 clarifies the accounting for uncertainties in income taxes. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item under IAS 12, including taxable profit or loss, the tax bases of assets and liabilities, unused tax losses and credits and tax rates.

  <u>Determination of taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates</u>

- A company has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing.
  If the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.
- If the entity concludes that it is not probable that a particular tax treatment is accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty.

  IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

  **Transition**
  The requirements are applied by recognising the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight.

## 2 Summary of significant accounting policies*...continued*

**Basis of preparation***...continued*

### (b) Standards 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.

**IFRS 17- Insurance Contracts**

IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. An entity shall apply IFRS 17 to:

- Insurance contracts including reinsurance contracts, it issues;
- Reinsurance contracts it holds: and
- Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

The standard is effective for reporting periods beginning on or after January 1, 2021. The standard is not expected to have a material impact on the financial statements of the Group.

**IFRS 3 Definition of A Business (Amendments to IFRS 3)**

The amendments to the definition of a Business aims at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.

The amendments are changes to Appendix A defined terms, the application guidance and the illustrative examples of IFRS 3 only and include:

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisition that occur on or after the beginning of that period. Earlier adoption is permitted.

**2 Summary of significant accounting policies***...continued*

**Basis of preparation***...continued*

**(c) Consolidation**

The financial statements of the subsidiary used to prepare the consolidated financial statements were prepared as of the Parent Company's reporting date. The consolidation principles are unchanged as against the previous year.

The consolidated financial statements of the Group comprise the financial statements of the parent entity and its subsidiary as of 31 December 2019.

Control is achieved when the Group is exposed, 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, 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
- 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 or disposed of during the year are included in profit or loss 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 into 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.

**2 Summary of significant accounting policies***...continued*

**(c) Consolidation***...continued*

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 profit or loss from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

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 profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies have been eliminated. Unrealised 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.

**2 Summary of significant accounting policies***...continued*

**(c) Consolidation***...continued*

Transactions with non-controlling interests and associates
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 remeasured 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.

Associates
Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in associates is accounted for by the equity method of accounting and initially recognised at cost.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as ‘Share of profit of an associate’ in profit or loss.

**2 Summary of significant accounting policies***...continued*

***(b)* Consolidation***...continued*

Associates *...continued*

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss. The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated statement of profit or loss and other comprehensive income, and its share of post-acquisition movements in reserves recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**(d) Fair value measurement**

The Group measures financial instruments such as investment securities and non- financial asset such as 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 for valuation methods, significant estimates and assumptions | Notes 2,3,14 and18 |
| Quantitative disclosures of fair value measurement hierarchy | Note 3 |
| Investment properties | Note 18 |
| Financial instruments (including those carried at amortised cost) | Note 9, 14 |
| Land and buildings | Note 17 |

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.

**2 Summary of significant accounting policies**...*continued*

**(d) Fair value measurement**...*continued*

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.

A 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 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.

**(e) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including: cash and non-restricted balances with the Central Bank, treasury bills, deposits with other banks, deposits with a non-bank financial institutions and other short-term securities.

**(f) Financial assets**

The Group allocates financial assets to the following IFRS 9 categories:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

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

On initial recognition, financial assets are classified by the Group as follows:

**Debt instrument**

Debt instruments, including loans and debt securities, are classified into one of the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL).

Investments in debt instruments are measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

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

**2 Summary of significant accounting policies***...continued*

**(f) Financial assets***...continued*

**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 the asset 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 Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives. The model is not assessed on an instrument-by-instrument basis, but rather at a portfolio level and based on factors such as:

- How the performance of the financial assets held within that business model are evaluated and reported to the Group's management personnel
- The risks that affect the performance of the assets held within a business model (and, in particular, the way those risks are managed
- How compensation is determined for the Group's business lines' management that manages the assets managers of the Group are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales activity
- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching duration of the financial assets to the duration of the financial liabilities that are funding those assets or realising cash flows through the sale of assets.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or stress case scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

**2 Summary of significant accounting policies***...continued*

**(f) Financial assets***...continued*

**Assessment of contractual cash flows**
As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the solely payments of principal and interest (SPPI) test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs as well as profit margin.

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

Impairment on debt instruments measured at amortised cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortised cost are presented net of the allowance for credit losses (ACL) in the consolidated statement of financial position.

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

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and

- Are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

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

**2 Summary of significant accounting policies***...continued*

**(f) Financial assets***...continued*

**Debt instruments measured at Fair value through other Comprehensive Income***...continued*
Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss (ECL) approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Consolidated Statement of Financial Position, which remains at its fair value.

**Debt instruments measured at Fair value through profit or loss**
Debt instruments are measured at FVTPL if assets:
i) Are held for trading purposes;
ii) Are held as part of a portfolio managed on a fair value basis; or
iii) Whose cash flows do not represent payments that are solely payments of principal and interest

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

**Equity instruments**

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

- Fair value through profit or loss (FVTPL); or

- Elected at fair value through other comprehensive income (FVOCI).

**Equity instruments measured at Fair value through profit or loss**
Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognised immediately in profit or loss. Subsequent to initial recognition the changes in fair value are recognised in profit or loss. Equity instruments at FVTPL are primarily assets held for trading. The Group also holds a portfolio of equity instruments that are not held for trading but the performance is required to be assessed annually for distribution to the account holders. These assets though not held for trading are measured as FVTPL.

**2 Summary of significant accounting policies***...continued*

**(f) Financial assets***...continued*

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

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

**Recognition/derecognition**

A financial asset is recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and receivables are recognised when cash is advanced (or settled) to the borrowers.

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

The Group derecognises a financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

**Impairment of financial assets**

*Scope*
IFRS 9 has fundamentally changed the Group's impairment model by replacing IAS 39's incurred loss approach with a forward-looking three-stage expected credit loss (ECL) approach. As of January 1, 2018, the Group has recorded the allowance for expected credit losses for the following categories of financial assets:

- Amortised cost financial assets
- Debt instruments measured at fair value through other comprehensive income;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts.

Equity instruments are not subject to impairment under IFRS 9.

**2 Summary of significant accounting policies***...continued*

**(f) Financial assets***...continued*

**Impairment of financial assets***...continued*

**Expected credit loss impairment model**
The three-stage ECL allowance model is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase or deterioration in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The three stage approach applied by the Group is as follows:

<u>Stage 1: 12-months ECL</u>
The Group collectively assesses ECLs on exposures where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination. For these exposures, the Group recognises as a collective provision the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

<u>Stage 2: Lifetime ECL – not credit impaired</u>
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 as a collective provision a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset).

<u>Stage 3: Lifetime ECL – credit impaired</u>
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 provision) 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.

**2 Summary of significant accounting policies**...*continued*

**(f) Financial assets**...*continued*

**Impairment of financial assets**...*continued*

**Measurement of expected credit losses (ECL)**
ECLs are derived from unbiased and probability-weighted estimates of expected loss, and 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.
- 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 inputs used to estimate the expected credit losses are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

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

**2 Summary of significant accounting policies**...*continued*

**(f) Financial assets**...*continued*

**Impairment of financial assets**...*continued*

**Macroeconomic factors**
The standard also requires incorporation of macroeconomic factors in models for ECLs. In its models, the Group conducted an assessment of a broad range of forward-looking economic information as possible inputs, such as: GDP growth, unemployment rates, and central-Group interest rates. The results of the assessment however failed to reveal meaningful relationships between the Group's historical loss and the economic inputs and as such economic inputs were not utilised in the models used for calculating ECLs.

The standard recognises that the inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment. The Group therefore in an effort to make adjustments for management overlays, adjusted the stage two loans for the likelihood of migration to stage three and the severity or the extent of the provisions required when these loans migrate to stage three.

**Significant increase in credit risk**
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience and credit risk assessment. The Group considers as a backstop that significant increases in credit risk occurs when an asset is more than 30 days past due.

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

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

**2 Summary of significant accounting policies***...continued*

**(f) Financial assets***...continued*

**Impairment of financial assets***...continued*

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Undrawn loan commitments and financial guarantees generally as a provisions in other liabilities,
- Debt instruments measured at fair value through OCI the ECLs are not recognized in the consolidated statement of financial position because the carrying amounts of these assets remain their fair values. However, the loss allowance is disclosed and is recognised in the fair value reserve in equity with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to profit or loss upon derecognition of the assets.

**Modified financial assets**
During the normal course of business, financial assets may be restructured or modified or an existing financial asset replaced with a new one. When this occurs for reasons other than those which could be considered indicators of impairment, the Group assesses whether the restructured or renegotiated financial asset is significantly different from the original one by comparing the present value of the restructured cash flows discounted at the original instruments interest rate. If the restructured terms are significantly different, the Group derecognises the original financial asset and recognises a new one at fair value with any difference recognised in profit or loss.

If the cash flows of the modified asset are not substantially different, the modification does not result in derecognition of the financial asset. The Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying value as a modification gain or loss in profit or loss.

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

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

## 2 Summary of significant accounting policies*...continued*

### (f) Financial assets*...continued*

**Impairment of financial assets***...continued*

**Definition of default**

The Group considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- significant financial difficulty of the borrower;
- default or delinquency in interest or principal payments;
- high probability of the borrower entering a phase of bankruptcy or a financial reorganisation;
- measurable decrease in the estimated future cash flows from the loan or the underlying assets that secure the loan.
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise

The Group considers that default has occurred and classifies the financial asset as credit impaired when it is more than 90 days past due,

**Write-offs**

The write-off of a financial asset is a derecognition event. Loans and the related impairment losses are written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, they are generally written off after receipt of any proceeds from the realization of collateral. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off maybe earlier.

### (g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when, and only 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 Summary of significant accounting policies***...continued*

**(h) Sale and repurchase agreements**

Securities sold subject to linked repurchase agreements (repos) are retained in the consolidated financial statements as investments securities and the counterparty liability is included in other borrowed funds. The difference between sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective interest method.

**(i) Property and equipment**

Land and buildings comprises mainly branches and offices occupied by the parent or its subsidiaries. Land and buildings are shown at fair value less subsequent depreciation for buildings. Valuations are reviewed annually by quantity surveyors.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income. Decreases that offset previous increases of the same asset are charged against other comprehensive income, all other decreases are charged to profit or loss.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 2% |
| Leasehold improvements | 2 – 33 1/3% |
| Motor vehicles | 20 – 25% |
| Office furniture & equipment | 10 – 20% |
| Computer equipment | 33 1/3% |

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 carrying 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.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in profit or loss.

**2 Summary of significant accounting policies**...*continued*

**(j) Investment properties**

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment property comprises freehold land and building which are leased out under operating leases. Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40.

Recognition of investment properties 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 was incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the consolidated statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the year in which they arise.

Subsequent expenditure is included in the asset's 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 profit or loss during the financial period in which they are incurred.

Investment property is carried at fair value, representing open market value determined triennially by external professionally qualified valuers. Fair value is 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 triennially 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.

**2 Summary of significant accounting policies**…*continued*

**(k) Intangible assets**

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 20 years.

Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Group have a definite useful life. At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable.

An impairment loss is recognised if the carrying amount exceeds the recoverable amount. The Group chooses to use the cost model for the measurement after recognition.

*(a) Computer software licences*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 4 years.

*(b) Other intangible assets*

Other intangible assets consist of customer relationships (core deposit intangibles). Other intangible assets are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use. The value of intangible assets which are acquired in a business combination is generally determined using income approach methodologies such as the discounted cash flow method. Other intangible assets are stated at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. They are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 12 years.

**(l) Impairment of other 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 may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

**2 Summary of significant accounting policies***...continued*

**(m) Income tax**

*(a) Current tax*
Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income. In these circumstances, current tax is charged or credited to other comprehensive income.

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, 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 current 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 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 realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment, amortisation of intangible assets and their tax base, unutilised tax losses and pension gains. 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.

**(n) Financial liabilities**
The Group's holding in financial liabilities are at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities measured at amortised cost are deposits from Groups or customers and debt securities in issue for which the fair value option is not applied.

**(o) 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 profit or loss over the period of the borrowings using the effective interest method.

**2 Summary of significant accounting policies***...continued*

**(p) 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.

**(q) Redeemable preference shares**

Preference shares which are mandatorily redeemable on a specific date are classified as liabilities. The dividend on these preference shares are recognised in profit or loss.

**(r) Employee benefits**

Pension obligations

The Group operates a defined benefit plan. The scheme is funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The plan is registered in St. Lucia and is regulated by the Insurance Act, 1994 which was enacted in 1995. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The pension obligation valuations are undertaken annually.

The Group's policy is to fully fund the pension and to meet any funding shortfalls over a period of ten years following regular periodical actuarial reviews.

The asset recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets, are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in the consolidated profit or loss on the earlier of:
- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'operating expenses' in profit or loss:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

The pension plan is exposed to inflation risk, interest rate risk and changes in the life expectancy for pensioners.

**2 Summary of significant accounting policies***...continued*

**(s) Employee benefits***...continued*

Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

**(t) Guarantees and letters of credit**
Guarantees and letters of credit comprise undertakings by the Group's Grouping entities to pay bills of exchange drawn on customers. The Bank expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Any increase in the liability relating to guarantees is reported in profit or loss within other operating expenses.

**(u) Fiduciary activities**
The Group commonly acts a trustees and in other fiduciary capacities that result in the holding and placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.

**(v) Share capital**

*(i) 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.

*(ii) Dividends on ordinary shares*
Dividends on ordinary shares are recognised in equity in the period in which they are declared.

**2 Summary of significant accounting policies**...*continued*

**(w) Interest income and expense**

Interest income and expense are recognised in profit or loss for all financial instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**(x) Fee and commission income**

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of 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.

**(y) Dividend income**

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

**(z) Foreign currency translation**

Functional and presentation currency

Items included in the 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 thousands of Eastern Caribbean dollars, which is the Company's functional and the Group's presentation currency.

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.

**2 Summary of significant accounting policies***...continued*

**(z) Foreign currency translation***...continued*

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

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised 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 available-for-sale financial assets, are included in the other comprehensive income.

**(zi) Leases**
**Policy applicable from January 1, 2019**
The Group assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

Definition of a lease

A Group company is the lessee

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. 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 disclosed in note (i). In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

**2 Summary of significant accounting policies**…*continued*

**(zi) Leases** …*continued*

2) Lease Liability
The lease liability is initially measured at the present value of the lease payments to be made over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

A Group company is the lessor

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

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

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'. Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16.

*Short-term leases and Low value leases*
Short-term leases are leases with a lease term of twelve (12) months or less and containing no purchase options. A low value lease is a lease agreement where the underlying asset has a low value when new.

Instead of applying the recognition requirements of IFRS 16, a lessee may elect to account for such lease payments of such leases as an expense on a straight-line basis over the lease term or another systematic basis.

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

- Did not recognise the right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the initial application date of January 1, 2019.
- Did not recognise the right-of-use assets and liabilities for leases where the lease asset was not physically distinct from the asset. IFRS 16:5, 6 & 8 states that A capacity portion of a lease of an asset is still an identified asset if it is physically distinct (e.g. a floor of a building). A capacity or other portion of an asset that is not physically distinct is not an identified asset, unless it represents substantially all the capacity such that the customer obtains substantially all the economic benefits from using the asset (IFRS 16: B20). These leases therefore did not fall within the scope of IFRS 16.

**2 Summary of significant accounting policies**…*continued*

**(zi) Leases** *…continued*

**Policy applicable before January 1, 2019**

A Group company is the lessee
The leases entered into by the Group were primarily operating leases. The total payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

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

A Group company is the lessor
Assets leased out under operating leases are included in investment properties in the consolidated statement of financial position. They are depreciated over the expected useful life. Rental income is recognised in profit or loss on a straight-line basis over the period of the lease.

**Impact on transition**
On the initial application date of January 1, 2019, the Group did not recognise additional right –of-use assets and lease liabilities as the lease term expired within one year of the date of initial application and the impact recognition would not result in a material impact on the financial results at January 1, 2019. Application of the standard was therefore applied at December 31, 2019.

**(zii) 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, deposits from banks, due to customers and borrowings. The particular recognition methods adopted are disclosed in the individual policy statement associated with each item.

**(ziii) Segment reporting**
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Company's Board of Directors as its chief operating decision maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8, the Group had one reportable segment: Bank of St. Lucia Limited.

## 3 Financial risk management

**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.

The Board of Directors ensures a strong quality of risk management and risk management processes, to ensure the safety and stability of the Bank and the banking system. In ensuring the overall responsibility for the soundness of the Bank, it has appointed a Risk Management Committee. The purpose of the Board's Risk Management Committee is to assist the Board to oversee the risk profile and approve the risk management framework of the Bank, within the context of its risk appetite and determined strategy determined. The Risk Management Committee relies on the efforts of the Risk Management and Compliance Services department, which coordinates the implementation of the Board approved Risk Management Framework. This department provides timely reports to the Board Committee; analytical support and guidance to the executive management in formulating risk management strategies and making functional risk decisions; supports management and business units in implementing the approved Risk Management Policies and processes; and ensure that they are integrated into the business operations and with Internal Control and compliance processes.

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.

**Credit risk**
Credit risk is the risk of suffering financial loss, should any of the Group's customers, or market counterparties fail to fulfill their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments. Credit risk 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, investments in debt securities, pledged assets, other assets excluding prepayments and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

<u>Loans and advances to customers</u>
Impairment provisions are provided for losses based on an expected credit loss model using counterparty probabilities of default across the various loan categories. Significant changes in the economy, or in the health of 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 in a defined and calculated manner through regular analysis of the ability of its borrowers to meet repayment obligations and taking collateral as securities on advances.

**3 Financial risk management***…continued*

**Credit risk**

Debt securities and other bills
For debt securities and treasury bills, external rating provided by the globally known Big Three credit rating agencies of Standard & Poor's (S&P) or Moody's and Fitch Group, along with that of CariCRIS based in Trinidad are used by Bank Treasury for managing the credit risk exposures. The investments in securities and bills rated by such entities as Investment Grade, are viewed as a way to gain additional wealth for the Bank, whilst effectively manage the associated risks, they are therefore a better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time.

Cash and balances with Central Bank
Credit risk from balances with banks and financial institutions is managed by the Group in accordance with the Group's Board approved 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 minimise 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 premises, 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.

**3 Financial risk management…*continued***

**Credit risk**…*continued*

Collateral…*continued*

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

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

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.

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 premises, 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.

**3 Financial risk management***...continued*

**Credit risk***...continued*

Collateral*...continued*

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

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

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.

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 provisioning policies
The internal rating systems focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes using a three-stage expected credit loss approach. Stages 1 and 2 credit losses are made for assets that are not credit impaired and stage ECLs are for assets which are credit impaired.

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.

See accounting policy in note 2 for further details on impairment of financial assets.

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management***...continued*

**Credit risk***...continued*

Maximum exposure to credit risk

| | Maximum exposure 2019 $ | 2018 $ |
|---|---|---|
| Credit risk exposures relating to the financial assets in the statement of financial position : | | |
| Balances with Central bank | **146,502** | 190,349 |
| Treasury bills | **12,880** | 17,409 |
| Deposits with other banks | **205,295** | 167,216 |
| Deposits with non-bank financial institutions | **53,026** | 33,437 |
| Loans and advances to customers: | | |
| Large corporate loans | **234,970** | 281,976 |
| Term loans | **184,756** | 185,143 |
| Mortgages | **372,621** | 357,153 |
| Overdrafts | **46,383** | 24,943 |
| Financial assets held for trading | **21,368** | 18,623 |
| Investment securities | **675,740** | 648,681 |
| Financial instruments - pledged assets | **8,266** | 8,189 |
| Other assets | **45,338** | 45,879 |
| | **2,007,145** | 1,978,998 |
| Credit risk exposures relating to the financial assets off the statement of financial position: | | |
| Loan commitments | **50,362** | 115,442 |
| Guarantees, letters of credit and other credit obligations | **18,361** | 21,098 |
| | **68,723** | 136,540 |
| | **2,075,868** | 2,115,538 |

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2019 and 2018 without taking account of any collateral held or other credit enhancements attached. For assets included on the Statement of Financial Position, the exposures set out above are based on net carrying amounts as at the reporting date.

As shown above 40.5% (2018 – 42.8%) of the total maximum exposure is derived from loans and advances to customers and 32.5% (2018 – 34%) represents investments in debt securities.

(in thousands of Eastern Caribbean dollars)

## 3 Financial risk management *...continued*

**Credit risk**…*continued*

Loans and advances are summarised as follows:

| | Loans and advances and loan commitments for which the loss allowance is measured at: | | | | | |
|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage3 | |
| | 12-months expected credit loss not credit impaired | | Lifetime expected credit losses not credit impaired | | Lifetime expected credit losses credit impaired | |
| | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| Gross | **647,071** | 688,864 | **7,699** | 13,160 | **247,106** | 210,024 |
| Less allowance for impairment on loans and advances | **(4,838)** | (5,110) | **(543)** | (1,041) | **(57,765)** | (56,682) |
| Net | **642,233** | 683,754 | **7,156** | 12,119 | **189,341** | 153,342 |

Further information on the allowance for impairment losses on loans and advances to customers is provided in Notes 11 and 12.

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

**Loans and advances to customers**

| | Overdrafts<br>$ | Term Loans<br>$ | Mortgages<br>$ | Large Corporate loans<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **31 December 2019** | **36,642** | **135,041** | **292,200** | **131,907** | **595,790** |
| 31 December 2018 | 18,091 | 133,501 | 285,294 | 164,649 | 601,535 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management** *...continued*

**Credit risk***…continued*

Loans and advances to customers*...continued*

*Loans and advances past due but not impaired*
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

| | Overdrafts $ | Term Loans $ | Mortgages $ | Large Corporate loans $ | Total $ |
|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | |
| Past due up to 30 days | **1,753** | **15,530** | **27,302** | **1,493** | **46,078** |
| Past due 30 – 60 days | **423** | **2,587** | **3,938** | **398** | **7,346** |
| Past due 60 – 90 days | **3,962** | **870** | **724** | **-** | **5,556** |
| | **6,138** | **18,987** | **31,964** | **1,891** | **58,980** |

| | Overdrafts $ | Term loans $ | Mortgages $ | Large Corporate Loans $ | Total $ |
|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | |
| Past due up to 30 days | 649 | 21,402 | 33,643 | 14,125 | 69,819 |
| Past due 30 – 60 days | 68 | 2,311 | 3,904 | 1,028 | 7,311 |
| Past due 60 – 90 days | 3,375 | 6,258 | 7,773 | 5,953 | 23,359 |
| | 4,092 | 29,971 | 45,320 | 21,106 | 100,489 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management**...*continued*

**Credit risk**...*continued*

Loans and advances to customers...*continued*

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

| | Overdrafts $ | Term Loans $ | Mortgages $ | Large Corporate Loans $ | Total $ |
|---|---|---|---|---|---|
| **31 December 2019** | **11,308** | **41,080** | **61,284** | **133,434** | **247,106** |
| 31 December 2018 | 7,890 | 31,492 | 35,333 | 135,309 | 210,024 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management***...continued*

**Credit risk***...continued*

Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities and treasury bills by rating agency designation at 31 December 2019 and 2018, based on Standard & Poor's and Moody's ratings:

| | Financial assets held for trading $ | Investment Securities $ | Pledged Assets $ | Treasury Bills $ | Total $ |
|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | |
| A- to A+ | **-** | **167,480** | **-** | **-** | **167,480** |
| Lower than A- | **-** | **359,307** | **-** | **-** | **359,307** |
| Unrated | **21,368** | **148,953** | **8,266** | **12,880** | **191,467** |
| | **21,368** | **675,740** | **8,266** | **12,880** | **718,254** |
| **At 31 December 2018** | | | | | |
| A- to A+ | - | 190,260 | - | - | 190,260 |
| Lower than A- | - | 294,902 | - | - | 294,901 |
| Unrated | 18,623 | 163,519 | 8,189 | 17,409 | 207,740 |
| | 18,623 | 648,681 | 8,189 | 17,409 | 692,902 |

The Group's balances held with other banks, non-bank financial institutions are held with reputable financial institutions, and as such, credit risk is deemed minimal.

**Concentrations of risks of financial assets with credit exposure**

*(a) Geographical sectors*

The Group operates primarily in Saint Lucia. Based on the country of domicile of its counterparties, exposure to credit risk is concentrated in these locations, except for investments which have other exposures, primarily in the United States of America.

*(b) Industry sectors*

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

# East Caribbean Financial Holding Company Limited

Notes to the Consolidated Financial Statements

**For the year ended 31 December 2019**

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management**...*continued*

**Credit risk**...*continued*

**Concentration of risks of financial assets with credit exposure**

| | Financial institutions $ | Manufacturing $ | Tourism $ | Government $ | Professional and other services $ | Personal $ | *Other industries $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | | | |
| Balances with Eastern Caribbean Central Bank | 146,502 | - | - | - | - | - | - | 146,502 |
| Treasury bills | - | - | - | 12,880 | - | - | - | 12,880 |
| Deposits with other banks | 205,295 | - | - | - | - | - | - | 205,295 |
| Deposits with non-bank financial institutions | 53,026 | - | - | - | - | - | - | 53,026 |
| Loans and receivables to customers | | | | | | | | |
| Overdrafts | 299 | 283 | 4,224 | 23,724 | 1,530 | 917 | 15,406 | 46,383 |
| Term loans | 113 | 630 | 3,727 | 163 | 12,980 | 147,413 | 19,730 | 184,756 |
| Large corporate loans | - | 3,655 | 60,027 | 5,241 | 45,534 | 13,248 | 107,265 | 234,970 |
| Mortgages | - | - | - | - | - | 372,621 | - | 372,621 |
| Financial assets held for trading | - | - | - | 21,368 | - | - | - | 21,368 |
| Investment securities | 240,742 | - | - | 77,531 | - | - | 357,467 | 675,740 |
| Financial instruments - pledged assets | - | - | - | 8,266 | - | - | - | 8,266 |
| Other assets | - | - | - | - | - | - | 45,338 | 45,338 |
| | 645,977 | 4,568 | 67,978 | 149,173 | 60,044 | 534,199 | 545,206 | 2,007,145 |
| Loan commitments, letters of credit, guarantees and other credit obligations | 2,513 | 2,781 | 1,739 | 5,612 | 1,933 | 17,066 | 37,079 | 68,723 |

*Other industries include construction and land development.

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management**...*continued*

**Credit risk**...*continued*

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

| | Financial institutions $ | Manufacturing $ | Tourism $ | Government $ | Professional and other services $ | Personal $ | *Other industries $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | | |
| Balances with Eastern Caribbean Central Bank | 190,349 | - | - | - | - | - | - | 190,349 |
| Treasury bills | - | - | - | 17,409 | - | - | - | 17,409 |
| Deposits with other banks | 167,216 | - | - | - | - | - | - | 167,216 |
| Deposits with non-bank financial institutions | 33,437 | - | - | - | - | - | - | 33,437 |
| Loans and receivables to customers | | | | | | | | |
| Overdrafts | 185 | 578 | 4,279 | 25 | 1,897 | 964 | 17,015 | 24,943 |
| Term loans | 149 | 1,775 | 5,193 | 204 | 14,926 | 141,696 | 21,200 | 185,143 |
| Large corporate loans | 1,124 | 1,730 | 52,998 | 68,390 | 51,874 | 10,482 | 95,378 | 281,976 |
| Mortgages | - | - | - | - | - | 357,153 | - | 357,153 |
| Financial assets held for trading | - | - | - | 18,623 | - | - | - | 18,623 |
| Investment securities | 203,014 | - | - | 77,497 | - | - | 368,170 | 648,681 |
| Financial instruments - pledged assets | - | - | - | 8,189 | - | - | - | 8,189 |
| Other assets | - | - | - | - | - | - | 45,879 | 45,879 |
| | 595,474 | 4,083 | 62,470 | 190,337 | 68,697 | 510,295 | 547,642 | 1,978,998 |
| Loan commitments, letters of credit, guarantees and other credit obligations | 68 | 4,241 | 2,636 | 30,031 | 1,789 | 19,672 | 78,103 | 136,540 |

*Other industries include construction and land development

## 3 Financial risk management*...continued*

### 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 rate 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's exposure to market risks arises from its non-trading and trading portfolios. Senior management of the Group monitors and manages market risk through the Asset Liability Committee which advises on financial risks and assigns risk limits for the Group.

Non-trading portfolios primarily arise from the interest rate management of the Group's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arising from the Group's available-for-sale investments (Note 14).

### Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The 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 summarises the Group's exposure to foreign currency exchange rate risk at 31 December.

(in thousands of Eastern Caribbean dollars)

## 3 Financial risk management...*continued*

### Currency risk...*continued*

| | ECD $ | USD $ | BDS$ $ | Euro $ | GBP $ | CAD $ | Other $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | | | |
| Cash and balances with Central Bank | 177,326 | 5,910 | 126 | 422 | 264 | 197 | - | 184,245 |
| Treasury bills | 12,880 | - | - | - | - | - | - | 12,880 |
| Deposits with other banks | 76,535 | 112,142 | 1,471 | 13,868 | 405 | 551 | 323 | 205,295 |
| Financial assets held for trading | 21,368 | - | - | - | - | - | - | 21,368 |
| Deposits with non-bank financial institution | 15,379 | 37,371 | - | 253 | 23 | - | - | 53,026 |
| Loans and receivables: | | | | | | | | |
| Loans and advances to customers | 807,895 | 30,835 | - | - | - | - | - | 838,730 |
| Investment securities: | | | | | | | | |
| Amortised cost | 4,672 | 181,202 | - | - | - | - | - | 185,874 |
| FVOCI | 94,086 | 409,340 | - | - | - | - | - | 503,426 |
| FVTPL - equities | 6 | 5,361 | - | - | - | - | 32 | 5,399 |
| Financial instruments - pledged assets | 8,266 | - | - | - | - | - | - | 8,266 |
| Other assets | 45,338 | - | - | - | - | - | - | 45,338 |
| **Total financial assets** | 1,263,751 | 782,161 | 1,597 | 14,543 | 692 | 748 | 355 | 2,063,847 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management**...*continued*

**Currency risk**...*continued*

| | ECD $ | USD $ | BDS $ | Euro $ | GBP $ | CAD $ | Other $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Deposits from banks | 49,631 | - | - | - | - | - | - | 49,631 |
| Due to customers | 1,678,051 | 122,351 | - | 12,869 | | | | 1,813,271 |
| Repurchase agreements | 4,735 | 3,266 | - | - | - | - | - | 8,001 |
| Borrowings | 51,232 | 12,612 | - | - | - | - | - | 63,844 |
| Preference shares | 4,150 | - | - | - | - | - | - | 4,150 |
| Other liabilities | 39,647 | - | - | - | - | - | - | 39,647 |
| **Total financial liabilities** | 1,827,446 | 138,229 | - | 12,869 | - | - | - | 1,978,544 |
| **Net assets/(liabilities)** | (563,695) | 643,932 | 1,597 | 1,674 | 692 | 748 | 355 | 85,303 |
| **Loan commitments, letters of credit, guarantees and other credit obligations** | 68,723 | - | - | - | - | - | - | 68,723 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management**...*continued*

**Currency risk**...*continued*

| | ECD $ | USD $ | BDS$ $ | Euro $ | GBP $ | CAD $ | Other $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | | |
| Cash and balances with Central Bank | 217,055 | 5,603 | 152 | 655 | 235 | 283 | - | 223,983 |
| Treasury bills | 17,409 | - | - | - | - | - | - | 17,409 |
| Deposits with other banks | 48,298 | 111,255 | 1,577 | 2,284 | 673 | 325 | 2,804 | 167,216 |
| Financial assets held for trading | 18,623 | | - | - | - | - | - | 18,623 |
| Deposits with non-bank financial institution | 10,121 | 23,033 | - | 261 | 22 | - | - | 33,437 |
| Loans and receivables: | | | | | | | | |
| Loans and advances to customers | 818,905 | 34,162 | - | - | - | - | - | 853,067 |
| Investment securities: | 175,930 | 4,212 | - | - | - | - | - | 180,142 |
| Held to maturity | | | | | | | | |
| Available for sale | 116,680 | 359,636 | - | - | - | - | - | 476,316 |
| Available-for-sale | 6 | 11,680 | - | - | - | 28 | - | 11,714 |
| Financial instruments - pledged assets | 8,189 | - | - | - | - | - | - | 8,189 |
| Other assets | 45,879 | - | - | - | - | - | - | 45,879 |
| **Total financial assets** | 1,477,095 | 549,581 | 1,729 | 3,200 | 930 | 636 | 2,804 | 2,035,975 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management**...*continued*

**Currency risk**...*continued*

| | ECD $ | USD $ | BDS$ $ | Euro $ | GBP $ | CAD $ | Other $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Deposits from banks | 55,845 | - | - | - | - | - | - | 55,845 |
| Due to customers | 1,691,707 | 126,415 | - | 3,201 | - | - | - | 1,821,323 |
| Repurchase agreements | 4,711 | 3,242 | - | - | - | - | - | 7,953 |
| Borrowings | 51,231 | 20,288 | - | - | - | - | - | 71,519 |
| Preference shares | 4,150 | - | - | - | - | - | - | 4,150 |
| Other liabilities | 35,930 | - | - | - | - | - | - | 35,930 |
| **Total financial liabilities** | 1,843,574 | 149,945 | - | 3,201 | - | - | - | 1,996,720 |
| **Net assets/(liabilities)** | (366,479) | 399,636 | 1,729 | (1) | 930 | 636 | 2,804 | 39,255 |
| **Loan commitments, letters of credit, guarantees and other credit obligations** | 136,540 | - | - | - | - | - | - | 136,540 |

**3 Financial risk management***...continued*

**Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both fair value and cash flows 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 repricing that may be undertaken.

(in thousands of Eastern Caribbean dollars)

## 3 Financial risk management...*continued*

### Interest rate risk...*continued*

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

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and balances with Central Bank | 13,500 | 27,000 | - | - | - | 143,745 | 184,245 |
| Treasury bills | 2,793 | - | - | 10,087 | - | - | 12,880 |
| Deposits with other banks | 75,882 | 433 | 39,957 | - | - | 89,023 | 205,295 |
| Financial assets held for trading | - | - | 9,998 | 3,996 | 7,374 | - | 21,368 |
| Deposits with non-bank financial institutions | 5,648 | 27,353 | 15,379 | - | - | 4,646 | 53,026 |
| Loans and receivables: | | | | | | | |
| – loans and advances to customers | 19,799 | 7,802 | 67,178 | 147,024 | 596,927 | - | 838,730 |
| Investment securities: | | | | | | | |
| – amortised cost | 3,336 | 2,914 | 17,897 | 103,071 | 58,656 | - | 185,874 |
| – FVOCI | 16,415 | 25,710 | 83,581 | 273,411 | 104,309 | - | 503,426 |
| Financial instruments - pledged assets | - | - | 103 | - | 8,163 | - | 8,266 |
| Other assets | - | - | - | - | - | 45,338 | 45,338 |
| **Total financial assets** | 137,373 | 91,212 | 234,093 | 537,589 | 775,429 | 282,752 | 2,058,448 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management**...*continued*

**Interest rate risk**...*continued*

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Deposits from banks | - | 3,157 | 22,856 | - | - | 23,618 | 49,631 |
| Due to customers | 946,005 | 77,702 | 258,609 | 28,710 | 35,084 | 467,161 | 1,813,271 |
| Repurchase agreements | - | - | 8,001 | - | - | - | 8,001 |
| Borrowings | 1,299 | 1,232 | 2,489 | 53,824 | 5,000 | - | 63,844 |
| Preference shares | - | - | - | - | 4,150 | - | 4,150 |
| Other liabilities | - | - | - | - | - | 39,647 | 39,647 |
| **Total financial liabilities** | 947,304 | 82,091 | 291,955 | 82,534 | 44,234 | 530,426 | 1,978,544 |
| **Total interest repricing gap** | (809,931) | 9,121 | (57,862) | 455,055 | 731,195 | (247,674) | 79,904 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management**...*continued*

**Interest rate risk**...*continued*

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and balances with Central Bank | - | - | - | - | - | 223,983 | 223,983 |
| Treasury bills | 1,750 | 15,659 | - | - | - | - | 17,409 |
| Deposits with other banks | 14,826 | 32,852 | 66,556 | | | 52,982 | 167,216 |
| Financial assets held for trading | - | - | 2,257 | 10,932 | 5,434 | - | 18,623 |
| Deposits with non-bank financial institutions | 5,438 | 13,610 | 10,121 | - | - | 4,268 | 33,437 |
| Loans and receivables: | | | | | | | |
| – loans and advances to customers | 15,092 | 7,321 | 38,435 | 172,083 | 616,284 | - | 849,215 |
| Investment securities: | | | | | | | |
| – held-to-maturity | 3,877 | 3,309 | 21,652 | 92,789 | 58,514 | - | 180,141 |
| – available-for-sale | 5,121 | 16,317 | 94,936 | 262,586 | 97,356 | - | 476,316 |
| Financial instruments - pledged assets | - | | 100 | 55 | 8,034 | - | 8,189 |
| Other assets | - | - | - | - | - | 45,879 | 45,879 |
| **Total financial assets** | 46,104 | 89,068 | 234,057 | 538,445 | 785,622 | 327,112 | 2,020,408 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management**...*continued*

**Interest rate risk**...*continued*

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Deposits from banks | - | 3,169 | 28,520 | - | - | 24,156 | 55,845 |
| Due to customers | 946,773 | 77,311 | 269,114 | 23,567 | 32,642 | 471,916 | 1,821,323 |
| Repurchase agreements | - | - | 7,953 | - | - | - | 7,953 |
| Borrowings | 2,128 | 1,231 | 5,695 | 26,796 | 35,669 | - | 71,519 |
| Preference shares | - | - | - | - | 4,150 | - | 4,150 |
| Other liabilities | - | - | - | - | - | 35,930 | 35,930 |
| **Total financial liabilities** | 948,901 | 81,711 | 311,282 | 50,363 | 72,461 | 532,002 | 1,996,720 |
| **Total interest repricing gap** | (902,797) | 7,357 | (77,225) | 488,082 | 713,161 | (204,890) | 23,688 |

**3 Financial risk management***...continued*

**Interest rate risk***...continued*

Cash flow interest rate risk arises from loans and advances to customers at variable rates. At 31 December 2019, if variable interest rates had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year would have been $496 (2018 – $633) higher/lower, mainly as a result of higher/lower interest income on variable rate loans.

**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 outflows.

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 of these needs, as experience shows that a minimum level of reinvestment 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 borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

<u>Liquidity risk management process</u>
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.

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

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management***...continued*

**Liquidity risk***...continued*

Non-derivative cash flows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the liquidity risk based on expected discounted cash inflows.

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Total $ |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| **At 31 December 2019** | | | | | | |
| Deposits from banks | 23,618 | 3,167 | - | - | - | 26,785 |
| Due to customers | 1,413,187 | 77,979 | 261,329 | 28,710 | 35,084 | 1,816,289 |
| Repurchase agreements | - | - | 8,061 | - | - | 8,061 |
| Borrowings | 1,296 | 1,827 | 4,694 | 65,589 | 5,183 | 78,589 |
| Preference shares | - | - | - | - | 4,150 | 4,150 |
| Other liabilities | - | - | 47,556 | - | - | 47,556 |
| **Total financial liabilities** | 1,438,101 | 82,973 | 321,640 | 94,299 | 44,417 | 1,981,430 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| **At 31 December 2019** | | | | | | |
| | $ | $ | $ | $ | $ | $ |
| Cash and balances with Central bank | 157,361 | 27,094 | - | - | - | 184,455 |
| Treasury bills | 4,590 | - | - | 8,832 | - | 13,422 |
| Deposits with other banks | 165,571 | 433 | 40,281 | - | - | 206,285 |
| Financial assets held for trading | - | - | 10,554 | 4,446 | 10,895 | 25,895 |
| Deposits with non-bank financial institutions | 10,261 | 27,705 | 15,286 | - | - | 53,252 |
| Investment securities | 3 | - | - | - | - | 3 |
| Financial assets - pledged | - | - | 109 | - | 11,544 | 11,653 |
| Loans and receivables | 22,645 | 34,957 | 151,095 | 451,709 | 527,305 | 1,187,711 |
| Other assets | - | | 47,557 | - | 93 | 47,650 |
| **Total financial Assets** | 360,431 | 90,189 | 264,882 | 464,987 | 549,837 | 1,730,326 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management**...*continued*

**Liquidity risk**...*continued*

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Total $ |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| **At 31 December 2018** | | | | | | |
| Deposits from banks | 24,156 | 3,181 | 28,742 | - | - | 56,079 |
| Due to customers | 1,419,065 | 77,584 | 271,885 | 23,567 | 32,642 | 1,824,743 |
| Repurchase agreements | - | - | 8,012 | - | - | 8,012 |
| Borrowings | 2,128 | 1,827 | 8,059 | 50,735 | 28,405 | 91,154 |
| Preference shares | - | - | - | - | 4,150 | 4,150 |
| Other liabilities | 10,997 | 19,795 | 5,126 | - | - | 35,918 |
| **Total financial liabilities** | 1,456,346 | 102,387 | 321,824 | 74,302 | 65,197 | 2,020,056 |

| | Up to 1 month $ | 1 to 3 months $ | 3 to 12 months $ | 1 to 5 years $ | Over 5 years $ | Total $ |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| **At 31 December 2018** | | | | | | |
| Cash and balances with Central bank | 223,983 | - | - | - | - | 223,983 |
| Treasury bills | 1,829 | 16,076 | - | - | - | 17,905 |
| Deposits with other banks | 67,822 | 32,971 | 67,245 | - | - | 168,038 |
| Financial assets held for trading | - | - | 2,384 | 12,352 | 8,093 | 22,829 |
| Deposits with non-bank financial institutions | 9,707 | 13,682 | 10,201 | - | - | 33,590 |
| Investment securities | 9,534 | 19,694 | 125,382 | 389,966 | 214,579 | 759,155 |
| Financial assets - pledged | - | - | 106 | 71 | 11,965 | 12,142 |
| Loans and receivables | 12,692 | 35,923 | 115,830 | 455,075 | 560,288 | 1,179,808 |
| Other assets | - | | 45,879 | - | - | 45,879 |
| **Total financial assets** | 325,567 | 118,346 | 367,027 | 857,464 | 794,925 | 2,463,329 |

<u>Assets held for managing liquidity risk</u>
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 bank, certificates of deposit, 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.

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management***...continued*

**Off-balance sheet items**

*(a) Loan commitments*
The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 42) are summarised in the table below.

*(b) Financial guarantees and other financial facilities*
Financial guarantees (Note 42) are also included below based on the earliest contractual maturity date.

| | <1 Year $ | Total $ |
|---|---|---|
| **As at 31 December 2019** | | |
| Loan commitments | **50,362** | **50,362** |
| Financial guarantees, letters of credit and other credit obligations | **18,361** | **18,361** |
| **Total** | **68,723** | **68,723** |
| **As at 31 December 2018** | | |
| Loan commitments | 115,442 | 115,442 |
| Financial guarantees, letters of credit and other credit obligations | 21,098 | 21,098 |
| **Total** | 136,540 | 136,540 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management***...continued*

**Fair values of financial assets and financial liabilities**

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

The fair values of cash resources, other assets and liabilities, cheques and other items in transit and due to other banks are assumed to approximate their carrying values due to their short term nature. The fair value of off-balance sheet commitments are also assumed to approximate the amounts disclosed in Note 44 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 at rates which reflect market conditions and are assumed to have fair values which approximate carrying value.

Investment securities

Investment securities include interest bearing debt and equity securities held to maturity and available-for-sale. Assets classified 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.

Pledged assets

The estimated fair value of pledged assets are derived from market prices or broker/dealer 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 net of provisions for impairment. The estimated fair values of loans and advances represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $ | $ | $ | $ |
| **Financial assets** | | | | |
| Loans and receivables | | | | |
| − Large corporate loans | **234,970** | **281,976** | **334,623** | **421,514** |
| − Term loans | **184,756** | **185,143** | **184,905** | **187,810** |
| − Mortgages | **372,621** | **357,153** | **386,025** | **363,859** |
| − Overdrafts | **46,383** | **24,943** | **46,383** | **24,943** |
| Amortised cost | **185,874** | **180,142** | **188,312** | **183,564** |
| **Financial liabilities** | | | | |
| Borrowings | **63,844** | **71,519** | **55,029** | **63,539** |

**3 Financial risk management***...continued*

**Fair values of financial assets and financial liabilities***…continued*

Management assessed that cash and short term deposits, treasury bills, trade receivables, trade payables, repurchase agreements and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments. The Group's interest-bearing borrowings and loans are determined by using Discounted Cash Flow method using the discount rate that reflects the average rates at the end of the period.

**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 exchanges such as Luxembourg, New York and Trinidad and Tobago.

- 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.

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

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management**...*continued*

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

Fair value hierarchy...*continued*

| | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| **31 December 2019** | | | | |
| **Assets measured at fair value:** | | | | |
| **Investment properties** | **-** | **31,955** | **-** | **31,955** |
| **Land and buildings** | **-** | **-** | **40,380** | **40,380** |
| **Financial assets held for trading** | | | | |
| - debt securities | - | **-** | **21,368** | **21,368** |
| **Financial assets at FVTPL** | | | | |
| - equity securities | **729** | **4,664** | **6** | **5,399** |
| **Financial assets at FVOCI** | | | | |
| - debt securities | **25,854** | **369,577** | **94,436** | **489,867** |
| - equity securities | **5,674** | **6,662** | **2,543** | **14,879** |
| Financial instruments – pledged assets | - | **-** | **8,266** | **8,266** |
| **Total financial assets** | **32,257** | **412,858** | **166,999** | **612,114** |
| **31 December 2018** | | | | |
| Assets measured at fair value: | | | | |
| Investment properties | - | 31,955 | - | 31,955 |
| Land and buildings | - | - | 38,916 | 38,916 |
| Financial assets held for trading | | | | |
| | - | 18,623 | - | 18,623 |
| - debt securities | | | | |
| - equity securities | | | | |
| | 10,241 | 1,473 | - | 11,714 |
| Financial assets - available-for-sale | | | | |
| - debt securities | | | | |
| - equity securities | 137 | 441,888 | 26,513 | 468,538 |
| | - | 7,777 | - | 7,777 |
| Financial instruments – pledged assets | - | 8,189 | - | 8,189 |
| Total financial assets | 10,378 | 509,905 | 65,429 | 585,712 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management**...*continued*

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

Fair value hierarchy...*continued*

Assets for which fair values are disclosed

| | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| **31 December 2019** | | | | |
| Loans and advances to customers | **-** | **-** | **951,936** | **951,936** |
| Amortised cost investments | **6,856** | **173,359** | **5,658** | **185,873** |
| **Total financial assets** | **6,856** | **173,359** | **957,594** | **1,137,809** |
| **31 December 2018** | | | | |
| Loans and advances to customers | | | | |
| Bonds | - | - | 998,126 | 998,126 |
| Amortised cost | - | 174,508 | 9,055 | 183,563 |
| **Total financial assets** | - | 174,508 | 1,007,181 | 1,181,689 |

Liabilities for which fair values are disclosed

| | Level 3 $ | Total $ |
|---|---|---|
| **31 December 2019** | | |
| Borrowings | **55,029** | **55,029** |
| **31 December 2018** | | |
| Borrowings | 63,539 | 63,539 |

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management***...continued*

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

Fair value hierarchy*...continued*

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, 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 or available-for-sale.

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 maximise the use of observable market data where it is available and rely as little 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.
- Other techniques, such as discounted cash flow analysis, 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.

There were no gains or losses for the period included in profit or loss or comprehensive income for assets held at 31 December 2019.

| | Debt Securities 2019 $ | Equity Securities 2019 $ | Debt Securities 2018 $ | Equity Securities 2018 $ |
|---|---|---|---|---|
| **At beginning of year** | **26,513** | **-** | **32,508** | 1,046 |
| Additions | **67,923** | **2,542** | **(5,995)** | (1,046) |
| At end of year | **94,436** | **2,542** | **26,513** | **-** |

## 3 Financial risk management*...continued*

**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 set by the regulators of the banking markets where the entities within the Group operate;
- 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 East Caribbean Central Bank (the "Authority") for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority 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%.

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

- Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent 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, unrealised gains arising on the fair valuation of equity instruments held as available-for-sale and fixed asset revaluation reserves (limited to 20% on Tier 1 capital).

Investments in associates 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.

(in thousands of Eastern Caribbean dollars)

**3 Financial risk management***...continued*

**Capital management***...continued*

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December. During those two years, the banking subsidiaries of the Group complied with all of the externally imposed capital requirements to which they are subject.

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| **Tier 1 capital** | | |
| Share capital | **170,081** | 170,081 |
| Reserves | **219,520** | 206,377 |
| Accumulated deficit | **(161,050)** | (202,550) |
| **Total qualifying Tier 1 capital** | **228,551** | 173,908 |
| **Tier 2 capital** | | |
| Revaluation reserve | **13,855** | 13,855 |
| Redeemable preference shares | **4,150** | 4,150 |
| Unrealised gain on FVOCI investments | **7,304** | 1,040 |
| Subordinated debt | **50,000** | 50,000 |
| Collective impairment allowance | **5,383** | 5,140 |
| **Total qualifying Tier 2 capital** | **80,692** | 74,185 |
| **Total regulatory capital** | **309,243** | 248,093 |
| **Risk-weighted assets:** | | |
| On-balance sheet | **1,382,603** | 1,322,528 |
| Off-balance sheet | **13,745** | 28,388 |
| **Total risk-weighted assets** | **1,396,348** | 1,350,916 |
| **Basel capital adequacy ratio** | **22.15%** | 18.36% |

**Fiduciary activities**

The Group provides investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. At the statement of financial position date, the Group had financial assets under administration amounting to $128,139 (2018 – $102,753).

## 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.

Going concern
The Group's management is satisfied that it has the resources to continue in business for the foreseeable future. The Group's management is not aware of any material uncertainties that may cast significant doubt upon its ability to continue as a going concern.

Measurement of the expected credit loss allowance
The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is detailed in note 2.
A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

Impairment of assets carried at fair value
The Group determines that available-for-sale and held for trading equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

The Group individually assesses available-for-sale debt securities for objective evidence of impairment. If an impaired instrument has been renegotiated, interest continues to be accrued 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 profit or loss.

**4 Critical accounting estimates, and judgements in applying accounting policies***...continued*

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
For financial instruments, where 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.

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

Retirement benefits
The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The most sensitive assumptions used in determining the net cost (income) for pensions include the discount rate and future salary increases. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of Government that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is shown below:

(in thousands of Eastern Caribbean dollars)

**4 Critical accounting estimates, and judgements in applying accounting policies** *...continued*

**2019:**

| Assumption | Sensitivity Level | Impact on defined benefit obligation Increase | Decrease |
|---|---|---|---|
| | | $ | $ |
| Discount rate | **1%** | **10,262** | **7,153** |
| Future salary increases | **1%** | **4,563** | **3,376** |
| Increase in average life expectancy | **1 year** | **468** | **-** |

**2018:**

| Assumption | Sensitivity Level | Impact on defined benefit obligation Increase | Decrease |
|---|---|---|---|
| | | $ | $ |
| Discount rate | 1% | 9,922 | 7,166 |
| Future salary increases | 1% | 4,563 | 3,876 |
| Increase in average life expectancy | 1 year | 458 | - |

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. The deferred tax assets recognised at 31 December 2019 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.

**5 Segment analysis**

Segment reporting by the Group was previously prepared in accordance with IFRS 8, 'Operating segments'.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Company's Board of Directors (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assessing their performance.

The Group's operating segments which met the definition of reportable segment under IFRS 8 are indicated below:

**5 Segment analysis***...continued*

- Bank of St. Lucia Limited (BOSL) – operating in St. Lucia and provides domestic banking services.
- Bank of St. Lucia Limited- Investment Banking Services (BOSL GINV)-incorporating Capital market activities and Merchant Banking.
- Other comprises of the holding company of the Group.

The Group's segment operations are all financial with a majority of revenues being derived from interest. The Company's Board of Directors relies primarily on net interest income to assess the performance of the segment, therefore the total interest income and expense for all reportable segments is presented on a net basis.

The revenue from external parties reported to the Company's Board of Directors is measured in a manner consistent with that in profit or loss.

Revenue from external customers is recorded as such and can be directly traced to each business segment.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. As the Company's Board of Directors reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Company's Board of Directors.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position. Transactions between business segments are on an arms length basis and are eliminated on consolidation and reflected in the consolidations entries.

There were no revenues derived from transactions with a single external customer that amount to 10% or more of the Group's revenue.

(in thousands of Eastern Caribbean dollars)

**5 Segment analysis**...*continued*

| | BOSL | BOSL GINV | Other | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **At 31 December 2019** | | | | |
| Net interest income | **58,859** | **504** | **-** | **59,363** |
| Net fee and commission income | **29,412** | **5,098** | **-** | **34,510** |
| Other income | **30,780** | **236** | **11,322** | **42,538** |
| Impairment charge loans | **(6,470)** | **-** | **-** | **(6,470)** |
| Depreciation and amortization | **(4,623)** | **(15)** | **-** | **(4,638)** |
| Operating expenses | **(63,663)** | **(631)** | **-** | **(64,294)** |
| Profit before taxation | **44,295** | **5,192** | **11,322** | **60,809** |
| Dividends on preference shares | **(291)** | **-** | **-** | **(291)** |
| Income tax | **(1,259)** | **-** | **-** | **(1,259)** |
| Profit for the year | **42,745** | **5,192** | **11,322** | **59,259** |
| Total assets | **2,224,700** | **29,567** | **284,673** | **2,538,940** |
| Total liabilities | **1,977,158** | **5,742** | **78,033** | **2,060,933** |
| **At 31 December 2018** | | | | |
| Net interest income | 55,746 | 348 | 144 | 56,238 |
| Net fee and commission income | 27,977 | 4,705 | - | 32,682 |
| Other income | 24,562 | 204 | 506 | 25,272 |
| Impairment charge loans, investments | (8,920) | - | - | (8,920) |
| Depreciation and amortization | (4,484) | (16) | - | (4,500) |
| Operating expenses | (59,035) | (768) | (7) | (59,810) |
| Profit before taxation | 35,846 | 4,473 | 643 | 40,962 |
| Dividends on preference shares | (291) | | | (291) |
| Income tax | (355) | - | - | (355) |
| Profit for the year | 35,200 | 4,473 | 643 | 40,316 |
| Total assets | 2,189,948 | 29,077 | 284,591 | 2,503,616 |
| Total liabilities | 1,989,971 | 10,337 | 82,015 | 2,082,323 |

(in thousands of Eastern Caribbean dollars)

## 5 Segment analysis...*continued*

Reconciliation of segment results of operations to consolidated results of operations:

| | Total Management Reporting $ | Consolidation entries $ | Total $ |
|---|---|---|---|
| **At 31 December 2019** | | | |
| Net interest income | **59,364** | **-** | **59,364** |
| Net fee and commission income | **34,510** | **-** | **34,510** |
| Other income | **42,338** | **(11,586)** | **30,752** |
| Impairment charge loans, investments and property | **(6,471)** | **-** | **(6,471)** |
| Depreciation and amortisation | **(4,638)** | **-** | **(4,638)** |
| Operating expenses | **(64,294)** | **-** | **(64,294)** |
| Profit before tax | **60,809** | **(11,586)** | **49,223** |
| Dividends on preference shares | **(291)** | **-** | **(291)** |
| Share profit of associates | **-** | **7,318** | **7,318** |
| Income tax expense | **(1,259)** | **-** | **(1,259)** |
| Net profit for the year | **59,259** | **(4,268)** | **54,991** |
| Assets | **2,538,940** | **(308,219)** | **2,230,721** |
| Liabilities | **2,060,933** | **(81,040)** | **1,979,893** |
| **At 31 December 2018** | | | |
| Net interest income | 56,238 | - | 56,238 |
| Net fee and commission income | 32,682 | (7) | 32,675 |
| Other income | 25,272 | (774) | 24,498 |
| Impairment charge loans, investments and property | (8,920) | - | (8,920) |
| Depreciation and amortisation | (4,500) | - | (4,500) |
| Operating expenses | (59,810) | 7 | (59,803) |
| Profit before tax | 40,962 | (774) | 40,188 |
| Dividends on preference shares | (291) | - | (291) |
| Share profit of associates | - | 5,424 | 5,424 |
| Income tax expense | (355) | - | (355) |
| Net profit for the year | 40,316 | 4,650 | 44,966 |
| Assets | 2,503,616 | (316,394) | 2,187,222 |
| Liabilities | 2,082,323 | (85,022) | 1,997,301 |

(in thousands of Eastern Caribbean dollars)

## 6 Cash and balances with Central Bank

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| Cash in hand | | **37,743** | 33,634 |
| Balances with Central Bank other than mandatory deposits | | **25,167** | 70,647 |
| Included in cash and cash equivalents | 41 | **62,910** | 104,281 |
| Mandatory deposits with Central Bank | | **121,335** | 119,702 |
| | | **184,245** | 223,983 |

Pursuant to the Banking Act 2015, Banking institutions are required to maintain in cash and deposits with the Central Bank reserve balances 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. These balances with the Central Bank are non-interest bearing.

The weighted average effective interest rate in respect of interest bearing deposits with the Central Bank at December 31, 2019 was 1.52% (2018: nil)

## 7 Treasury bills

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| Cash and cash equivalents | 41 | **2,774** | 17,409 |
| More than 90 days to maturity | | **10,221** | - |
| Provision | | **(115)** | - |
| | | **12,880** | 17,409 |

Treasury bills are debt securities issued by the Government of Saint Lucia. The weighted average effective interest rate at 31 December 2019 was 3.52% (2018 – 4.5%).

## 8 Deposits with other banks

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| Items in the course of collection with other banks | | **12,020** | 16,691 |
| Placements with other banks | | **98,458** | 36,291 |
| Interest bearing deposits - cash and cash equivalents | | **-** | 59,625 |
| Included in cash and cash equivalents | 41 | **110,478** | 112,607 |
| Interest bearing deposits more than 90 days to maturity | | **94,817** | 54,609 |
| | | **205,295** | 167,216 |

The weighted average effective interest rate of interest-bearing deposits at 31 December 2019 is 2.28% (2018 – 1.78%).

(in thousands of Eastern Caribbean dollars)

## 9 Financial assets held for trading

| | 2019 $ | 2018 $ |
|---|---|---|
| Debt securities – listed | **21,368** | 18,623 |

Trading financial assets were acquired for selling in the near term and would otherwise have been classified as held-to-maturity investments. The weighted average interest rate earned on held-for-trading investment debt securities was 7.01% (2018 – 7.05%).

## 10 Deposits with non-bank financial institutions

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| Deposits - cash and cash equivalents | 41 | **10,064** | 23,318 |
| Deposits - more than 90 days to maturity | | **42,962** | 10,119 |
| | | **53,026** | 33,437 |

Interest rates on deposits depends on the value of deposits held. The weighted average interest rate in respect of interest bearing deposits at 31 December 2019 was 1.98% (2018 – 1.66%).

## 11 Loans and advances to customers

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| Large corporate loans | | **267,232** | 321,064 |
| Term loans | | **195,108** | 194,964 |
| Mortgage loans | | **385,448** | 365,947 |
| Overdrafts | | **54,088** | 30,073 |
| **Gross** | | **901,876** | 912,048 |
| Less allowance for impairment losses on loans and advances | 12 | **(63,146)** | (62,833) |
| **Net** | | **838,730** | 849,215 |

The weighted average effective interest rate on productive loans stated at amortised cost at 31 December 2019 was 6.92% (2018 – 7.15%) and productive overdrafts stated at amortised cost was 14.65% (2018 – 14.04%).

(in thousands of Eastern Caribbean dollars)

## 12 Allowance for impairment losses on loans and advances to customers

The movement for impairment on financial assets was as follows:

| | 12 months ECL $ | Lifetime ECL Stage 2 $ | Lifetime ECL credit impaired Stage 3 $ | Collective provision $ | Total provisions $ |
|---|---|---|---|---|---|
| **Large corporate loans** | | | | | |
| At beginning of the year as previously stated | - | - | 49,845 | 12,337 | 62,182 |
| Effects of adoption of IFRS 9 | 2,427 | 1,532 | 49,845 | - | 53,804 |
| **Changes due to financial assets recognized in the opening balance that have:** | | | | | |
| Transferred to 12-months ECL stage 1 | 91 | (91) | - | - | - |
| Transferred to Lifetime ECL not credit impaired - stage 2 | (6) | 6 | - | - | - |
| Transferred to Lifetime ECL credit impaired stage 3 | (650) | (1,117) | 1,767 | - | - |
| New financial assets originated or purchased | 462 | - | 2,653 | - | 3,115 |
| Financial assets that have been derecognised | (2,495) | (324) | (489) | - | (3,308) |
| Bad debts written off | - | - | (22,111) | - | (22,111) |
| Provision for the period | 2,234 | 55 | 5,299 | - | 7,588 |
| **Balance at 31 December 2018** | **2,063** | **61** | **36,964** | **-** | **39,088** |
| **Balance at January 1, 2019** | | | | | |
| Transferred to 12-months ECL stage 1 | **-** | **-** | **-** | **-** | **-** |
| Transferred to Lifetime ECL not credit impaired - stage 2 | **-** | **-** | **-** | **-** | **-** |
| Transferred to Lifetime ECL credit impaired stage 3 | **(154)** | **(61)** | **215** | **-** | **-** |
| New financial assets originated or purchased | **49** | **-** | **2,893** | **-** | **2,942** |
| Financial assets that have been derecognised | **(108)** | **-** | **(3,969)** | **-** | **(4,077)** |
| Bad debts written off | **-** | **-** | **(2,659)** | **-** | **(2,659)** |
| Provision for the period | **(46)** | **-** | **(2,771)** | **-** | **(2,817)** |
| **Balance at December 31, 2019** | **1,804** | **-** | **30,673** | **-** | **32,477** |

(in thousands of Eastern Caribbean dollars)

## 12 Allowance for impairment losses on loans and advances to customers*...continued*

| | 12 months ECL<br>$ | Lifetime ECL Stage 2<br>$ | Lifetime ECL credit impaired Stage 3<br>$ | Collective provision<br>$ | Total provisions<br>$ |
|---|---|---|---|---|---|
| **Term loans** | | | | | |
| At beginning of the year as previously stated | - | - | 11,814 | 4,977 | 16,791 |
| Effects of adoption of IFRS 9 | 743 | 752 | 11,814 | - | 13,309 |
| **Changes due to financial assets recognized in the opening balance that have:** | | | | | |
| Transferred to 12-months ECL stage 1 | 410 | (410) | - | - | - |
| Transferred to Lifetime ECL not credit impaired - stage 2 | (5) | 5 | - | - | - |
| Transferred to Lifetime ECL credit impaired stage 3 | (12) | (114) | 126 | - | - |
| New financial assets originated or purchased | 297 | 5 | 34 | - | 336 |
| Financial assets that have been derecognised | (627) | (51) | (333) | - | (1,011) |
| Bad debts written off | (8) | (36) | (717) | - | (761) |
| Provision for the period | 304 | 90 | (2,446) | - | (2,052) |
| **Balance at 31 December 2018** | **1,102** | **241** | **8,478** | **-** | **9,821** |
| **Balance at January 1, 2019** | **1,102** | **241** | **8,478** | **-** | **9,821** |
| **Changes due to financial assets recognized in the opening balance that have:** | | | | | |
| Transferred to 12-months ECL stage 1 | **16** | **(16)** | **-** | **-** | **-** |
| Transferred to Lifetime ECL not credit impaired - stage 2 | **(6)** | **-** | **6** | **-** | **-** |
| Transferred to Lifetime ECL credit impaired stage 3 | **(379)** | **(201)** | **580** | **-** | **-** |
| New financial assets originated or purchased | **223** | **17** | **28** | **-** | **268** |
| Financial assets that have been derecognised | **(175)** | **(17)** | **(226)** | **-** | **(418)** |
| Bad debts written off | **(4)** | **(8)** | **(1,693)** | **-** | **(1,705)** |
| Provisions for the period | **(225)** | **81** | **2,396** | **-** | **2,252** |
| **Balance at December 31, 2019** | **552** | **97** | **9,569** | **-** | **10,218** |

(in thousands of Eastern Caribbean dollars)

## 12 Allowance for impairment losses on loans and advances to customers*...continued*

| | 12 months ECL $ | Lifetime ECL Stage 2 $ | Lifetime ECL credit impaired Stage 3 $ | Collective Provision $ | Total provisions $ |
|---|---|---|---|---|---|
| **Mortgage Loans** | | | | | |
| At beginning of the year as previously stated | - | - | 5,912 | 5,749 | 11,661 |
| Effects of adoption of IFRS 9 | 4 | 410 | 5,912 | - | 6,326 |
| **Changes due to financial assets recognized in the opening balance that have:** | | | | | |
| Transferred to 12-months ECL stage 1 | 203 | (203) | - | - | - |
| Transferred to Lifetime ECL credit impaired stage 3 | - | (72) | 72 | - | - |
| New financial assets originated or purchased | 36 | - | 294 | - | 330 |
| Financial assets that have been derecognised | - | (35) | (167) | - | (202) |
| Bad debts written off | - | - | (432) | - | (432) |
| Provision for the period | 585 | 171 | 2,016 | - | 2,772 |
| **Balance at 31 December 2018** | **828** | **271** | **7,695** | **-** | **8,794** |
| Balance at January 1, 2019 | **828** | **271** | **7,695** | **-** | **8,794** |
| Changes due to financial assets recognized in the opening balance that have: | | | | | |
| Transferred to 12-months ECL stage 1 | **87** | **(87)** | **-** | **-** | **-** |
| Transferred to Lifetime ECL not credit impaired - stage 2 | **(1)** | **1** | **-** | **-** | **-** |
| Transferred to Lifetime ECL credit impaired stage 3 | **(556)** | **(161)** | **717** | **-** | **-** |
| New financial assets originated or purchased | **49** | **-** | **73** | **-** | **122** |
| Financial assets that have been derecognised | **(29)** | **(23)** | **(513)** | **-** | **(565)** |
| Bad debts written off | **-** | **-** | **(193)** | **-** | **(193)** |
| Provision for the period | **(27)** | **57** | **4,557** | **-** | **4,587** |
| **Balance at December 31, 2019** | **351** | **58** | **12,336** | | **12,745** |

(in thousands of Eastern Caribbean dollars)

## 12 Allowance for impairment losses on loans and advances to customers*...continued*

| | 12 months ECL $ | Lifetime ECL Stage 2 $ | Lifetime ECL credit impaired Stage 3 $ | Collective Provision $ | Total provisions $ |
|---|---|---|---|---|---|
| **Overdrafts** | | | | | |
| At beginning of the year as previously stated | - | - | 3,953 | 1,034 | 4,987 |
| Effects of adoption of IFRS 9 | 822 | 761 | 3,953 | - | 5,536 |
| **Changes due to financial assets recognized in the opening balance that have:** | | | | | |
| Transferred to 12-months ECL stage 1 | 630 | (420) | (210) | - | - |
| Transferred to Lifetime ECL not credit impaired - stage 2 | (85) | 85 | - | - | - |
| Transferred to Lifetime ECL credit impaired stage 3 | - | (30) | 30 | - | - |
| New financial assets originated or purchased | 150 | 212 | 68 | - | 430 |
| Financial assets that have been derecognised | (112) | (283) | - | - | (395) |
| Bad debts written off | - | (5) | (803) | - | (808) |
| Provision for the period | (289) | 149 | 507 | - | 367 |
| **Balance at 31 December 2018** | **1,116** | **469** | **3,545** | **-** | **5,130** |
| **Balance at January 1, 2019** | **1,116** | **469** | **3,545** | **-** | **5,130** |
| **Changes due to financial assets recognized in the opening balance that have:** | | | | | |
| Transferred to 12-months ECL stage 1 | **314** | **(173)** | **(141)** | **-** | **-** |
| Transferred to Lifetime ECL not credit impaired - stage 2 | **(35)** | **98** | **(63)** | **-** | **-** |
| Transferred to Lifetime ECL credit impaired stage 3 | **(108)** | **(33)** | **141** | **-** | **-** |
| New financial assets originated or purchased | **1,221** | **87** | **1** | **-** | **1,309** |
| Financial assets that have been derecognised | **(145)** | **(114)** | **(619)** | **-** | **(878)** |
| Bad debts written off | **-** | **(1)** | **(216)** | **-** | **(217)** |
| Provision for the period | **(232)** | **55** | **2,539** | **-** | **2,362** |
| **Balance at December 31, 2019** | **2,131** | **388** | **5,187** | | **7,706** |

(in thousands of Eastern Caribbean dollars)

## 12 Allowance for impairment losses on loans and advances to customers*...continued*

| | 12 months ECL $ | Lifetime ECL Stage 2 $ | Lifetime ECL credit impaired Stage 3 $ | Collective Provision $ | Total provisions $ |
|---|---|---|---|---|---|
| **Total credit provisioning** | | | | | |
| At beginning of the year as previously stated | - | - | 71,524 | 24,091 | 95,615 |
| Effects of adoption of IFRS 9 | | | | | |
| Loans and advances | 3,996 | 3,455 | - | (24,091) | (16,640) |
| Undrawn loans (included in other provisions) | 41 | - | - | - | 41 |
| Total impact of adoption of IFRS 9 included in contingency reserve | 4,037 | 3,455 | - | (24,091) | (16,599) |
| **Loss allowance for loans and undrawn commitments as at January 1, 2018 restated** | **4,037** | **3,455** | **71,524** | **-** | **79,016** |
| Changes in the allowance as at January 1, 2018 | | | | | |
| Transferred to stage 1 | 1,335 | (1,125) | (210) | - | - |
| Transferred to stage 2 | (96) | 96 | - | - | - |
| Transferred to stage 3 | (662) | (1,333) | 1,995 | - | - |
| New financial assets originated or purchased | 944 | 216 | 3,050 | - | 4,210 |
| Financial assets that have been derecognised | (3,233) | (693) | (989) | - | (4,915) |
| Bad debts written off | (8) | (41) | (24,063) | - | (24,112) |
| Provision for the period | 2,834 | 466 | 5,375 | - | 8,675 |
| | 1,114 | (2,414) | (14,842) | | (16,142) |
| Less provision for undrawn loans included in other liabilities | (41) | - | - | - | (41) |
| | **1,073** | **(2,414)** | **(14,842)** | **-** | **(16,183)** |
| Loan loss allowance as at December 31, 2018 | **5,110** | **1,041** | **56,682** | **-** | **62,833** |
| **Balance at January 1, 2019** | **5,110** | **1,041** | **56,682** | **-** | **62,833** |
| **Changes due to financial assets recognized in the opening balance that have:** | | | | | |
| Transferred to 12-months ECL stage 1 | **417** | **(276)** | **(141)** | **-** | **-** |
| Transferred to Lifetime ECL not credit impaired - stage 2 | **(42)** | **99** | **(57)** | **-** | **-** |
| Transferred to Lifetime ECL credit impaired stage 3 | **(1,197)** | **(457)** | **1,654** | **-** | **-** |
| New financial assets originated or purchased | **1,543** | **104** | **2,994** | **-** | **4,641** |
| Financial assets that have been derecognised | **(457)** | **(153)** | **(5,328)** | **-** | **(5,938)** |
| Bad debts written off | **(4)** | **(8)** | **(4,761)** | **-** | **(4,773)** |
| Provision for the period | **(532)** | **193** | **6,722** | **-** | **6,383** |
| **Balance at December 31, 2019** | **4,838** | **543** | **57,765** | | **63,146** |

(in thousands of Eastern Caribbean dollars)

## 12 Allowance for impairment losses on loans and advances to customers *...continued*

The table below outlines the reconciliation of changes in the net carrying amount of credit-impaired loans and advances to customers:

| | |
|---|---|
| Balance at January 1, 2018 | 246,614 |
| Change in allowance for impairment | (38,933) |
| Classified as credit impaired during the year | 15,910 |
| Transferred to not credit impaired during the year | (37,193) |
| Net repayments | (11,627) |
| Recoveries of amounts previously written off | - |
| Disposals | (21,428) |
| **Balance at December 31, 2018** | 153,343 |
| **Balance at January 1, 2019** | **153,343** |
| Change in allowance for impairment | **1,016** |
| Classified as credit impaired during the year | **71,971** |
| Transferred to not credit impaired during the year | **(135)** |
| Net repayments | **(33,186)** |
| Disposals | **(5,560)** |
| | **187,449** |

The table below provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to LECL.

| **Financial assets modified during the year** | $ |
|---|---|
| At amortised cost before modification | **5,677** |
| Net modification loss | **121** |
| Gross carrying amount at December 31, 2019 of financial assets for which loss allowance has changed to 12-month measurement during the year | **2,234** |

| **Financial assets modified during the year** | **$** |
|---|---|
| Amortised cost before modification | 4,832 |
| Net modification loss | 59 |
| **Financial assets modified since initial recognition** | $ |
| Gross carrying amount at December 31, 2018 of financial assets for which loss allowance has changed to 12-month measurement during the year | 56,039 |

(in thousands of Eastern Caribbean dollars)

## 13 Allowance for impairment losses on investment securities

| | 2019 | | | | 2018 |
|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total | Total |
| **Debt investment securities at FVOCI** | | | | | |
| Balance at January 1, 2019 | **1,560** | **-** | **943** | **2,503** | 2,353 |
| Net remeasurement of loss allowance for the year | **(130)** | **-** | **-** | **(130)** | 150 |
| **Balance at December 31, 2019** | **1,430** | **-** | **943** | **2,373** | 2,503 |

The above loss allowance is not recognised in the consolidated statement of financial position because the carrying amount of debt investment securities at FVOCI is their fair value.

| | 2019 | | | | 2018 |
|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total | Total |
| **Debt investment securities at amortised cost** | | | | | |
| Balance at January 1, 2019 | **165** | **-** | **4,506** | **4,671** | **4,577** |
| Net remeasurement of loss allowance for the year | **102** | **-** | **-** | **102** | **94** |
| **Balance at December 31, 2019** | **267** | **-** | **4,506** | **4,773** | **4,671** |

(in thousands of Eastern Caribbean dollars)

## 14 Investment securities

| | Amortised Cost $ | FVTOCI - Debt $ | FVTOCI - Equity $ | FVTPL - Equities $ | FVTPL - Held for Trading $ | Total $ |
|---|---|---|---|---|---|---|
| **At January 1, 2019** | **180,142** | **468,539** | **7,777** | **11,714** | **18,623** | **686,795** |
| Additions | **74,303** | **236,401** | **5,415** | **1,397** | **5,321** | **322,837** |
| Movements in interest accrued | **4** | **(119)** | **-** | **-** | **111** | **(4)** |
| Disposals (sale and redemption | **(68,031)** | **(227,627)** | **-** | **(8,815)** | **(2,688)** | **(307,161)** |
| Unrealised gain from changes in fair values | **-** | **12,622** | **368** | **1,103** | **1** | **14,094** |
| Provision for the year | **(102)** | **-** | **-** | **-** | **-** | **(102)** |
| Amortization of premium/discount | **(442)** | **50** | **-** | **-** | **-** | **(392)** |
| **At December 31, 2019** | **185,874** | **489,866** | **13,560** | **5,399** | **21,368** | **716,067** |
| | | | | | | |
| **At January 1, 2018** | | | | | | |
| Opening Balance | 120,049 | 397,231 | 8,542 | 4,622 | 19,642 | 550,086 |
| Additions | 78,928 | 212,908 | 181 | 8,033 | 2,205 | 302,255 |
| Movement in interest accrued | 353 | 957 | - | - | (82) | 1,228 |
| Disposals (sale and redemption) | (18,731) | (135,964) | (976) | - | - | (155,671) |
| Unrealised Gain from changes in fair value | - | (6,593) | 30 | (941) | (3,142) | (10,646) |
| Provision for the year | (95) | - | - | - | - | (95) |
| Amortization of Premium/Discount | (362) | - | - | - | - | (362) |
| **At December 31, 2018** | 180,142 | 468,539 | 7,777 | 11,714 | 18,623 | 686,795 |

(in thousands of Eastern Caribbean dollars)

**14 Investment securities**... *continued*

| | 2019 $ | 2018 $ |
|---|---|---|
| **Securities measured at amortised cost** | | |
| Debt securities at amortised cost | | |
| - Listed | **182,197** | 178,022 |
| - Unlisted | **8,450** | 6,791 |
| | **190,647** | 184,813 |
| Less provision for impairment | **(4,773)** | (4,671) |
| **Total securities at amortised cost** | **185,874** | 180,142 |
| **Securities measured at fair value through OCI** | | |
| Debt securities at fair value | | |
| - Listed | **446,077** | 421,442 |
| -Unlisted | **43,789** | 47,097 |
| Total fair value through OCI - Debt | **489,866** | 468,539 |
| Equity securities at fair value | | |
| - Listed | **2,422** | 2,422 |
| - Unlisted | **12,081** | 6,298 |
| | **14,503** | 8,720 |
| Less provision for impairment | **(943)** | (943) |
| Total fair value through OCI - Equity | **13,560** | 7,777 |
| **Total securities at fair value through OCI** | **503,426** | 476,315 |
| **Total equity securities at fair value through P&L - listed** | **5,399** | 11,714 |
| **Total investment securities** | **694,699** | 668,171 |

The weighted average effective interest rate on securities at fair value through other comprehensive income at 31 December 2019 was 3.38% (2018 – 3.51%).

## 15 Financial instruments - pledged assets and repurchase agreements

The following assets are pledged against certain other funding instruments:

| | Financial instruments - pledged assets | |
|---|---|---|
| | **2019** | **2018** |
| | **$** | **$** |
| Pledged against repurchase agreements | **8,266** | 8,189 |

The value of repurchase agreements on the consolidated statement of financial position which are secured by pledged assets is $8,001 (2018 - $7,953). The variance between investment pledged against repurchase agreements and the value of repurchase agreement represents accrued interest.

(in thousands of Eastern Caribbean dollars)

## 16 Investment in associates

| | 2019 $ | 2018 $ |
|---|---|---|
| | **59,986** | 55,793 |

The investments in associates are as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| **Associate** | | |
| At beginning of year | **55,793** | 49,781 |
| Share of Associates IFRS 9 adjustment | **(2,625)** | - |
| Adjusted beginning balance | **53,168** | - |
| Dividends from associate | **(1,554)** | (774) |
| Impact of adopting IFRS 9 | **-** | 951 |
| Share of other comprehensive income | **1,054** | 411 |
| Share of profit of associate | **7,318** | 5,424 |
| At end of year | **59,986** | 55,793 |

The Group invested $4,800 and has a 20% shareholding in the East Caribbean Amalgamated Bank Limited of Antigua (ECAB). The company is an unlisted company incorporated in St. Kitts. This undertaking represented the Group's contribution to a joint initiative of indigenous banks of the East Caribbean Currency Union to salvage and restructure the previous Bank of Antigua Limited.

East Caribbean Amalgamated Bank Limited of Antigua financial reporting period ends on 30 September. The Group's interest in its associate East Caribbean Amalgamated Bank Limited of Antigua, as at 31 December 2019 is as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| Current assets | **129,877** | 220,610 |
| Non-current assets | **835,791** | 749,935 |
| Liabilities | **(785,640)** | (804,818) |
| Preference Shares | **(47,869)** | (47,869) |
| Equity | **132,159** | 117,858 |
| % ownership | **20%** | 20% |
| Share of equity in associate | **26,432** | 23,571 |
| Previous share of profits from BOSVG holding | **3,207** | 3,207 |
| Carrying amount of the investment | **29,639** | 26,778 |

(in thousands of Eastern Caribbean dollars)

**16 Investment in associates**…*continued*

Summarised statement of profit and loss of East Caribbean Amalgamated Bank Limited:

| | **2019** **$** | **2018** **$** |
|---|---|---|
| Revenue | **62,370** | 46,228 |
| Administrative cost | **(27,407)** | (27,661) |
| Depreciation | **(1,820)** | (1,813) |
| Profit for the year | **33,143** | 16,754 |
| Tax expense | **(9,645)** | (4,199) |
| Other comprehensive income | **5,246** | 3,921 |
| **Total comprehensive income** | **28,744** | 16,476 |

(in thousands of Eastern Caribbean dollars)

## 16 Investment in associates...*continued*

In 2017, the Group disposed of its majority holding in Bank if St. Vincent and the Grenadines Limited and retained a 20% holding. The company is a listed company incorporated in St. Vincent.

The Group's interest in its associate Bank of St. Vincent and the Grenadines Limited, as at 31 December 2019 is as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Current assets | **157,771** | 105,749 |
| Non-current assets | **968,416** | 895,444 |
| Liabilities | **(1,001,014)** | (882,683) |
| Equity | **125,173** | 118,510 |
| % ownership | **20%** | 20% |
| Share of Equity in associate | **25,034** | 23,702 |
| Adjustment for fair value of associate interest at acquisition date | **5,313** | 5,313 |
| Carrying amount of the investment | **30,347** | 29,015 |

Summarised statement of profit and loss of Bank of St. Vincent & the Grenadines Limited at December 2019:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Revenue | **51,955** | 48,636 |
| (Less)/add prior year adjustment | **(875)** | 412 |
| Administrative cost | **(35,866)** | (34,530) |
| Profit for the year | **15,214** | 14,518 |
| Tax expense | **(2,124)** | (212) |
| Other comprehensive income | **24** | (1,862) |
| Total comprehensive income | **13,114** | 12,444 |

The associate had no contingent liabilities or capital commitments as at 31 December 2019 or 2018.

(in thousands of Eastern Caribbean dollars)

## 17 Property and equipment

| | Land and buildings $ | Leasehold improvements $ | Motor vehicles $ | Office furniture and equipment $ | Computer Equipment & Software $ | Work-in-progress buildings $ | Total $ |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2018** | | | | | | | |
| Opening net book amount | 38,852 | 1,246 | 129 | 4,061 | 2,047 | 643 | 46,978 |
| Additions | 625 | 2 | 394 | 1,245 | 1,873 | 650 | 4,789 |
| Disposals at cost | - | - | (661) | (38) | (955) | (814) | (2,468) |
| Accumulated depreciation on Disposal | - | - | 661 | 38 | 955 | - | 1,654 |
| Depreciation charge | (1,040) | (521) | (125) | (1,246) | (1,568) | - | (4,500) |
| **Closing net book amount** | 38,437 | 727 | 398 | 4,060 | 2,352 | 479 | 46,453 |
| **At 31 December 2018** | | | | | | | |
| Cost or valuation | 56,938 | 9,390 | 956 | 28,800 | 43,899 | 479 | 140,462 |
| Accumulated depreciation | (18,501) | (8,663) | (558) | (24,740) | (41,547) | - | (94,009) |
| **Net book amount** | 38,437 | 727 | 398 | 4,060 | 2,352 | 479 | 46,453 |
| **Year ended 31 December 2019** | | | | | | | |
| Opening net book amount | **38,437** | **727** | **398** | **4,060** | **2,352** | **479** | **46,453** |
| Additions | **-** | **-** | **145** | **1,291** | **1,889** | **2,505** | **5,830** |
| Disposals at cost | **-** | **(13)** | **-** | **(4,317)** | **(8,037)** | **-** | **(12,367)** |
| Accumulated depreciation on Disposal | **-** | **13** | **-** | **4,254** | **8,037** | **-** | **12,304** |
| Depreciation charge | **(1,051)** | **(499)** | **(123)** | **(1,206)** | **(1,759)** | **-** | **(4,638)** |
| **Closing net book amount** | **37,386** | **228** | **420** | **4,082** | **2,482** | **2,984** | **47,582** |
| **At 31 December 2019** | | | | | | | |
| Cost or valuation | **56,938** | **9,390** | **1,101** | **25,774** | **37,751** | **2,984** | **133,938** |
| Accumulated depreciation | **(19,552)** | **(9,162)** | **(681)** | **(21,692)** | **(35,269)** | **-** | **(86,356)** |
| **Net book amount** | **37,386** | **228** | **420** | **4,082** | **2,482** | **2,984** | **47,582** |

(in thousands of Eastern Caribbean dollars)

**17 Property and equipment**...*continued*

The major component of land and buildings were revalued in 2017 by an independent valuer based on open market value and a management internal specialist performed a review of the remaining buildings. The valuation indicates that the market value does not differ materially from the carrying amount of the respective assets in the books of the Group.

The historical cost of land and buildings is:

| | **2019 $** | **2018 $** |
|---|---|---|
| Cost | **41,418** | 38,913 |
| Accumulated depreciation based on historical cost | **(22,436)** | (21,385) |
| Depreciated historical cost | **18,982** | 17,528 |

**18 Investment properties**

| | **2019 $** | **2018 $** |
|---|---|---|
| **Land and buildings** | | |
| At beginning of year | **31,955** | 37,455 |
| Disposal of building | **-** | (5,500) |
| **At end of year** | **31,955** | 31,955 |

The investment properties are valued annually based on open market value by an independent, professionally qualified valuer. Comparative analysis was used to determine the market value of the investment properties.

The Group has no restrictions on the realisability of its investment properties and no contractual obligation to either purchase, construct or develop investment properties or for repairs maintenance and enhancements.

The following amounts have been recognised in profit or loss:

| | **2019 $** | **2018 $** |
|---|---|---|
| Rental income | **2,589** | 3,110 |
| Direct operating expenses arising from investment properties that generated rental income | **(692)** | (354) |
| | **1,897** | 2,756 |

## 19 Right-of-use lease asset

The Group leases a facility to house operations of one of the branches of its subsidiary. The lease typically run for a period of two years, with an option to renew the lease at expiration. Lease payments are negotiated with every new lease contract to reflect market rentals. The lease was entered into many years ago and was previously classified as an operating lease.

Right-of-use lease asset relates to leased properties:

| | **Land and Buildings $** | **Total $** |
|---|---|---|
| Balance at January 1, 2019 | **-** | - |
| Additions | **1,057** | 1,057 |
| **At 31 December 2019** | **1,057** | **1,057** |

(in thousands of Eastern Caribbean dollars)

## 20 Other assets

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| Receivable accounts | | **8,718** | 8,423 |
| Receivable accounts - credit card | | **36,179** | 37,504 |
| Prepaid expenses | | **2,782** | 2,056 |
| Stationery and supplies | | **608** | 620 |
| Accounts receivable | | **2,056** | 1,507 |
| | | **50,343** | 50,110 |
| Less provision for impairment on other assets | 21 | **(1,615)** | (1,555) |
| | | **48,728** | 48,555 |

## 21 Provision for impairment on other assets

The movement on the provision for impairment on other assets was as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| At beginning of year | **1,555** | 1,348 |
| Provisions made during the year | **569** | 407 |
| Receipts | **(100)** | (31) |
| Write offs during the year | **(409)** | (169) |
| At end of year | **1,615** | 1,555 |

(in thousands of Eastern Caribbean dollars)

## 22 Retirement benefit asset

The amounts recognised in the consolidated statement of financial position are determined as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| Fair value of plan assets | **72,741** | 64,995 |
| Present value of funded obligation | **(57,709)** | (54,549) |
| Asset in the consolidated statement of financial position | **15,032** | 10,446 |

Movement in the asset recognised in the consolidated statement of financial position:

The movement in the defined benefit obligation over the year is as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| Beginning of year | **54,549** | 48,602 |
| Current service cost | **1,463** | 1,327 |
| Interest cost | **4,072** | 3,750 |
| Employee contribution | **825** | 819 |
| Actuarial losses/(gains) | **(1,856)** | 1,546 |
| Benefits paid | **(1,344)** | (1,495) |
| End of year | **57,709** | 54,549 |

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

| | 2019 $ | 2018 $ |
|---|---|---|
| Beginning of year | **64,995** | 62,217 |
| Actual return on plan assets | **5,627** | 808 |
| Employer contributions | **2,943** | 2,920 |
| Employee contributions | **825** | 819 |
| Benefits paid | **(1,344)** | (1,495) |
| Administrative expenses | **(305)** | (274) |
| End of year | **72,741** | 64,995 |

(in thousands of Eastern Caribbean dollars)

**22 Retirement benefit asset***...continued*

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Net asset at beginning of year | **10,446** | 13,615 |
| Net periodic cost | **(1,051)** | (611) |
| Contributions paid | **2,943** | 2,920 |
| Effect on statement of comprehensive income | **2,694** | (5,478) |
| Net asset at end of year | **15,032** | 10,446 |

**Benefit cost**

| | 2019<br>$ | 2019<br>$ |
|---|---|---|
| Current service cost | **1,463** | 1,327 |
| Net interest on net defined benefit asset | **4,072** | 3,750 |
| Expected return on plan assets | **(4,789)** | (4,740) |
| Administration expenses | **305** | 274 |
| Net periodic cost at end of year | **1,051** | 611 |

The amounts recognised in the consolidated statement of comprehensive income are as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Gain from change in assumptions | **-** | 672 |
| (Loss)/gain from experience | **(1,856)** | 874 |
| Expected return on plan assets | **4,789** | 4,740 |
| Actual return on plan assets | **(5,627)** | (808) |
| | **(2,694)** | 5,478 |

The principal actuarial assumptions used were as follows:

| | 2019<br>% | 2018<br>% |
|---|---|---|
| Discount rate | **7.25** | 7.50 |
| Future promotional salary increases | **4.5** | 3.25-4.5 |
| Future inflationary salary increases | **1.75** | 1.75 |

Assumptions are set to approximate the expected average rates over the long term and may not be appropriate in any specific year.

(in thousands of Eastern Caribbean dollars)

**22 Retirement benefit asset***...continued*

Plan assets allocation is as follows:

| | 2019 % | 2018 % |
|---|---|---|
| Debt securities | **83** | 82 |
| Equity securities | **10** | 10 |
| Other | **7** | 8 |
| | **100** | 100 |

The pension plan assets do not include assets or ordinary shares of the Group.

**Mortality rate**
Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each territory.

The average life expectancy in years of a pensioner retiring at age 60 after the statement of financial position date is as follows:

| | 2019 | 2018 |
|---|---|---|
| Male | **24.86** | 24.77 |
| Female | **26.94** | 26.90 |

The assumption adopted for the expected return on assets considers the actual assets the Plan holds and the outlook for returns on various asset classes. This assumption is usually derived by looking at actual asset mix and making assumptions about returns relative to the "baseline" of the plan's discount rate, which are taken to be the returns on government bonds.

(in thousands of Eastern Caribbean dollars)

**22 Retirement benefit asset**...*continued*

The major categories of the fair value of the total plan assets are as follows:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Investments quoted in active markets:** | | |
| Quoted equity investments: | | |
| - Energy | **42** | 34 |
| - Consumer staples | **3,103** | 2,618 |
| - Other | **4,302** | 3,674 |
| Quoted debt securities | | |
| - Sovereign bonds | **25,681** | 23,254 |
| - Industrial | **2,739** | 4,700 |
| - Other | **10,095** | 10,440 |
| **Cash and cash equivalents** | **5,046** | 4,986 |
| **Unquoted investments** | | |
| Unquoted debt securities | | |
| - Sovereign bonds | **20,277** | 14,872 |
| **Unquoted equity securities** | | |
| - Other | **50** | 417 |
| **Total** | **72,741** | 64,995 |

The following payments are expected contributions to the defined benefit plan in future years:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Within the next 12 months | **971** | 863 |
| Between 2 and 5 years | **5,112** | 4,506 |
| Between 5 and 10 years | **13,015** | 11,815 |
| Total expected payments | **19,098** | 17,184 |

The average duration of the defined benefit plan obligation at the end of the reporting period is 15 years (2018– 16 years).

(in thousands of Eastern Caribbean dollars)

## 23 Deposits from banks

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Deposits from banks | **49,631** | 55,845 |

The weighted average effective interest rate on deposits from banks was 0.89% (2018 – 1.15%).

## 24 Due to customers

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Term deposits | **357,522** | 368,045 |
| Savings deposits | **675,710** | 645,432 |
| Call deposits | **281,046** | 336,537 |
| Demand deposits | **498,993** | 471,309 |
| | **1,813,271** | 1,821,323 |

The weighted average effective interest rate of customers' deposits at 31 December 2019 was 1.26 % (2018 – 1.24%).

(in thousands of Eastern Caribbean dollars)

## 25 Borrowings

| | Due | Interest rate % | 2019 $ | Interest rate % | 2018 $ |
|---|---|---|---|---|---|
| **Other borrowed funds** | | | | | |
| Caribbean Development Bank | 2017-2020 | **4.74** | **12,612** | 4.46 | 20,288 |
| National Insurance Corporation (Saint Lucia) | 2017-2026 | **7.25** | **51,232** | 7.25 | 51,231 |
| | | | **63,844** | | 71,519 |

Security for loans issued by the Group includes a first hypothecary obligation over the building and property known as the Financial Center, which is located at #1 Bridge Street.

In August 2016, the holding company issued a ten (10) year, EC$50 million unsecured bond via private placement with the purpose of capitalising its wholly-owned subsidiary of Bank of Saint Lucia Limited. The bond which qualifies as tier II capital, pays interest semi-annually at the rate of 7.25%. Principal repayments are to be amortised by way of 10 semi-annual payments over the last 5-year term of the instrument. The National Insurance Corporation was the sole purchaser of the bond.

(in thousands of Eastern Caribbean dollars)

## 26 Other liabilities

| | 2019 $ | 2018 $ |
|---|---|---|
| Trade and other payables | **34,615** | 31,485 |
| Managers' cheques outstanding | **4,460** | 4,184 |
| Agency loans | **573** | 261 |
| | **39,648** | 35,930 |

The agency loans are funds issued to the Group by the Government of Saint Lucia for disbursement to the related projects. The Group earns an agency fee on the amounts disbursed. The funds belong to the Government of Saint Lucia and the Group bears no risk in relation to these funds.

## 27 Deferred tax

The movements on the deferred tax asset are as follows:

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| Net deferred tax position at beginning of year | | **(4,000)** | (820) |
| **Deferred tax charge to the income statement**: | | | |
| Arising from retirement benefit plan | | **1,376** | 694 |
| Arising from other timing differences | | **(511)** | (638) |
| Arising from tax losses not utilised | | **(4,901)** | (1,592) |
| **Deferred tax charge for the year** | 39 | **(8,036)** | (2,356) |
| **Deferred tax charge to other comprehensive income** | | | |
| Deferred tax arising from retirement benefit plan | | **808** | (1,644) |
| Net deferred tax position at end of year | | **(7,228)** | (4,000) |

(in thousands of Eastern Caribbean dollars)

## 27 Deferred tax *...continued*

The deferred tax account is detailed as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| Accelerated capital allowances | **10,763** | 9,307 |
| Fair value of pension assets | **4,510** | 3,133 |
| Unutilised tax losses | **(8,045)** | ( 8,440) |
| Net deferred tax asset | **7,228** | 4,000 |

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.

## 28 Share capital

| | No. of Shares | 2019 $ | No. of Shares | 2019 $ |
|---|---|---|---|---|
| **Ordinary shares** | | | | |
| Authorised: | | | | |
| 50,000,000 ordinary shares of no par value | | | | |
| **Issued and fully paid** | | | | |
| At beginning and end of year | **24,465,589** | **170,081** | 24,465,589 | 170,081 |

## 29 Contributed capital

Total capital contributions received at 31 December were as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| Productive Sector Equity Fund Incorporated | **1,118** | 1,118 |
| | **1,118** | 1,118 |

The figures above represent the contributions to the Group by third parties in support of the named fund.

(in thousands of Eastern Caribbean dollars)

## 30 Reserves

| | 2019 $ | 2019 $ |
|---|---|---|
| (a) General reserve | **62,957** | 62,957 |
| (b) Statutory reserve | **111,173** | 101,587 |
| (c) Student loan guarantee fund reserve | **820** | 739 |
| (d) Special reserve | **2,034** | 2,034 |
| (e) Retirement benefit reserve | **15,032** | 10,445 |
| (f) Contingency reserve | **27,504** | 28,615 |
| **Total reserves at 31 December** | **219,520** | 206,377 |

Movements in reserves were as follows:

| | 2019 $ | 2018 $ |
|---|---|---|
| **(a) General** | | |
| At beginning of the year | **62,957** | 62,957 |
| At end of the year | **62,957** | 62,957 |

It is the policy of the Group to maintain a general reserve for reinvestment in operations. Transfers to the reserve are based on a maximum of 35% of the consolidated Group's profit for the year after transfers to statutory reserve.

| | 2019 $ | 2018 $ |
|---|---|---|
| **(b) Statutory** | | |
| At beginning of the year | **101,587** | 93,652 |
| Transferred from retained earnings | **9,586** | 7,935 |
| At end of the year | **111,173** | 101,587 |

Pursuant to Section 45 (1) of the Banking Act 2015, banking institutions shall, out of its net profits of each year transfer to that reserve a sum equal to not less than twenty percent of such profits whenever the amount of the fund is less than one hundred percent of the paid-up capital of the banking institutions.

(in thousands of Eastern Caribbean dollars)

## 30 Reserves

| | 2019 $ | 2018 $ |
|---|---|---|
| **(c) Student loan guarantee fund** | | |
| At beginning of the year | **739** | 7,627 |
| Transferred from retained earnings | **-** | 133 |
| Contributions | **81** | - |
| Capital drawing | **-** | (7,021) |
| At end of the year | **820** | 739 |

This is a non-distributable reserve. Transfers are made to the reserve at an amount equal to the net profit of the subsidiary Student Loan Guarantee Fund Limited.

| | 2019 $ | 2018 $ |
|---|---|---|
| **(d) Special** | | |
| At beginning and end of the year | **2,034** | 2,034 |

The finance contract between the European Investment Bank ("EIB") and the former St. Lucia Development Bank, now assumed by Bank of Saint Lucia Limited, requires the institution to establish and maintain a special reserve. Annually, an amount as specified under Section 6.05 of the Contract is credited to the reserve.

| | 2019 $ | 2018 $ |
|---|---|---|
| **(e) Retirement benefit** | | |
| At beginning of the year | **10,445** | 13,615 |
| Transferred from/(to) retained earnings | **4,587** | (3,170) |
| At end of the year | **15,032** | 10,445 |

The retirement benefit reserve is a non-distributable reserve. It is the Group's policy to match the amount of fair value of retirement benefit plan assets with the retirement benefit reserve.

(in thousands of Eastern Caribbean dollars)

## 30 Reserves*...continued*

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **(f) Contingency reserve** | | |
| At beginning of the year | **28,615** | 4,535 |
| Transferred (to)/from retained earnings | **(1,111)** | 7,481 |
| Adjustment on adoption of IFRS 9 | **-** | 16,599 |
| At end of the year | **27,504** | 28,615 |

The contingency reserve fund is created as an appropriation from retained earnings to set aside a portion of profits against loan loss provisions. This reserve will be funded annually to the extent that the reserve fund does not exceed 100% of non-performing loans.

## 31 Related party transactions and balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party by making financial and operational decisions.

Interest income and interest expense with related parties were as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Income<br>$ | Expense<br>$ | Income<br>$ | Expense<br>$ |
| Government of Saint Lucia | **2,724** | **595** | 1,475 | 697 |
| Statutory bodies – Saint Lucia | **844** | **5,348** | 1,153 | 5,652 |
| Directors and key management | **682** | **99** | 646 | 83 |

(in thousands of Eastern Caribbean dollars)

## 31 Related party transactions and balances *...continued*

Related party balances with the Group were as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Loans $** | **Deposits $** | **Loans $** | **Deposits $** |
| Government of Saint Lucia | **67,751** | **120,672** | 56,528 | 184,726 |
| Statutory bodies – Saint Lucia | **12,946** | **451,304** | 17,835 | 498,608 |
| Directors and key management | **12,773** | **4,297** | 12,097 | 3,858 |

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

The loans issued to directors and other key management personnel during the year are repayable monthly over an average of 8 years and have a weighted average effective interest rate of 5.15% ( 2018 – 5.5%). The secured loans advanced to the directors during the year are collateralised by mortgages over residential properties.

Transactions with related parties were carried out on commercial terms and conditions.

**Key management compensation**

Key management includes the Group's complete management team. The compensation paid or payable to key management for employee services is shown below:

| | **2019 $** | **2018 $** |
|---|---|---|
| Salaries and other short-term benefits | **5,983** | 5,315 |
| Pension costs | **760** | 653 |
| | **6,743** | 5,968 |
| Directors remuneration | **402** | 444 |

(in thousands of Eastern Caribbean dollars)

## 32 Net interest income

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Interest income** | | |
| Loans and advances | **58,054** | 59,166 |
| Treasury bills and investment securities | **25,794** | 23,520 |
| Cash and short-term funds | **4,370** | 1,471 |
| | **88,218** | 84,157 |
| **Interest expense** | | |
| Time deposits | **8,498** | 8,964 |
| Borrowings | **4,339** | 4,542 |
| Savings deposits | **14,955** | 13,395 |
| Demand deposits | **603** | 459 |
| Correspondent banks | **459** | 559 |
| | **28,854** | 27,919 |
| **Net interest income** | **59,364** | 56,238 |

## 33 Net fee and commission income

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Fee and commission income** | | |
| Credit related fees and commissions | **34,115** | 32,324 |
| Asset management and related fees | **395** | 352 |
| | **34,510** | 32,676 |

## 34 Net foreign exchange trading income

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Foreign exchange** | | |
| Net realised gains | **8,931** | 9,764 |
| Net unrealised gains | **894** | 515 |
| | **9,825** | 10,279 |

(in thousands of Eastern Caribbean dollars)

## 35 Other operating income

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Rental income | **2,589** | 3,110 |
| Bad debt recovery income | **14,411** | 11,688 |
| Other | **586** | 658 |
| | **17,586** | 15,456 |

## 36 Other gains, net

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Gains on disposal of FVOCI | **731** | 44 |
| Gains on disposal of Amortised Cost | **948** | 14 |
| Gains on FVTPL | **803** | - |
| Unrealised gains/(losses) on FVTPL | **858** | (796) |
| Loss on disposal of investment property | **-** | (500) |
| | **3,340** | (1,238) |

(in thousands of Eastern Caribbean dollars)

## 37 Operating expenses

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| Employee benefit expense | 38 | **28,790** | 26,216 |
| Depreciation and amortisation | 17 | **4,638** | 4,500 |
| Utilities and telecommunications | | **4,028** | 4,238 |
| Repairs and maintenance | | **7,794** | 6,872 |
| Advertising and promotion | | **1,106** | 598 |
| Bank and other licences | | **215** | 215 |
| Security | | **1,463** | 1,381 |
| Printing and stationery | | **839** | 844 |
| Legal and professional fees | | **550** | 578 |
| Insurance | | **769** | 731 |
| Credit card and IDC visa charges | | **9,469** | 8,922 |
| Borrowing fees | | **-** | 34 |
| Corporate responsibility | | **27** | 146 |
| Bank charges | | **991** | 1,215 |
| Travel and entertainment | | **296** | 385 |
| Other expenses | | **7,957** | 7,428 |
| | | **68,932** | 64,303 |

## 38 Employee benefit expense

| | 2019 $ | 2018 $ |
|---|---|---|
| Wages and salaries | **21,358** | 19,882 |
| Other staff costs | **6,381** | 5,723 |
| Pensions | **1,051** | 611 |
| | **28,790** | 26,216 |

## 39 Income tax expense/(recovery)

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| Current tax | | **5,295** | 1,891 |
| Deferred tax charge | 27 | **(4,036)** | (1,536) |
| | | **1,259** | 355 |
| Deferred tax income in other comprehensive income: | | | |
| Deferred tax arising from defined benefit pension plan | | **808** | (1,643) |
| | | **2,067** | (1,288) |

(in thousands of Eastern Caribbean dollars)

## 39 Income tax expense/(recovery)

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

| | **2019 $** | **2018 $** |
|---|---|---|
| Profit for the year before income tax and dividends | **56,541** | 45,612 |
| Tax calculated at the applicable tax rate of 30% | **16,962** | 13,683 |
| Tax effect of income not subject to tax | **(5,045)** | (10,105) |
| Deferred tax asset recognised/ unrecognised on tax losses | **(4,901)** | (1,592) |
| Tax effect of expenses not deductible for tax purposes | **(462)** | 260 |
| Tax effect of utilised losses | **(5,295)** | (1,891) |
| | **1,259** | 355 |

The Group has unutilised tax losses of $26,818 (2018 – $28,133) for which a deferred tax asset of $8,046 (2018: $8,440) has been recognised due to the certainty of its recoverability. Unutilized tax losses may be carried forward and deducted against 50% of future taxable income within six years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department. The Group also has unutilised tax losses of $98,243 (2018 – $121,889) for which no deferred tax asset has been recognised.

Tax losses expire as follows:

| | **2019 $** | **2018 $** |
|---|---|---|
| 2019 | **-** | 24,957 |
| 2020 | **6,367** | 6,367 |
| 2021 | **13,620** | 13,619 |
| 2022 | **105,079** | 105,079 |
| | **125,066** | 150,022 |

There was no income tax effect relating to components of other comprehensive income.

## 40 Earnings per share

**Basic and diluted**

The calculation of basic earnings per share is based on the profit from continuing operations attributable to ordinary shareholders of $54,991 (2018 – $44,966) and 24,465 (2018 – 24,465) shares, being the weighted average number of ordinary shares in issue in each year. For the purpose of calculating diluted earnings per share, the profit for the year attributable to equity holders of the company is the profit for the year after deducting preference dividends of $291 (2018 – $291).

(in thousands of Eastern Caribbean dollars)

## 41 Cash and cash equivalents

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

| | Notes | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| Cash and balances with Central Bank | 6 | **62,910** | 104,281 |
| Deposits with other banks | 8 | **110,478** | 112,607 |
| Deposits with non-bank financial institutions | 10 | **10,064** | 23,318 |
| Treasury Bills | 7 | **2,774** | 17,409 |
| | | **186,226** | 257,615 |

## 42 Contingent liabilities and commitments

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

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Loan commitments | **50,362** | 115,442 |
| Guarantees, letters of credit and other credit obligations | **18,361** | 21,098 |
| | **68,723** | 136,540 |

(in thousands of Eastern Caribbean dollars)

## 43 Principal subsidiary undertakings

| | Holding 2019 % | Holding 2018 % |
|---|---|---|
| Bank of Saint Lucia Limited | **100** | 100 |

** Allotment of shares had not been completed at the reporting date.

As part of its strategic objectives, the local companies of the ECFH Group namely; Bank of Saint Lucia Limited and ECFH Global Investment Solutions were amalgamated with ECFH holding company in October 2016, and this amalgamated entity continued as Bank of Saint Lucia Limited.

Another company named East Caribbean Financial Holding Company Limited was then incorporated at the same time to hold the shares of Bank of Saint Lucia Limited, and Bank of Saint Vincent and the Grenadines Limited. On June 30, 2017, the group disposed of its majority holding in Bank of St. Vincent and the Grenadines Limited, as part of its strategic objective to focus on its local share of Bank of St. Lucia Limited.

## 44 Cumulative preference shares

| | No. of shares | 2019 $ | No. of Shares | 2018 $ |
|---|---|---|---|---|
| **7% Cumulative preference shares** | | | | |
| Authorised: | | | | |
| 11,550,000 preference shares | | | | |
| At beginning and end of year | **830,000** | **4,150** | 830,000 | 4,150 |

The preference shares are non-voting and are to be converted to ordinary shares. The Group has imposed certain restrictions with respect to the number of preference shares that can be converted to ordinary shares in any one year.

The Board of Directors of the Company and the National Insurance Corporation respectively have formally agreed that future conversions of preference shares should be done at $5 per share.

Dividends declared and unpaid on the preference shares during the year amounted to $291 (2018 – $291).

## 45 Comparatives

Certain balances were reclassified in the prior year to be consistent with the current year's presentation. These changes had no impact on the total assets or total equity.

## 46 Dividend

The Board of Directors proposed a dividend in respect of the 2019 financial year end of $0.25 for each unit of paid up share capital, or $6,116 (2018: EC$7,340). The financial statements for the year ended 31 December 2019 do not reflect this proposed dividend.

## 47 Subsequent event

- *Defined Benefit (DB) Pension Plan*

On January 1, 2020 the Group completed the first phase of transitioning from a Defined Benefit (DB) Pension plan to a Defined Contribution (DC) Plan. The objectives of the transition are to

1. Control the financial risk of a growing defined benefit plan to the Company,
2. Improve portability of retirement benefits for staff and
3. Introduce harmonization with the National Insurance Corporation.

The first phase included the closure of the DB fund to future benefit accruals and the commencement of the DC section of the Scheme for future benefit accruals. Existing members of the DB Scheme will continue to be entitled to accrued pension benefits in the scheme for pensionable service prior to January 1, 2020.

The second phase will include providing the staff with options to either retain their existing entitlement to a DB benefit accrued up to December 31, 2019 or to transfer their entitlements under the DB to the DC section of the scheme. The Group is still in the process of finalizing the structure of the transfer option. The Group is unable to quantify the potential impact of the transfer as at the reporting date due to the uncertainly of the probable outcome.

To the extent that members transfer their accrued benefits from the DB to the DC, there will be a reduction in the retirement benefit asset and a corresponding expense. However, the Bank obviates itself from any future obligation.

To the extent that employees retain their accrued benefits as at December 31, 2019 on the DB plan the Group will continue to incur any funding shortfalls that may arise based on tri-annual actuarial valuations.

**47 Subsequent event***...continued*

- *Coronavirus (COVID-19)*

On March 11, 2020, the World Health Organization declared the breakout of a coronavirus, (COVID-19), a pandemic. This followed reports from China, commencing on December 31, 2019, of dozens of cases of pneumonia of unknown cause. This ailment has since been linked to COVID-19, and the virus has spread to over 190 countries resulting in excess of 21,000 deaths from more than 478,000 cases. Medical experts expect the spread to continue before any abatement.

By March 2020, Saint Lucia reported thirteen (13) imported cases of the virus and a significant proportion of tourism-related businesses have either shut down or announced impending shut downs as the local government and the home governments implemented measures to limit the spread of the disease in their respective countries. Because of the importance of the tourism industry to the local economy, the Government of Saint Lucia is leading a series of initiatives with certain local entities, including the Eastern Caribbean Central Bank (ECCB) and the Eastern Caribbean Currency Unit (ECCU) Bankers' Association, designed to alleviate the financial impact on both the commercial sector and employees. These measures are expected to include a moratorium on the repayment of loans (principle and interest) by all member banks of the Association for a period of up to six months in addition to waiver of late fees and charges.

At the current time, we are unable to quantify the potential effects of the pandemic on our future financial statements, if any, as this will depend on future developments, including but not limited to (i) the duration and spread of the outbreak, (ii) travel restrictions and advisories, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are highly uncertain and cannot be predicted.

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