Our future, Our bank

ecab

EASTERN CARIBBEAN AMALGAMATED BANK

Creating value for stakeholders

In the New Normal

ANNUAL REPORT 2020

Through the strength of the team, we withstood and navigated the unprecedented challenges of 2020.

OUR VISION

To be your Bank of Choice and Financial Partner for Life.

OUR MISSION

To create value for our stakeholders.

OUR MANTRA

Get It Right the First Time, Every Time.

STRATEGIC INTENT

Our strategic intent is Operational Efficiency.

CULTURAL PILLARS

The operations of the Bank have been built on the pillars of Customer Intimacy, Service Excellence and Employee Engagement. These pillars will distinguish ECAB as the Bank of choice and financial partner for life.

OUR VALUE STATEMENTS

Honesty and integrity are the overriding guiding principles.

All employees are regarded as critical to the success of the institution. The proficiency, expertise, knowledge and vision of everyone are highly valued and mutual respect and trust are greatly emphasized.

All customers are regarded as critical to the success of the institution. Bank staff is therefore very customer-focused, responsive and driven to exceed customers' expectations.

The reputation of the Bank and the integrity, sincerity and transparency that staff demonstrate every day are held in the highest regard.

Continuous learning is valued, reinforced by a commitment of the staff to listen to customers and to each other in order to institutionalize the discipline, processes and methodologies that offer the greatest reliability and quality of banking services.

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Notice of Annual General Meeting

NOTICE is hereby given that the Tenth Annual General Meeting of the Eastern Caribbean Amalgamated Bank Limited will be held virtually on **Friday, the 2nd day of July, 2021** commencing at **10:00am.**

AGENDA

1. Call to Order
2. Prayers
3. Adoption of Agenda
4. Chairman's Remarks
5. Consider and confirm the Minutes of Ninth Annual General Meeting held on July 2, 2020
6. Consider the matters arising from Minutes of Ninth Annual General Meeting held on July 2, 2020
7. Presentation of Chairman's Report
8. Presentation of Directors' Report
9. Consider Auditors' Report and Financial Statements for the year ended September 30, 2020
10. Declare a Dividend for the Financial Year ended September 30, 2020
11. Appointment of External Auditors for the year ending September 30, 2021 and authorize the Board to fix their remuneration
12. Election of Directors and confirmation of remuneration
13. Transact any other business that may properly be brought before an Annual General Meeting of Shareholders

Dated the 2nd of June, 2021

BY ORDER OF THE BOARD OF DIRECTORS

TRACY BENN-ROBERTS
Corporate Secretary

Chairman's Report

OUR PURSUIT OF SUCCESS IN THE MIDST OF CHALLENGES

OUR YEAR & OUR ECONOMY

The year 2020 has been the most challenging for our world, our economies and our people. The global crisis resulting from the impacts of the COVID-19 pandemic left no one and nothing in our lives untouched. The resolve of Our Bank was put to the test as we attempted to navigate the unprecedented challenges presented by the pandemic and to ensure that we maintained the level of service excellence required by our customers while, at the same time, making sure that our employees were protected at all times.

The economies of the Eastern Caribbean Currency Union (ECCU) experienced declines in GDP of an estimated 14.67% for 2020 according to the Eastern Caribbean Central Bank (ECCB). Antigua and Barbuda's economy declined by an estimated 15.97% compared to growth of 3.5% achieved in 2019. This was not surprising given the contractions in the economies of all our source markets as well as the partial and complete closures of borders for parts of the year which directly impacted tourism-dependent industries and businesses. Closures of businesses and lay-offs of workers across all sectors of the economy adversely impacted the livelihoods and lives of all Our People.

OUR PERFORMANCE

Notwithstanding the crisis and challenges brought on by the COVID-19 pandemic, Our Bank recorded a net profit of $15.6 million in 2020, 18.3% or $3.5 million below the $19.1 million for 2019. The primary contributor to this decline was the increase in loan provisioning in accordance with IFRS 9 and compounded by the pandemic's negative impact on our customers' ability to service loans and advances, which saw impairment charges of $11.9 million, more than double the prior level of $5.0 million.

Craig Walter
Chairman

Our Bank's assets grew by 10.5% to $1.07 billion, eclipsing the billion-dollar mark for the first time in our 10-year history. Achievement of this milestone was fueled primarily by growth in our loans and advances by 4.5% or $24.5 million, which is a laudable feat amid the crisis and challenges occasioned by the impact of the pandemic. Our net interest income grew modestly by $1.3 million or 3.5% over the prior year.

Deposits also grew by 10.8% or $83.3 million to end the year at $851.6 million. Our Bank's liquidity remained strong in 2020 with our loans-to-deposit ratio closing at 67.0%, down from 71.1% in 2019, still below the prudential benchmark of 75-85%. Given the changes in the economic environment due to the pandemic, this came as no surprise. Our adherence to these ECCB Prudential Banking Guidelines, provides Our Bank with a solid platform to keep pursuing sound investment opportunities to generate additional income and sustain growth well into the future.

OUR STRATEGY & OUR FUTURE

In October 2020, Our Bank signed a purchase and sale agreement with the Bank of Nova Scotia to acquire its banking operations in Antigua and Barbuda. Growth of Our Bank through strategic acquisitions and/or mergers has been a part of our strategic intent for many years. Following our successful emergence from the purchase and assumption of the Bank of Antigua operations in 2009-2010, and the acquisition and integration of the ABI Bank operations in 2015-2016, we are even more ready and equipped to make this opportunity a resounding success for Our Bank in the years to come. These opportunities have undoubtedly brought out the best of Our Bank and Our People.

Our Bank will continue to pursue enhancements to our physical branch footprint, our technological infrastructure and service delivery platforms, as well as training and development of Our People, among other strategic objectives.

Our Bank and Our Future are secure, and all stakeholders can be reassured of our vision To Be Your Bank of Choice and Financial Partner for Life through our mission To Create Value for Our Stakeholders.

ACKNOWLEDGEMENTS

On behalf of Our Board of Directors, I am honoured and privileged to have the opportunity to acknowledge the continued loyalty, commitment and support of All Our Stakeholders to include Our People, Our Customers, Our Shareholders and the Nation of Antigua and Barbuda as a whole.

Especially to Our People - ECAB's Management and Staff – Our Board of Directors remains proud and inspired by the way ECAB has risen and responded to the crisis and the opportunities that have come our way this year – with competence, flexibility, courage, commitment and a caring heart. Thank you again for your contributions and may we all continue to work together as an ECAB Family.

I am confident that in the future – Our Future - we will look back to this year as one of Our Bank's finest hours!

Thank you and Stay Safe!

Craig J. Walter
Chairman
Board of Directors

Board of Directors

Craig Walter
Chairman
Antigua Commercial Bank Limited

Rasona Davis-Crump
Government of Antigua and Barbuda

C. Davidson Charles
Deputy Chairman
Antigua Commercial Bank Limited

Estherlita Cumberbatch
East Caribbean Financial Holding Company Limited

Howard McEachrane
St. Kitts-Nevis-Anguilla National Bank Limited

Hezron Seraphin
National Bank of Dominica Ltd.

Bennie Stapleton
Bank of St. Vincent and the Grenadines Ltd.

Directors' Report


Tracy Benn-Roberts
General Counsel/Corporate Secretary

INTRODUCTION

The COVID-19 pandemic has ushered the Eastern Caribbean Amalgamated Bank Limited ('ECAB' or 'the Bank') into an environment of unforeseen challenges and limitless opportunities. Notwithstanding the pervasive uncertainty of the 2019/2020 financial year, the Bank grew its asset base considerably in furtherance of the market penetration priority outlined in our 2019-2022 Strategic Plan. Our landmark achievements in these unprecedented times are a testament to the Board's extraordinary commitment to acting in the best interest of all our valued stakeholders. Under the Board's effective oversight and strategic direction, ECAB continues to chart a sustainable growth path that creates value for all.

BOARD COMPOSITION

Clause 4.2 of our By-Laws provides for a minimum of seven (7) and a maximum of eleven (11) directors. At present, the Board comprises seven (7) non-executive directors who represent our six (6) shareholders as displayed in the table below.

NAMES OF DIRECTORS	NAMES OF SHAREHOLDERS	NUMBER OF COMMON SHARES OWNED
Rasona Davis-Crump	Government of Antigua and Barbuda	60,000
Estherlita Cumberbatch	East Caribbean Financial Holding Company Ltd.	48,000
Howard McEachrane	St. Kitts-Nevis-Anguilla National Bank Ltd.	38,400
Craig Walter C. Davidson Charles	Antigua Commercial Bank Ltd.	37,200
Hezron Seraphin	National Bank of Dominica Ltd.	37,200
Bennie Stapleton	Bank of St. Vincent and the Grenadines Ltd.	19,200

Notes: (i) The Government of Antigua and Barbuda also owns 100,000 non-voting preference shares; (ii) No Director personally owns shares in ECAB.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

Ultimate responsibility for the Bank's performance rests with the Board of Directors. The Board of Directors determines the strategic direction of the Bank and ensures that Management implements approved strategies. The Board also holds Management accountable for the Bank's financial performance through its review and approval of financial reports, budgets, credit applications and significant expenditures. Furthermore, the Board bears responsibility for the establishment, monitoring and promulgation of a robust risk management framework which is in keeping with internationally acceptable standards. The Board along with Management is also responsible for the introduction and enforcement of internal controls that balance the interests of relevant regulatory authorities, our growing customer base, our committed staff, and other key stakeholders. Additionally, the Board encourages timely submission of reports to its various sub-committees, accurate disclosure of financial information by Management, the observance of high ethical standards and strict adherence to the By-Laws and all relevant legislations and regulations in effect.

Board meetings are convened once a month or as deemed necessary. However, the Board maintains open lines of communication with the General Manager and other members of Management outside of regularly scheduled meetings to foster a culture of collaboration, mutual understanding, and singleness of purpose.

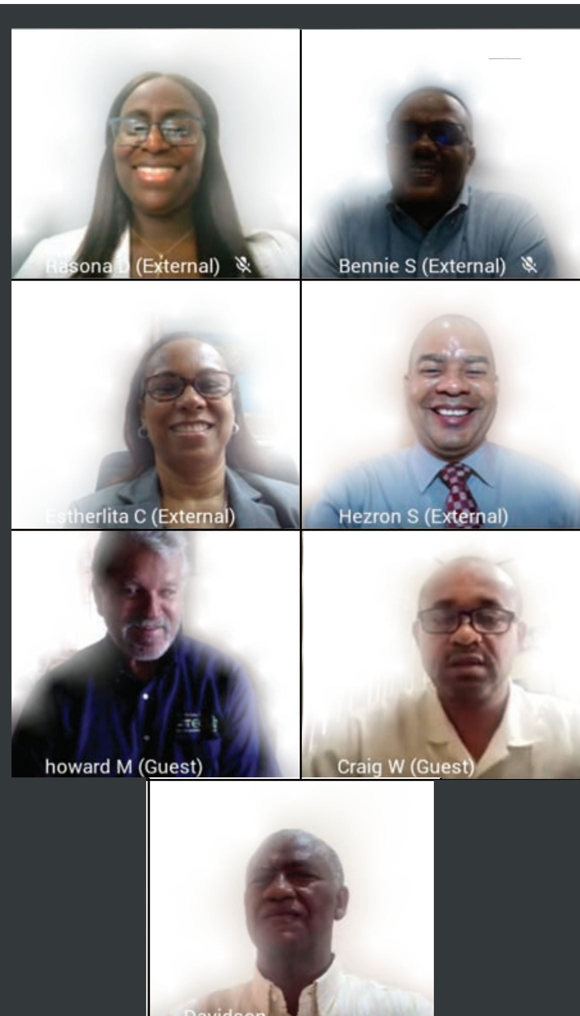
BOARD OF DIRECTORS' TRAINING

At ECAB, we spare no effort in equipping our directors with the requisite skills to act in the best interests of the Bank and our shareholders. During the 2019/2020 financial year, training focused on developing the Board's risk management competence to include promotion of a strong risk management culture, risk identification, monitoring and reporting, cybersecurity awareness, and implementation of Enterprise Risk Management tools and techniques. Participation in training sessions is required as a means of remaining adequately informed and abreast of corporate governance best practices.

In March 2020, the vast impacts of the COVID-19 pandemic imposed sweeping changes on the way we live and do business. The Board of Directors was not exempt from these changes. With great flexibility, the Board transitioned seamlessly from the physical boardroom to Committee and Board meetings held exclusively online. The Board embracing the adoption of the virtual meeting platform demonstrated its resilience, adaptability and commitment to providing efficient and effective oversight of the Bank in the evolving new normal.

Against this backdrop, the Board received training in online security awareness and was further sensitized to their increased duties and responsibilities in safeguarding the Bank and themselves against the inherent risks of the new and challenging business environment that the pandemic has created.

The Board's steadfast commitment to creating value for all stakeholders despite the challenges is commendable.



Board of Directors during virtual meeting

BOARD OF DIRECTORS' CONFLICT OF INTEREST POLICY

The Board of Directors' Conflict of Interest Policy provides the necessary framework for the management of 'potential, actual or perceived conflicts of interest' involving directors. The Policy requires full disclosure of any such conflicting interests which may arise while a director sits on the Board. These include, but are by no means limited to, personal, group, financial or professional affiliations with counterparties which are central to matters brought before the Board for consideration. Any director whose outside interests are found to conflict with those of the Bank and our shareholders is recused from making any input on the subject matter in question.

targeted oversight to core aspects of banking on a continuous basis. All Committees report to the Board monthly or as otherwise deemed appropriate.

The composition of the Committees is shown in the table below:

NAMES OF BOARD SUB-COMMITTEES	NAMES OF SUB-COMMITTEE MEMBERS
Corporate Governance	Directors Craig Walter (Chairman), C. Davidson Charles, Estherlita Cumberbatch and Howard McEachrane
Credit	Directors C. Davidson Charles (Chairman), Craig Walter, Estherlita Cumberbatch, Rasona Davis-Crump, Howard McEachrane, Bennie Stapleton and Hezron Seraphin
Audit & Risk	Directors Rasona Davis-Crump (Chairman), Estherlita Cumberbatch, Howard McEachrane and Hezron Seraphin
Human Resource	Directors C. Davidson Charles (Chairman), Rasona Davis-Crump, Howard McEachrane and Bennie Stapleton

BOARD SUB-COMMITTEES

The Board's function is supported by four (4) sub-committees, namely:

i. Corporate Governance Committee;
ii. Credit Committee;
iii. Audit & Risk Committee; and
iv. Human Resource Committee.

The various Committees of the Board of Directors meet as and when required to consider reports and matters falling within the terms of reference outlined in the respective Charters. The Committees are vital to the proper functioning of the Board as they provide

THE CHAIRMAN OF THE BOARD

The responsibility of ensuring that the Board of Directors functions effectively rests with the Chairman. Additionally, the Chairman has the responsibility of safeguarding the Board's independence and ensuring that the Board is well equipped to effectively balance the interests of all our stakeholders.

During the year under review, there were two changes to the membership of the Board of Directors: Mr. Bernard Hamilton and Ms. Genevieve Astaphan were replaced by Directors Bennie Stapleton of Bank of St. Vincent and the Grenadines Limited and Hezron

Seraphin of National Bank of Dominica Limited, respectively. The Bank expresses its sincere thanks to Past Directors Astaphan and Hamilton for their service and commitment to the Bank and wish them the very best in their future endeavours.

Clause 11 of the By-Laws provides: 'The directors shall as often as may be required" appoint a Chairman and a Deputy Chairman. The By-Laws also provide that the Chairman shall, when present, "preside at all meetings of the directors and any committee of the directors or the shareholders." Similarly, if the Chairman is absent or is unable or refuses to act, the Deputy Chairman shall, when present, "preside at all meetings of the directors and any committee of the directors or the shareholders."

During the financial year ended September 30, 2020, Director Craig Walter held the office of Chairman and Director C. Davidson Charles held the office of Deputy Chairman.

As the Bank celebrates its 10th anniversary, we recognize our Chairman, Director Walter, who has been a member of the Board of Directors from the inception of the Bank on October 18, 2010. He became the Chairman of the Board of Directors in 2012. Thanks to his unwavering dedication and committed leadership, the Board of Directors has grown from strength to strength. The Board also continues to be well unified and resolute in its commitment to the task at hand.

BOARD MEETINGS AND ATTENDANCE

During the financial year ended September 30, 2020, there were thirteen (13) meetings of the Board of Directors. The following table records the attendance of the Directors:

DIRECTORS (IN ORDER OF TENURE)	ATTENDANCE		PERCENTAGE
	Required	Actual	
Craig Walter	13	13	100%
Rasona Davis-Crump	13	12	92%
Howard McEachrane	13	13	100%
C. Davidson Charles	13	13	100%
Estherlita Cumberbatch	13	13	100%
Bernard Hamilton	9	5	56%
Genevieve Astaphan	11	10	91%
Bennie Stapleton	4	4	100%
Hezron Seraphin	2	2	100%

Note: Due to the changes in the composition of the Board of Directors during the 2019/2020 financial year, the attendance of nine (9) Directors are noted above. The last four (4) entries reflect the attendance of former Directors Hamilton and Astaphan and their respective replacements, Directors Stapleton and Seraphin.

DIRECTORS' TENURE

Clause 4.4 of the By-Laws of ECAB provide as follows:

"Unless his tenure is sooner determined, a director shall hold office from the date from which he is elected or appointed until the close of the annual meeting of the shareholders next following but shall be eligible for re-election if qualified."

Pursuant to the above-mentioned clause, all Directors are eligible for re-election for the financial year ending September 30, 2021 namely, Craig Walter, C. Davidson Charles, Rasona Davis-Crump, Howard McEachrane, Estherlita Cumberbatch, Bennie Stapleton and Hezron Seraphin.

DIRECTORS' REMUNERATION

Directors' remuneration is generally determined by the internal circumstances and industry standards. The Board of Directors generally considers and recommends annually for approval by the Shareholders, the level of remuneration for the Board of Directors during the financial year. Directors are also entitled to have any travel accommodation and other expenses reasonably incurred in the performance of ECAB's duties and responsibilities covered by the Bank.

VOTING BY SHAREHOLDERS

Voting by Shareholders is governed by Clause 12.6 of the By-Laws of ECAB which provides that shareholders shall vote at the election "in the first instance by a show of hands unless a person entitled to vote at the meeting has demanded a ballot."

Clause 12.6.1 of the By-Laws of ECAB also provides that each shareholder or proxy holder or individual authorized to represent a shareholder is entitled to one vote at every meeting at which he is entitled to vote.

DIVIDEND

In accordance with Clause 15 of the By-Laws of ECAB, "the directors may from time to time by resolution declare and the Company may pay dividends on the issued and outstanding shares of the capital of the Company…"

For the financial year ended September 30, 2020, the Board of Directors recommends the payment of dividend of 3.5% of par value to the preferred shareholder on record as at September 30, 2020 and dividends of $2.75 for each unit of common share to the shareholders on record as at September 30, 2020.

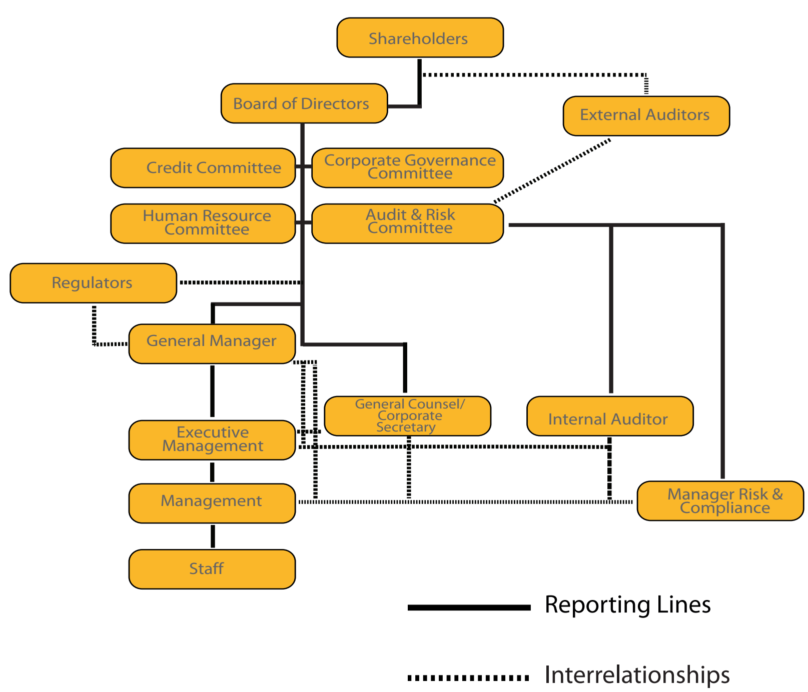
EXTERNAL AUDITORS

The External Auditors, Grant Thornton, retired at the financial year ended September 30, 2020. The Auditors are eligible for re-appointment and have offered themselves for re-appointment for the year ending September 30, 2021. The Board of Directors recommends their re-appointment.

BY ORDER OF THE BOARD OF DIRECTORS

Tracy Benn-Roberts
Corporate Secretary

ECAB GOVERNANCE STRUCTURE



Executive Management

Michael Spencer
General Manager

Donna Cort
Chief Financial Officer

Tracy Benn-Roberts
General Counsel/Corporate Secretary

Alicia Bazil-Ashton
Senior Manager Human Resources

Sonya Roberts-Carter
Senior Manager Operations

Sophie Thomas-Durand
Chief Information Systems Officer

Peter Quinn
Internal Auditor

Adrian McLean
Senior Manager
Retail and Commercial Lending

Management's Discussion and Analysis

BUSINESS OVERVIEW

We are pleased to present our 2020 Annual Report under the theme "Creating Value for Stakeholders in the New Normal". The 2020 Fiscal was one like no other, following the onset of the COVID-19 pandemic midway through the financial year. Amidst lockdowns, curfews and other health and safety regulations, the Bank provided exemplary support to its stakeholders.

Notwithstanding the challenges, we ensured that our customers were able to conduct their banking with minimal interruption. Our digital platforms, ATMs and night deposit services allowed both retail and business customers to perform their business transactions, giving them access to funds without entering the bank. We supported our commercial and retail loan customers with our ECAB Loan Relief Plan, which provided moratoriums of principal and interest, in the first instance for six months and subsequently for additional periods as requested.

Our staff are critical to the success of the Bank. When the world as we knew it changed to the unknown, our staff worked tirelessly to serve our customers and communities with the same high quality of service our customers were used to under normal circumstances. We are grateful for the dedication displayed by our staff. Staff safety is always a priority for the Bank. Therefore, every step was taken to ensure our workplace was re-configured to accommodate social distancing and all other protocols in an effort to guarantee the safety of staff and customers alike. Among the safety measures implemented were the installation of sanitizing stations and additional disinfecting services. Additionally, reduced working hours were introduced to provide relief for staff as the wearing of masks became mandatory. Also, while staff training and development continued during the year, this was done at a slower pace.

As the economic and health consequences of COVID-19 continued to be felt throughout the country, the Bank played its role in supporting communities with financial contributions to various projects. We were happy to partner with the Rotary Club of Antigua to construct a new classroom for the School for the Deaf. This will allow the school to implement the required social distancing protocols and to resume teaching in classrooms. The Bank also partnered with the Ministry of Social Transformation to launch a local aquaponics enterprise. The project seeks to create additional revenue opportunities by developing practical skills and knowledge in managing aquaponics enterprises in a Blue Economy, and has the potential to provide a source of livelihood for unemployed and vulnerable individuals.

Michael Spencer
General Manager

We are committed to increasing the shareholders value through sustainable and consistent returns. Despite the challenging conditions brought on by COVID-19, the Bank's performance was credible. We continued to gain market share in deposits which rose from 19.7 percent at September 30, 2019 to 21.7 percent at September 30, 2020. Loans and advances saw an increase from 19.9 percent at September 30, 2019 to 20.1 percent at September 30, 2020. However, due to our conservative position taken in providing for the potential impact of loans for which moratoriums were granted, our Return on Assets decreased to 1.5 percent from 1.9 percent the previous year, and compared to an average rate of 0.66 percent for banks in Antigua and Barbuda. Return on Equity decreased to 8.8 percent from 11.7 percent for the previous year compared to an average country rate of 7.56 percent, and from our benchmark of 10%.

ECONOMIC AND BUSINESS ENVIRONMENT

As the effects of the pandemic continued to be felt globally, estimates from the Eastern Caribbean Central Bank (ECCB) indicated that economic development in Antigua and Barbuda contracted significantly in 2020 from a projected GDP growth of 5 percent to a negative growth of 18.27 percent. Performance in the banking sector reflected tightening in the liquidity position with a reduction in the ratio of liquid assets to total assets from 52.3 percent at September 2019 to 40.4 percent at September 2020. Customer deposits to total (non-interbank) loans dropped from 133.67 percent at September 2019 to 127.97 percent at September 30, 2020. The non-performing loans ratio increased from 5.31 percent at September 2019 to 5.94 percent at September 2020; above the ECCB benchmark of 5 percent. Regulatory capital to risk-weighted assets (CAR) dropped from 36.5 percent at September 2019 to 34.9 percent at September 2020. The average interest rate spread fell from 7.01 percent at September 2019 to 6.11 percent at September 2020.

PERFORMANCE HIGHLIGHTS

During the current fiscal, the Bank achieved in excess of a billion dollars in total assets and as at September 30, 2020, recorded total assets of $1.07 billion up $1.0 million from $969.0 million recorded at September 30, 2019. The Bank recorded profit after tax of $15.6 million; a decrease of $3.5 million or 18.3 percent over the 2019 result of $19.1 million. The decrease was largely influenced by an increase of $6.9 million in impairment charges and a decrease of $0.5 million in net fee income due to the impact of COVID-19, partially off-set by increases of $2.7 million from gains from investment securities and $1.6 million in interest income.

INTEREST INCOME

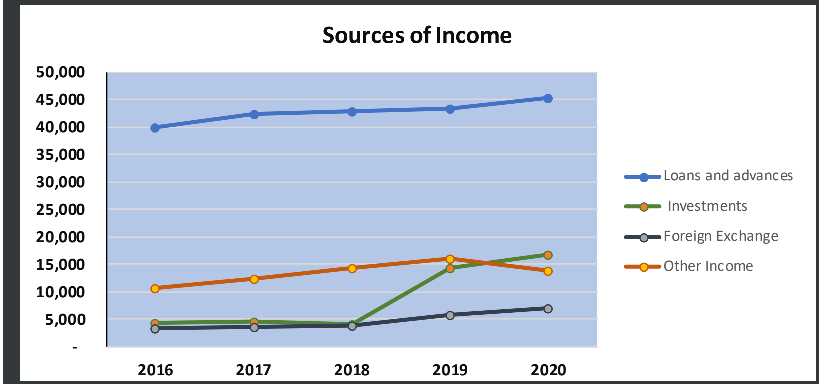
Interest income increased by $1.6 million or 3.4 percent mainly due to interest recovered from the sale of four properties securing non-performing loans and from net growth of $23.1 million in the performing loans portfolio. Yield from interest earning assets decreased to 6.0 percent for 2020 from 6.1 percent for 2019 and was impacted by reduction in term deposits investment and lower interest rates on investment rollovers.

Highlights of Financial Operations

(In Thousands of Dollars)

For the year	2020	2019	2018	2017	2016
Interest Income	49,192	47,575	46,930	46,937	44,011
Interest Expense	11,302	10,949	10,512	10,499	12,839
Loan Impairment Charges	11,946	5,047	2,000	1,534	1,020
Net Fee Income	13,207	13,706	11,408	9,478	7,383
Operating Expenses	29,632	29,003	26,842	26,188	23,241
Net Income	15,583	19,078	14,970	14,338	12,071
Yield on Interest Earning Assets	6.0%	6.1%	6.7%	7.2%	7.6%
Cost of Funds	1.4%	1.4%	1.4%	1.6%	2.0%
Spread	4.6%	4.7%	5.3%	5.6%	5.6%
Efficiency Ratio	56.9%	52.3%	58.3%	58.8%	61.4%

At year end	2020	2019	2018	2017	2016
Loans & Advances	570,894	546,412	529,823	512,330	497,084
Investments	261,481	260,258	201,452	178,314	143,734
Total Assets	1,070,451	969,023	980,725	836,066	805,778
Total Deposits	851,579	768,301	784,212	667,814	667,735
Total Shareholders' Equity	182,864	170,113	168,246	140,710	106,097
Return on Assets	1.5%	1.9%	1.7%	1.7%	1.7%
Return on Equity	8.8%	11.7%	9.7%	11.6%	12.1%
Capital Adequacy Ratio	43%	46%	49%	52%	47%



INTEREST EXPENSE

Interest expense increased by $0.4 million or 3.2 percent attributed to growth of $25.7 million in interest bearing deposits. Funding costs continued to be closely monitored resulting in the cost of funds ratio remaining at 1.4 percent for 2020 and 2019.

LOAN IMPAIRMENT CHARGE

Loans impairment charge for 2020 was $11.9 million compared to $5.0 million in the previous fiscal. The increase was mainly attributed to the potential economic impact of COVID-19 pandemic on borrowers. At September 30, 2020, $371.3 million or 68 percent of the performing loans portfolio reflected accounts with moratoriums with borrowers either being unemployed or underemployed or businesses not generating sufficient revenue to meet loan obligations. The Non-performing Loans ratio continued to improve and was 1.67 percent at September 30, 2020 compared to 2.32 percent at September 30, 2019.

NET FEE INCOME

Net fee income decreased by $0.5 million or 3.6 percent to $13.2 million in 2020 compared to 2019. An increase in foreign exchange earnings of $1.3 million was off-set by reductions in credit card fees, service charges and other fees and commissions due to reduced economic activity resulting from the pandemic.

OTHER INCOME

Other income increased by $2.7 million driven mainly by an increase in unrealized gains from Visa shares held for trading.

OPERATING EXPENSES

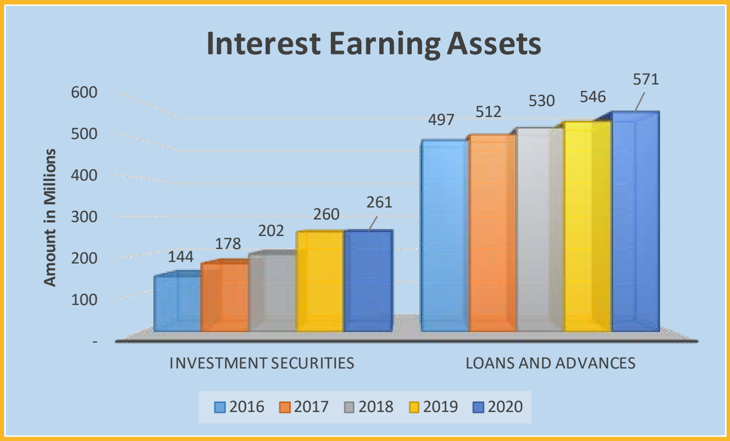
Operating expenses increased by $0.6 million or 2.2 percent to $29.6 million for 2020 compared to 2019 driven primarily by increases of $0.4 million or 21.3 percent in professional fees and $0.4 million or 23.1 percent in telecommunications expenses.

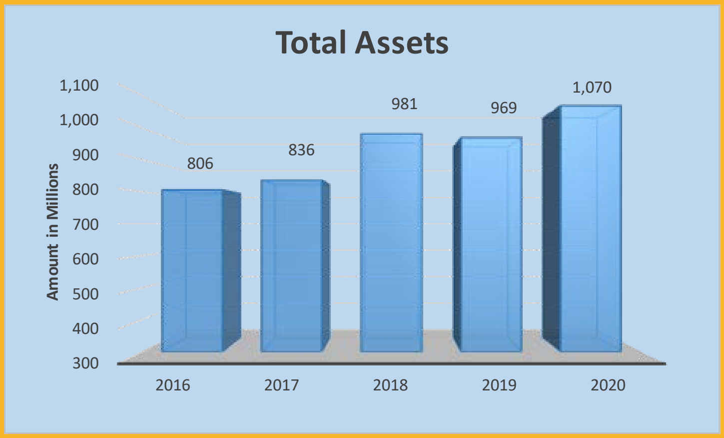
ASSETS

At September 30, 2020, total assets were $1.07 billion; up from $969.0 million at September 30, 2019 and is reflected in increases in cash and balances with the Central Bank of $19.4 million, due from banks and other financial institutions of $54.0 million and loans and advances of $24.5 million.

The Bank's Investment Policy was updated during the 2020 fiscal providing a larger source of securities in which surplus funds could be invested. The Bank will continue to look for opportunities to deploy excess cash levels into viable interest yielding investments.

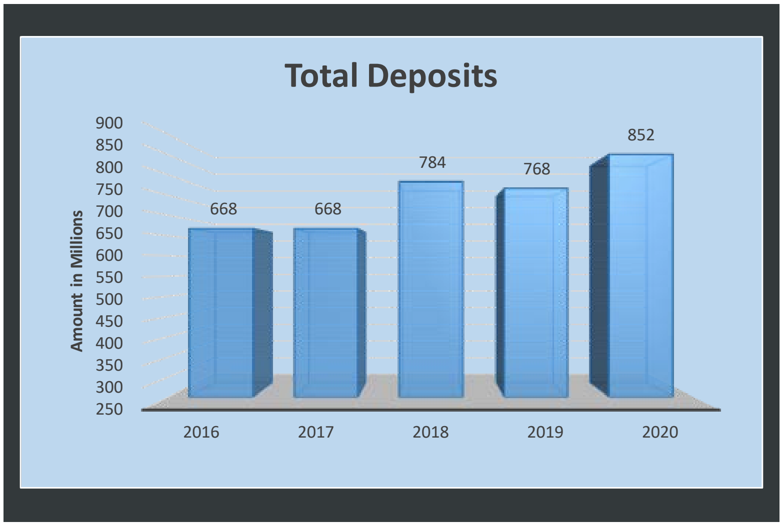
Increase in loans and advances was influenced primarily by continued growth in mortgages and in outstanding interest receivable balances resulting from loans for which moratoriums were granted to September 30, 2020. The loans to deposit ratio decreased to 67.0 percent at September 30, 2020 from 71.1 percent for the previous fiscal.





CUSTOMER DEPOSITS

Customer deposits increased by $83.3 million or 10.8 percent to $851.6 million at September 30, 2020 compared to $768.3 million at the previous year end. Demand and savings deposits reflected growth of $57.8 million or 28.1 percent and $47.8 million or 16.2 percent respectively while time deposits reflected a decrease of $22.2 million or 8.4 percent.



OUTLOOK

The Bank continues to operate in a highly volatile environment given the ongoing impact of the COVID-19 pandemic. It is critical that some level of control of the pandemic be attained in 2021. With the commencement of the COVID-19 vaccinations, we are hopeful that the spread of the virus will be curtailed, but much is dependent on the supply of the vaccines and the percentage of the global population that become vaccinated. We remain optimistic that there will be some return to normalcy in 2021 as we continue to support our various stakeholders during this unprecedented period.

In October 2020, the Bank signed a Purchase and Sale Agreement with the Bank of Nova Scotia for the purchase of its Antigua Branches operations. In the upcoming months ECAB and the Bank of Nova Scotia will work together with the regulators to obtain all necessary approvals for the completion of the transaction.

In the months ahead the Bank plans to accelerate its digital journey by enhancing its mobile and online capabilities to provide greater efficiencies and wider service offerings for our customers; especially during the pandemic. We will also continue to use technology to drive more efficient in-branch processes. We look forward to the launch of our new suite of credit cards which was deferred in 2020 and will now take place early in the new fiscal. Customers will benefit from a wide choice of cards offering greater rewards.

We will continue our focus on employee development, as a well-trained and engaged workforce leads to motivated employees and to better customer service delivery.

We wish to thank our employees, customers, shareholders and other stakeholders for their continued support, loyalty, and confidence in the Bank.

Michael Spencer
General Manager

Management

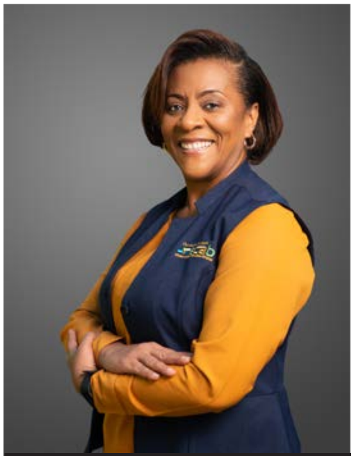
Hyasis Mullin
Manager
Finance & Accounting

Carol Martin
Manager
Card Services

Debra Williams
Manager
Risk & Compliance

K. Michele Marshall
Manager
Marketing & Communications

Jamil Edwards- Spencer
Manager
Projects



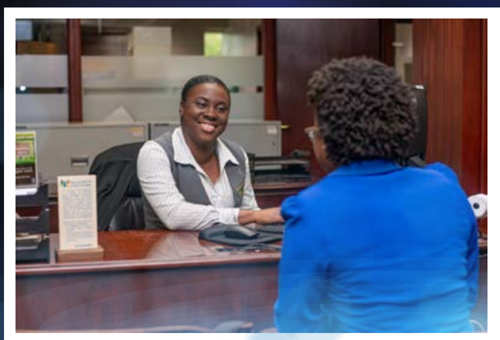
Eleanor Mourillon
Manager
Support Services

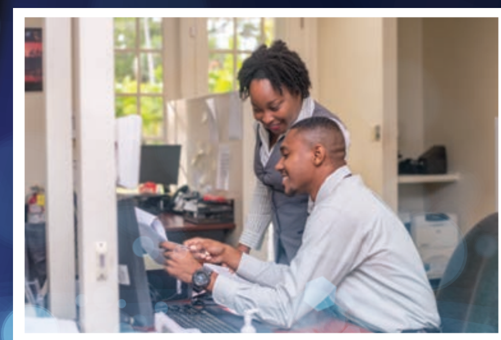
Norris Antonio
Manager
Projects (Credit)

V. Alicia Gardner
Manager
Lending

Caroline King
Manager
Banking Services Ag.

Celebrating Years 10 of unwavering service





Embracing the Future

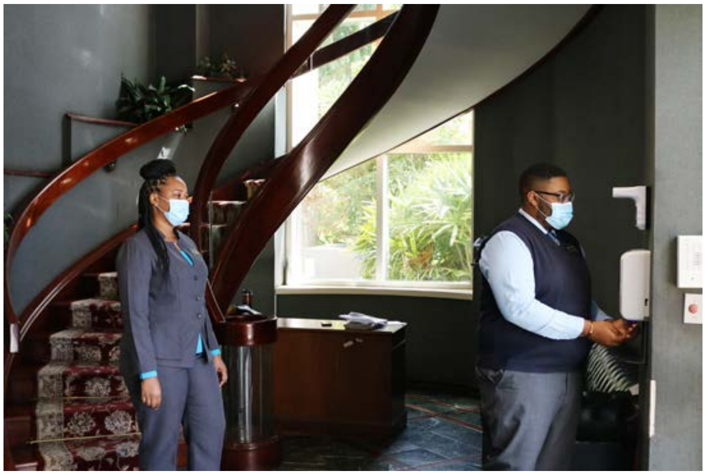
As we celebrate 10 years of being the ***Bank of Choice***, we reflect on the commitment of ***Our Employees*** and the loyalty of ***Our Customers.*** We say ***Thank You*** and we look forward to many more decades of being Your Financial Partner committed to Customer Intimacy, Service Excellence and Employee Engagement.

Our future, Our bank
10th ecab
EASTERN CARIBBEAN AMALGAMATED BANK
ANNIVERSARY

CREATING VALUE FOR OUR STAKEHOLDERS IN THE NEW NORMAL

As with every institution, the Eastern Caribbean Amalgamated Bank Limited (ECAB) faces challenges with each passing year. The year 2020 was no different as it presented many unprecedented challenges due to the COVID-19 pandemic. These challenges required fluid solutions which had to be reviewed on a weekly and in some cases, on a daily basis to facilitate operations in "the new normal" of social distancing, constant hand sanitizing and mask wearing. However, this new normal, with its extraordinary challenges, reminded us that ECAB is an organization of extraordinary individuals. We rose to the occasion in every instance and defied every challenge. Keeping Our Mission at the core of our decisions and actions, we were able to successfully provide value for all stakeholders every step of the way.

Our first and most important task was to put the safety of our employees and customers at the core of our day-to-day operations. Even before the World Health Organization declared the COVID-19 disease a pandemic, our Executive team convened our Pandemic Planning Committee. Through the Committee, we developed and initiated the COVID-19 Response Plan and enhanced the relevant aspects of our Business Continuity Policy which guaranteed an environment in which our employees and customers were safe. Among the safety measures which we employed was the installation of hand sanitizer dispensers at the entrance of each branch to ensure that every customer and employee sanitized their hands upon entering. Additionally, we provided each employee with several supplies of masks and personal sanitizers. We also employed additional cleaning personnel to execute frequent cleaning of customer service areas as well as lunchrooms and bathrooms. As an extra safeguard, we developed and executed a rotation schedule and work-from-home strategy to minimize the number of employees in each branch in adherence to the World Health Organization's recommendations. Notwithstanding these mechanisms, we recognized that both staff and customers needed to be educated and constantly reminded of the protocols to be followed to keep themselves and their families safe. As such, we published regular messages of COVID-19 safety protocols via several mediums to include in-branch notices, print and digital media.



While safety was a key aspect of operating in the new normal, we were also very cognizant of the socioeconomic impact of the pandemic. Our twin-island state was no exception to the barrage of jobs lost, especially in the Tourism and Retail industries. The situation was further exacerbated by the contraction of foreign direct investment and the lack of financial aid from our US and European partners who were themselves being negatively affected by the COVID-19 pandemic. Furthermore, schools were forced to deliver classes virtually which affected the learning and development of many students and resulted in added frustration in affected families. With all this in mind, we at ECAB knew that we had a responsibility to our affected employees, customers and the society at large. We therefore quickly strategized to put measures in place to alleviate the pressures caused by the pandemic. Such measures included automatic loan moratoriums for both employees and customers in the first instance for six (6) months. Thereafter, moratoriums were offered on a case-by-case basis based on employees' and customers' needs. We also provided automatic three-month waivers of minimum payments and late fees to all credit card customers. Despite the reduced work hours, at ECAB, we maintained our employees' salaries at their normal levels as we understood the ripple effect the pandemic had on them and their families.

With the reopening of schools and families losing their main sources of income, we were committed to fulfilling our corporate social responsibility in a most meaningful and impactful way. This commitment led us to the School for the Deaf Classroom Expansion Initiative and the Ministry of Social Transformation Blue Economy project. Our contribution to the School for the Deaf aided in building two (2) new classrooms for the school. This allowed the special needs children to resume regular classes in a safe and spacious environment that met their learning and developmental needs. Additionally, our donation to the Blue Economy project assisted the Ministry of Social Transformation to launch its Aquaponics initiative. This initiative will provide training and guidance to households affected by loss of employment so that they may be self-sufficient in food production through the cost-effective and environmentally friendly method of aquaponics.

ECAB General Manager getting a tour of the Lincoln Farm's aquaponics system.

ECAB staff painting the newly built wing of the School for the Deaf.

The new normal also inspired us to enhance our alternative banking options which, despite the unprecedented challenges and reduced hours of operations, enabled us to provide the exceptional service that is synonymous with the ECAB brand. Such enhancements included the implementation of our online appointment booking for services such as account opening and updates and online banking registration to better manage the number of persons visiting the branches. We also reduced the number of in-branch customers by expanding the services offered at our drive-thru facility. Customers are no longer limited to specific transactions at the drive-thru but can now perform most transactions at any of the three (3) drive-thru lanes located at our Coolidge branch. We also made special provisions for a most vulnerable segment of our society- our senior citizens by reserving the first hour of operation each day for this demographic. Also, priority access was granted to our essential workers who risk their lives daily to care for the sick during this most challenging time. Moreover, while other financial institutions have maintained shortened hours of operations, we have responded to our customers'

ECAB Redcliffe Street branch celebrating 10th Anniversary.

needs by offering extended business hours at our two most centrally located branches. This allows customers to conduct non-cash transactions between the hours of 2:00 p.m. and 5:00 p.m., thereby minimizing customers' wait time and reducing numbers in branches.

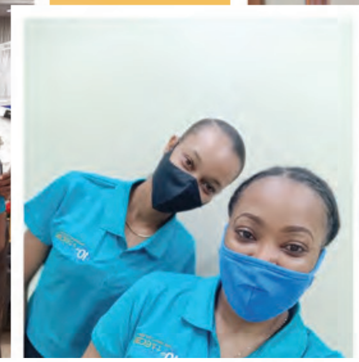
Many saw the new normal as a time of frustration and uncertainty, but at ECAB, we chose to see the new normal as an opportunity for growth, development, and celebration. While several initiatives which were planned for 2020 were derailed by the COVID-19 pandemic, we were determined to celebrate our victories, and that we did in the last quarter of the year. October 18 marked our 10th Anniversary which is a milestone in itself. However, it was made more meaningful as the first three quarters of the year reminded us of our strength and the true character of the ECAB family. We honored both employees and customers with a week of 10th Anniversary celebrations to include gifts and customer cash prizes. Refreshments and steel pan music at all our locations welcomed both staff and customers during the celebrations. In October, we also celebrated the ECAB strength and commitment to stakeholders with the announcement of our agreement to purchase the Scotiabank Antigua operations which took us a step closer to fulfilling our Strategic Plan of expansion and increased market share. While the new normal prevented us from hosting our annual Christmas party, we made sure to celebrate our employees and the year's accomplishments with an employee luncheon, while still observing all social distancing protocols. ECAB's 2020 may have started in uncharted territory but thanks to the resolve of the ECAB Team, there was much to celebrate by year's end.

The year 2020 has been nothing short of challenges and we at the Eastern Caribbean Amalgamated Bank Limited have been nothing short of positive responses and solutions to every one of those challenges. Despite the extraordinary year, we are grateful as 2020 reminded us of the abilities of the Bank's extraordinary team and its Mission: To create value for all stakeholders, even in the new normal.

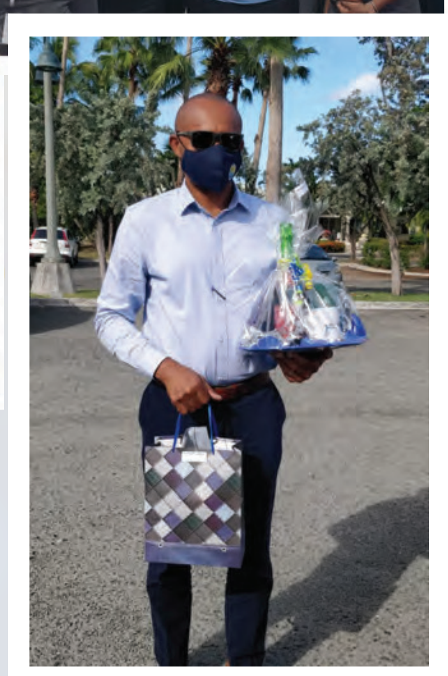
ECAB 10 for 10 Anniversary first week winner claiming her prize.

Celebrating 10 Years | Team ECAB








Our future, Our bank
10th ecab
EASTERN CARIBBEAN AMALGAMATED BANK
ANNIVERSARY

Financial Statements

September 30, 2020

(Expressed in Eastern Caribbean Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Eastern Caribbean Amalgamated Bank Limited

Opinion

We have audited the accompanying financial statements of **Eastern Caribbean Amalgamated Bank Limited** (the "Bank") which comprise the statement of financial position as of September 30, 2020, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of September 30, 2020, and its financial performance and its statement of 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 Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Eastern Caribbean, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Bank's internal control.

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

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

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

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

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

Grant Thornton

Chartered Accountants
December 30, 2020
St. John's, Antigua

Eastern Caribbean Amalgamated Bank Limited

Statement of Financial Position

As of September 30, 2020

(expressed in Eastern Caribbean dollars)

	Notes	2020 $	2019 $
Assets			
Cash and balances with the Central Bank	8	**114,276,836**	94,899,378
Due from banks and other financial institutions	9	**96,460,623**	42,410,766
Investment securities	10	**261,480,969**	260,258,193
Loans and advances to customer	11	**570,893,589**	546,412,367
Other assets	12	**7,099,788**	6,142,403
Property, plant and equipment	13	**17,378,291**	17,873,621
Right -of -Use asset	31	**2,278,207**	–
Intangible assets	14	**583,094**	1,026,300
Total assets		**1,070,451,397**	969,023,028
Liabilities			
Customers' deposits	15	**851,578,723**	768,300,589
Other liabilities and accrued expenses	16	**14,306,180**	13,553,036
Income taxes payable	29	**6,525,505**	4,639,463
Lease liability	31	**2,295,501**	–
Deferred tax liability	29	**12,881,973**	12,417,148
Total liabilities		**887,587,882**	798,910,236
Equity			
Preference shares	18	**47,869,339**	47,869,339
Common shares	17	**24,000,000**	24,000,000
Revaluation reserve	19	**1,864,718**	1,488,446
Other reserves	19	**22,182,632**	19,278,868
Retained earnings		**86,946,826**	77,476,139
Total equity		**182,863,515**	170,112,792
Total liabilities and equity		**1,070,451,397**	969,023,028

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

Approved by the Board of Directors on December 24, 2020

_______________ Director _______________ Director

Eastern Caribbean Amalgamated Bank Limited

Statement of Comprehensive Income

For the year ended September 30, 2020

(expressed in Eastern Caribbean dollars)

	Notes	2020 $	2019 $
Operating income			
Interest income	23	**49,192,168**	47,575,417
Interest expense	23	**(11,301,809)**	(10,948,954)
Net interest income		**37,890,359**	36,626,463
Impairment charges	28	**(11,946,290)**	(5,047,048)
Net interest income after impairment charges		**25,944,069**	31,579,415
Fee and commission income	24	**20,561,400**	21,416,434
Fee and commission expense	24	**(7,354,455)**	(7,710,868)
Net fee income		**13,206,945**	13,705,566
Other income, net	25	**12,928,227**	10,241,549
Net interest, fee, commission and other income		**52,079,241**	55,526,530
Operating expenses			
Personnel expenses	26	**15,488,013**	15,628,881
General and administrative expenses	27	**11,104,259**	11,533,702
Depreciation of property, plant and equipment	13	**1,303,702**	1,338,270
Depreciation of right-of-use asset	31	**1,265,982**	-
Amortisation of intangible assets	14	**469,739**	501,897
Total operating expenses		**29,631,695**	29,002,750
Profit for the year before tax		**22,447,546**	26,523,780
Income tax expense	29	**(6,864,904)**	(7,446,175)
Profit for the year after tax		**15,582,642**	19,077,605
Other comprehensive income			
Unrealised gains on investment securities, net of tax	19	**376,272**	371,420
Comprehensive income for the year		**15,958,914**	19,449,025

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

Eastern Caribbean Amalgamated Bank Limited

Statement of Cash Flows

For the year ended September 30, 2020

(expressed in Eastern Caribbean dollars)

	Notes	2020 $	2019 $
Cash flows from operating activities			
Operating profit for the year before tax		**22,447,546**	26,523,780
Adjustments for items not affecting cash:			
Interest income	23	**(49,192,168)**	(47,575,417)
Interest expense	23	**11,301,809**	10,948,954
Depreciation	13	**1,303,702**	1,338,270
Unrealised gain on FVTPL investments	25	**(12,311,839)**	(9,652,200)
Amortisation of intangible assets	14	**469,739**	501,897
Provision for impairment charges	28	**11,946,290**	5,047,048
Other non-cash items		**16,128**	(47,404)
Cash flows used in operating activities		**(14,018,793)**	(12,915,072)
Net increase/(decrease) in operating assets			
Loans and advances to customers		**(22,751,604)**	(41,520,554)
Other assets		**(3,235,592)**	(3,743,531)
Mandatory deposits with the Central Bank		**(418,281)**	(13,483,692)
Net (decrease)/increase in operating liabilities			
Customers' deposits		**83,512,647**	(15,996,580)
Other liabilities and accrued expenses		**753,144**	3,342,321
Lease liability		**2,295,501**	–
Cash generated from/(used in) operations		**46,137,022**	(84,317,108)
Income tax paid		**(4,639,463)**	(4,276,348)
Interest received		**35,471,067**	48,810,911
Interest paid		**(11,536,322)**	(10,864,053)
Net cash generated from/(used in) operating activities		**65,432,304**	(50,646,598)
Cash flows from investing activities			
Purchase of plant and equipment	13	**(808,372)**	(888,859)
Purchase of investment securities		**(45,754,338)**	(76,809,382)
Disposal of investment securities		**54,519,888**	32,695,490
Purchase of intangible assets	14	**(26,533)**	(167,828)
Net cash generated from/(used in) investing activities		**7,930,645**	(45,170,579)
Cash flows from financing activities			
Dividends paid to shareholders	33	**(2,995,427)**	(2,995,427)
Net cash used in financing activities		**(2,995,427)**	(2,995,427)

Eastern Caribbean Amalgamated Bank Limited

Statement of Cash Flows…*continued*

For the year ended September 30, 2020

(expressed in Eastern Caribbean dollars)

	Note	2020 $	2019 $
Net increase/(decrease) in cash and cash equivalents		**70,367,522**	(98,812,604)
Exchange (gains)/losses on cash and cash equivalents		**(16,128)**	47,404
Cash and cash equivalents at beginning of year		**110,044,101**	208,809,301
Cash and cash equivalents at end of year	22	**180,395,495**	110,044,101

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

Eastern Caribbean Amalgamated Bank Limited

Statement of Changes in Equity

For the year ended September 30, 2020

(expressed in Eastern Caribbean dollars)

	Note	Preference shares $	Common shares $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance as of September 30, 2018		47,869,339	24,000,000	39,369,503	16,927,413	40,080,178	168,246,433
Changes upon initial adoption of IFRS 9, net of tax		–	–	(38,252,477)	–	25,129,306	(13,123,171)
Restated balance as of October 1, 2018		47,869,339	24,000,000	1,117,026	16,927,413	65,209,484	155,123,262
Profit for the year		–	–	–	–	19,077,605	19,077,605
Other comprehensive income for the year		–	–	371,420	–	–	371,420
Total comprehensive income for the year		–	–	371,420	–	19,077,605	19,449,025
Reserve for interest recognised on impaired loans		–	–	–	(1,464,068)	–	(1,464,068)
Statutory reserve transfer		–	–	–	3,815,523	(3,815,523)	–
Transactions with owners							
Dividends paid	33	–	–	–	–	(2,995,427)	(2,995,427)
Balance as of September 30, 2019		47,869,339	24,000,000	1,488,446	19,278,868	77,476,139	170,112,792
Profit for the year		–	–	–	–	15,582,642	15,582,642
Other comprehensive income for the year		–	–	376,272	–	–	376,272
Total comprehensive income for the year		–	–	376,272	–	15,582,642	15,958,914
Reserve for interest recognised on impaired loans		–	–	–	(212,764)	–	(212,764)
Statutory reserve transfer		–	–	–	3,116,528	(3,116,528)	–
Transactions with owners							
Dividends paid	33	–	–	–	–	(2,995,427)	(2,995,427)
Balance as of September 30, 2020		**47,869,339**	**24,000,000**	**1,864,718**	**22,182,632**	**86,946,826**	**182,863,515**

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

(expressed in Eastern Caribbean dollars)

1 Nature of operations

The principal activity of Eastern Caribbean Amalgamated Bank Limited (the "Bank") is the provision of commercial banking services. The Bank is licensed to carry on banking business in Antigua and Barbuda and is regulated by the Eastern Caribbean Central Bank in accordance with the Banking Act No. 10 of 2015 and the Eastern Caribbean Central Bank Act No. 10 of 1983.

2 General information and statement of compliance with IFRS

Eastern Caribbean Amalgamated Bank Limited is a limited liability company incorporated on July 16, 2009 in Antigua and Barbuda under the provisions of the Companies Act 1995. On October 18, 2010, the Bank purchased certain assets and liabilities from Bank of Antigua Limited and began trading on that date. On November 27, 2015, the Bank also acquired certain assets and liabilities from ABI Bank Limited. The Bank's registered office is located at 1000 Airport Boulevard, Coolidge, Antigua.

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as issued by the International Accounting Standards Board (IASB). They have been prepared under the assumption that the Bank operates on a going concern basis.

3 Changes in accounting policies

3.1 New and revised standards that are effective for the Bank's annual periods beginning on or after October 1, 2019

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

IFRS 16 'Leases'

IFRS 16 replaced IAS 17 'Leases' and three related Interpretations. It completes the IASB's long running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months. IFRS 16 is effective from periods beginning on or after January 1, 2019. The Bank has performed a full review of all agreements to assess whether the existing contracts will now become leases under IFRS 16's new definition. For contacts in place at the date of initial application, the Bank has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were not previously identified as a lease under IAS 17 and IFRIC 4.

On transition, for leases previously accounted for as operating leases with remaining lease terms of less than 12 months and for leases of low-value assets, the Bank has applied the optional exemptions to not recognise right-of-use assets, but to account for the lease expense on a straight-line basis over the remaining lease term, refer to note 31. The Bank had no leases previously classified as finance leases.

(expressed in Eastern Caribbean dollars)

3 Changes in accounting policies … *continued*

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

At the date of authorisation of these separate financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Bank.

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

4 Summary of significant accounting policies

4.1 Overall considerations

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

4.2 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-mandatory deposits with the ECCB and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.3 Financial instruments

4.3.1 Policies under IFRS 9

Classification and measurement

The Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

(a) Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies … *continued*

4.3 Financial instruments … continued

4.3.1 Policies under IFRS 9 … continued

Classification and measurement … continued

(a) Debt instruments … *continued*

Business model test:

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

Solely payments of principal and interest test (SPPI):

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

Based on these factors, the Bank classifies its debt instruments as amortised cost. These are financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVTPL. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

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

(b) Equity instruments

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies … *continued*

4.3 Financial instruments … continued

4.3.1 Policies under IFRS 9… continued

Expected credit loss measurement (ECL) … continued

Significant increase in credit risk (SICR)

The Bank assesses when a Significant Increase in Credit Risk ("SICR') has occurred based on quantitative and qualitative assessments.

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

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

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

The staging assessment requires the Bank to monitor credit risk through regular credit reviews or other monitoring at a counterparty level. All loans and investment securities held by the Bank are allocated to a credit quality rating or risk grade (internal or external) based on the most recent review, forward-looking or other available information on an annual basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by management.

Backstop

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

If an asset is in investment grade at reporting date, it will be in Stage 1 irrespective of its origination rating. With respect to loans and advances to customers however, the Bank has not used the low credit risk exemption for any of those financial instruments in the year ended September 30, 2020.

Default

For debt securities, default is defined as the failure to meet contractual payment of principal or interest. For loans and advances to customers and other receivables, the Bank defines default based on the following criteria:

Quantitative criteria

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies … *continued*

4.3 Financial instruments … continued

4.3.1 Policies under IFRS 9 … continued

Expected credit loss measurement (ECL) … continued

Default…continued

Qualitative criteria

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

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

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

Write-offs

The Bank directly reduces the gross carrying amount for financial assets when the Bank has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

ECL measurement

The Bank assesses on a forward-looking basis the ECL associated with its loans and advances to customers carried at amortised cost and with the exposure arising from loan commitments. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

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

Details of these statistical parameters/inputs are as follows:

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies … *continued*

4.3 Financial instruments … continued

4.3.1 Policies under IFRS 9 … continued

ECL measurement … continued

EAD – The exposure at default is based on the amount the Bank expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. EAD is assessed based on contractual terms of the debt instrument.

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

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

Forward-looking macroeconomic information

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. The measurement of expected credit losses for each stage and the assessment of Significant Increase in Credit Risk (SICR) 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.

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

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

Segmentation

IFRS 9 requires that exposures be approximately grouped into homogenous segments based on shared credit characteristics that are expected to react to the current environment, forward-looking information (FLI) and macro-economic factors in a similar way with respect to changes in the level of credit risk.

(expressed in Eastern Caribbean dollars)

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

4.3 Financial instruments … continued

4.3.1 Policies under IFRS 9… continued

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting financial instruments

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

4.4 Provisions, contingent assets and contingent liabilities

Provisions for legal disputes or other claims are recognised when the Bank has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Bank and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

Any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

(expressed in Eastern Caribbean dollars)

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

4.5 Property, plant and equipment and depreciation

Property, plant and equipment are initially recognised at acquisition cost including any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Bank's management.

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

As no finite useful life for land can be determined, related carrying amounts are not depreciated. Depreciation of other assets is recognised on a straight-line basis to write down the cost less estimated residual values of the assets. The following useful lives are applied:

Buildings	50 years
Furniture and fixtures	3 – 10 years
Equipment	3 – 10 years
Computer equipment	3 – 5 years
Motor vehicles	3 – 5 years

Material residual value estimates and estimates of useful life are updated as required, but at least annually. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in the statement of comprehensive income within 'other income' or 'other expenses'.

Leases

Policy applicable from October 1, 2019

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

- The contract involves the use of an identified asset. This may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies … *continued*

4.5 Property, plant and equipment and depreciation … continued

The Bank as a lessee

The Bank mainly leases office space used in its operations. Rental contracts for these leases are typically made for fixed periods but may have extension options, which are described below. Some contracts contain lease and non-lease components, which are accounted for as separate components based on the standalone prices stated in the contracts.

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

The Bank applies a single recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets. At lease commencement date, the Bank recognises a right-of-use asset and a lease liability in the statement of financial position.

The right-of-use asset is initially measured at cost, which comprises the initial measurement of the lease liability, any initial direct costs incurred by the Bank. Estimates of any costs to dismantle and remove the asset at the end of the lease are not made as these costs are deemed to be immaterial. Subsequent to initial measurement, the right-of-use asset is depreciated on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist. The Bank does not revalue any of its right-of-use assets.

The lease liability is initially measured at the present value of the lease payments that are not paid at the lease commencement date, discounted using the interest rate implicit in the lease. If the interest rate implicit in the lease cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

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

- Fixed lease payments (including in-substance fixed payments).

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made.

Policy applicable before October 1, 2019

The Bank as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All of the Bank's leases are treated as operating leases and in all cases the Bank is a lessee. All payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(expressed in Eastern Caribbean dollars)

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

4.6 Intangible assets

Computer software
Computer software licences acquired in a business combination are recognised at fair value at the acquisition date. Other acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software.

Customer list intangible
The customer list intangible is an intangible asset that represents the intrinsic value that is contained in the customer deposit base acquired in a business combination. It is recognised because it is separable and the fair value can be reliably measured. The value of the customer list acquired in the business combination is generally determined using income approach methodologies such as the discounted cash flow method. The customer list intangible is recognised at fair value at the acquisition date, which is the deemed cost of the asset. It has a finite useful life and is carried at cost less amortisation and provisions for impairment, if any, plus reversals of impairment, if any. The asset is amortised over its estimated useful life based on the expected life of the customer relationship.

Subsequent measurement
Any intangible assets that are not acquired through a business combination are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, generally not exceeding 20 years, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in note 4.7. The following useful lives are applied:

Software	1 – 5 years
Customer list	11 years

Amortisation of intangible assets has been reported separately within the expenses in the statement of comprehensive income. Subsequent expenditures on the maintenance of computer software are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in the statement of comprehensive income within ‘other income’ or ‘other expenses’.

4.7 Impairment of non-financial assets

All individual assets or cash-generating units are tested 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 or cash-generating unit’s carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank’s latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management’s assessment of respective risk profiles, such as market and asset-specific risks factors.

(expressed in Eastern Caribbean dollars)

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

4.7 Impairment of non-financial assets … continued

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

4.8 Equity and reserves

Share capital represents the issue price of shares that have been issued. Any transaction costs associated with the issuing of shares are shown in equity as a deduction, net of any related income tax benefits. Preference shares that do not exhibit any debt characteristics, and ordinary shares are classified as equity.

Other components of equity include the following:

- Other reserves which comprise statutory and regulatory reserves loan loss as stipulated by the Banking Act No. 10 of 2015 and the Eastern Caribbean Central Bank (note 19);
- Revaluation reserve for FVOCI equity investment securities comprises unrealized gains/losses relating to these types of financial instruments; and
- Retained earnings, which includes all current and prior periods' retained profits or losses

4.9 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

4.10 Foreign currency translation

Functional and presentation currency
The financial statements are presented in Eastern Caribbean Dollars, which is also the functional currency of the Bank.

Foreign currency transactions and balances
Foreign currency transactions are translated into Eastern Caribbean Dollars using the closing rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the statement of comprehensive income.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

4.11 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest method ("EIR"). The Bank calculates interest income on financial assets, other then those considered impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired as set out in note 5.1.3 it is regarded as "Stage 3", the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial assets cures as outlined in note 5.1.3 they are no longer credit-impaired, and the Bank reverts to calculating interest income on a gross basis.

(expressed in Eastern Caribbean dollars)

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

4.11 Interest income and expense … continued

The Effective Interest Rate (EIR) method
The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The Bank calculates interest income on financial assets, other than those considered impaired, by applying the EIR to the gross carrying amount of the financial asset. Interest income is similarly recognised on moratorium loans arising from the Bank's Loan Relief Plan.

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

4.12 Fee and commission income

Fees and commissions are generally recognised on the 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 using the effective interest method over the term of the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or have retained a part at the same effective interest rate as the other participants.

For the financial year ended September 30, 2020, the Bank recognised revenue based on a 5-step process:

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

4.13 Employee benefits

Post-employment benefit plan
The Bank provides post-employment benefits through a defined contribution plan. The Bank pays fixed contributions into a privately administered staff retirement savings plan for individual employees. The Bank has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

Prepaid employee short term benefit
The Bank facilitates loans to its staff at rates that are relatively low in comparison to the normal market rates in the Eastern Caribbean Currency Union (ECCU). These loans are recognised at fair value using a normal market rate, and the difference between the fair value and the consideration given to the employees is recorded as a pre-paid short term employee benefit. The pre-paid short-term employee benefit is amortised through the statement of comprehensive income over the expected service life of the relevant individual employees or the expected life of the relevant individual loans, whichever is shorter.

(expressed in Eastern Caribbean dollars)

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

4.13 Employee benefits … continued

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

4.14 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. 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. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IFRS 15, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the statement of comprehensive income within operating expenses.

4.15 Current and deferred income taxes

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

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

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided those rates are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be able to be utilised against future taxable income. This is assessed based on the Bank's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax assets and liabilities are offset only when the Bank has a right and intention to set off current tax assets and liabilities from the same taxation authority.

(expressed in Eastern Caribbean dollars)

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

4.15 Current and deferred income taxes … continued

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

4.16 Related party transactions and relationship

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless of whether a price is charged.

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 in making financial and operating decisions. These parties include:
(a) individuals or entities that control the Bank, either directly or indirectly through one or more intermediaries, or are controlled by, or under common control with the Bank;
(b) associates; and
(c) individuals or entities owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

4.17 Events after reporting date

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

(expressed in Eastern Caribbean dollars)

5 Financial risk management

The Bank's business activities involve taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management policies and procedures are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses, or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by the Bank's Asset and Liability Management Committee (ALCO) under policies approved by the Board of Directors. The ALCO committee identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating departments. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risk (which are discussed below) and operational risk.

5.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees and letters of credit. The Bank is also exposed to other credit risks arising from investments in debt securities.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control including risk on debt securities, cash, loans and advances, credit cards and loan commitments are monitored by the ALCO and the Credit committees, which report to the Board of Directors regularly.

5.1.1 Credit risk measurement

(a) Loans and advances (including loan commitments and guarantees)
The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of the counterparty. They have been developed based on the Eastern Caribbean Central Bank's guidelines. Customers of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.1 Credit risk measurement … continued

(a) Loans and advances (including loan commitments and guarantees) … continued

This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The ratings tools are kept under review and upgraded as necessary.

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

(b) Debt securities

The Bank's portfolio of debt securities and other bills consists of bonds and treasury bills issued by Governments within the Organisation of Eastern Caribbean States (OECS) and corporate bonds. The bonds are quoted but not traded in an active market. The Bank assesses the risk of default on these instruments by regularly monitoring the performance of the respective Governments through published government data, information received directly from government departments and information published by international agencies such as the International Monetary Fund (IMF) and the World Bank. The risk of default on regional corporate debt is assessed by continuous monitoring of the performance of these companies through published financial information, and other data gleaned from various sources.

5.1.2 Risk limit control and mitigation policies

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

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

The exposure to any one borrower, including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored, on an ongoing basis. (see note 5.1.4)

Lending limits are reviewed in light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.2 Risk limit control and mitigation policies … continued

Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank 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 a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are as follows:

- Mortgages over properties
- Charges over business assets, primarily the premises
- Hypothecation of deposits

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

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

(b) Financial guarantees (for 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralised by the underlying shipment of goods to which they relate, and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank 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 Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter term commitments.

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies

The internal rating system described in Note 5.1.1 focuses on expected credit losses – that is, taking into account the risk of future events giving rise to loss. The largest component of the impairment allowance for expected credit losses comes from the pass grade. The table below shows the percentage of the Bank's loans and advances and the associated impairment allowance for each of the Bank's rating categories.

	Loans and advances $	%	Expected Credit Loss $	%	Net total $
At September 30, 2020					
Pass	432,895,956	75	(18,071,434)	65	414,824,522
Special mention	134,245,504	23	(5,085,510)	18	129,159,994
Substandard	13,519,553	2	(3,849,890)	14	9,669,663
Doubtful	702,596	–	(410,446)	2	292,150
Loss	316,486	–	(237,274)	1	79,212
Gross loans and advances	581,680,095	100	(27,654,554)	100	554,025,541
Interest receivable	17,557,437	–	–	–	17,557,437
Deferred loan origination fees	(689,389)	–	–	–	(689,389)
	598,548,143	**100**	**(27,654,554)**	**100**	**570,893,589**

	Loans and advances $	%	Expected Credit Loss $	%	Net total $
At September 30, 2019					
Pass	411,835,786	73	(8,022,000)	46	403,813,786
Special mention	133,868,060	24	(4,050,088)	24	129,817,972
Substandard	13,899,378	3	(4,335,943)	25	9,563,435
Doubtful	1,016,749	–	(733,990)	4	282,759
Loss	173,647	–	(173,647)	1	–
Gross loans and advances	560,793,620	100	(17,315,668)	100	543,477,952
Interest receivable	3,669,468	–	–	–	3,669,468
Deferred loan origination fees	(735,053)	–	–	–	(735,053)
	563,728,035	**100**	**(17,315,668)**	**100**	**546,412,367**

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies …continued

The internal rating system described in Note 5.1.1 is further analysed using the ECL staging model as follows:

	Loans and advances $	%	Expected Credit Loss $	%	Net total $
At September 30, 2020					
Stage 1	520,010,909	89	(9,213,454)	33	510,797,455
Stage 2	45,151,588	8	(12,753,956)	46	32,397,632
Stage 3	16,517,598	3	(5,687,144)	21	10,830,454
Gross loans and advances	581,680,095	100	(27,654,554)	100	554,025,541
Interest receivable	17,557,437	–	–	–	17,557,437
Deferred loan origination fees	(689,389)	–	–	–	(689,389)
	598,548,143	**100**	**(27,654,554)**	**100**	**570,893,589**

	Loans and advances $	%	Expected Credit Loss $	%	Net total $
At September 30, 2019					
Stage 1	513,195,008	92	(6,925,305)	40	506,269,703
Stage 2	24,158,849	4	(2,501,000)	14	21,657,849
Stage 3	23,439,763	4	(7,889,363)	46	15,550,400
Gross loans and advances	560,793,620	100	(17,315,668)	100	543,477,952
Interest receivable	3,669,468	–	–	–	3,669,468
Deferred loan origination fees	(735,053)	–	–	–	(735,053)
	563,728,035	**100**	**(17,315,668)**	**100**	**546,412,367**

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Loans and advances to customers and investment securities

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk through various approaches using PD, EAD and LGD or a loss rate approach. The approaches used for the purposes of measuring ECL under IFRS 9 are probability of default for the government loans and all investments. The loss rate approach was used for all remaining financial assets.

Credit risk grading

The Bank uses various strategies to grade and assess credit risk of its counterparties and/or borrowers. With respect to its counterparties with which it holds investment securities, the Bank uses external credit ratings and the corresponding historical default statistics to determine the probability of default of individual counterparties. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between an A and A- rating grade is lower than the difference in the PD between a B and B- rating grade.

The Bank relies on external ratings as provided by various credit rating agencies. The Bank employs a correlation or mapping based on these external rating agencies as follows:

S&P	Moody's	Fitch	CariCRIS
AAA to AA-	Aaa to Aa3	AAA to AA-	AAA
A+ to A-	A1 to A3	A+ to A-	AAA
BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	AA+ to AA-
BB+ to BB-	Ba1 to Ba3	BB+ to BB-	A+ to A-
B+ to B-	B1 to B3	B+ to B-	BBB+ to BBB-
CCC+ and below	Caa1 and below	CCC+ and below	BB+ and below
Unrated	Unrated	Unrated	Unrated

Expected credit loss measurement

Expected credit losses are calculated by multiplying three main components, being the probability of default (“PD”), the exposure at default (“EAD”) and the loss given default (“LGD”). The loss rate (“LR”) and the discount rate (“DR”) are subcomponents of the LGD.

The Bank currently uses each loan contractual interest rate as an approximation of the effective interest rate (“EIR”) as the difference is considered immaterial.

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Expected credit loss measurement … continued

The PD, LGD, and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience. The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas such as the (Caribbean, North America and Europe). Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive. Therefore, sensitivities are considered in relation to key portfolios which are particularly sensitive to a few factors and the results should not be further extrapolated.

The impairment model under IFRS 9 makes use of a three-stage approach in determining credit losses. The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgement.

Management relies on data from external rating agencies in determining the probability of defaults in the case of the government loans and investment securities. The Bank has chosen to assess the risk of credit loss using a PD approach that approximates the country's credit risk rating. The credit risk of Antigua and Barbuda is not rated by entities such as Moody's, S&P and CariCris. As a result, the Bank has identified a proxy for Antigua and Barbuda. Management assumes that all countries in the Caribbean are comparable as they are all developing countries.

Forward looking information incorporated in the ECL models

The estimation and application of forward-looking information will require significant judgment of PD, LGD, LR, DR and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances and are modelled based on the macroeconomic variables (or changes in macroeconomic variables), that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the expected credit loss calculation will have forecasts of the relevant macroeconomic variables – including, but not limited to, gross domestic product, balance of payments, tourism, construction, inflation rate and unemployment rate.

For defaulted financial assets, management's assessment of the provision for expected lifetime losses which incorporates collateral recoveries, is calculated and recorded as the allowance for loan loss. The resulting allowance for loan loss is the higher of the computed ECL and the difference between the carrying amount and the present value of expected cash flows discounted at the original effective interest rate.

Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. The ECL related to these financial assets is always measured on a lifetime basis (Stage 3). The Bank does not have any purchased or originated credit-impaired financial assets.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. An explanation of how the Bank has incorporated this in its ECL models is included in note 4.3.1.

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Macroeconomic variable assumptions

The significant period-end assumptions and scores used for ECL estimates as of September 30, 2020 and 2019 are set out below.

		Weighting 2020	Weighting 2019
Antigua and Barbuda GDP growth	Upside	**0.25**	0.19
	Base	**0.31**	0.19
	Downside	**0.31**	0.25
Antigua and Barbuda balance of payments	Upside	**0.25**	0.25
	Base	**0.31**	0.25
	Downside	**0.31**	0.31
Antigua and Barbuda tourism	Upside	**0.20**	0.15
	Base	**0.25**	0.20
	Downside	**0.25**	0.25
Antigua and Barbuda construction	Upside	**0.15**	0.15
	Base	**0.20**	0.20
	Downside	**0.20**	0.20
USA inflation rate	Upside	**0.04**	0.06
	Base	**0.05**	0.05
	Downside	**0.06**	0.06
USA employment rate	Upside	**0.05**	0.06
	Base	**0.05**	0.05
	Downside	**0.06**	0.06

The macroeconomic variable outlook multiplier assigned to each economic scenario were as follows:

	Upside	Base	Downside
September 30, 2020	**0.75**	**1**	**1.25**
September 30, 2019	0.75	1	1.25

The macroeconomic variable weightings assigned to ECL estimate were as follows:

	2020	2019
Antigua and Barbuda GDP growth	**25%**	25%
Antigua and Barbuda balance of payments	**25%**	25%
Antigua and Barbuda tourism	**20%**	20%
Antigua and Barbuda construction	**20%**	20%
USA inflation rate	**5%**	5%
USA employment rate	**5%**	5%
	100%	100%

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Macroeconomic variable assumptions … continued

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

	Change in credit quality since initial recognition		
	Stage 1	**Stage 2**	**Stage 3**
Risk Assessment	Initial recognition or credit risk is considered low	Significant increase in credit risk since initial recognition	Credit-impaired assets
Expected credit losses	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk if:

- Movement from stage 1 to stage 2: Significant increase in credit risk (SICR) - credit rating dropped by 2 notches.
- Movement from stage 1 or 2 to stage 3: Ratings of "SD" – selected default as per S&P or "C" as per Moody's.
- In the absence of Moody's credit rating, the Bank would use CariCris then S&P. The ratings are then converted to the equivalent ratings as per the mapping table.

a) Stage 1 includes those financial instruments that were not credit impaired on initial recognition or that have low credit risk at the reporting date. The expected credit loss for these instruments is measured by default events that are possible within twelve (12) months after the reporting date. It is not the expected cash shortfalls over the twelve (12)-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next twelve (12) months. Such facilities identified as:

   a) Loan repayments current or not more than 30 days past due;
   b) Credit cards current or not more than 30 days past due;
   c) Loans rescheduled and up to date for more than 12 months;
   d) Financial instruments with a low risk of default;
   e) Overdraft facilities with deposits over the last 30 days equal to, or in excess of the interest accrued on the facility; and
   f) Facilities where the borrower has a strong capacity to meet its contractual cash flow obligations in the near term.
   g) Moratorium loans current or not more that 30 days past due at the commencement of the ECAB Loan Relief Plan.

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Significant increase in credit risk (SICR) … continued

b) The groupings used in performing the collective assessment are as follows:

a) Personal loans
b) Corporate loans
c) Government loans
d) Overdraft – Commercial
e) Overdraft – Personal
f) Credit Cards

c) Stage 2 includes those financial instruments where a significant increase in credit risk (SICR) has occurred since initial recognition, but not yet deemed to be credit-impaired. For Stage 2 assets assessed as having low credit risk, lifetime expected credit losses are recognised, but interest is still calculated on the gross carrying amount of the assets. Currently, facilities with any one or more of the following characteristics are identified as those displaying a significant increase in credit risk:

a) Loans up to date but evidence suggests that certain factors could in the future affect the borrower's ability to service the loan properly or impair the collateral;
b) Inadequate credit documentation to support borrowings or other deviation from prudent lending practices;
c) Loan repayments in arrears, for between 31-89 days and /or non-compliance with other terms of the loan;
d) Credit card repayments in arrears, for between 31-89 days and/or non-compliance with other term of the facility agreement;
e) Collateral not fully in place or loan up to date but inadequately secured;
f) Loans which could deteriorate because of market conditions affecting the sector;
g) Rescheduled or refinanced loans which are up to date and adequately secured, for a minimum of 1 year after rescheduling;
h) Overdraft facilities exceeding the approved limit for more than 60 consecutive days; and
i) Moratorium loans, any loans in the hospitality industry or other industry where management has deemed a significant increase in credit risk has occurred.

d) Stage 3 includes those financial instruments that are considered be in default or credit-impaired. A rebuttable presumption is applied, and a financial instrument is considered to be credit impaired if the borrower is more than 90 days past due on the contractual payments. The Bank also considers other qualitative criteria is determining default as they are indicators of the unlikeliness that the loan will be repaid such as:

a) Delinquent restructured loans;
b) Overdraft facilities with no deposits over the last 90 days and funds insufficient to cover the interest accrued thereon;
c) All unauthorised overdrawn accounts without an approved limit; and
d) All credit card accounts that have been transferred to recoveries for collection.

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Significant increase in credit risk (SICR) … continued

The above criteria have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The expected credit loss for these instruments is measured on a lifetime basis on an individual basis. The loss given default is calculated for each instrument and the expected credit loss is discounted back to the reporting date using the original effective interest rate. Forward looking information is also incorporated in determining the loss given default. These include the following:

a) Property and land values;
b) Interest rate forecasts; and
c) Inflation forecasts.

The staging assessment requires the Bank to monitor credit risk through regular credit reviews or other monitoring at a counterparty level. All loans and investment securities held by the Bank are allocated to a credit quality rating or risk grade (internal or external) based on the most recent review, forward-looking or other available information on an annual basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by Management.

Definition of default and credit-impaired assets

The Bank defines default as the occurrence of one or more of the following events:

- The obligor is unlikely to pay its debt obligations (principal, interest or fees) in full;
- The occurrence of a credit loss event with any obligation of the obligor, such as a charge-off, specific provision, or distresses restructuring involving forgiveness or postponement of principal, interest or fees;
- The obligor is past due more than 90 days on any credit obligation; or
- The obligor has filed for bankruptcy or similar protection from creditors.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the (PD), (EAD) and (LGD) throughout the Bank's expected loss calculations. The Bank has not rebutted and maintains that default takes place when a financial asset is 90 days past due given its contractual obligations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six (6) months. This period of six (6) months has been determined based on consideration given to historical performance of the financial instrument returning to default status after cure.

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Expected credit loss measurement

Maximum exposure to credit risk – Financial instruments subject to impairment

The following tables contain an analyses of the credit risk exposure of financial instruments for which an ECL allowance is recognised.

Summary of loans and advances to customers
ECL Staging
2020

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	September 30, 2020 Total $	September 30, 2019 Total $
Personal Loans	189,530,093	30,069,318	10,929,091	230,528,502	216,713,446
Corporate Loans	61,148,649	12,428,487	4,235,361	77,812,497	77,634,360
Government	249,157,465	–	–	249,157,465	241,817,852
Overdrafts	11,641,950	2,653,783	862,342	15,158,075	15,569,266
Credit card advances	8,532,752	–	490,804	9,023,556	9,058,696
Gross carrying amount	520,010,909	45,151,588	16,517,598	581,680,095	560,793,620
Provision for expected credit losses	(9,213,454)	(12,753,956)	(5,687,144)	(27,654,554)	(17,315,668)
Carrying amount	**510,797,455**	**32,397,632**	**10,830,454**	**554,025,541**	**543,477,952**

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Expected credit loss measurement … *continued*

The table below contains the analysis of ECL allowance per credit risk exposure on loans and advances to customers both on-balance sheet and off-balance sheet.

	2020 $	2019 $
Personal loans	**17,043,369**	10,304,436
Corporate loans	**8,258,112**	3,615,345
Overdrafts	**1,240,243**	2,322,967
Credit card advances	**1,099,834**	1,060,700
Government	**12,996**	12,220
Total provision for expected credit losses (ECL)	**27,654,554**	17,315,668

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Summary of Investment Securities
ECL Staging – amortised cost

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	September 30, 2020 Total $	September 30, 2019 Total $
Treasury bills	33,458,610	–	–	33,458,610	34,484,587
Bonds/Fixed rate notes	36,562,837	5,111,400	–	41,674,237	40,722,546
Term deposits	93,196,691	–	–	93,196,691	104,713,166
Gross carrying amount	163,218,138	5,111,400	–	168,329,538	179,920,299
Provision for expected credit losses	(635,433)	(43,348)	–	(678,781)	(678,781)
Carrying amount	**162,582,705**	**5,068,052**	–	**167,650,757**	**179,241,518**

The table below contains the analysis of ECL allowance per credit risk exposure on investment securities (see note 10).

	2020 $	2019 $
Bonds/Fixed rate notes	**485,622**	485,622
Term deposits	**106,318**	106,318
Treasury bills	**86,841**	86,841
Total provision for expected credit losses (ECL)	**678,781**	678,781

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stages 1, 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Expected credit loss measurement … *continued*

Loss allowance…*continued*

Summary of Loans and Advances to Customers
Loss Allowance - Loans at amortised cost

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Loss allowance as of September 30, 2019	**6,925,305**	**2,501,000**	**7,889,363**	**17,315,668**
Movements with P&L impact:				
Transfers:				
Transfers from Stage 1 to Stage 2	(622,281)	622,281	–	–
Transfers from Stage 1 to Stage 3	(102,405)	–	102,405	–
Transfers from Stage 2 to Stage 1	1,416,231	(1,416,231)	–	–
Transfers from Stage 3 to Stage 1	1,332,634	–	(1,332,634)	–
New financial assets originated or purchased	2,023,957	1,836,482	751,605	4,612,044
Changes in PDs LGDs/EADs	(388,150)	(135,439)	(3,176,801)	(3,700,390)
Financial assets derecognised during the year	(1,219,627)	9,477,437	2,776,826	11,034,636
Total net P&L charge during the year	2,440,359	10,384,530	(878,599)	11,946,290
Other movements with no P&L impact				
Transfers from Stage 3 to Stage 2	–	197,229	(197,229)	–
Transfers from Stage 2 to Stage 3	–	(232,233)	232,233	–
Write-offs	(152,210)	(96,570)	(1,358,624)	(1,607,404)
Loss allowance as of September 30, 2020	**9,213,454**	**12,753,956**	**5,687,144**	**27,654,554**

The write-offs were as follows:

	2020 $	2019 $
Personal loans	1,459,907	7,125,574
Overdraft accounts	147,497	1,184,955
Corporate loans	–	2,892,020
Credit card advances	–	258,754
	1,607,404	**11,461,303**

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

IFRS 9 carrying values

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

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Treasury Bills				
Gross carrying amount as of September 30, 2019	34,484,587	–	–	34,484,587
Transfers:				
Transfers from Stage 1 to Stage 2	–	–	–	–
Transfers from Stage 1 to Stage 3	–	–	–	–
Transfers from Stage 2 to Stage 3	–	–	–	–
New financial assets originated or purchased	64,891,912	–	–	64,891,912
Financial assets derecognised during the year	(65,874,868)	–	–	(65,874,868)
Changes in principal and interest	(43,021)	–	–	(43,021)
Gross carrying amount as of September 30, 2020	**33,458,610**	**–**	**–**	33,458,610
Bonds/fixed rate notes				
Gross carrying amount as at September 30, 2019	33,587,746	7,134,800	–	40,722,546
Transfers:				
Transfers from Stage 1 to Stage 2	–	–	–	–
Transfers from Stage 1 to Stage 3	–	–	–	–
Transfers from Stage 2 to Stage 3	–	–	–	–
New financial assets originated or purchased	12,700,000	–	–	12,700,000
Financial assets derecognised during the year	(10,005,495)	(2,000,000)	–	(12,005,495)
Changes in principal and interest	280,586	(23,400)	–	257,186
Gross carrying amount as at September 30, 2020	**36,562,837**	**5,111,400**	**–**	**41,674,237**

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Term deposits				
Gross carrying amount as of September 30, 2019	104,713,166	–	–	104,713,166
Transfers:				
Transfers from Stage 1 to Stage 2	–	–	–	–
Transfers from Stage 1 to Stage 3	–	–	–	–
Transfers from Stage 2 to Stage 3	–	–	–	–
New financial assets originated or purchased	19,575,000	–	–	19,575,000
Financial assets derecognised during the year	(31,058,597)	–	–	(31,058,597)
Changes in principal and interest	(32,878)	–	–	(32,878)
Gross carrying amount as of September 30, 2020	**93,196,691**	**–**	**–**	**93,196,691**
Personal – amortised cost				
Gross carrying amount as of September 30, 2019	187,822,316	10,927,679	17,963,451	216,713,446
Transfers:				
Transfers from Stage 1 to Stage 2	(21,991,311)	21,991,311	–	–
Transfers from Stage 1 to Stage 3	(1,373,400)	–	1,373,400	–
Transfers from Stage 2 to Stage 1	7,095,565	(7,095,565)	–	–
Transfers from Stage 2 to Stage 3	–	(922,596)	922,596	–
Transfers from Stage 3 to Stage 1	4,158,189	–	(4,158,189)	–
Transfers from Stage 3 to Stage 2	–	488,659	(488,659)	–
New financial assets originated or purchased	34,872,006	5,270,941	138,489	40,281,436
Financial assets derecognised during the year	(14,450,103)	(848,098)	(3,965,884)	(19,264,085)
Changes in principal and interest	(6,603,169)	256,987	(856,113)	(7,202,295)
Gross carrying amount as of September 30, 2020	**189,530,093**	**30,069,318**	**10,929,091**	**230,528,502**

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Corporate – amortised cost	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Gross carrying amount as of September 30, 2019	65,315,428	7,983,353	4,335,579	77,634,360
Transfers:				
Transfers from Stage 1 to Stage 2	(12,657,199)	12,657,199	–	–
Transfers from Stage 1 to Stage 3	(1,960,655)	–	1,960,655	–
Transfers from Stage 2 to Stage 1	7,651,679	(7,651,679)	–	–
Transfers from Stage 2 to Stage 3	–	–	–	–
Transfers from Stage 3 to Stage 1	–	–	–	–
Transfers from Stage 3 to Stage 2	–	299,886	(299,886)	–
New financial assets originated or purchased	6,352,649	–	1,894,926	8,247,575
Financial assets derecognised during the year	(4,225,665)	(331,674)	(3,323,795)	(7,881,134)
Changes in principal and interest	672,412	(528,598)	(332,118)	(188,304)
Gross carrying amount as of September 30, 2020	**61,148,649**	**12,428,487**	**4,235,361**	**77,812,497**

Government – amortised cost	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Gross carrying amount as of September 30, 2019	241,817,852	–	–	241,817,852
Transfers:				
Transfers from Stage 1 to Stage 2	–	–	–	–
Transfers from Stage 1 to Stage 3	–	–	–	–
Transfers from Stage 2 to Stage 3	–	–	–	–
New financial assets originated or purchased	15,000,000	–	–	15,000,000
Financial assets derecognised during the year	–	–	–	–
Changes in principal and interest	(7,660,387)	–	–	(7,660,387)
Foreign exchange adjustments	–	–	–	–
Gross carrying amount as of September 30, 2020	**249,157,465**	**–**	**–**	**249,157,465**

(expressed in Eastern Caribbean dollars)

5 Financial risk management … *continued*

5.1.3 Impairment and provisioning policies … continued

Overdrafts – amortised cost	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Gross carrying amount as of September 30, 2019	10,092,413	4,900,992	575,861	15,569,266
Transfers:				
Transfers from Stage 1 to Stage 2	–	–	–	–
Transfers from Stage 1 to Stage 3	(13,258)	–	13,258	–
Transfers from Stage 2 to Stage 1	347,601	(347,601)	–	–
Transfers from Stage 2 to Stage 3	–	(572,733)	572,733	–
Transfers from Stage 3 to Stage 1	1,290	–	(1,290)	–
Transfers from Stage 3 to Stage 2	–	13,278	(13,278)	–
New financial assets originated or purchased	324,169	653,584	37,817	1,015,570
Financial assets derecognised during the year	(197,153)	(1,850,527)	(316,599)	(2,364,279)
Changes in principal and interest	1,086,888	(143,210)	(6,160)	937,518
Gross carrying amount as of September 30, 2020	**11,641,950**	**2,653,783**	**862,342**	**15,158,075**

Credit card advances – amortised cost	Stage 1 12-month ECL $	Stage 2 Lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Gross carrying amount as of September 30, 2019	8,146,999	346,825	564,872	9,058,696
Transfers:				
Transfers from Stage 1 to Stage 2	–	–	–	–
Transfers from Stage 1 to Stage 3	(302,763)	–	302,763	–
Transfers from Stage 2 to Stage 1	254,867	(254,867)	-	–
Transfers from Stage 2 to Stage 3	–	(76,513)	76,513	–
Transfers from Stage 3 to Stage 1	336,771	–	(336,771)	–
Transfers from Stage 3 to Stage 2	–	–	–	–
New financial assets originated or purchased	227,656	–	15,796	243,452
Financial assets derecognised during the year	(100,285)	(15,445)	(194,276)	(310,006)
Changes in principal and interest	(30,493)	–	61,907	31,414
Gross carrying amount as of September 30, 2020	**8,532,752**	**–**	**490,804**	**9,023,556**

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk … *continued*

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

	2020 $	2019 $
Credit risk exposures relating to on-balance sheet assets:		
Due from banks and other financial institutions	**96,460,623**	42,410,766
Investment securities at amortised cost	**167,650,757**	179,241,518
Loans and advances to customers	**570,893,589**	546,412,367
Other financial assets	**808,591**	1,845,353
	835,813,560	769,910,004
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	**4,321,000**	4,321,000
Loan commitments and other credit related facilities	**43,372,168**	33,672,401
	47,693,168	37,993,401
Total credit exposure	**883,506,728**	807,903,405

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

As shown above 68% (2019: 71%) of the total maximum exposure is derived from loans and advances to customers and 20% (2019: 23%) is derived from investment securities.

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

- In 2020, 98% of the loans and advances portfolio are categorised in the top two grades of the internal rating system, being Pass and Special mention;
- In 2020, 3% of loans and advances are considered impaired.

Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors
The following table analyses the Bank's main credit exposure at their carrying amounts, (without taking into account any collateral held or other credit support) as categorised by geographical region as of September 30, 2020. For all classes of assets, the Bank has allocated exposures to regions based on the country of domicile of the counterparties.

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk … *continued*

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

Concentration of risks of financial assets with credit risk exposure … continued

As of September 30, 2020

	Antigua & Barbuda $	Other Caribbean $	North America $	Europe $	Total $
Credit risk exposures relating to on-balance sheet assets:					
Due from banks and other financial institutions	1,503,716	2,707,677	74,433,507	17,815,723	96,460,623
Investment securities at amortised cost	12,258,803	114,118,632	41,273,322	–	167,650,757
Loans and advances to customers	570,893,589	–	–	–	570,893,589
Other financial assets	808,591	–	–	–	808,591
	585,464,699	**116,826,309**	**115,706,829**	**17,815,723**	**835,813,560**
Credit exposures relating to off-balance sheet items:					
– Financial guarantees	4,321,000	–	–	–	4,321,000
– Loan commitments and other credit related facilities	43,372,168	–	–	–	43,372,168
Total	**633,157,867**	**116,826,309**	**115,706,829**	**17,815,723**	**883,506,728**

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

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

Concentration of risks of financial assets with credit risk exposure … continued

As of September 30, 2019

	Antigua & Barbuda $	Other Caribbean $	North America $	Europe $	Total $
Credit risk exposures relating to on-balance sheet assets:					
Due from banks and other financial institutions	2,400,171	1,700,867	28,900,623	9,409,105	**42,410,766**
Investment securities at amortised cost	13,756,249	115,307,107	50,178,162	–	**179,241,518**
Loans and advances to customers	546,412,367	–	–	–	**546,412,367**
Other financial assets	1,845,353	–	–	–	**1,845,353**
	564,414,140	**117,007,974**	**79,078,785**	**9,409,105**	**769,910,004**
Credit exposures relating to off-balance sheet items:					
– Financial guarantees	4,321,000	–	–	–	4,321,000
– Loan commitments and other credit related facilities	33,672,401	–	–	–	33,672,401
Total	**602,407,541**	**117,007,974**	**79,078,785**	**9,409,105**	**807,903,405**

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

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

Concentration of risks of financial assets with credit risk exposure … continued

(a) Economic risk concentrations within the customer loan portfolio were as follows:

	2020 $	%	2019 $	%
Public sector	**249,909,398**	42.9%	**243,209,275**	43.4%
Personal	**232,086,090**	39.9%	**218,125,285**	38.9%
Construction/Real Estate	**25,124,502**	4.3%	**20,549,033**	3.7%
Distributive Trade	**19,638,516**	3.4%	**24,182,031**	4.3%
Tourism	**18,773,573**	3.2%	**20,370,707**	3.6%
Transportation/storage	**13,731,070**	2.4%	**13,747,622**	2.5%
Credit card advances	**9,023,556**	1.6%	**9,058,696**	1.6%
Professional/Services	**7,991,576**	1.4%	**6,036,407**	1.1%
Other industries	**4,728,200**	0.8%	**4,614,370**	0.8%
Manufacturing	**673,614**	0.1%	**900,194**	0.1%
Total	**581,680,095**	**100.0%**	**560,793,620**	**100.0%**

The public sector loans within the Bank's loan portfolio are 100% comprised of lending to the Government of Antigua and Barbuda, representing a significant concentration risk exposure for the Bank to this one customer.

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.1.5 Debt securities

There is no formal rating of the credit quality of bonds, treasury bills and equity investments. A number of qualitative and quantitative factors are considered in assessing the risk associated with each investment. However, there is no hierarchy of ranking. There are no external ratings of securities at the year end. The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation as of September 30, 2020.

As of September 30, 2020

	Amortised cost $	FVOCI debt securities $	FVTPL debt Securities $	Total $
Unrated	167,650,757	–	–	167,650,757
Total	**167,650,757**	**–**	**–**	**167,650,757**

As of September 30, 2019

	Amortised cost $	FVOCI debt securities $	FVTPL debt Securities $	Total $
Unrated	179,241,518	–	–	179,241,518
Total	**179,241,518**	**–**	**–**	**179,241,518**

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.2 Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank's exposure to market risk is from non-trading portfolios.

Non-trading portfolios market risk primarily arises from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios market risk also includes equity price risks arising from the Bank's investment securities.

5.2.1 Price risk

Though the Bank's investment portfolio includes securities that are quoted on the Eastern Caribbean Securities Exchange, its exposure to securities price risk is minimal because the total of these securities is insignificant in relation to its statement of financial position, and because of limited volatility in this market. The Bank does however hold securities that are quoted on the world's major securities markets. This exposes the Bank to price risk.

5.2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Most of the Bank's 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$2.7 = US$1.00 since 1974. Therefore, there is no significant exposure to foreign exchange risk.

The following table summarises the Bank's exposure to foreign currency exchange risk as of September 30, 2020. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.2.2 Foreign exchange risk … continued

	XCD $	USD $	EUR $	GBP $	Other $	Total $
As of September 30, 2020						
Cash and balances with the Central Bank	113,288,951	608,053	203,159	101,616	75,057	114,276,836
Due from banks and financial institutions	4,191,106	89,539,881	2,034,973	483,534	211,129	96,460,623
Investment securities:						
– Amortised cost	113,569,693	54,081,064	–	–	-	167,650,757
– FVOCI	3,228,467	2,547,435	–	–	-	5,775,902
– FVTPL	–	88,054,310	–	–	-	88,054,310
Loans and advances to customers	506,102,836	64,790,753	–	–	-	570,893,589
Other financial assets	808,591	–	–	–	-	808,591
Total financial assets	**741,189,644**	**299,621,496**	**2,238,132**	**585,150**	**286,186**	**1,043,920,608**
Liabilities						
Customers' deposits	776,924,931	74,653,792	–	–	–	851,578,723
Other liabilities and accrued expenses	12,214,145	–	–	–	–	12,214,145
Total financial liabilities	**789,139,076**	**74,653,792**	–	–	–	**863,792,868**
Net on-balance sheet position	**(47,949,432)**	**224,967,704**	**2,238,132**	**585,150**	**286,186**	**180,127,740**
Credit commitments	**43,372,168**	**4,321,000**	–	–	–	**47,693,168**

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.2.2 Foreign exchange risk … continued

	XCD $	USD $	EUR $	GBP $	Other $	Total $
As of September 30, 2019						
Cash and balances with the Central Bank	94,219,412	507,997	47,466	13,621	110,882	94,899,378
Due from banks and financial institutions	4,080,751	37,480,380	433,282	269,184	147,169	42,410,766
Investment securities:						
– Amortised cost	118,803,481	60,438,037	–	–	–	179,241,518
– FVOCI	3,228,467	2,045,737	–	–	–	5,274,204
– FVTPL	–	75,742,471	–	–	–	75,742,471
Loans and advances to customers	480,380,687	66,031,680	–	–	–	546,412,367
Other financial assets	1,845,353	–	–	–	–	1,845,353
Total financial assets	**702,558,151**	**242,246,302**	**480,748**	**282,805**	**258,051**	**945,826,057**
Liabilities						
Customers' deposits	689,657,513	78,643,076	–	–	–	768,300,589
Other liabilities and accrued expenses	11,969,518	–	–	–	–	11,969,518
Total financial liabilities	**701,627,031**	**78,643,076**	**–**	**–**	**–**	**780,270,107**
Net on-balance sheet position	**931,120**	**163,603,226**	**480,748**	**282,805**	**258,051**	**165,555,950**
Credit commitments	**33,672,401**	**4,321,000**	**–**	**–**	**–**	**37,993,401**

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

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

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

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.2.3 Interest rate risk … continued

	Under 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Non-interest Bearing $	Total $
As of September 30, 2020							
Assets							
Cash and balances with the Central bank	–	–	–	–	–	114,276,836	114,276,836
Due from banks and other financial institutions	–	–	–	–	–	96,460,623	96,460,623
Investment securities:							
– Amortised cost	6,734,920	65,382,035	82,977,130	11,935,992	620,680	–	167,650,757
– FVOCI investments	–	–	–	–	–	5,775,902	5,775,902
– FVTPL investments	–	–	–	–	–	88,054,310	88,054,310
Loans and advances to customers	48,800,560	2,822,218	2,359,287	43,151,867	473,759,657	–	570,893,589
Other financial assets	–	–	–	–	–	808,591	808,591
Total financial assets	55,535,480	68,204,253	85,336,417	55,087,859	474,380,337	305,376,262	1,043,920,608
Liabilities							
Customers' deposits	641,347,792	53,358,301	151,746,355	2,986,495	2,139,780	–	851,578,723
Other liabilities and accrued expenses	12,214,145	–	–	–	–	–	12,214,145
Total financial liabilities	653,561,937	53,358,301	151,746,355	2,986,495	2,139,780	–	863,792,868
Total interest repricing gap	**(598,026,457)**	**14,845,952**	**(66,409,938)**	**52,101,364**	**472,240,557**	**305,376,262**	**180,127,740**

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk … *continued*

5.2.3 Interest rate risk … continued

	Under 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Non-interest Bearing $	Total $
As of September 30, 2019							
Assets							
Cash and balances with the Central bank	–	–	–	–	–	94,899,378	94,899,378
Due from banks and other financial institutions	–	–	–	–	–	42,410,766	42,410,766
Investment securities:							
– Amortised cost	12,403,810	29,321,563	128,673,598	3,727,609	5,114,938	–	179,241,518
– FVOCI investments	–	–	–	–	–	5,274,204	5,274,204
– FVTPL investments	–	–	–	–	–	75,742,471	75,742,471
Loans and advances to customers	37,020,612	1,753,464	18,118,153	34,624,773	454,895,365	–	546,412,367
Other financial assets	–	–	–	–	–	1,845,353	1,845,353
Total financial assets	49,424,422	31,075,027	146,791,751	38,352,382	460,010,303	220,172,172	945,826,057
Liabilities							
Customers' deposits	538,986,374	85,213,746	137,465,543	4,534,819	2,100,107	–	768,300,589
Other liabilities and accrued expenses	–	–	–	–	–	11,969,518	11,969,518
Total financial liabilities	538,986,374	85,213,746	137,465,543	4,534,819	2,100,107	11,969,518	780,270,107
Total interest repricing gap	**(489,561,952)**	**(54,138,719)**	**9,326,208**	**33,817,563**	**457,910,196**	**208,202,654**	**165,555,950**

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.2.3 Interest rate risk … continued

Because of limited volatility in the securities markets in which the Bank's debt investments are held, the Bank is not unduly exposed to fair value interest rate risk.

Cash flow interest rate risk arises from loans and advances to customers, and other interest bearing assets at variable rates. The interest rates on loans are generally fixed hence there is no undue exposure to cash flow interest rate risk.

5.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

5.3.1 Liquidity risk management process

The Bank's liquidity management process is carried out by the Bank's Board of Directors and Executive Management team. Oversight includes the following:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining the liquidity ratios of the statement of financial position against internal and regulatory requirements;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement, and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The ALCO Committee also monitors unmatched medium term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

5.3.2. Funding approach

Sources of liquidity are regularly reviewed by Management and the Board of Directors in order to maintain a wide diversification by currency, geography, provider, product and term.

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

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

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash flows.

The Bank does not anticipate any shortfalls during the next 12 months since its customers generally roll-over their term deposits at maturity and no major withdrawals are anticipated for customer demand and savings accounts. Also, refer to the liquidity risk management process in note 5.3.1.

	Under 1 month $	1-3 months $	3-12 months $	1-5 years $	Over 5 years $	Total $
As of September 30, 2020						
Customers' deposits	641,347,812	53,358,301	151,746,335	2,986,495	2,139,780	851,578,723
Other liabilities and accrued expenses	12,214,145	–	–	–	–	12,214,145
Total financial liabilities (contractual maturity dates)	**653,561,957**	**53,358,301**	**151,746,335**	**2,986,495**	**2,139,780**	**863,792,868**
Assets held for managing liquidity risk (contractual maturity dates)	**254,210,466**	**36,118,345**	**159,622,665**	**278,421,432**	**603,402,574**	**1,331,775,482**

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.3.3 Non derivative financial liabilities and assets held for managing liquidity risk … continued

	Under 1 month $	1-3 months $	3-12 months $	1-5 years $	Over 5 years $	Total $
As of September 30, 2019						
Customers' deposits	539,498,087	86,526,190	139,784,578	4,709,457	2,100,107	772,618,419
Other liabilities and accrued expenses	11,969,518	–	–	–	–	11,969,518
Total financial liabilities (contractual maturity dates)	**551,467,605**	**86,526,190**	**139,784,578**	**4,709,457**	**2,100,107**	**784,587,937**
Assets held for managing liquidity risk (contractual maturity dates)	**177,295,249**	**52,521,097**	**213,046,368**	**240,391,614**	**503,485,673**	**1,186,740,001**

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.3.4 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality financial assets to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise of the following:

- Unrestricted cash and balances due from banks;
- Loans and receivables investment securities; and
- Unimpaired loans and advances.

5.3.5 Off balance sheet items

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

(b) *Financial guarantees*
The Bank's financial guarantees are also included in the table below based on the earliest contractual maturity date.

	Up to 1 year $	1 to 5 years $	Total $
As of September 30, 2020			
Financial guarantees	4,321,000	–	4,321,000
Credit commitments	43,372,168	–	43,372,168
	47,693,168	**–**	**47,693,168**
As of September 30, 2019			
Financial guarantees	4,321,000	–	4,321,000
Credit commitments	33,672,401	–	33,672,401
	37,993,401	**–**	**37,993,401**

	Up to 1 year $	1 to 5 years $	Total $
(c) *Operating Lease Commitments*			
As of September 30, 2020	**22,800**	–	**22,800**
As of September 30, 2019	**1,059,300**	**1,734,750**	**2,794,050**

(d) *Capital commitments*
The Bank had no contractual capital commitments as of September 30, 2020 or September 30, 2019.

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.4 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

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

	Carrying Value		Fair Value	
	2020 **$**	**2019** **$**	**2020** **$**	**2019** **$**
Financial assets				
Due from banks and other financial institutions	96,460,623	42,410,766	96,460,623	42,410,766
Investment securities at amortised cost	167,650,757	179,241,518	167,650,757	179,241,518
Loans and advances to customers	570,893,589	546,412,367	544,783,665	506,794,962
Other financial assets	808,591	1,845,353	808,591	1,845,353
	835,813,560	**769,910,004**	**809,703,636**	**730,292,599**
Financial liabilities				
Customers' deposits	851,578,723	768,300,589	855,549,495	767,971,943
Other liabilities and accrued expenses	12,214,145	11,969,518	12,214,145	11,969,518
	863,792,868	**780,270,107**	**867,763,640**	**779,941,461**

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.4 Fair value of financial assets and liabilities … continued

(a) Financial instruments not measured at fair value ... continued

(i) Due from banks and other financial institutions
Amounts due from banks and other financial institutions include inter-bank placements and items in the course of collection. The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers
The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Investment securities
The fair value for loans and receivables and held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated for the debt investment securities based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and remaining maturity.

(iv) Deposits from banks and due to customers and other borrowings
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

5.4.1 Fair value measurement

Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes debt instruments listed on exchanges.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability. This level includes equity investments and debt instruments with significant unobservable components.

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.4.2 Assets and liabilities measured at fair value

As of September 30, 2020

	Level 2 $	Level 3 $	Total $
Financial assets			
Investment securities:			
– FVOCI investments	4,397,433	1,378,469	5,775,902
– FVTPL investments	88,054,310	–	88,054,310
Total assets	**92,451,743**	**1,378,469**	**93,830,212**

As of September 30, 2019

	Level 2 $	Level 3 $	Total $
Financial assets			
Investment securities:			
– FVOCI investments	3,895,735	1,378,469	5,274,204
– FVTPL investments	75,742,471	–	75,742,471
Total assets	**79,638,206**	**1,378,469**	**81,016,675**

The following table presents the changes in level 3 instruments.

	2020 Investment securities amortised cost $	2019 Investment securities Amortised cost $
Balance as of beginning of the year	**178,599,929**	16,809,167
Effect of adoption of IFRS 9 - reclassification	–	112,900,024
	178,599,929	129,709,191
Additions	**97,515,770**	122,356,404
Settlements	**(108,938,960)**	(73,465,666)
Balance as of end of the year	**167,176,739**	178,599,929

(expressed in Eastern Caribbean dollars)

5 Financial instruments risk ... *continued*

5.4.3 Measurement of fair value of financial instruments

The Bank's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the chief financial officer (CFO) and to the ALCO committee. Valuation processes and fair value changes are discussed among the audit committee and the finance team annually, in line with the Bank's reporting dates.

The valuation techniques used for instruments categorised in Level 3 is described below:

- Government securities (quoted) (Level 3)

The fair value is estimated based on discounted cash flows using prevailing interest rates for debts with similar credit risk and remaining maturity.

6 Capital management policies and procedures

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

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

Capital adequacy and the use of regulatory capital are monitored quarterly by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the ECCB, for supervisory purposes. The required information is filed with the ECCB on a quarterly basis.

The ECCB requires all banks under its supervision to: (a) hold the minimum level of regulatory capital of $25,000,000 and (b) maintain a ratio of total regulatory capital to the risk-weighted assets ('the Basel I ratio') at or above the internationally agreed minimum of 8%.

The Bank's regulatory capital as managed by senior management is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of treasury share), general bank reserves, statutory reserve, retained earnings and reserves created by appropriations of retained earnings.
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of securities held as FVOCI equity investments.

(expressed in Eastern Caribbean dollars)

6 Capital management policies and procedures … *continued*

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

The following table summarises the composition of the regulatory capital and the ratios of the Bank as of September 30, 2020. At this date the Bank complied with all the externally imposed capital requirements to which it is subject.

	2020 $	2019 $
Tier 1 capital		
Common share capital	**24,000,000**	24,000,000
Preference share capital	**47,869,339**	47,869,339
Retained earnings	**86,946,826**	77,476,139
Regulatory reserve for interest on non-performing loans	**2,158,308**	2,371,072
Statutory reserve	**20,024,324**	16,907,796
Customer lists intangible asset	**(184,640)**	(369,276)
Total qualifying Tier 1 capital	**180,814,157**	168,255,070
Tier 2 capital		
Unrealised gain on FVOCI equity investments	**1,864,718**	1,488,446
Portfolio loan loss provisions	**–**	–
Total qualifying Tier 2 capital	**1,864,718**	1,488,446
Total regulatory capital	**182,678,875**	169,743,516

	2020 $	2019 $
Risk weighted assets		
On-balance sheet	**418,909,608**	358,318,000
Off-balance sheet	**8,674,434**	6,734,480
Total risk weighted assets	**427,584,042**	365,052,480
Basel ratio	**43%**	46%

(expressed in Eastern Caribbean dollars)

7 Significant management judgement in applying accounting policies and estimation uncertainty

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

Estimation uncertainty
Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment losses on loans and advances carried at amortised cost
The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis for the regulatory prudential reporting purposes and annually in preparing its IFRS financial statements.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVPL is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is earlier detailed, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

Detailed information about the judgements and estimates made by the Bank in the above areas is set out before in note 5.1.3.

(expressed in Eastern Caribbean dollars)

7 Significant management judgement in applying accounting policies and estimation uncertainty … *continued*

Set out below are the changes to the ECL as of September 30, 2020 that would result from reasonably possible variations in the most significant assumptions affecting the ECL allowance for the financial assets in stages 1 to 2 with respect to the credit risk:

		ECL impact of:	
Loss Given Default	**Change in threshold %**	**Increase in Value $**	**Decrease in value $**
Loans	+/-10%	2,062,196	(2,062,196)
Overdrafts	+/-10%	62,557	(62,557)
Other financial assets	+/-10%	71,988	(71,988)

Below are the changes to the ECL as of September 30, 2020 that would result from reasonably possible variations in the most significant assumptions affecting the ECL allowance for the financial assets in stage 3 with respect to the credit risk:

		ECL impact of:	
Default loss rate	**Change in threshold %**	**Increase in value $**	**Decrease in value $**
Loans	+/-10%	344,051	(344,051)
Overdrafts	+/-10%	51,978	(51,978)
Other financial assets	+/-10%	3,821	(3,821)

In the ECL provisioning for stage 3 loans and advances to customers, the Bank considers the amount and timing of future cashflows in the assessment of the loss allowance. Were the net present value of estimated cash flows to differ by -/+10%, the impairment loss would be an estimated $290,190 higher or $256,141 lower (2019: $272,383 higher or $142,053 lower). Were the discount period used in calculation of the present value of the future cash flows to differ by +/-1 year, the impairment loss would be an estimated $335,873 higher or $313,636 lower (2019: $205,469 higher or $132,513 lower).

(expressed in Eastern Caribbean dollars)

8 Cash and balances with the Central Bank

	Note	2020 $	2019 $
Cash on hand		**13,326,584**	9,713,909
Balances with ECCB other than mandatory reserves		**43,900,451**	28,553,949
Included in cash and cash equivalents	22	**57,227,035**	38,267,858
Mandatory deposits with the ECCB		**57,049,801**	56,631,520
Total cash and balances with the Central Bank		**114,276,836**	94,899,378

Mandatory deposits with the Central Bank

1) Commercial banks in the Eastern Caribbean Currency Union are required to maintain a non-interest bearing reserve with the ECCB equivalent to a minimum of 6% of their total deposit liabilities (excluding inter-bank deposits and foreign currencies). This reserve deposit is not available for use in the Bank's day-to-day operations. The minimum reserve requirement at the end of the reporting period was $36,549,801 (2019: $36,131,520).

2) All commercial banks in the Eastern Caribbean Currency Union are required to have a 3-day average daily gross Automated Clearing House (ACH) collateral amount with the Eastern Caribbean Central Bank. The cash collateral amount held with the ECCB at the end of the reporting period amounted to $20,500,000 (2019: $20,500,000) and is included in the mandatory deposits with the Central Bank.

9 Due from banks and other financial institutions

	Note	2020 $	2019 $
Operating accounts with other banks		**95,193,713**	40,154,464
Items in the course of collection from other banks		**1,266,910**	2,256,302
Included in cash and cash equivalents	22	**96,460,623**	42,410,766
Total due from banks and other financial institutions		**96,460,623**	42,410,766

Operating accounts with other banks and financial institutions represent ordinary cash deposits made with other banks and with interest rate of 0.50% per annum.

Balances held with shareholder banks as of September 30, 2020 amounted to $1,297,683 (2019: $1,347,503).

(expressed in Eastern Caribbean dollars)

10 Investment securities

	2020 $	2019 $
FVTPL		
Quoted equity investments	**88,054,310**	75,742,471
	88,054,310	75,742,471
FVOCI – equity securities		
Quoted equity investments	**4,397,433**	3,895,735
Unquoted equity investments	**1,378,469**	1,378,469
	5,775,902	5,274,204
Amortised cost		
Treasury bills	**33,148,330**	34,131,287
Bonds/fixed rate notes	**38,461,975**	40,153,646
Money market	**2,704,562**	–
Term deposits	**92,861,871**	104,314,996
	167,176,738	178,599,929
Interest receivable	**1,152,800**	1,320,370
Total amortised cost, gross	**168,329,538**	179,920,299
Less: provision for expected credit losses	**(678,781)**	(678,781)
Total amortised cost, net	**167,650,757**	179,241,518
Total investment securities	**261,480,969**	260,258,193
Current	**155,094,085**	170,398,971
Non-current	**106,386,884**	89,859,222
Total investment securities	**261,480,969**	260,258,193

Treasury bills' interest rates range between 1.49% to 8% (2019: 1.98% to 8%) per annum with original maturities of less than 12 months. Included in the treasury bills from OECS Governments are cash equivalents with original maturities of three (3) months or less and interest rates ranging from 1.49% to 8.0% (2019: 1.99% to 8%) totalling $17,959,088 (2019: $17,947,201). Included in the treasury bills are amounts held with a shareholder, the Government of Antigua and Barbuda, totalling $8,305,599 (2019: $9,300,443). Interest income earned from treasury bills held with Government of Antigua and Barbuda amounted to $273,104 (2019: $185,110).

Term deposits are with other OECS banks and financial institutions and international bank with interest rates ranges between 0.12% to 2.05% (2019: 1% to 2.77%) per annum with original maturities of 12 months or less. Included in the term deposits are cash equivalents with original maturities of three (3) months or less at interest rate of 1% (2019: 1% to 2.04%) per annum totalling $8,748,749 (2019: $11,418,276). Refer to note 22.

Bonds/fixed rate notes include various government bonds and fixed rate notes with OECS banks and financial institutions with interest rates ranging from 1.55% to 9% per annum with original maturities of greater than 12 months.

(expressed in Eastern Caribbean dollars)

10 Investment securities … *continued*

FTVPL investments are comprised of shares held in VISA International.

FVOCI investments include quoted and unquoted shares. The quoted equity investments are held in MasterCard International and St. Kitts Nevis Anguilla National Bank. The unquoted equity investments include shares held in Eastern Caribbean Securities Exchange Limited, Eastern Caribbean Automated Clearing House Services Incorporated and Eastern Caribbean Home Mortgage Bank.

(expressed in Eastern Caribbean dollars)

10 Investment securities … *continued*

The movement in investment securities during the year ended September 30, 2020 is as follows:

	Equity securities – FVTPL $	Equity securities – FVOCI $	Amortised Cost $	Total $
Balance, beginning of year	66,090,270	4,778,977	130,336,988	201,206,235
Purchases	–	–	122,356,404	122,356,404
Disposals (sales/redemptions)	–	–	(73,465,666)	(73,465,666)
Fair value gains	9,652,201	495,227	–	10,147,428
Increase in expected credit losses	–	–	(10,088)	(10,088)
Interest receivable	–	–	23,880	23,880
Balance, September 30, 2019	75,742,471	5,274,204	179,241,518	260,258,193
Purchases	–	–	97,515,770	97,515,770
Disposals (sales/redemptions)	–	–	(108,938,959)	(108,938,959)
Fair value gains	12,311,839	501,698	–	12,813,537
Interest receivable	–	–	(167,572)	(167,572)
Balance, September 30, 2020	**88,054,310**	**5,775,902**	**167,650,757**	**261,480,969**

(expressed in Eastern Caribbean dollars)

11 Loans and advances to customers

	2020 $	2019 $
Stage 1 Loans		
Government of Antigua and Barbuda loans	**249,157,465**	241,817,852
Personal loans	**189,530,093**	187,822,316
Corporate loans	**61,148,649**	65,315,428
Overdrafts	**11,641,950**	10,092,413
Credit card advances	**8,532,752**	8,146,999
Total Stage 1 loans	**520,010,909**	513,195,008
Stage 2 Loans		
Personal loans	**30,069,318**	10,927,679
Corporate loans	**12,428,487**	7,983,353
Overdrafts	**2,653,783**	4,900,992
Credit card advances	**–**	346,825
Total Stage 2 loans	**45,151,588**	24,158,849
Stage 3 Loans		
Personal loans	**10,929,091**	17,963,451
Corporate loans	**4,235,361**	4,335,579
Overdrafts	**862,342**	575,861
Credit card advances	**490,804**	564,872
Total Stage 3 loans	**16,517,598**	23,439,763
Interest receivable	**17,557,437**	3,669,468
Less:		
Deferred loan origination fees	**(689,389)**	(735,053)
Provision for expected credit losses	**(27,654,554)**	(17,315,668)
Total loans and advances to customers	**570,893,589**	546,412,367
Current	**53,982,065**	59,913,924
Non-current	**516,911,524**	486,498,443
	570,893,589	546,412,367

(expressed in Eastern Caribbean dollars)

11 Loans and advances to customers … *continued*

Roll forward of provision for credit losses on loans and advances	**Note**	**2020** $	**2019** $
Balance, beginning of year		**17,315,668**	23,740,011
Impairment charge	28	**11,946,290**	5,036,960
Loans written-off during the year as uncollectible		**(1,607,404)**	(11,461,303)
Balance, end of year		**27,654,554**	17,315,668

According to the ECCB credit prudential guidelines, the calculated allowance for loan impairment amounts to $3,034,508 (2019: $3,344,130). It has been determined that a reserve is not required in equity in the current financial year as the provision under IFRS 9 of $27,654,554 (2019: $17,315,668) exceeds the provision per the ECCB prudential guidelines.

Due to the Bank's Loan Relief Plan, several of its customers chose loan moratoria which led to a significant increase in the Bank's interest receivable at the reporting date. Additionally, of the $17,557,437 interest receivable recorded, $10,113,864 represents interest receivable due from the Government of Antigua and Barbuda attributed to its loan facilities with the Bank. (see note 5.1.4)

According to the ECCB prudential guidelines, interest income is not accrued for loans that are non-performing. The accrued interest of $2,158,308 (2019: $2,371,072) on non-performing loans has been set aside as a specific reserve in equity (see note 19).

12 Other assets

	2020 **$**	**2019** **$**
Financial assets		
Trade and other receivables	**826,409**	1,863,171
Provision for doubtful debts	**(17,818)**	(17,818)
	808,591	1,845,353
Non-financial assets		
Prepaid employee benefit	**2,092,035**	1,583,518
Other prepaid expenses	**1,723,888**	1,566,262
Prepaid purchases	**2,475,274**	1,147,270
	6,291,197	4,297,050
Total other assets	**7,099,788**	6,142,403
Current	**5,375,900**	4,576,141
Non-current	**1,723,888**	1,566,262
	7,099,788	6,142,403

(expressed in Eastern Caribbean dollars)

13 Property, plant and equipment

	Artwork $	Land $	Buildings $	Furniture, fixtures & equipment $	Computer equipment $	Motor vehicles $	Total $
At September 30, 2018							
Cost	51,740	6,128,600	10,800,488	2,650,047	7,313,503	453,676	27,398,054
Accumulated depreciation	–	–	(1,731,248)	(1,626,261)	(5,447,603)	(269,910)	(9,075,022)
Net book amounts	51,740	6,128,600	9,069,240	1,023,786	1,865,900	183,766	18,323,032
Year ended September 30, 2019							
Opening net book amount at October 1, 2018	51,740	6,128,600	9,069,240	1,023,786	1,865,900	183,766	18,323,032
Additions	–	–	–	102,512	786,347	–	888,859
Depreciation charge	–	–	(246,819)	(269,543)	(730,162)	(91,746)	(1,338,270)
Net book amounts	**51,740**	**6,128,600**	**8,822,421**	**856,755**	**1,922,085**	**92,020**	**17,873,621**
At September 30, 2019							
Cost	51,740	6,128,600	10,800,488	2,752,559	8,099,850	453,676	28,286,913
Accumulated depreciation	–	–	(1,978,067)	(1,895,804)	(6,177,765)	(361,656)	(10,413,292)
Net book amounts	**51,740**	**6,128,600**	**8,822,421**	**856,755**	**1,922,085**	**92,020**	**17,873,621**

(expressed in Eastern Caribbean dollars)

13 Property, plant and equipment … *continued*

	Artwork $	Land $	Buildings $	Furniture, fixtures & equipment $	Computer equipment $	Motor vehicles $	Total $
Year ended September 30, 2020							
Opening net book amount at October 1, 2019	51,740	6,128,600	8,822,421	856,755	1,922,085	92,020	17,873,621
Additions	–	–	–	550,457	141,285	116,630	808,372
Depreciation charge	–	–	(246,819)	(267,713)	(700,218)	(88,952)	(1,303,702)
Net book amounts	**51,740**	**6,128,600**	**8,575,602**	**1,139,499**	**1,363,152**	**119,698**	**17,378,291**
At September 30, 2020							
Cost	51,740	6,128,600	10,800,488	3,303,016	8,241,135	570,306	29,095,285
Accumulated depreciation	–	–	(2,224,886)	(2,163,517)	(6,877,983)	(450,608)	(11,716,994)
Net book amounts	**51,740**	**6,128,600**	**8,575,602**	**1,139,499**	**1,363,152**	**119,698**	**17,378,291**

(expressed in Eastern Caribbean dollars)

14 Intangible assets

	Computer software $	Customer lists $	Total $
September 30, 2018			
Cost	5,304,475	2,031,000	7,335,475
Accumulated amortisation	(4,498,018)	(1,477,088)	(5,975,106)
Net book amount	806,457	553,912	1,360,369
Year ended September 30, 2019			
Net book value as of October 1, 2018	806,457	553,912	1,360,369
Additions	167,828	–	167,828
Amortisation charge	(317,261)	(184,636)	(501,897)
Net book amount	**657,024**	**369,276**	**1,026,300**
September 30, 2019			
Cost	5,472,303	2,031,000	7,503,303
Accumulated amortisation	(4,815,279)	(1,661,724)	(6,477,003)
Net book amount	**657,024**	**369,276**	**1,026,300**
Year ended September 30, 2020			
Net book value as of October 1, 2019	657,024	369,276	1,026,300
Additions	26,533	–	26,533
Amortisation charge	(285,103)	(184,636)	(469,739)
Net book amount	**398,454**	**184,640**	**583,094**
September 30, 2020			
Cost	5,498,836	2,031,000	7,529,836
Accumulated amortisation	(5,100,382)	(1,846,360)	(6,946,742)
Net book amount	**398,454**	**184,640**	**583,094**

(expressed in Eastern Caribbean dollars)

15 Customers' deposits

	2020 $	2019 $
Savings accounts	**343,852,445**	296,025,714
Current accounts	**263,334,378**	205,493,501
Time deposits	**242,144,141**	264,299,102
	849,330,964	765,818,317
Interest payable	**2,247,759**	2,482,272
Total customers' deposits	**851,578,723**	768,300,589
Current	**846,452,446**	761,665,663
Non-current	**5,126,277**	6,634,926
	851,578,723	768,300,589

Included in the customers' deposits at year end are deposits from related parties amounting to $48,091,115 (2019: $46,360,769) as disclosed in note 21.

Included in the customers' deposits at year end are deposits from other financial institutions, excluding shareholder banks, amounting to $9,667,516 (2019: $23,305,330).

Deposits held as collateral for loans and advances amounted to $12,114,022 (2019: $15,055,534).

Interest rates on customers' deposit range between 0.25% to 6.25% (2019: 0.25% to 6.25%) per annum. The total interest expense amounted to $11,301,809 (2019: $10,948,954) as disclosed in note 23. The time deposits have original maturities ranging from less than 12 months to 5 years.

(expressed in Eastern Caribbean dollars)

16 Other liabilities and accrued expenses

	2020 $	2019 $
Trade payables and accrued expenses	**7,769,613**	5,905,957
Manager's cheques	**3,013,493**	2,846,259
Deferred employee benefit	**2,092,035**	1,583,518
Other payables	**760,489**	863,144
Transfers payable	**670,550**	2,354,158
Total other liabilities and accrued expenses	**14,306,180**	13,553,036
Current	**12,214,145**	11,969,518
Non-current	**2,092,035**	1,583,518
	14,306,180	13,553,036

17 Share capital

	Note	2020 $	2019 $
Authorised share capital:			
710,000 common shares at no par value		–	–
100,000 preference shares at no par value		–	–
Issued and fully paid:			
240,000 common shares issued at $100 each		**24,000,000**	24,000,000
100,000 preference shares issued at $478.69 each	18	**47,869,339**	47,869,339

18 Preference shares

The subscriptions for preference shares were made by the Government of Antigua and Barbuda. According to the Shareholders Agreement, the preference shares are convertible, redeemable and non-cumulative. The rights, privileges, restrictions and conditions for the preference shares outlined in the Shareholders' Agreement are as follows:

- Preference shareholders are entitled to receive dividends as and when declared by the Board and in the priority of disbursements and distributions as set forth in the By-laws and are paid out of the net profits of the Bank at 3.5% of par value.
- Upon any liquidation, dissolution or winding up of the Bank, the preference shares will rank highest in priority of all share holdings.
- Preference shares are redeemable at the sole discretion of the Bank.
- Preference shares are classified as equity in the statement of financial position.

(expressed in Eastern Caribbean dollars)

19 Reserves

a) Other reserves

	2020 $	2019 $
Regulatory reserve for interest on non-performing loans	**2,158,308**	**2,371,072**
Statutory reserve	**20,024,324**	**16,907,796**
Total other reserves	**22,182,632**	**19,278,868**

(i) *Reserve for interest on non-performing loans*
This reserve was created to set aside interest accrued on non-performing loans where certain conditions are met in accordance with IFRS 9. The Prudential Guidelines of the Eastern Caribbean Central Bank, however, do not allow for the accrual of such interest. The interest is therefore set aside in a reserve and is not available for distribution to the shareholders.

(ii) *Statutory reserve*
Under the Banking Act No. 10 of 2015, at least 20% of the net income of each financial year should be transferred to a reserve fund, if the amount of such reserve is less than 100% of the paid-up capital.

b) Revaluation reserve

The revaluation reserve represents the unrealised net gains on FVOCI equity investment securities, net of tax. The movements in the reserve during the year are as follows:

	Notes	2020 $	2019 $
Balance, beginning of year		**1,488,446**	1,117,026
Unrealised gains on FVOCI equity investment securities	10	**501,698**	495,227
Deferred income tax on remeasurement of FVOCI equity investment securities	29	**(125,426)**	(123,807)
Balance, end of year		**1,864,718**	1,488,446

(expressed in Eastern Caribbean dollars)

20 Commitments

a) Credit commitments and others

	2020 $	2019 $
Undrawn Commitments – Loans and overdrafts	**28,743,714**	20,619,886
Undrawn Commitments – Credits cards	**14,628,454**	13,052,515
Financial guarantees	**4,321,000**	4,321,000
	47,693,168	37,993,401

The credit risk associated with the financial guarantees and undrawn commitments on overdrafts and credit cards is considered to be low and ECL is expected to be immaterial. No provision for impairment has been made as of the reporting date.

(expressed in Eastern Caribbean dollars)

21 Related parties' balances and transactions

	Interest rate	2020 $	2019 $
Loans to Government of Antigua and Barbuda	7.5 – 9.8%	**249,157,465**	241,817,852
Loans to key management personnel	4.0 – 8.5%	**1,567,191**	1,698,956
Loans to directors	5.75 – 6.0%	**852,940**	849,190
		251,577,596	244,365,998

The loans to shareholder and key management personnel are secured by assets including cash and property. Interest income earned on shareholders', directors', and key members of management's loans and advances during the year amounted to $20,169,367 (2019: $20,924,836). The average interest rate on these loans is 8.24% (2019: 8.28%).

Deposits from related parties

	Interest rate	2020 $	2019 $
Deposits from shareholders	0 – 2.15%	**42,259,865**	41,572,596
Deposits from staff retirement savings fund	5%	**4,460,643**	3,653,860
Deposits from key management personnel	0 – 2.5%	**1,217,944**	950,838
Deposits from directors	0 – 2%	**152,663**	183,475
		48,091,115	46,360,769

Interest expense paid on shareholders', directors', key members of management's and the staff retirement savings fund deposits during the year amounted to $596,170 (2019: $818,957). The average interest rate on these deposits is 1.30% (2019: 1.53%).

Remuneration of key management personnel

	2020 $	2019 $
Salaries and allowances	**2,206,077**	2,100,347
Directors' fees	**294,478**	419,937
Social Security and Medical Benefits costs	**83,191**	76,912
Other staff costs	**16,906**	17,710
	2,600,652	2,614,906

Refer to notes 9 and 10 for details of additional related party balances and transactions.

(expressed in Eastern Caribbean dollars)

22 Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	Notes	2020 $	2019 $
Term deposits with original maturities of ninety days or less	10	**8,748,749**	11,418,276
Due from banks and other financial institutions	9	**96,460,623**	42,410,766
Cash and non-mandatory balances with the Central Bank	8	**57,227,035**	38,267,858
Treasury bills	10	**17,959,088**	17,947,201
		180,395,495	110,044,101

23 Interest income and interest expense

	2020 $	2019 $
Interest income		
Loans and advances	**45,182,085**	43,229,995
Investment securities	**3,998,242**	4,342,424
Short term deposits	**11,841**	2,998
Total interest income	**49,192,168**	47,575,417
Interest expense		
Savings accounts	**(6,266,963)**	(5,515,092)
Fixed deposits	**(4,981,683)**	(5,433,862)
Leases	**(53,163)**	–
Total interest expense	**(11,301,809)**	(10,948,954)
Net interest income	**37,890,359**	36,626,463

(expressed in Eastern Caribbean dollars)

24 Net fee income

	2020 $	2019 $
Fee income		
Credit card fees	**7,212,433**	8,244,305
Foreign exchange gain/losses	**6,920,811**	5,643,120
Service charge – deposits	**2,958,259**	3,525,922
Other fees and commission	**2,846,425**	3,193,935
Credit related fees	**623,472**	809,152
Total fee income	**20,561,400**	21,416,434
Fee expense		
Credit card expenses	**(6,121,518)**	(6,551,869)
Bank charges	**(1,148,892)**	(1,139,866)
Other fees-expenses	**(84,045)**	(19,133)
Total fee expense	**(7,354,455)**	(7,710,868)
Net fee income	**13,206,945**	13,705,566

25 Other income, net

	2020 $	2019 $
Unrealised gain on FVTPL investments	**12,311,839**	9,652,200
Dividends received	**512,730**	382,152
Recovery of loan items written off	**93,052**	195,906
Recovery of credit card items written-off	**10,606**	4,542
Miscellaneous income	**–**	6,749
Total other income, net	**12,928,227**	10,241,549

26 Personnel expenses

	2020 $	2019 $
Salaries and allowances	**12,665,885**	12,196,440
Other personnel expenses	**1,471,557**	2,125,282
Statutory contributions	**1,102,369**	1,068,563
Insurance contributions	**248,202**	238,596
Total personnel expenses	**15,488,013**	15,628,881

(expressed in Eastern Caribbean dollars)

27 General and administrative expenses

	2020 $	2019 $
Information technology	**2,284,987**	2,013,869
Professional fees	**2,213,556**	1,825,547
Telecommunications and postage	**1,908,398**	1,549,913
Printing, stationery and office supplies	**1,548,050**	1,421,104
Utilities	**1,033,095**	1,143,406
Repairs and maintenance	**481,676**	546,390
Insurance	**453,837**	420,073
Marketing and public relations	**448,688**	494,767
Directors' fees	**294,478**	419,937
Licenses and taxes	**176,436**	178,386
Rent	**122,058**	1,343,956
Travel, conferences and meetings	**96,733**	136,075
Other administration costs	**42,267**	40,279
Total general and administrative expenses	**11,104,259**	11,533,702

28 Impairment charges

	Notes	2020 $	2019 $
Loans and advances to customers	11	**11,946,290**	5,036,960
Investment securities	10	**–**	10,088
Total impairment charges		**11,946,290**	5,047,048

(expressed in Eastern Caribbean dollars)

29 Income tax

The legislatively enacted corporate tax rate for the year is 25% (2019: 25%).

	2020 $	2019 $
Tax charge		
Profit for the year before tax	**22,447,546**	26,523,780
Tax charge at the applicable tax rate of 25%	**5,611,889**	6,630,945
Windfall tax at the applicable tax rate of 10%	**1,769,117**	1,774,404
Movement in deferred taxes not recorded in prior years	**–**	(430,985)
Effect of permanent differences	**(516,102)**	(528,189)
Tax charge for the year	**6,864,904**	7,446,175
Represented as follows:		
Current income tax expense	**4,756,388**	2,865,059
Deferred income tax expense	**339,399**	2,806,712
Windfall tax	**1,769,117**	1,774,404
	6,864,904	7,446,175
Income tax payable		
Balance recorded beginning of year	**4,639,463**	4,276,348
Taxes paid during the year	**(4,639,463)**	(4,276,348)
Current income tax expense for the year	**4,756,388**	2,865,059
Windfall tax	**1,769,117**	1,774,404
Balance, end of year	**6,525,505**	4,639,463

Deferred tax (liability)/asset

At the year end, the Bank had a net deferred tax liability of $12,881,973 (2019: $12,417,148) at the future tax rate of 25%. The Bank previously held an exemption from the payment of income taxes for a period of 15 years from November 25, 2011, however, this exemption was withdrawn effective December 31, 2015. The net deferred tax liability was recorded in 2016. The deferred tax liability is comprised as follows:

	2020 $	2019 $
Deferred commissions on loans	**172,347**	183,763
Regulatory reserve for interest on non-performing loans	**(598,209)**	(592,768)
Depreciation on property, plant and equipment	**252,286**	158,995
IFRS 9 loan loss provisioning in excess of ECCB provision	**6,155,012**	3,492,885
Unrealised gain on investment securities	**(18,863,409)**	(15,660,023)
Total deferred tax liability	**(12,881,973)**	(12,417,148)

(expressed in Eastern Caribbean dollars)

29 Income tax … *continued*

The movements on the deferred tax liability recognised during the year are as follows:

	Note	2020 $	2019 $
Balance, beginning of year		**(12,417,148)**	(13,779,258)
Effect of adoption of IFRS 9		**–**	4,292,629
Current year charge		**(339,399)**	(2,806,712)
Unrealised gains on investment securities in other comprehensive income		**(125,426)**	(123,807)
Balance, end of year		**(12,881,973)**	(12,417,148)

Tax losses

The Bank has no brought forward losses for tax purposes as they were utilized in 2016.

30 Employee benefits

Effective from December 1, 2012, the Bank established a defined contribution staff retirement savings plan which is mandatory for all permanent employees joining the Bank subsequent to that date. Qualifying employees choose to allocate a percentage of their basic monthly salary to the fund and the Bank matches the employee's contribution up to a maximum of 5%. Each employee is entitled to receive 100% of their contribution to the Fund in addition to the accrued interest earned at the time of terminating the employment relationship with the Bank. Each employee is entitled to receive a percentage of the Bank's contribution to the Fund in addition to the accrued interest earned at the time of terminating the employment relationship as follows:

- Less than 3 years - 0%
- 3 years but less than 5 years - 25%
- 5 years but less than 7 years - 50%
- 7 years but less than 10 years - 75%
- 10 years and over - 100%

An employee is not entitled to the Bank's contribution if terminated for just cause. An employee whose employment ceases due to medical reasons of a terminable nature is entitled to 100% of contributions made on their behalf by the Bank. The fund is administered by a committee of Trustees comprising the General Manager, the Manager of Human Resources and three employees who are staff nominated, voted and determined by the employees. The retirement savings plan expense for the year was $319,050 (2019: $311,736).

(expressed in Eastern Caribbean dollars)

31 Leases

This note provides information on leases where the Bank is a lessee.

a) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	2020 $	2019 $
Right-of-use asset		
Building	3,544,189	–
Accumulated Depreciation	(1,265,982)	–
Net book amount	2,278,207	–

	2020 $	2019 $
Lease Liabilities		
Current	1,359,415	–
Non-Current	936,086	–
	2,295,501	–

b) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	2020 $	2019 $
Depreciation charge of right-of-use asset		
Building	1,265,982	–
Interest expense (included in finance cost)	53,163	–
Expenses relating to short-term leases (included in administrative expenses and distribution costs)	5,578	–

Prior to the Bank's adoption of 'IFRS 16-Leases', these amounts were expensed in the profit and loss as rent. (see note 27).

(expressed in Eastern Caribbean dollars)

32 Contingencies

Contingent liability

There is a matter seeking declaratory and injunctive relief, damages, interest and costs further to the Bank's issuances of Notices to Pay and advertisement of sale of two material properties. The trial commenced in the prior year, and the Bank provided a counter proposal to settle the matter, but to date, this has not been accepted by the claimant.

33 Dividends

The financial statements reflect a dividend payment of $2,995,427 (2019: $2,995,427). This comprises $5.50 per common share amounting to $1,320,000 (2019: $1,320,000) and 3.5% of the par value of the preferred shares amounting to $1,675,427 (2919: $1,675,427). Approval of these payments was given at the Ninth Annual General Meeting held on July 2, 2020.

34 Comparatives

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

35 Impact of COVID-19

Due to the impact of the Coronavirus (COVID-19) pandemic, management has assessed its impact on the future results, cash flows and financial position of the Bank. Management emphasizes that as per the date of issuance of these financial statements, it has no reason to believe that the economic impact of the COVID-19 pandemic will have a material impact on future results, cash flows and financial position.

Thus far, the Bank has observed an increased demand for loan moratoria which have been extended to March 31, 2021. However, the Bank's liquidity remains stable, with adequate reserves and retained earnings.

Based on its assessment of the impact of the COVID-19 pandemic for the year ended September 30, 2020 and beyond, and taking into account the uncertainties that exist as of the date of issuance of these financial statements, management has concluded that it does not consider the impact to cast significant doubt on the Bank's ability to continue as a going concern.

36 Events after the reporting period

Scotiabank Purchase Agreement

The Bank has reached an agreement with Scotiabank on October 13, 2020 for the purchase of its operations in Antigua and Barbuda. The purchase and sale agreement is subject to regulatory permissions which have not been finalised as of the issuance date of these financial statements.

Scotiabank's operations in Antigua and Barbuda are conducted from two branches with approximately 65 employees.

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