ACB Grenada Bank Ltd.

Financial Statements
September 30, 2022
(Expressed in Eastern Caribbean dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of ACB Grenada Bank Ltd

Opinion

We have audited the accompanying financial statements of **ACB Grenada Bank Ltd** (the "Bank") which comprise the statement of financial position as of **September 30, 2022**, 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, 2022**, 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.

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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
January 5, 2024
St. John's, Antigua

ACB Grenada Bank Ltd.

Statement of Financial Position

As of September 30, 2022

(expressed in Eastern Caribbean dollars)

	Notes	2022 $	2021 $
Assets			
Cash and balances with the Central Bank	8	**167,871,756**	218,278,389
Due from other banks	9	**74,463,213**	5,643,449
Investment securities	13	**33,042,217**	18,229,161
Loans and advances	11	**120,572,255**	118,037,452
Property and equipment	14	**6,570,980**	5,895,229
Right-of-use asset	15	**963,839**	574,639
Deferred tax asset	18	**42,861**	185,801
Income tax recoverable	18	**728,838**	1,075,825
Pension asset	25	**287,418**	1,204,525
Other assets	12	**119,997**	6,151,714
Total Assets		**404,663,374**	375,276,184
Liabilities and Equity			
Liabilities			
Customers' deposits	16	**324,297,255**	294,809,352
Due to parent company	10	**6,180,468**	10,372,920
Provisions and other liabilities	17	**8,175,296**	7,356,516
Lease liabilities	15	**1,260,362**	597,025
Total Liabilities		**339,913,381**	313,135,813
Equity			
Share capital	19	**20,178,995**	20,178,995
Statutory reserve	20	**15,999,563**	15,337,761
Other reserves	21	**3,226,940**	2,047,351
Retained earnings		**25,344,495**	24,576,264
Total Equity		**64,749,993**	62,140,371
Total Liabilities and Equity		**404,663,374**	375,276,184

The accompanying notes are an integral part of these financial statements

Approved for issue by the Board of Directors on January 2, 2024 and signed on its behalf by:

Sharon A Paterson-Edwards **Chairman**   **Director**

Director

ACB Grenada Bank Ltd.

Statement of Comprehensive Income

For the year ended September 30, 2022

(expressed in Eastern Caribbean dollars)

	Notes	2022 $	2021 $
Interest income			
Income from loans and advances		**7,621,754**	7,410,848
Income from securities and from deposits with other banks		**2,851,622**	1,239,410
		10,473,376	8,650,258
Interest expense			
Customers' deposits		**2,332,066**	2,253,679
Interest expense – lease liability		**22,058**	12,769
		2,354,124	2,266,448
Net interest income		**8,119,252**	6,383,810
Other operating income	23	**5,563,554**	7,211,480
Total income		**13,682,806**	13,595,290
General and administrative expenses	24	**9,400,685**	10,600,540
Recovery of credit losses, net	11	**(1,639,096)**	(5,589,049)
Provision for/ (recovery of) other financial assets		**21,811**	(115,198)
Directors' fees & expenses		**145,220**	85,139
Management fees		**900,000**	602,255
Depreciation of property and equipment	14	**403,695**	500,877
Depreciation of right-of-use asset	15	**378,102**	229,641
Total expenses		**9,610,417**	6,314,205
Income before taxation		**4,072,389**	7,281,085
Taxation charge	18	**(763,377)**	(1,211,685)
Net income after taxation		**3,309,012**	6,069,400

The accompanying notes are an integral part of these financial statements

ACB Grenada Bank Ltd.

Statement of Comprehensive Income…*continued*

For the year ended September 30, 2022

(expressed in Eastern Caribbean dollars)

	Notes	2022 $	2021 $
Net income after taxation		**3,309,012**	6,069,400
Other comprehensive income, net of taxes:			
Items that will not be reclassified subsequently to profit or loss, net of tax:			
Remeasurement (loss)/gain on post-retirement benefit liability (net of taxes, $36,417 (2021: $130,717)	25	**(93,642)**	336,131
Remeasurement (loss)/gain on pension liability (net of taxes, $310,396 (2021: $523,466)	25	**(798,165)**	1,346,059
Property revaluation adjustment		**–**	220,413
Net change in unrealised gains on equity securities at fair value through other comprehensive income (net of taxes, $74,829 (2021: $Nil)		**192,417**	–
Other comprehensive (loss)/income for the year, net of taxes		**(699,390)**	1,902,603
Total comprehensive income for the year		**2,609,622**	7,972,003
Basic and diluted earnings per share	22	**0.16**	0.30

The accompanying notes are an integral part of these financial statements

ACB Grenada Bank Ltd.

Statement of Changes in Equity

For the year ended September 30, 2022

(expressed in Eastern Caribbean dollars)

	Share Capital $	Statutory reserve $	Other reserves $	Retained earnings $	Total equity $
Balance as of November 1, 2020	20,178,995	14,123,881	144,748	19,471,162	53,918,786
Net income after taxation for the period	–	–	–	6,069,400	6,069,400
Opening retained Earnings Adjustment	–	–	–	249,582	249,582
Other comprehensive income:					
- Revaluation gain on PPE	–	–	220,413	–	220,413
- Remeasurement of post-retirement benefit obligation	–	–	336,131	–	336,131
- Remeasurement of pension benefit liability	–	–	1,346,059	–	1,346,059
Total Comprehensive income for the period	–	–	1,902,603	–	1,902,603
Transfer to statutory reserve	–	1,213,880	–	(1,213,880)	–
Balance as of September 30, 2021	**20,178,995**	**15,337,761**	**2,047,351**	**24,576,264**	**62,140,371**
Net income after taxation for the year	–	–	–	3,309,012	3,309,012
Other comprehensive income:					
- Change in fair value on equity securities	–	–	192,417	–	192,417
- Remeasurement of post- retirement benefit obligation	–	–	(93,642)	–	(93,642)
- Remeasurement of pension benefit liability	–	–	(798,165)	–	(798,165)
Total comprehensive loss for the year	–	–	(699,390)	–	(699,390)
Reserve for interest recognized on impaired loans	–	–	1,878,979	(1,878,979)	–
Transfer to statutory reserve	–	661,802	–	(661,802)	–
Balance as of September 30, 2022	**20,178,995**	**15,999,563**	**3,226,940**	**25,344,495**	**64,749,993**

The accompanying notes are an integral part of these financial statements

ACB Grenada Bank Ltd.

Statement of Cash Flow

For the year ended September 30, 2022

(expressed in Eastern Caribbean dollars)

	Notes	2022 $	2021 $
Cash flows from operating activities			
Operating income before taxation		**4,072,389**	7,281,085
Items not affecting cash:			
(Recovery of) provision for credit losses		**(1,768,134)**	(5,704,247)
Depreciation	14, 15	**781,797**	730,518
Gains on securities		**615,410**	(490,318)
Impairment loss on investments		**150,848**	–
Retirement benefit contribution	25	**(158,872)**	(58,946)
Retirement benefit expenses		**–**	30,825
Pension income	25	**(162,640)**	(316,794)
Property, plant and equipment revaluation		**–**	(220,413)
Loss on disposal of property and equipment		**–**	123,724
Interest expense		**2,354,124**	–
Interest income		**(10,473,377)**	–
Income tax expense		**546,873**	1,211,685
Cash flows (used in)/from operating activities before changes in operating assets and liabilities		**(4,041,582)**	2,587,119
Change in statutory deposit with the Central Bank		**(1,769,274)**	(8,062,000)
Change in loans and advances		**(262,026)**	9,457,937
Change in other assets and other receivables		**4,717,543**	1,435,306
Change in lease liability		**641,280**	–
Change in deposits due to customers		**29,812,488**	(1,239,609)
Change in due to parent company		**(4,192,452)**	10,372,920
Changes in due from banks		**(5,437,260)**	(2,984,171)
Change in provisions and other liabilities		**1,287,088**	(2,428,235)
Cash flows from operating activities before interest		**20,735,805**	9,139,267
Interest received		**9,394,476**	10,131,063
Interest paid		**(2,656,651)**	(2,601,794)
Taxes paid		**–**	(865,825)
Payment of lease liabilities		**(468,309)**	(92,922)
Pension contributions, net		**–**	58,946
Net cash flows from operating activities		**27,025,321**	15,768,735

The accompanying notes are an integral part of these financial statements

ACB Grenada Bank Ltd.

Statement of Cash Flow…*continued*

For the year ended September 30, 2022

(expressed in Eastern Caribbean dollars)

	Notes	2022 $	2021 $
Cash flows from investing activities			
Purchase of property and equipment	14	**(1,079,447)**	–
Purchase and redemption of investment securities (net)		**(14,795,227)**	(217,389)
Net cash flows used in investing activities		**(15,874,674)**	(217,389)
Net increase in cash and cash equivalents		**11,150,647**	15,551,346
Cash and cash equivalents, beginning of year		**191,971,662**	176,420,316
Cash and cash equivalents, end of year	27	**203,122,309**	191,971,662

The accompanying notes are an integral part of these financial statements

(expressed in Eastern Caribbean dollars)

1 Nature of operations

The principal activity of ACB Grenada Bank Ltd. (the "Bank"), is the provision of commercial banking services. The Bank is licensed to carry on banking business in Grenada in accordance with the Grenada Banking Act No. 20 of 2015 (the "Banking Act") and is regulated by the Eastern Caribbean Central Bank (ECCB).

The Bank is a 62.08% subsidiary of Antigua Commercial Bank Ltd. t/a ACB Caribbean ("parent company"), a company incorporated in Antigua and Barbuda.

2 General information and statement of compliance with IFRS

ACB Grenada Bank Ltd. was incorporated on January 19, 1983, under the laws of Grenada. Its principal activities are commercial and retail banking operations. The address of its registered office is Grand Anse, St. George, Grenada.

Statement of compliance

ACB Grenada Bank Ltd.'s financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as of September 30, 2022 (the reporting date).

Basis of preparation

The financial statements have been prepared under the historical cost convention, except for the following material items that are measured at fair value in the separate statement of financial position, and in accordance with the going concern assumption:

- Financial assets measured at fair value through profit or loss
- Financial assets designated at fair value through profit or loss
- Equity instruments designated at fair value through other comprehensive income
- Debt instruments measured at fair value through other comprehensive income
- Investment property and certain classes of property and equipment are measured at market value less accumulated depreciation.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 7.

(expressed in Eastern Caribbean dollars)

3 Changes in accounting policies

3.1 Changes in accounting policies

New standards and amendments effective for the financial year beginning October 1, 2021

Standards and amendments that are effective for the first time on October 1, 2021 are as follows:

- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IFRS 16)
- Annual Improvement to IFRS Standards 2018-2022 (Amendments to IFRS 7, IFRS 9, IFRS 16, IAS 41)
- Onerous Contracts – Cost of fulfilling a contract (Amendments to IAS 37)

These amendments do not have a material impact on these separate financial statements and therefore the disclosures have not been made.

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

At the date of authorisation of these 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 relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. These standards are not expected to have a material impact on the Bank's separate financial statements in future reporting periods and on foreseeable future transactions.

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. These policies have been consistently applied to all years presented, unless otherwise stated.

Certain comparative amounts in the financial statements have been reclassified or re-presented, as a result of the acquisition of a 62.08% shareholding by Antigua Commercial Bank Ltd. t/a ACB Caribbean, to ensure consistent presentation and measurement within the Bank.

4.2 Cash and cash equivalents

Cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. Such investments are normally those with original maturities up to three months from the date of acquisition.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.3 Financial instruments

Recognition, initial measurement and derecognition

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

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

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

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

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

Classification and subsequent measurement of financial assets

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

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

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

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

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.3 Financial instruments…*continued*

Classification and subsequent measurement of financial assets…*continued*

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

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

– The stated policies and objectives for the portfolio and the operation of those policies in practice;

– How performance of the business model and the financial assets held within the model are evaluated and reported to key management personnel;

– How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);

– The frequency and significance of past sales activity, the reason for those sales as well as expectations about future sales; and

– The significant risks affecting the performance of the business model for example, market risk and credit risk and the activities undertaken to manage those risks.

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

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.3 Financial instruments…*continued*

Classification and subsequent measurement of financial assets…*continued*

Business models - Applicability to the Bank

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

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

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

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

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

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

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

Reclassifications

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.3 Financial instruments…*continued*

Classification and subsequent measurement of financial assets…*continued*

Debt instruments measured at amortised cost

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

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

Debt instruments measured at Fair Value through Other Comprehensive Income (FVOCI)

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

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

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

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

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

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.3 Financial instruments…*continued*

Classification and subsequent measurement of financial assets…*continued*

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

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

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

The Bank has certain investments in this category.

Equity instruments measured at FVTPL

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

The Bank has certain equity investments in this category.

Equity instruments measured at FVOCI (designated)

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

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

The Bank has certain equity investments in this category.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.3 Financial instruments…*continued*

Significant increase in credit risk (SICR)

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

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

- Changes in market or general economic conditions;
- Actual and/or expected potential breaches to contract terms and conditions;
- Actual and/or expected delays in payment;
- Deterioration in credit ratings; or
- Significant changes in operating results or financial position of the borrower.

Backstop

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

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

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.3 Financial instruments…*continued*

Impairment of financial assets

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

Credit impaired financial assets

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

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

– Significant financial difficulty of the borrower or issuer, including an inability to satisfy the debt because of decreased or no cash flow (negative debt service ratio), inability to work or where the customer is unemployed in excess of 6 months;

– A breach of contract such as a default or past due event, including a history of chronic arrears;

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.3 Financial instruments…*continued*

Impairment of financial assets…*continued*

- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise, or if a loan has been restructured more than three times in five years;
- Measurable decrease in the estimated future cash flows from the underlying assets that secure the loan;
- Default or delinquency in interest or principal payments;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been re-negotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Default

In addition, the Bank considers that default has occurred and classifies a retail loan as credit impaired when it is more than 90 days past due.

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.3 Financial instruments…*continued*

Impairment of financial assets…*continued*

Measurement of ECL

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

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

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

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

– Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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

- Probability of Default (PD) - This is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognised and is still in the portfolio.

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

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

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

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.3 Financial instruments…*continued*

Impairment of financial assets…*continued*

Measurement of ECL…*continued*

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

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

The Bank applied experienced judgement in selecting macroeconomic factors that would most likely impact credit risk and leveraged various third party macroeconomic forecasts when determining the forward looking factors. The macro-economic projections considered by the Bank were:

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

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

Restructured financial assets

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

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

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.3 Financial instruments…*continued*

Impairment of financial assets…*continued*

Restructured financial assets…*continued*

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

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

Expected life

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

Presentation of allowance for ECL

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

– Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

– Loan commitments and financial guarantee contracts: generally, as a provision; and

– Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

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

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.3 Financial instruments…*continued*

Derecognition of financial assets

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

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities include customers' deposits, acceptances, guarantees and letters of credit, provisions, and other liabilities and lease liabilities.

Derecognition of financial liabilities

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

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

Offsetting financial instruments

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

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

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.

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Bank is virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.5 Property and equipment and depreciation

Property and equipment are stated at historical cost or revalued amount, less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on the straight-line method at rates estimated to write down the cost or valuation of such assets to their residual values over their estimated useful lives, as follows:

Building	40 years
Leasehold improvements	10 years
Equipment	10 years
Furniture & fixtures	6 ⅔ years
Computer equipment	5 years
Motor vehicles	5 years

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Repairs and maintenance are charged to profit or loss when the expenditure is incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Property and equipment are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised within "other operating income" in profit or loss.

Revaluations of property and equipment are carried out every 3 to 5 years based on independent valuations.

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

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.6 Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment losses are recognised in profit or loss.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.7 Dividends on ordinary shares and dividend income

Dividends on ordinary shares are recognised in equity in the period in which they are approved by shareholders. Dividends for the year which are approved after the reporting date are disclosed as a subsequent event (note 28).

Dividend income is recognised in "other operating income" in the statement of comprehensive income when the entity's right to receive payment is established.

4.8 Interest income and expense

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

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

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.8 Interest income and expense…*continued*

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

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

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

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

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

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

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

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

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

– financial liabilities measured at amortised cost; and
– interest expense on lease liabilities.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.9 Fee and commission income and revenue recognition

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

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

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

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

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

4.10 Foreign currency translation

Functional and presentation currency
The 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.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.11 Post-employment benefits

The Bank provides post-employment benefits through a defined benefit plan. Under this plan, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The legal obligation for any benefits remains with the Bank, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

The liability recognised in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the reporting date less the fair value of plan assets. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out every three (3) years.

Management estimates the DBO annually with the assistance of independent actuaries. This is based on assumed rates of inflation, medical cost trends and mortality. It also takes into account the Bank's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Service cost on the Bank's defined benefit plan is included in employee benefits expense. Employee contributions, all of which are independent of the number of years of service, are treated as a reduction of service cost. Net interest expense on the net defined benefit liability is included in salaries and related costs in profit or loss. Actuarial gains and losses resulting from re-measurements of the net defined benefit liability are included in other comprehensive income.

The administration of the plan is conducted by a Board of Trustees which is comprised of seven (7) members, four (4) of whom represent the Bank and three (3) represent the employees.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.12 Leased assets

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

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

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

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

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

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

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.12 Leased assets…*continued*

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

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

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

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

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

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

4.13 Repurchase agreements

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.14 Current and deferred income taxes

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

Current tax
Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. The 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 tax
Deferred income taxes are calculated on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

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

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the 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 are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

4.15 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.16 Equity and reserves

Stated capital represents the issue price multiplied by the number of shares that have been issued. Any transaction costs associated with the issuing of shares are shown in equity as a deduction, net of any related income tax benefits.

Other components of equity include the following:

- Regulatory reserve for loan loss – additional provision as required by the Eastern Caribbean Central Bank and interest on loans not recognised for regulatory purposes;
- Pension reserve – comprises a reserve equivalent to the calculated pension plan asset;
- Revaluation reserve: property – comprises unrealised gains and losses from the revaluation of land and buildings;
- Revaluation reserve for FVOCI financial assets – comprises unrealised gains and losses from changes in the fair value of these types of financial instruments; and
- Retained earnings – includes all current and prior period retained profits or losses.

See note 21 for details on each component of other reserves.

4.17 Financial guarantees and loan commitments

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

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

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

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

(expressed in Eastern Caribbean dollars)

4 Summary of significant accounting policies…*continued*

4.18 Events after the financial reporting date

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

5 Financial risk management

Risk management framework

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

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

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

5.1 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 enhancements provided, such as financial guarantees and letters of credit. The Bank is also exposed to other credit risks arising from investments in debt securities.

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.1 Credit risk…*continued*

5.1.1 Credit risk management

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

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

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

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

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

- *Developing and maintaining the Bank's processes for measuring ECL*: This includes processes for:

- initial approval, regular validation and back-testing of the models used;

- determining and monitoring significant increase in credit risk; and

- incorporation of forward-looking information.

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

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

Regular audits of credit processes are undertaken by Internal Audit.

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.1 Credit risk…*continued*

5.1.1 Credit risk management…*continued*

(a) Loans and advances

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of the counterparty. These have been developed based on the Eastern Caribbean Central Bank guidelines. Customers of the 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. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are reviewed and upgraded as necessary.

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

(b) Debt securities and other bills

The Bank's portfolio of debt securities consists of Government of St. Lucia, Government of Grenada, and Government of Trinidad and Tobago as well as other debt obligations by regional banking and financial institutions; of these the Government of Grenada are unrated. The Bank assesses the risk of default on these obligations by regularly monitoring the performance of the Governments through published government data, information received directly from government departments and information published by international agencies such as the International Monetary Fund (IMF) and the World Bank. The risk of default on regional corporate debt is assessed by continuous monitoring of the performance of these companies through published financial information, and other data gleaned from various sources.

(c) Credit card receivables

The risk related to the Bank's credit card portfolio is significantly covered by the interest charged to customers at a rate of 15% per annum. Historically, the risk of loss has been on average less than 1% per annum over the past eight years. The portfolio is closely monitored by a third party and the Bank on a daily basis to minimize the risk of default.

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.1 Credit risk…*continued*

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 an annual or more frequent review by the Board of Directors.

The exposure to any one borrower, including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposure. Actual exposures against limits are monitored on an ongoing basis. Cash deposits with other banks and short-term investments are placed with reputable regional and international financial institutions and Governments.

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

The following specific control and mitigation measures are also utilised:

(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 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:

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

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

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

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.1 Credit risk…*continued*

5.1.2 Risk limit control and mitigation policies…*continued*

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

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the 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 shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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 (often referred to as financial covenants).

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.

5.1.3 Impairment and provisioning policies

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

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

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

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

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

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.1 Credit risk…*continued*

5.1.3 Impairment and provisioning policies…*continued*

The loan impairment provision shown in the statement of financial position at year end is derived from each of the five rating grades. However, the majority of the impairment provision comes from the substandard, doubtful and loss grades.

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

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

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

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.1 Credit risk…*continued*

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

	Maximum Exposure	
	2022	**2021**
	$	**$**
Credit risk exposures relating to on-balance sheet assets		
Cash and balances with the Central Bank	**167,871,756**	218,278,389
Due from other banks	**74,463,213**	5,643,449
Loans and advances to customers	**120,572,255**	118,037,452
Investment securities		
Amortised cost	**20,829,566**	5,668,346
FVTPL	**10,673,665**	11,289,075
Other assets	**–**	6,095,158
	394,410,455	365,011,869
Credit risk exposures relating to off-balance sheet assets		
Loan commitments and other credit related obligations	**6,669,442**	9,163,319
As of September 30	**401,079,897**	374,175,188

The above table represents a worse-case scenario of credit risk exposure to the Bank as of September 30, 2022 and September 30, 2021, 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.

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 portfolios and debt securities based on the fact that business loans, which represents the biggest group in the portfolio, are backed by collateral.

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.1.5 Debt securities

	Amortised cost $	FVTPL Debt Securities $	Total $
As of September 30, 2022			
Rated	16,926,512	–	16,926,512
Unrated	3,903,054	10,673,665	14,576,719
	20,829,566	**10,673,665**	**31,503,231**

	Amortised Cost $	FVTPL Debt Securities $	Total $
As of September 30, 2021			
Rated	–	–	–
Unrated	5,668,346	11,289,075	16,957,421
	5,668,346	**11,289,075**	**16,957,421**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.1.6 Concentration of risks of financial assets with credit risk exposure

(a) *Geographical concentration of assets and off-balance sheet items*
The Bank's exposure to credit risk is concentrated as detailed below. Grenada is the home country of the Bank where the predominant activity is commercial banking services.

As a major indigenous bank in Grenada, the Bank accounts for a significant share of credit exposure to many sectors of the economy. However, credit risk is spread over a diversity of personal and commercial customers.

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

	Grenada $	Other Caribbean $	Non-Caribbean $	Total $
2022:				
Credit risk exposures relating to on-balance sheet assets:				
Cash and balances with the Central Bank	7,731,572	160,140,184	–	167,871,756
Due from other banks	920,296	63,437,696	10,105,221	74,463,213
Investment securities:				
Amortised cost	3,903,054	16,926,512	–	20,829,566
FVTPL - Bonds	10,673,665	–	–	10,673,665
Loans and advances	107,402,780	13,169,475	–	120,572,255
	130,631,367	**253,673,867**	**10,105,221**	**394,410,455**
Credit risk exposures relating to off-balance sheet assets:				
Loan commitments and other credit related facilities	6,669,442	–	–	6,669,442
September 30, 2022	**137,300,809**	**253,673,867**	**10,105,221**	**401,079,897**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

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

(a) Geographical concentration of assets and off-balance sheet items…continued

	Grenada $	Other Caribbean $	Non-Caribbean $	Total $
2021:				
Credit risk exposures relating to on-balance sheet assets:				
Cash and balances with the Central Bank	7,954,742	210,323,647	–	218,278,389
Due from other banks	(1,151,125)	(10,854,422)	17,648,996	5,643,449
Investment securities:				
Amortised cost	5,668,346	–	–	5,668,346
FVTPL - Bonds	11,289,075	–	–	11,289,075
Loans and advances	118,037,452	–	–	118,037,452
Other assets	6,095,158	–	–	6,095,158
	147,893,648	**199,469,225**	**17,648,996**	**365,011,869**
Credit risk exposures relating to off-balance sheet assets:				
Loan commitments and other credit related facilities	9,163,319	–	–	9,163,319
September 30, 2021	**157,056,967**	**199,469,225**	**17,648,996**	**374,175,188**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

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

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

The following table breaks down the Bank's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Bank's counterparties.

	Financial institutions $'000	Tourism $'000	Real estate $'000	Wholesale and retail trade $'000	Public sector $'000	Other industries $'000	Individuals $'000	Total $'000
Cash and balances with the Central Bank	167,872	–	–	–	–	–	–	167,872
Due from other banks	74,463	–	–	–	–	–	–	74,463
Loans and advances to customers	–	4,976	28,525	8,127	13,234	40,873	24,837	120,572
Investment securities:								
- Amortised cost	4,254	–	–	–	16,576	–	–	20,830
- FVTPL – Bonds	–	–	–	–	10,674	–	–	10,674
As of September 30, 2022	**246,589**	**4,976**	**28,525**	**8,127**	**40,484**	**40,873**	**24,837**	**394,411**
Loan commitments and other credit related obligations	–	–	–	–	1,680	4,989	–	6,669
As of September 30, 2022	**246,589**	**4,976**	**28,525**	**8,127**	**42,164**	**45,862**	**24,837**	**401,080**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.1 Credit risk…*continued*

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

(b) Industry risk concentration of assets and off-balance sheet items…continued

The following table breaks down the Bank's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Bank's counterparties.

	Financial institutions $'000	Tourism $'000	Real estate $'000	Wholesale and retail trade $'000	Public sector $'000	Other industries $'000	Individuals $'000	Total $'000
Cash and balances with the Central Bank	218,278	–	–	–	–	–	–	218,278
Due from other banks	5,643	–	–	–	–	–	–	5,643
Loans and advances to customers	–	392	14,071	5,821	–	78,698	19,056	118,038
Investment securities:								
- Amortised cost	–	–	–	–	5,668	–	–	5,668
- FVTPL - Bonds	–	–	–	–	11,289	–	–	11,289
Other assets	–	–	–	–	–	6,095	–	6,095
As of September 30, 2021	**223,921**	**392**	**14,071**	**5,821**	**16,957**	**84,793**	**19,056**	**365,011**
Loan commitments and other credit related obligations	–	–	–	–	1,418	7,746	–	9,164
As of September 30, 2021	**223,921**	**392**	**14,071**	**5,821**	**18,375**	**92,539**	**19,056**	**374,175**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.2 Market risk

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

Non trading portfolio market risks primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non trading portfolio market risks also include foreign exchange risks and risks associated with the change in equity prices arising from the Bank's FVOCI investment securities.

5.2.1 Price risk

The Bank's investment portfolio includes securities that are quoted on the Eastern Caribbean Securities Exchange. The Bank is exposed to equities price risk because of investments held and classified on the statement of financial position as FVOCI. To manage this price risk arising from investments in equity securities, the Bank diversifies its portfolio. The Bank does not hold securities that are quoted on the world's major securities markets.

5.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The 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.

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

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.2 Market risk…*continued*

5.2.2 Interest rate risk…*continued*

The table below summarizes the Bank's exposure to interest rate repricing risk. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity date.

	Up to 1 Year $	1 – 5 years $	Over 5 Years $	Non-Interest Bearing	Total $
As of September 30, 2022					
Assets					
Cash and balances with Central Bank	–	–	–	167,871,756	167,871,756
Loans and advances	12,213,372	11,975,271	96,383,612	–	120,572,255
Investment Securities					
- Amortised cost	–	11,328,080	9,501,486	–	20,829,566
- FVTPL – Bonds	–	336,090	10,337,575	–	10,673,665
Due from other banks	5,493,210	–	–	68,970,003	74,463,213
Total financial assets	**17,706,582**	**23,639,441**	**116,222,673**	**236,841,759**	**394,410,455**
Liabilities					
Customers' deposits	184,059,600	136,203	–	140,101,452	324,297,255
Due to parent company	–	–	–	6,180,468	6,180,468
Provision and other liabilities	–	–	–	8,175,296	8,175,296
Lease liabilities	–	–	–	1,260,362	1,260,362
Total financial liabilities	**184,059,600**	**136,203**	**–**	**155,717,578**	**339,913,381**
Total interest repricing gap	**(166,353,018)**	**23,503,238**	**116,222,673**	**81,124,181**	**54,497,074**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.2 Market risk…*continued*

5.2.2 Interest rate risk…*continued*

	Up to 1 Year $	1 – 5 years $	Over 5 Years $	Non-Interest Bearing $	Total $
As of September 30, 2021					
Assets					
Cash and balances with Central Bank	–	–	–	218,278,389	218,278,389
Loans and advances	5,017,923	17,065,328	95,954,201	–	118,037,452
Investment Securities					
- Amortised cost	–	–	5,668,346	–	5,668,346
- FVTPL – Bonds	–	–	11,289,075	–	11,289,075
Due from other banks	–	–	–	5,643,449	5,643,449
Other assets	–	–	–	6,095,158	6,095,158
Total financial assets	**5,017,923**	**17,065,328**	**112,911,622**	**230,016,996**	**365,011,869**
Liabilities					
Customers' deposits	180,753,002	27,532	–	114,028,818	294,809,352
Due to parent company	–	–	–	10,372,920	10,372,920
Provision and other liabilities	–	–	–	7,356,516	7,356,516
Lease liabilities	–	–	–	597,025	597,025
Total financial liabilities	**180,753,002**	**27,532**	**–**	**132,355,279**	**313,135,813**
Total interest repricing gap	**(175,735,079)**	**17,037,796**	**112,911,622**	**97,661,717**	**51,876,056**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.2 Market risk…*continued*

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

	XCD $	USD $	GBP $	Other $	Total $
As of September 30, 2022					
Assets:					
Cash and balances with Central Bank	167,242,192	469,684	55,410	104,470	167,871,756
Due from other banks	58,864,782	15,595,750	1,884	797	74,463,213
Loans and advances	117,064,626	3,507,629	–	–	120,572,255
Investment securities:					
- Amortised Cost	11,697,212	9,132,354	–	–	20,829,566
- FVTPL	10,673,665	–	–	–	10,673,665
Total financial assets	**365,542,477**	**28,705,417**	**57,294**	**105,267**	**394,410,455**
Liabilities					
Customers' deposits	295,507,343	28,789,912	–	–	324,297,255
Due to parent company	6,180,468	–	–	–	6,180,468
Provision and other liabilities	8,175,296	–	–	–	8,175,296
Lease liabilities	1,260,362	–	–	–	1,260,362
Total financial Liabilities	**311,123,469**	**28,789,912**	**–**	–	**339,913,381**
Net on-balance sheet position	**54,419,008**	**(84,495)**	**57,294**	**105,267**	**54,497,074**
Credit commitments	**12,442,290**	**–**	**–**	**–**	**12,442,290**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.1 Market risk…*continued*

5.2.3 Foreign exchange risk

	XCD $	USD $	GBP $	Other $	Total $
As of September 30, 2021					
Assets:					
Cash and balances with Central Bank	218,278,389	–	–	–	218,278,389
Deposits from other banks	(12,005,545)	17,648,994	–	–	5,643,449
Loans and advances	118,037,452	–	–	–	118,037,452
Investment securities:					
- Amortised Cost	5,668,346	–	–	–	5,668,346
- FVTPL	11,289,075	–	–	–	11,289,075
Other assets	6,095,158	–	–	–	6,095,158
Total financial assets	**347,362,875**	**17,648,994**	**–**	**–**	**365,011,869**
Liabilities					
Customers' deposits	290,329,793	4,479,559	–	–	294,809,352
Due to parent company	10,372,920	–	–	–	10,372,920
Provision and other liabilities	7,356,516	–	–	–	7,356,516
Lease liabilities	597,025	–	–	–	597,025
Total financial Liabilities	**308,656,254**	**4,479,559**	**–**	**–**	**313,135,813**
Net on-balance sheet position	**38,706,621**	**13,169,435**	**–**	**–**	**51,876,056**
Credit commitments	**18,833,056**	**–**	**–**	**–**	**18,833,056**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations associated with its financial liabilities when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the 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.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts and maturing deposits. Management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

5.3.1 Liquidity risk management process

The Bank's liquidity risk management processes are carried out by the Bank's senior management and monitored by the finance team and include the following:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in regional markets to enable this to happen; maintaining the liquidity ratios of the statement of financial position against internal and regulatory requirements; and managing the concentration and profile of debt maturities.

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

(expressed in Eastern Caribbean dollars)

5. Financial risk management…*continued*

5.3 Liquidity risk…*continued*

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. The Bank holds a diversified portfolio of cash, loans and investment securities to support payment obligations and contingent funding in a stressed market environment.

The Bank's assets held for managing liquidity risk include the following:

- Cash and balances with the Central bank;
- Deposits with other banks;
- Loans and advances to customers;
- Treasury bill;
- Investment securities;
- Acceptances, guarantees and letters or credit; and
- Other assets.

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.3 Liquidity risk…*continued*

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

The table below presents the cash flows of the Bank under non-derivative financial liabilities by the remaining contractual maturities at the reporting date.

	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
As of September 30, 2022						
Liabilities						
Customers' deposits	303,028,845	4,450,246	16,753,294	136,283	–	324,368,668
Due to parent company	6,180,468	–	–	–	–	6,180,468
Total Liabilities (contractual maturity dates)	**309,209,313**	**4,450,246**	**16,753,294**	**136,283**	**–**	**330,549,136**

	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
As of September 30, 2021						
Liabilities						
Customers' deposits	271,496,170	6,252,285	17,060,176	27,557	–	294,836,188
Due to parent company	10,372,920	–	–	–	–	10,372,920
Total Liabilities (contractual maturity dates)	**281,869,090**	**6,252,285**	**17,060,176**	**27,557**	–	**305,209,108**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.3 Liquidity risk…*continued*

5.4 Off-balance sheet items

(a) *Loan commitments, financial guarantees and other financial facilities*

The contractual amounts of the Bank's off-balance sheet financial instruments that it commits to extend to customers and other facilities are summarised in note 26.

	Up to 1 year	1 – 5 years	Over 5 years	Total
As of September 30, 2022				
Guarantees, acceptances and letters of credit	5,772,848	–	–	5,772,848
Loan commitments and other credit related obligations	6,669,442	–	–	6,669,442
Total credit commitments	**12,442,290**	–	–	**12,442,290**
As of September 30, 2021				
Guarantees, acceptances and letters of credit	9,669,737	–	–	9,669,737
Loan commitments and other credit related obligations	9,163,319	–	–	9,163,319
Total credit commitments	**18,833,056**	–	–	**18,833,056**

(b) Capital commitments

There were no capital commitments for the acquisition of buildings and equipment at the financial year end (2021: $Nil).

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.5 Fair values of financial assets and liabilities

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists.

The Bank's financial instruments include cash resources, securities, loans, other assets, customer deposits and other liabilities. The fair values of financial instruments are considered to approximate their book values with the exception of loans. The following comments are relevant to their fair value.

Cash on hand and due from banks and balances with Eastern Caribbean Central Bank

Since these assets are short-term in nature, i.e., with original maturity periods under 90 days, the carrying values are estimated to approximate their realisable value.

Investment securities

Fair value is based on quoted market values. The fair value of securities that do not have a quoted market price in an active market is determined by management using an appropriate valuation method.

Loans and advances

Loans are stated net of specific provision for impairment. These assets result from transactions conducted under typical market conditions and their values are not adversely affected by unusual terms. The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine initial loans values are taken as indicative of fair values; and where observed values are different adjustments would be made.

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

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

Due to banks, customers' deposits, due to associates and affiliated companies and other liabilities

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

Deposits with fixed rate characteristics are at rates that are not significantly different from current rates and are assumed to have discounted cash flow values that approximate the carrying value.

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

	Carrying value		Fair value	
	2022 $	2021 $	2022 $	2021 $
Financial assets				
Cash and balances with the Central Bank	167,871,756	218,278,389	167,871,756	218,278,389
Due from other banks	74,463,213	5,643,449	74,463,213	5,643,449
Loans and advances	120,572,255	118,037,452	131,739,615	117,240,409
Investment securities	33,042,217	18,229,161	33,042,217	18,099,200
Other assets	119,996	6,095,158	119,996	6,095,158
	396,069,437	**366,283,609**	**407,236,797**	**365,356,605**
Financial liabilities				
Deposits due to customers	324,297,255	294,809,352	324,297,255	294,809,352
Lease liabilities	1,260,362	597,025	1,260,362	597,025
Provisions and other liabilities	8,175,296	7,356,516	8,175,296	7,356,516
Due to parent company	6,180,468	10,372,920	6,180,468	10,372,920
	339,913,381	**313,135,813**	**339,913,381**	**313,135,813**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

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

5.5.1 Fair value hierarchy

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

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

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

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

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

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

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

5.5.1 Fair value hierarchy…*continued*

The following fair value hierarchy table presents fair values of financial assets and liabilities that are carried at amortised cost, and therefore excludes financial instruments that are measured and disclosed at fair value on a recurring basis.

	Level 1 $	Level 2 $	Level 3 $	Total $
As of September 30, 2022				
Financial Assets				
Investment Securities:				
FVTPL	–	10,673,665	–	10,673,665
FVOCI – unquoted	–	–	1,538,986	1,538,986
Total Assets	**–**	**10,673,665**	**1,538,986**	**12,212,651**

	Level 1 $	Level 2 $	Level 3 $	Total $
As of September 30, 2021				
Financial Assets				
Investment Securities:				
FVTPL	–	11,289,075	–	11,289,075
FVOCI – unquoted	–	–	1,271,740	1,271,740
Total Assets	**–**	**11,289,075**	**1,271,740**	**12,560,815**

There were no significant transfers between Level 1, 2 and 3 in the respective periods.

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

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

5.5.1 Fair value hierarchy…*continued*

Level 3 fair value measurements

Unobservable inputs used in measuring fair values

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

5.5.2 Financial instruments not measured at fair value

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

	Level 2 $'000	Total fair Values $'000	Total Carrying Amount $'000
September 30, 2022			
Assets			
Cash and balances with the Central Bank	167,872	167,872	167,872
Due from other banks	74,463	74,463	74,463
Loans and advances	131,740	131,740	120,572
Amortised cost investment securities	20,830	20,830	20,830
	394,905	**394,905**	**383,737**
Liabilities			
Customers' deposits	**324,297**	**324,297**	**324,297**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

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

5.5.2 Financial instruments not measured at fair value…*continued*

	Level 2 $'000	Total fair Values $'000	Total Carrying Amount $'000
September 30, 2021			
Assets			
Cash and balances with the Central Bank	218,278	218,278	218,278
Due from other banks	5,643	5,643	5,643
Loans and advances	117,240	117,240	118,037
Amortised cost investment securities	5,668	5,668	5,668
	324,829	**324,829**	**347,626**
Liabilities			
Deposits due to customers	**294,809**	**294,809**	**294,809**

Financial assets classified as fair value through profit or loss

For financial assets classified as FVTPL, the Bank measures the change in fair value attributable to changes in credit risk, as the difference between the total change in the fair value of the instrument during the period and the change in fair value calculated using the appropriate risk-free yield curves.

There were no significant changes in the fair value of the financial assets classified as FVTPL attributable to changes in credit risk during the period ended September 30, 2022 (September 30, 2021 – NIL), and cumulatively since initial recognition of the assets.

Net gains from financial instruments classified as fair value through profit or loss

Financial instruments classified as FVTPL, are measured at fair value with realised and unrealised gains and losses recognised in non-interest income.

	2022 $	2021 $
Government and state-owned enterprises debt	**68,919**	490,317
Money market instruments	**–**	–
Net gains for financial instruments classified as fair value through profit or loss	**68,919**	490,317

For the year ended September 30, 2022, $68,919 of net fair value gains on financial assets classified as FVTPL, were included in non-interest income (2021: $490,317).

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.6 Financial assets and liabilities by category

	Amortised Cost $	FVTPL $	FVOCI $	Total $
As of September 30, 2022				
Assets				
Due from other banks and other financial institutions	74,463,213	–	–	74,463,213
Investment securities	20,829,566	10,673,665	1,538,986	33,042,217
Loans and advances	120,572,255	–	–	120,572,255
Other financial assets	119,997	–	–	119,997
Total financial assets	**215,985,031**	**10,673,665**	**1,538,986**	**228,197,682**

	Financial liabilities at amortised cost	Total
Liabilities		
Customers' deposits	324,297,255	324,297,255
Other liabilities and accrued expenses	8,175,296	8,175,296
Total financial liabilities	**332,472,551**	**332,472,551**

	Amortised Cost $	FVTPL $	FVOCI $	Total $
As of September 30, 2021				
Assets				
Due from other banks and other financial institutions	5,643,449	–	–	5,643,449
Investment securities	5,668,346	11,289,075	1,271,740	18,229,161
Loans and advances	118,037,452	–	–	118,037,452
Other financial assets	6,095,158	–	–	6,095,158
Total financial assets	**135,444,405**	**11,289,075**	**1,271,740**	**148,005,220**

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.6 Financial assets and liabilities by category…*continued*

	Financial liabilities	Total
Liabilities		
Customers' deposits	294,809,352	294,809,352
Other liabilities and accrued expenses	7,356,516	7,356,516
Total financial liabilities	**302,165,868**	**302,165,868**

5.7 Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

(expressed in Eastern Caribbean dollars)

5 Financial risk management…*continued*

5.7 Operational risk…*continued*

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

– development of contingency plans;

– training and professional development;

– ethical and business standards;

– information technology and cyber risks; and

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

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

6 Capital management policies and procedures

Capital management is a proactive process that ensures that the Bank has and remains able to generate or raise sufficient capital on a timely and cost-effective basis to underpin its risks and ultimately protect depositors and other creditors from unexpected losses.

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the Statement of Financial Position, are:

- To comply with the capital requirements set by the Eastern Caribbean Central Bank (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.

In accordance with the Banking Act, the Bank is required to maintain a minimum paid up share capital of $20 million and a total regulatory capital to adjusted risk-weighted assets ratio of 8%.

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

(expressed in Eastern Caribbean dollars)

6 Capital management policies and procedures…*continued*

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

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

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

The table below summarizes the composition of regulatory capital and the ratios of the Bank as of September 30, 2022 and September 30, 2021. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subjected.

	2022 **$**	**2021** **$**
Tier 1 Capital		
Share capital	**20,178,995**	20,178,995
Statutory reserve	**15,999,563**	15,337,761
General banking and other reserves	**513,765**	1,405,572
Retained earnings	**25,344,495**	24,576,264
Total qualifying Tier 1 Capital	**62,036,818**	61,498,592
Tier 2 Capital		
Revaluation reserve: FVOCI investments	**834,196**	641,779
Reserve for loan loss	**1,878,979**	–
Total qualifying Tier 2 Capital	**2,713,175**	641,779
Total regulatory capital	**64,749,993**	62,140,371
Risk-weighted assets		
On-statement of financial position	**102,081,000**	112,867,000
Off-statement of financial position	**12,442,290**	18,833,056
Total risk-weighted assets	**114,523,290**	131,700,056
Basel ratio	**56.5%**	47.2%

(expressed in Eastern Caribbean dollars)

7 Significant management judgement in applying accounting policies and estimation uncertainty

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

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

(a) *Impairment losses on loans and advances*

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

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

- The Bank's criteria for determining if there has been a significant increase in credit risk and hence whether impairment allowances for financial assets should be measured on a lifetime expected credit loss (ECL) basis.

- Choosing appropriate models and assumptions for the measurement of expected credit losses, including post model adjustments.

- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.

- Establishing the number and relative weightings of forward-looking macroeconomic scenarios for each type of product or market and the associated ECL.

- Establishing groups of similar financial assets for the purposes of measuring ECL.

To the extent that the net present value of estimated cash flows differs by +/-10%, the provision would be estimated $462,848 lower (2021: $192,895 lower) or $621,635 higher (2021: $288,318 higher).

Incorporation of forward-looking information

The Bank incorporates forward-looking information into the measurement of expected credit losses (ECL) through a scorecard model. The model is applied for each segment of the portfolio: Personal Loans, Commercial Loans, Mortgages, Overdrafts and Credit Cards.

(expressed in Eastern Caribbean dollars)

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

(a) Impairment losses on loans and advances…continued

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

- GDP
- Inflation
- Unemployment Rate
- Lending rates

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

The Bank estimates the macroeconomic outlook over a twelve-month forecast period. Where forecasts were not available, a zero change was applied.

(b) Classification of financial assets

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

(c) Estimate of pension benefits

Management's estimate of the defined benefit obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expenses.

The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Any changes in these assumptions will impact the carrying amount of the pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 25.

(expressed in Eastern Caribbean dollars)

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

(d) Impairment of non-financial assets

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

(e) Fair value of financial instruments

Financial instruments where recorded current market transactions or observable market data are not available, are recorded at fair value using valuation techniques. Fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimates of the most appropriate model assumptions. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

(f) Revaluation of land and buildings

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

(g) Current and deferred taxes

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

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

(expressed in Eastern Caribbean dollars)

8 Cash and balances with the Central Bank

	Note	2022 $	2021 $
Cash on hand		**7,731,572**	7,954,742
Balances with the ECCB other than mandatory reserve deposits		**126,420,734**	178,373,471
Included in cash and cash equivalents	27	**134,152,306**	186,328,213
Mandatory reserve deposits with the ECCB		**33,719,450**	31,950,176
Total cash and balances with the Central Bank		**167,871,756**	218,278,389
Current		**167,871,756**	218,278,389

In accordance with Article 33 of the Eastern Caribbean Central Bank ("ECCB") Agreement 1983, the Bank is required to maintain reserves of cash and other deposits with ECCB of 6% of the average of the last four weeks customer deposits and other similar liabilities. As of September 30, 2022 the balance was $19,457,835 (2021: $17,688,561).

In accordance with sections 28 and 29 of the Payment Systems Act, the Bank entered into a Participant Collateral and Settlement Agreement and is required to maintain collateral with the ECCB to use the Eastern Caribbean Automatic Clearing House ("ECACH"). The collateral is calculated annually by ECCB based on a multiple of the average daily gross obligations over a period predetermined by the ECCB, in consultation with the ECACH and the Bank. The Bank is required to maintain the collateral with the ECCB. As of September 30, 2022 and 2021, the balance was $14,261,615.

(expressed in Eastern Caribbean dollars)

9 Due from other banks

	Note	2022 $	2021 $
Term deposits and operating accounts with banks with original maturities of 3 months or less		**67,996,409**	5,643,449
Items in the course of collection from other banks		**973,594**	–
Included in cash and cash equivalents	27	**68,970,003**	5,643,449
Term deposits with other banks with original maturities greater than 3 months		**5,499,079**	–
Less: Provision for expected credit losses		**(63,285)**	–
		74,405,797	5,643,449
Interest receivable		**57,416**	–
Total due from other banks		**74,463,213**	5,643,449
Current		**74,463,213**	5,643,449
Non-current		**–**	–
		74,463,213	5,643,449

(expressed in Eastern Caribbean dollars)

10 Related party balances and transactions

Related party definition

A related party is a person or entity that is related to the Bank.

a) A person or a close member of that person's family is related to the Bank if that person:

   i) has control or joint control over the Bank;

   ii) has significant influence over the Bank; or

   iii) is a member of the key management personnel of the Bank, or of a parent of the Bank.

b) An entity is related to the Bank if any of the following conditions applies:

   i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

   ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

   iv) Both entities are joint ventures of the same third party;

   iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

   v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;

   v) The entity is controlled, or jointly controlled by a person identified in (a);

   vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

   viii) The entity, or any member of a group of which it is part, provides key management personnel services to the Bank or its parent.

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

Related party transactions

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

(expressed in Eastern Caribbean dollars)

10 Related party balances and transactions…*continued*

Related party transactions…*continued*

The volumes of related party transactions, outstanding balances at the year end and related expenses and income for the year are as follows:

Key management personnel and Directors

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of ACB Grenada Bank Ltd., directly or indirectly.

	2022 $	2021 $
Loans		
Directors and key management personnel	**1,851,430**	1,922,473
Deposits and other liabilities		
Directors and key management personnel	**48,642**	43,880
Deposits with parent company	**56,904,849**	11,867,351
	56,953,491	11,911,231
Interest income		
Directors and key management personnel	**70,383**	218,995
Interest expense		
Directors and key management personnel	**469**	1,593
Other operating expenses		
Management fees paid to affiliated companies	**900,000**	602,255
Directors' fees and expenses	**145,220**	85,139
	1,045,220	687,394
Due to parent company	**6,180,468**	10,372,920

Amounts due to parent are non-interest bearing, unsecured and have no fixed terms of repayment.

(expressed in Eastern Caribbean dollars)

11 Loans and advances

	2022 $	2021 $
Mortgages	**72,541,940**	82,762,413
Commercial/corporate	**26,364,269**	15,785,101
Retail/personal	**24,837,043**	19,055,648
Credit card advances	**1,628,600**	–
Overdrafts	**1,406,561**	8,670,743
Other loans	**–**	307,207
Gross loans	**126,778,413**	126,581,112
Less: Provision for expected credit losses	**(7,081,033)**	(8,720,129)
	119,697,380	117,860,983
Interest receivable	**2,124,972**	1,620,328
Unearned interest	**–**	(15,833)
Deferred fees	**(1,250,097)**	(1,428,026)
Total loans and advances, net	**120,572,255**	118,037,452
Current	**18,488,148**	13,561,582
Non-current	**108,290,265**	113,019,530
Gross loans	**126,778,413**	126,581,112

Interest rates

The weighted average effective interest rate on performing loans and advances excluding overdrafts as of September 30, 2022 was 5.78% (2021: 5.86%), and overdrafts were 10.41% (2021: 4.82%).

Loan write-off

There were no loans written off during the years ended September 30, 2022 and 2021.

(expressed in Eastern Caribbean dollars)

11 Loans and advances…*continued*

Provision for expected credit losses

The following tables reconcile the opening and closing provision for expected credit losses for loans and commitments, by stage.

September 30, 2021

Provision for Expected Credit Losses (ECL)

	Performing		Impaired	
	Stage 1 $	**Stage 2 $**	**Stage 3 $**	**Total $**
Balance at beginning of year	1,674,651	6,251,406	6,383,121	14,309,178
Provision for/(recovery of) credit losses	503,899	(6,117,099)	24,151	(5,589,049)
Balance at end of year	**2,178,550**	**134,307**	**6,407,272**	**8,720,129**

September 30, 2022

Provision for Expected Credit Losses (ECL)

	Performing		Impaired	
	Stage 1 $	**Stage 2 $**	**Stage 3 $**	**Total $**
Balance at beginning of year	2,178,550	134,307	6,407,272	8,720,129
Recovery of credit losses	(566,221)	(40,418)	(1,032,457)	(1,639,096)
Balance at end of year	**1,612,329**	**93,889**	**5,374,815**	**7,081,033**

(expressed in Eastern Caribbean dollars)

11 Loans and advances…*continued*

Provision for expected credit losses…*continued*

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

	Personal $	Commercial $	Mortgages $	Overdrafts $	Credit Card Advances $	Total $
September 30, 2022						
Gross loans before ECL provision	24,837,043	26,364,269	72,541,940	1,406,561	1,628,600	126,778,413
Stage 1: 12-month ECL	(725,738)	(125,652)	(205,311)	(344,396)	(211,232)	(1,612,329)
Stage 2: Lifetime ECL	(3,700)	–	(205)	(74,301)	(15,683)	(93,889)
Stage 3: Credit Impaired financial assets – ECL	(1,831,351)	–	(2,846,307)	(92,095)	(605,062)	(5,374,815)
	22,276,254	**26,238,617**	**69,490,117**	**895,769**	**796,623**	**119,697,380**
September 30, 2021						
Gross loans before ECL provision	19,055,648	16,092,308	82,762,413	8,670,743	–	126,581,112
Stage 1: 12-month ECL	(602,754)	(40,897)	(73,976)	(1,460,923)	–	(2,178,550)
Stage 2: Lifetime ECL	(50,002)	(38,812)	(45,493)	–	–	(134,307)
Stage 3: Credit Impaired financial assets – ECL	(2,295,669)	(42,103)	(4,069,500)	–	–	(6,407,272)
	16,107,223	**15,970,496**	**78,573,444**	**7,209,820**	–	**117,860,983**

.

(expressed in Eastern Caribbean dollars)

12 Other assets

	2022 $	2021 $
Prepayments	**119,997**	56,556
Miscellaneous receivables	**–**	6,095,158
Total other assets	**119,997**	6,151,714
Current	**119,997**	6,151,714
Non-current	**–**	–
	119,997	6,151,714

13 Investment Securities

	2022 $	2021 $
Securities measured at amortised cost		
Debt securities		
- Unlisted	**11,032,950**	–
- Listed	**9,768,720**	5,594,582
Interest receivable	**516,841**	117,761
Less: allowance for impairment	**(488,945)**	(43,997)
Total securities at amortised cost	**20,829,566**	5,668,346
Securities measured at fair value through OCI		
Equity securities		
- Unlisted	**1,538,986**	1,271,740
Total equity securities	**1,538,986**	1,271,740
Total securities at fair value through OCI	**1,538,986**	1,271,740
Securities measured at fair value through P&L		
Debt securities		
- Listed	**10,337,575**	10,907,874
Interest receivable	**336,090**	381,201
Total equity securities	**10,673,665**	11,289,075
Total securities at FVTPL	**10,673,665**	11,289,075
Total investment securities	**33,042,217**	18,229,161

(expressed in Eastern Caribbean dollars)

13 Investment securities…*continued*

13.1 Movement in securities

	Fair value through OCI $	Fair Value Through P&L $	Amortised Cost $	Total $
As of October 31, 2020	1,271,740	11,779,393	5,409,351	18,460,484
Movement in accrued interest	–	–	(213,983)	(213,983)
Change in fair value	–	(490,318)	516,975	26,657
Movement in allowance for impairment	–	–	(43,997)	(43,997)
As of September 30, 2021	**1,271,740**	**11,289,075**	**5,668,346**	**18,229,161**

	Fair value through OCI $	Fair Value Through P&L $	Amortised Cost $	Total $
As of October 1, 2021	1,271,740	11,289,075	5,668,346	18,229,161
Purchases	–	–	16,988,870	16,988,870
Adjustments	–	–	124,617	124,617
Principal repayments	–	(1,804,724)	(1,906,400)	(3,711,124)
Movement in accrued interest	–	(45,111)	399,081	353,970
Change in fair value	267,246	1,234,425	–	1,501,671
Movement in allowance for impairment	–	–	(444,948)	(444,948)
As of September 30, 2022	**1,538,986**	**10,673,665**	**20,829,566**	**33,042,217**

(expressed in Eastern Caribbean dollars)

14 Property and equipment

	Land & buildings $	Leasehold building $	Furniture & equipment $	Capital work in progress $	Vehicles $	Computer software $	Total $
Year ended September 30, 2021							
Opening net book value	5,298,710	92,835	704,800	8,433	–	–	6,104,778
Additions	17,297	–	50,174	149,918	–	–	217,389
Disposals	–	–	(743,831)	–	–	–	(743,831)
Transfers	–	–	(73,350)	–	73,350	–	–
Write back depreciation	8,439	–	595,509	–	–	–	603,948
Fair value adjustment	213,822	–	–	–	–	–	213,822
Depreciation charge	(305,820)	(10,313)	(159,529)	–	(25,215)	–	(500,877)
Net book amounts	5,232,448	82,522	373,773	158,351	48,135	–	5,895,229
At September 30, 2021							
Cost or valuation	7,254,751	346,917	10,918,210	158,351	73,350	–	18,751,579
Accumulated depreciation	(2,022,303)	(264,395)	(10,544,437)	–	(25,215)	–	(12,856,350)
Net book amounts	5,232,448	82,522	373,773	158,351	48,135	–	5,895,229

(expressed in Eastern Caribbean dollars)

14 Property and equipment...*continued*

	Land & buildings $	Leasehold building $	Furniture & equipment $	Capital work in progress $	Vehicles $	Computer software $	Total $
Year ended September 30, 2022							
Opening net book value	5,232,448	82,522	373,773	158,351	48,135	–	5,895,229
Adjustment to opening cost	(1,951,338)	–	(207,860)	–	84,860	–	(2,074,338)
Adjustment to opening accumulated depreciation	1,951,338	–	207,860	–	(84,860)	–	2,074,338
Additions	–	–	13,986	1,021,720	–	43,740	1,079,446
Disposals	–	–	–	–	–	–	–
Transfers	36,743	507,145	208,380	(752,268)	–	–	–
Depreciation charge	(138,105)	(62,787)	(170,296)	–	(25,217)	(7,290)	(403,695)
	5,131,086	**526,880**	**425,843**	**427,803**	**22,918**	**36,450**	**6,570,980**
At September 30, 2022							
Cost or valuation	5,340,156	854,062	10,932,716	427,803	158,210	43,740	17,756,687
Accumulated depreciation	(209,070)	(327,182)	(10,506,873)	–	(135,292)	(7,290)	(11,185,707)
Net book amounts	**5,131,086**	**526,880**	**425,843**	**427,803**	**22,918**	**36,450**	**6,570,980**

(expressed in Eastern Caribbean dollars)

15 Leases

The Bank leases various offices, branches and other premises. These leases have various terms, escalation and renewal rights and are negotiated on an individual basis. These lease agreements do not include any clauses that impose restrictions on the Bank's ability to pay dividends, engage in debt financing transactions, or enter into further lease agreements.

Some lease contracts provide the Bank with the option to terminate after payment of a predetermined amount, allowing the Bank to exit the contracts prior to expiration. Extension options at the discretion of RBC are also made available to lengthen existing lease terms. The Bank is reasonably certain to exercise extension options for certain retail locations and leases of automated teller machines (ATMs). Extension options for real estate leases tend to be at market rates and subject to negotiation prior to expiration of the initial lease term and therefore are not included in the measurement of lease liabilities at the commencement of the lease.

Right-of-use leased assets	**Right of Use of Asset**	**Lease Liability**
Year ended September 30, 2021		
Balance as of October 31, 2020	687,607	702,716
Transition on acquisition	116,673	–
Depreciation charge	(229,641)	–
Interest expense	–	(12,769)
Principal payments	–	(92,922)
Closing net book value	**574,639**	**597,025**

	Right of Use of Asset	**Lease Liability**
Year ended September 30, 2022		
Balance as of October 1, 2021	574,639	597,025
Addition: New Lease	947,914	1,567,557
Early Termination	(180,612)	(459,308)
Depreciation charge	(378,102)	–
Interest expense	–	23,397
Principal payments	–	(468,309)
Closing net book value	**963,839**	**1,260,362**

(expressed in Eastern Caribbean dollars)

16 Customers' deposits

	2022 $	2021 $
Product type		
Savings	**144,506,315**	139,863,036
Current accounts	**140,101,452**	113,639,790
Term deposits	**39,603,536**	40,895,989
	324,211,303	294,398,815
Interest payable	**85,952**	410,537
Total customers' deposits	**324,297,255**	294,809,352
Current	**324,161,052**	294,781,820
Non-current	**136,203**	27,532
	324,297,255	294,809,352

17 Provisions and other liabilities

	Note	2022 $	2021 $
Unpresented cheques		**2,301,818**	2,329,294
Trade payables and accrued liabilities		**3,705,584**	2,522,324
Unclaimed balances		**1,269,729**	1,349,178
Provisions for off-balance sheet items	**26**	**898,165**	1,155,547
Statutory deductions payable		**–**	173
Total provisions and other liabilities		**8,175,296**	7,356,516
Current		**8,175,296**	7,356,516
Non-current		**–**	–
		8,175,296	7,356,516

(expressed in Eastern Caribbean dollars)

18 Taxation

The tax on operating profit differs from the theoretical amount that would arise using the nominal tax rate as follows:

	2022 $	2021 $
Income before taxation	**4,072,389**	7,281,085
Prima facie tax calculated at corporation tax rate of 28% (2021: 28%)	**1,140,269**	2,038,704
Income not subject to tax	**(985,665)**	(516,324)
Expenses not deductible for tax purposes	**(241,364)**	168,625
Effect of other permanent differences	**(391,440)**	152,817
Unutilised tax losses carried forward	**709,201**	–
Depreciation/capital allowance	**183,922**	–
Business taxes	**112,007**	–
Withholding taxes	**236,447**	–
Prior year over provision of deferred tax	**–**	226,335
Current year under provision - deferred tax	**–**	(858,472)
Actual income tax expense	**763,377**	1,211,685
Represented as follows:		
Current tax expenses/(credit)	**348,453**	(105,244)
Deferred tax expense	**414,924**	1,316,929
	763,377	1,211,685

	2022 $	2021 $
Income tax recoverable		
Income tax recoverable, beginning of year	**1,075,825**	–
Current tax (expenses)/credit	**(348,453)**	105,244
Understatement of tax credit in prior years	**1,466**	970,581
Income tax recoverable, end of year	**728,838**	1,075,825

(expressed in Eastern Caribbean dollars)

18 Taxation…*continued*

18.1 The deferred tax asset results from differences between the tax value and book value of the following items

	2022 $	2021 $
The movement on the deferred tax account is as follows:		
Balance, beginning of year	**185,801**	1,883,193
Statement of Income or Loss and Other Comprehensive Income or Loss	**(28,248)**	1,023,652
Premises and equipment	**183,922**	(118,052)
Allowance for credit losses	**(526,114)**	(1,179,556)
Post-retirement benefit obligations	**302,329**	(1,185,915)
Changes in fair value	**(74,829)**	(237,521)
Balance, end of year	**42,861**	185,801

(expressed in Eastern Caribbean dollars)

19 Share capital

	2022 $	2021 $
Authorised:		
50,000,000 ordinary shares of no-par value.		
Issued and outstanding:		
Issued and fully paid shares: 20,178,995 (2021: 20,178,995)	**20,178,995**	20,178,995

20 Statutory reserve

The Statutory Reserve of $15,999,563 (2021: $15,337,761) is required to be maintained under the provisions of the Banking Act defined in Note 1, at a maximum amount equal to that of the Bank's paid up share capital.

Where the reserve is less than the share capital, the Bank is required to transfer to the reserve, a minimum of 20% of profit for the year. This reserve is not available for distribution as dividend or any form of distribution.

21 Other reserves

	2022 $	2021 $
Reserve for interest on non-performing loans	**1,878,979**	–
Securities revaluation reserve, net of tax	**834,196**	641,779
Other post-employment plans reserve	**449,292**	542,934
Reserve on revaluation of property and equipment	**220,413**	220,413
Pension reserve	**(155,940)**	642,225
Total other reserves	**3,226,940**	2,047,351

An appropriation of retained earnings to a reserve for loan loss is only done where the ECCB provision exceeds the Bank's provision for expected credit losses for loans. Accordingly, where the provision for expected credit losses for loans exceeds the ECCB provision, no appropriation is required.

Securities revaluation reserve represents mark-to-market adjustments on securities held as FVOCI.

(expressed in Eastern Caribbean dollars)

22 Earnings per share

Earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of Ordinary shares in issue during the year.

	2022 $	2021 $
Income attributable to shareholders of the Bank	**3,309,012**	6,069,400
Weighted average number of ordinary shares in issue	**20,178,995**	20,178,995
Basic and diluted earnings per share	**0.16**	0.30

The Bank has no potential ordinary shares which would give rise to a dilution of the basic earnings per share. Therefore, diluted earnings per share would be the same as basic earnings per share.

23 Other operating income

	2022 $	2021 $
Fee and commission income	**2,162,714**	2,510,252
Foreign exchange earnings	**1,758,063**	2,278,008
Unrealized gains on FVTPL securities	**851,813**	985,981
Loan write-off recoveries	**714,647**	1,432,374
Miscellaneous income	**76,317**	107
Dividend income	**–**	4,758
Total other operating income	**5,563,554**	7,211,480

(expressed in Eastern Caribbean dollars)

24 General and administrative expenses

	2022 $	2021 $
Salaries and related costs	**2,973,379**	4,118,427
Non-credit losses	**1,608,327**	231,532
Legal and professional fees	**1,104,684**	1,520,270
Service charge for corresponding banks	**461,764**	327,631
Telephone charges	**429,195**	555,324
Four C's operating expenses	**421,164**	–
Rent	**368,133**	83,824
Licenses and taxes	**326,283**	366,543
Advertising and promotion	**269,108**	99,197
Audit fees and expenses	**249,996**	715,000
Utilities	**187,375**	161,214
Printing and stationery expenses	**141,972**	214,204
Repairs and maintenance	**130,718**	325,895
Cleaning expenses	**118,584**	158,011
Security services	**114,937**	157,280
Travel and entertainment	**70,895**	169,296
Covid-19 expenses	**59,930**	41,635
ECACH charges	**55,869**	40,543
Subscription and fees	**46,939**	39,226
Miscellaneous expenses	**46,616**	33,863
Insurance expense	**45,650**	23,552
Wire service expenses	**33,112**	6,792
Shareholders' meeting expenses	**30,486**	87,538
ECCB cash expenses	**25,956**	18,339
Software operating expenses	**20,952**	42,796
Vehicle expenses	**20,638**	29,774
Night depository security	**16,261**	21,061
Strategic Planning Expenses	**10,667**	–
Commission	**7,220**	–
Donations	**3,875**	–
Card expenses	–	888,049
Loss on disposal of asset	**–**	123,724
Total general and administrative expenses	**9,400,685**	10,600,540

(expressed in Eastern Caribbean dollars)

25 Pension plan

The Bank sponsors pension and post-employment benefits to permanent employees. The defined benefit pension plan provides pension benefits based on years of service, contributions and earnings at retirement. RBC Investment Management (Caribbean) Limited is the investment manager for the assets of the pension plan and Eckler Ltd. is the record keeper.

The other post-retirement benefit plan provides health and dental insurance coverage for permanent employees. These plans are funded by the Bank and valuations of the plans are performed at each fiscal year by an independent actuary.

Recognition of net asset in the Statement of Financial Position

The amounts recognised in the Statement of Financial Position as at the valuation date are as follows:

	Other post – Employment plans $	Pension $	Total $
September 30, 2022			
Fair value of plan assets	–	9,166,505	9,166,505
Present value of defined benefit obligation	(795,320)	(8,083,767)	(8,879,087)
Net Asset recognised in the Statement of Financial Position	**(795,320)**	**1,082,738**	**287,418**

	Other post – Employment plans $	Pension $	Total $
September 30, 2021			
Fair value of plan assets	–	9,053,621	9,053,621
Present value of defined benefit obligation	(621,187)	(7,227,909)	(7,849,096)
Net Asset recognised in the Statement of Financial Position	**(621,187)**	**1,825,712**	**1,204,525**

(expressed in Eastern Caribbean dollars)

25 Pension plan…*continued*

The movements in the net asset recognised in the Statement of Financial Position

	Other post – Employment plans $	Pension $	Total $
September 30, 2022			
As of beginning of year	(621,187)	1,825,712	1,204,525
Employer contributions	12,100	146,772	158,872
Employer direct benefit payments			
Defined benefit cost included in income Remeasurements included in Other comprehensive	(56,174)	218,815	162,641
(Loss)/income	(130,059)	(1,108,561)	(1,238,620)
As of end of year	**(795,320)**	**1,082,738**	**287,418**

	Other post – Employment plans $	Pension $	Total $
September 30, 2021			
As of beginning of year	(1,005,000)	131,000	(874,000)
Employer contributions	11,092	47,854	58,946
Employer direct benefit payments	–	–	–
Defined benefit cost included in income Remeasurements included in Other comprehensive	(94,126)	(222,668)	(316,794)
Income	466,847	1,869,526	2,336,373
As of end of year	**(621,187)**	**1,825,712**	**1,204,525**

(expressed in Eastern Caribbean dollars)

25 Pension plan…*continued*

The movements in the fair value of plan assets over the period are as follows:

	Other post – Employment plans $	Pension $	Total $
September 30, 2022			
As of beginning of year	–	9,053,621	9,053,621
Interest income	–	634,984	634,984
Return on plan assets	–	(557,254)	(557,254)
Employer contributions	–	293,545	293,545
Employee contributions	–	–	–
Benefit payments	–	(258,391)	(258,391)
Administrative expenses	–	–	–
As of end of year	**–**	**9,166,505**	**9,166,505**

	Other post – Employment plans $	Pension $	Total $
September 30, 2021			
As of beginning of year	–	10,067,000	10,067,000
Interest income	–	427,758	427,758
Return on plan assets	–	(318,593)	(318,593)
Employer contributions	–	96,004	96,004
Employee contributions	–	–	–
Benefit payments	–	(1,187,723)	(1,187,723)
Administrative expenses	–	(30,825)	(30,825)
As of end of year	**–**	**9,053,621**	**9,053,621**

(expressed in Eastern Caribbean dollars)

25 Pension plan…*continued*

The movements in the post-retirement obligations over the period are as follows:

	Other post – Employment plans $	Pension $	Total $
September 30, 2022			
As of beginning of year	(621,187)	(7,227,909)	(7,849,096)
Current service cost	(12,272)	(100,962)	(113,234)
Interest cost	(43,902)	(461,979)	(505,881)
Other comprehensive income/(loss) remeasurements:			
Effects of changes in financial assumptions	(130,059)	(536,947)	(667,006)
Effect of experience adjustments	–	(14,361)	(14,361)
Effect of changes in demographic adjustments	–	–	–
Benefit payments from employer	12,100	–	12,100
Participant contributions	–	–	–
Benefit payments from plan assets	–	258,391	258,391
As of end of year	**(795,320)**	**(8,083,767)**	**(8,879,087)**

	Other post – Employment plans $	Pension $	Total $
September 30, 2021			
As of beginning of year	(1,005,000)	(9,936,000)	(10,941,000)
Current service cost	(46,200)	(271,200)	(317,400)
Interest cost	(47,926)	(396,550)	(444,476)
Other comprehensive income/(loss) remeasurements:			
Effects of changes in financial assumptions	426,136	1,476,332	1,902,468
Effect of experience adjustments	40,711	711,786	752,497
Effect of changes in demographic adjustments	–	–	–
Benefit payments from employer	11,092	–	11,092
Participant contributions	–	–	–
Benefit payments from plan assets	–	1,187,723	1,187,723
As of end of year	**(621,187)**	**(7,227,909)**	**(7,849,096)**

(expressed in Eastern Caribbean dollars)

25 Pension plan…*continued*

The amounts recognised in the Statement of Income or Loss and Other Comprehensive Income or Loss are as follows:

	Other post – Employment plans $	Pension $	Total $
September 30, 2022			
Defined benefit cost included in income:			
Current service cost	(12,272)	(100,962)	(113,234)
Interest income	–	634,984	634,984
Interest expense	(43,902)	(461,979)	(505,881)
Administrative expenses	–	–	–
Components of defined benefit costs recognised in income	**(56,174)**	**72,043**	**15,869**
Remeasurement recognised in other comprehensive income:			
Effect of changes in financial assumptions	(139,059)	(536,947)	(676,006)
Effect of experience adjustments	–	(571,614)	(571,614)
Components of defined benefit costs recognised in other comprehensive income/(loss)	**(139,059)**	**(1,108,561)**	**(1,247,620)**

(expressed in Eastern Caribbean dollars)

25 Pension plan…*continued*

	Other post – Employment plans $	Pension $	Total $
September 30, 2021			
Defined benefit cost included in income:			
Current service cost	(46,200)	(271,200)	(317,400)
Interest income	–	427,758	427,758
Interest expense	(47,926)	(396,550)	(444,476)
Administrative expenses	–	(30,825)	(30,825)
Components of defined benefit costs recognised in income	**(94,126)**	**(270,817)**	**(364,943)**
Remeasurement recognised in other comprehensive income:			
Effect of changes in financial assumptions	426,137	1,476,332	1,902,469
Effect of experience adjustments	40,711	393,193	433,904
Components of defined benefit costs recognised in other comprehensive income/(loss)	**466,848**	**1,869,525**	**2,336,373**

(expressed in Eastern Caribbean dollars)

25 Pension plan…*continued*

Defined benefit pension plan assets are invested prudently in order to meet our long-term pension obligations at a reasonable cost. The asset mix policy was developed within an asset/liability framework. Factors taken into consideration in developing the asset allocation include but are not limited to the following:

(i) the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;

(ii) the member demographics, including normal retirements, terminations, and deaths;

(iii) the financial position of the health plans;

(iv) the diversification benefits obtained by the inclusion of multiple asset classes; and

(v) expected asset returns, including assets and liability volatility and correlations.

Plan assets comprise:

	2022 Percentage of total plan		2021 Percentage of total plan	
	Fair value $'0000	**assets %**	**Fair value $'0000**	**assets %**
Debt securities				
Domestic government bonds	1,401	15.3	1,503	16.6
Corporate and other bonds	4,755	51.9	5,395	59.6
Alternative investments and other	3,010	32.8	2,155	23.8
Total	**9,166**	**100**	**9,053**	**100**

Significant assumptions

The methodologies to determine significant assumptions used in calculating the defined benefit pension and other post-employment expense are as follows:

<u>Overall expected long-term rate of return on assets</u>
The assumed expected rate of return on assets is determined by considering long-term returns on fixed income securities combined with an estimated equity risk premium. The expected long-term return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

(expressed in Eastern Caribbean dollars)

25 Pension plan…*continued*

Significant assumptions

Discount rate
All future expected benefit payments at each measurement date are discounted at spot rates based on local bond market derived yield curve. The discount rate is the equivalent single rate that produces the same discounted value as that determined using the entire discount curve. This methodology does not rely on assumptions regarding reinvestment returns.

	2022	2021
Discount rates – medical	7.00%	7.00%
Discount rates – pension	4.50%	4.50%
Health care costs trend	5.00%	5.00%
Salary increases – pension	2.25%	2.25%

Contributions for the year

Contributions to the retirement benefit plan for the 2022 financial year are estimated to be $135,000 (2021 - $123,000).

(expressed in Eastern Caribbean dollars)

25 Pension plan…*continued*

Sensitivity analysis

Assumptions adopted can have a significant effect on the obligations and expense for defined benefit pension and post-employment benefit plans. The following table presents the sensitivity analysis of key assumptions holding all other factors constant.

Benefit obligation

	2022 $	2021 $
Pension Plan:		
Impact of 1% decrease in discount rate	**8,554,883**	7,699,025
Impact of 1% increase in discount rate	**7,722,360**	6,866,502
Impact of 1% (2021 - 0.5%) decrease in rate of increase in future compensation	**7,999,044**	7,143,186
Impact of 1% (2021 - 0.5%) increase in rate of increase in future compensation	**8,178,356**	7,322,768
Impact of 1 year increase in life expectancy	**8,132,031**	7,257,384
Other post-employment plans:		
Impact of 1% decrease in discount rate	**1,054,661**	797,655
Impact of 1% increase in discount rate	**613,670**	494,084
Impact of 1% (2021 - 0.5%) decrease in rate of increase in future compensation	**710,365**	554,653
Impact of 1% (2021 - 0.5%) increase in rate of increase in future compensation	**895,241**	699,864
Impact of 1 year increase in life expectancy	**819,158**	639,888

(expressed in Eastern Caribbean dollars)

26 Contingencies and commitments

26.1 Customers' liability under acceptances, guarantees and indemnities

These represent the Bank's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. These amounts are not reflected in the Statement of Financial Position.

	2022 $	2021 $
Bonds	**3,704,925**	7,601,814
Guarantees	**2,067,923**	2,067,923
	5,772,848	9,669,737

As of September 30, 2022 allowance for credit losses for customers' liabilities under acceptances, guarantees and indemnities amounted to $898,165 (2021: $1,155,547) (see note 17).

26.2 Credit related commitments

The contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers are listed below:

	Up to 1 year	Total
As of September 30, 2022		
Loan commitments (undrawn)	**6,669,442**	**6,669,442**
As of September 30, 2021		
Loan commitments (undrawn)	9,163,319	9,163,319

	Up to 1 year	Total
As of September 30, 2022		
Financial guarantee contracts	**5,772,848**	**5,772,848**
As of September 30, 2021		
Financial guarantee contracts	9,669,737	9,669,737

(expressed in Eastern Caribbean dollars)

26 Contingencies and commitments…*continued*

26.3 Capital commitments

As of September 30, 2022 and 2021, there were no capital commitments.

27 Cash and Cash Equivalents

	Notes	2022 $	2021 $
Cash and balances with the Central Bank	8	**134,152,306**	186,328,213
Due from other banks	9	**68,970,003**	5,643,449
Cash and cash equivalents		**203,122,309**	191,971,662

28 Dividends

No dividend was paid during the year ended September 30, 2022. A dividend in respect of the 2021 financial year of $1,517,350 was recorded and paid in 2023. This represented $0.075 per share.

The dividend proposed in respect of the 2022 financial year-end is $0.04 for each unit of paid up share capital, or EC $827,253. The separate financial statements for the year ended September 30, 2022 do not reflect this proposed dividend which, if ratified, will be accounted for in equity as an appropriation of retained earnings in the year ending September 30, 2024.

29 Comparative

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.

30 Events after the reporting date

No events have occurred subsequent to the balance sheet date and through the date of the auditor's report that would require adjustment to or disclosure in these financial statements or, although not affecting the financial statements or disclosures have causes or are likely to cause any material related change, adverse or otherwise, in the financial position or results of operations of the Bank.