# NATIONAL BANK
# OF THE VIRGIN ISLANDS LIMITED

## Audited Financial Statements

## For The Year Ended December 31, 2020

**NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED**

Audited Financial Statements

For The Year Ended December 31, 2020

# NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

## Table of Contents

# NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

## Bank Directory

### Board of Directors

| | |
|---|---|
| Mr. Clarence Faulkner | Chairman |
| Dr. Benedicta Samuels | Vice Chair |
| Dr. Drexel Glasgow | Member |
| Mr. Ivan Hudson Carr | Member |
| Ms. Antoinette Skelton | Member |
| Mrs. Michelle Todman Smith | Member |
| Mr. Mervyn Hope | Member |
| Mrs. Joy Penn | Ex-Officio Member |

### Registered Office

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Tortola VG1110
British Virgin Islands

**Independent Auditor's Report**

To the Board of Directors
National Bank of the Virgin Islands Limited
Tortola, British Virgin Islands

**Report on the Audit of the Financial Statements**

*Opinion*

We have audited the financial statements of National Bank of the Virgin Islands Limited (the "Bank"), which comprise of the statement of financial position as at December 31, 2020, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2020, and its financial performance and its 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), and we have fulfilled our other ethical responsibilities in accordance with 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 the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

*Auditors' Responsibilities for the Audit of the Financial Statements*

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

**Independent Auditor's Report (Continued)**

**Report on the Audit of the Financial Statements (Continued)**

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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 auditor's 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 the directors 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.

BDO Limited

Tortola, British Virgin Islands
January 4, 2022

## NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

**Statement of Financial Position**
**As at December 31, 2020**
*Expressed in United States Dollars*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | 19,501,879 | 20,058,555 |
| Due from banks | 3 | 148,763 | 19,690,766 |
| Loans and advances to customers | 4 | 214,671,828 | 201,449,748 |
| Other customer receivables | 6 | 2,240,080 | 567,351 |
| Financial investments | 7 | 35,627,860 | 28,538,247 |
| Prepayments | | 381,029 | 598,839 |
| Property and equipment | 9 | 9,266,017 | 8,561,279 |
| Regulatory deposit | 10 | 500,000 | 500,000 |
| **TOTAL ASSETS** | | **$282,337,456** | **$279,964,785** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 11 | 1,375,793 | 1,375,793 |
| Additional paid-in capital | 11 | 23,234,928 | 23,234,928 |
| Retained earnings | | 16,506,133 | 17,156,159 |
| Total capital and reserves | | 41,116,854 | 41,766,880 |
| **Liabilities** | | | |
| Amounts owed to demand deposit holders | | 4,907,347 | 3,627,610 |
| Amounts owed to savings depositors | 12 | 70,676,210 | 64,617,854 |
| Amounts owed to certificate of deposit holders | 13 | 156,422,760 | 160,514,791 |
| Preference shares – liability component | 11 | 4,127,379 | 4,127,379 |
| Lease liabilities | 14 | 3,198,800 | 3,699,750 |
| Trade and other payables | 15 | 1,888,106 | 1,610,521 |
| Total liabilities | | 241,220,602 | 238,197,905 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **$282,337,456** | **$279,964,785** |

APPROVED BY THE BOARD

Benedicta Samuels
______________________Director
Dr. Benedicta Samuels, *Chairman (Ag.)*

January 3, 2022 ______Date approved

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

# NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

**Statement of Comprehensive Income**
**For The Year Ended December 31, 2020**
*Expressed in United States Dollars*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| Interest and similar income | 16 | 11,643,351 | 13,661,722 |
| Interest expense | 17 | (3,715,068) | (3,656,241) |
| **Net interest income** | | 7,928,283 | 10,005,481 |
| Fees and commissions | 18 | 532,778 | 652,735 |
| Other operating income | | 278,667 | 199,456 |
| **Total operating income** | | 8,739,728 | 10,857,672 |
| Credit loss expenses | 5 | (600,419) | (653,023) |
| **Net operating income** | | **8,139,309** | **10,204,649** |
| **EXPENSES** | | | |
| Depreciation | 9 | (1,341,952) | (1,167,056) |
| Other operating expenses | 19 | (7,385,472) | (7,734,248) |
| Total operating expenses | | (8,727,424) | (8,901,304) |
| **NET (LOSS)/PROFIT FOR THE YEAR** | | **$(588,115)** | **$1,303,345** |

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

# NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

**Statement of Changes in Equity**
**For The Year Ended December 31, 2020**
*Expressed in United States Dollars*

| | | | 2020 | | |
|---|---|---|---|---|---|
| | **Note** | **Share Capital** | **Additional Paid-in Capital** | **Retained Earnings** | **Total** |
| Balance at the beginning of the year | | 1,375,793 | 23,234,928 | 17,156,159 | 41,766,880 |
| Net loss for the year | | - | - | (588,115) | (588,115) |
| Preference share dividend component | 11 | - | - | (61,911) | (61,911) |
| **BALANCE AT THE END OF THE YEAR** | | **$1,375,793** | **$23,234,928** | **$16,506,133** | **$41,116,854** |

| | | | 2019 | | |
|---|---|---|---|---|---|
| | **Note** | **Share Capital** | **Additional Paid-in Capital** | **Retained Earnings** | **Total** |
| Balance at the beginning of the year | | 1,375,793 | 23,234,928 | 15,914,725 | 40,525,446 |
| Net profit for the year | | - | - | 1,303,345 | 1,303,345 |
| Preference share dividend | 11 | - | - | (61,911) | (61,911) |
| **BALANCE AT THE END OF THE YEAR** | | **$1,375,793** | **$23,234,928** | **$17,156,159** | **$41,766,880** |

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

## NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

**Statement of Cash Flows**
**For The Year Ended December 31, 2020**
*Expressed in United States Dollars*

| | 2020 | 2019 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Interest, commission and other income received | 9,002,316 | 14,491,428 |
| Interest paid to deposit holders | (1,785,504) | (3,214,091) |
| Interest paid on lease liabilities | (135,058) | (176,003) |
| General and administrative expenses paid | (6,890,076) | (7,606,508) |
| | 191,678 | 3,494,826 |
| Changes in operating assets and liabilities: | | |
| Net increase in loans and advances to customers | (12,058,732) | (12,384,861) |
| Net increase in demand deposit holders | 1,279,737 | 1,611,738 |
| Net (decrease)/increase in savings deposit holders | 6,058,356 | (91,834) |
| Net increase in certificate of deposit holders | (5,886,537) | 27,660,242 |
| *Cash flows (used in)/from operating activities* | (10,415,498) | 20,290,111 |
| **INVESTING ACTIVITIES** | | |
| Net movement on amounts due from banks | 19,471,872 | (5,340,011) |
| Net movement on financial investments | (7,003,498) | (12,837,189) |
| Purchase of property and equipment | (2,177,709) | (1,671,754) |
| Disposal of property and equipment | 131,018 | 29,566 |
| *Cash flows from/(used in) investing activities* | 10,421,683 | (19,819,388) |
| **FINANCING ACTIVITIES** | | |
| Payment of principal portion of lease liabilities | (500,950) | - |
| Preference shares dividend | (61,911) | (247,643) |
| *Cash flows used in financing activities* | (562,861) | (247,643) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | (556,676) | 223,080 |
| **CASH AND CASH EQUIVALENTS** | | |
| At the beginning of the year | 20,058,555 | 19,835,475 |
| **At the end of the year** | **$19,501,879** | **$20,058,555** |
| **CASH AND CASH EQUIVALENTS:** | | |
| Cash in hand and current account balances with other banks | 6,293,337 | 9,998,223 |
| Fixed deposits with brokers | 13,208,542 | 10,060,332 |
| Certificates of deposit with other banks | - | - |
| | **$19,501,879** | **$20,058,555** |

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

## 1. ORGANISATION AND ACTIVITIES

The National Bank of the Virgin Islands Limited (the "Bank") was incorporated in the British Virgin Islands under the Companies Act, Cap. 285 on February 1, 2005 and re-registered under the BVI Business Companies Act, 2004 on February 29, 2008.

The Bank operates under a general banking licence in accordance with the Banks and Trust Companies Act, 1990 (as amended). The principal activity of the Bank is to provide personal and commercial banking services in the British Virgin Islands. The Bank is jointly owned by the Government of the Virgin Islands (the "Government") and the Social Security Board ("SSB"). The Bank's registered office is located at Harneys Corporate Services Limited, Craigmuir Chambers, P.O. Box 71, Road Town, Tortola VG1110, British Virgin Islands. The Bank operates out of its sole branch on Wickham's Cay I, Road Town, Tortola, British Virgin Islands.

The financial statements for the year ended December 31, 2020 were authorised for issue in accordance with a resolution of the directors on January 3, 2022.

## 2. ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB"), under historical costs convention, with adjustments for fair value where applicable. The financial records and statements are maintained and presented in United States ("US") dollars.

The Bank is organised and operates as one segment (both in terms of business and geography). Consequently, no segment reporting is provided in the Bank's financial statements.

### 2.2 Changes in accounting policies

*New standards, interpretations and amendments adopted from January 1, 2020*

New standards that have been adopted in the annual financial statements for the year ended 31 December 2020, but have not had a significant effect on the Bank are:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material); and
- Revisions to the Conceptual Framework for Financial Reporting.
- Definition of a Business (Amendments to IFRS 3); and
- COVID-19-Related Rent Concessions (Amendments to IFRS 16).

*Other standards*

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current
- Amendments to IFRS 3 Reference to the Conceptual Framework
- Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020 Cycle Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture.

## 2. ACCOUNTING POLICIES (Continued)

### 2.2 Changes in accounting policies (continued)

*Other standards (continued)*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except as noted below:

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

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

### 2.3 Comparative figures

Certain comparative figures in the financial statements have been reclassified to conform with the current year's presentation.

### 2.4 Significant accounting judgments and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The COVID-19 pandemic gives rise to heightened uncertainty as it relates to accounting estimates and assumptions and increases the need to apply judgment in evaluating the economic and market environment and its impact on significant estimates. This particularly impacts estimates and assumptions relating to allowance for credit losses, valuation of financial instruments and asset impairment.

**2. ACCOUNTING POLICIES (Continued)**

**2.4 Significant accounting judgments and estimates (continued)**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

*Going concern*

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a 'going concern' basis.

*Impairment losses on loans and advances*

At each reporting date, the Bank assesses whether financial assets carried at amortised cost 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 a borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that is overdue for 90 days or more is considered credit impaired. For information on the calculation of impairment losses, refer to note 2.8, Impairment of financial assets.

*Leases*

Application of IFRS 16 *Leases* requires assumptions and estimates in order to determine the value of the right-of-use assets and lease liabilities, the implicit and incremental borrowing rates, as applicable, and whether renewal options are reasonably certain of being exercised.

*Depreciation Methods*

Depreciation methods for property and equipment, including right-of-use assets, are based on management's estimate of the most appropriate method to reflect the pattern of an asset's future economic benefit. This includes judgement of what asset components constitute a significant cost in relation to the total cost of an asset.

## 2. ACCOUNTING POLICIES (Continued)

### 2.5 Foreign currency translation

Transactions in foreign currencies are converted at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the foreign currency exchange rate ruling at the Statement of Financial Position date. Foreign currency exchange differences arising on conversion or translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the Statement of Comprehensive Income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign currency exchange rate ruling at the date of the transaction, or if impaired, at the date of the impairment recognition. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into United States dollars at the foreign currency exchange rates ruling at the dates that the values were determined.

### 2.6 Financial assets and financial liabilities

*Date of recognition*

The Bank recognises loans and advances and deposits on the date on which they are originated. All other financial assets and liabilities are initially recognised on the trade date, i.e. the date the Bank becomes a party to the contracted provisions of the instrument.

*Initial recognition of financial instruments*

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value. In the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue are also included.

*Classification of financial assets and financial liabilities*

***Financial assets***

IFRS 9 contains three principal classification categories for financial assets. When an entity first recognises a financial asset, it classifies it based on the entity's business model for managing the asset and the asset's contractual cash flow characteristics, as follows:

1. Amortised cost — a financial asset is measured at amortised cost if both of the following conditions are met:

    - the asset is held within a business model which has an objective to hold assets in order to collect contractual cash flows; and
    - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

2. Fair value through other comprehensive income ("FVOCI") — financial assets are classified and measured at fair value through other comprehensive income if both of the following conditions are met:

    - they are held in a business model where the objective is achieved by 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 SPPI on the principal amount outstanding.

## 2. ACCOUNTING POLICIES (Continued)

### 2.6 Financial assets and financial liabilities (continued)

*Classification of financial assets and financial liabilities*

***Financial assets***

3. Fair value through profit or loss ("FVTPL") — any financial assets that are not held in one of the two business models mentioned above are measured at FVTPL.

When, and only when, an entity changes its business model for managing financial assets, it must reclassify all affected financial assets. After initial measurement, financial assets are subsequently measured at amortised cost based on the business model within which the assets are held and an assessment of whether contractual terms of the financial asset are SPPI on the principal amount outstanding.

*Business model assessment*

The Bank assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and how information is provided to management.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- 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); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing its financial assets is achieved and how cash flows are realised.

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 and/or held for future sale of the financial assets.

## 2. ACCOUNTING POLICIES (Continued)

### 2.6 Financial assets and financial liabilities (continued)

*Assessment of whether contractual cash flows are solely payments of principal and interest*

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. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodic reset of interest rates).

***Financial liabilities***

All financial liabilities are measured at amortised cost, except for financial liabilities at FVTPL. Such liabilities include derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments), other liabilities held for trading, and liabilities that an entity designates to be measured at FVTPL (see 'fair value option' below).

After initial recognition, an entity cannot reclassify any financial liability.

*Fair value option*

An entity may, at initial recognition, irrevocably designate a financial asset or liability that would otherwise have to be measured at amortised cost or FVOCI to be measured at FVTPL if doing so would eliminate or significantly reduce a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') or otherwise results in more relevant information.

### 2.7 Derecognition of financial assets and financial liabilities

*Financial assets*

A financial asset is derecognised when the Bank's contractual rights to receive the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which all of the risks and rewards of ownership of the financial asset are transferred.

*Financial liabilities*

The Bank derecognises financial liabilities when the obligation specified in the contract is discharged, cancelled, expired or surrendered. This is generally considered to be the trade date or transaction date.

## 2. ACCOUNTING POLICIES (Continued)

### 2.8 Impairment of financial assets

*Loans and advances to customers*

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; and
- loan commitments issued.

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 on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

The Bank considers 12-month ECL as the portion of ECL that results from default events on a financial instrument that are possible within the 12 months immediately after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Lifetime ECL 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'.

**Measurement of ECL**

Based on information readily available, the Bank has implemented a simplified ECL method for calculation of impairment losses on loan assets as detailed below:

*Profile Segmentation:*

The Bank's loan portfolio was segmented into categories to capture data points, prevent outlier loans from skewing the data, and identify risk factors between the various categories. First, the loans were broken down by loan type: commercial, personal, mortgage. Based on information readily available from the Bank's system, personal loans and mortgages were further segmented by loan purpose, and commercial loans were segmented by industry.

*Staging:*

The ECL model introduces the concept of "staging", as all financial assets subject to the impairment provisions of IFRS 9 are initially classified as "stage 1", and then move through the stages (which affect the measurement of impairment) based on various triggers linked to credit risk and default. Movement into the various stages is initially based on the number of days delinquent, as noted below:

- Stage 1: 0 – 60 Days
- Stage 2: 61 – 89 Days
- Stage 3: 90 Days and over

## 2. ACCOUNTING POLICIES (Continued)

### 2.8 Impairment of financial assets (continued)

A financial asset also moves to stage 2 of the impairment model once there has been a significant increase in credit risk ("SICR") compared to the credit risk present at the time of initial recognition. One such factor identified as causing a significant increase in credit risk, is the customer's inability to renew insurance coverage for collateral pledged.
Movement to stage 3 in the impairment model occurs when a financial asset becomes credit impaired or non-performing after payment of principal or interest is contractually 90 Days or more past due or the loan matures with a balance.

*Credit risk at initial recognition:*

Management will only extend credit to customers that have a sound credit rating. With strong controls in place during the application process, credit risk at initial recognition of applicants is deemed to be low. Hence, no factors of credit impairment are present on initial recognition.

*Credit risk at subsequent measurement:*

To assess the increase in credit risk subsequent to initial recognition, management focuses primarily on the rebuttable assumption concerning past due status. The Bank monitors all loans on a monthly basis to identify loans that have increased or decreased in credit risk and/or have become impaired.

The Bank categorises loans on the "Watch List" or as stage 2 based on the following factors:

- Payment of principal or interest is contractually 60 – 89 Days past due; or
- In the opinion of management there is reasonable doubt as to the ultimate collectability of principal or interest; or
- The loan was recently brought current and de-classified from the non-performing loan portfolio, but requires continued monitoring for a minimum 90-day period; or
- A related loan is classified as non-performing.

Any loans that are credit impaired are deemed non-performing and classified as stage 3.

*Migration Analysis:*

The Bank is also mindful that there may be loans initially classified in stage 1 or 2 that would be experiencing a significant increase in credit risk, even though they have not been included on the Watch List or classified as impaired. Furthermore, based on historical results, the Bank has determined a percentage of total loans in stage 1 or 2 that have a probability of rolling into stage 2 or 3 based on historical loan movement. These percentages were used by Management to project the final loan amounts used to calculate the ECL for stages 1 – 3 and the various loan categories.

*Estimated Credit Loss Calculation:*

In addition to the items above, the Bank's estimated credit loss for loan assets ultimately considers the following factors:

- Historical Credit Losses
- Estimated Future Write-offs
- Uninsured Collateral
- Other Macro-Economic Factors

## 2. ACCOUNTING POLICIES (Continued)

### 2.8 Impairment of financial assets (continued)

**Measurement of ECL (continued)**

*Historical Credit Losses:*

Actual credit losses incurred for a 5-year period were used to determine the credit loss percentage for each loan category. The credit loss percentage was calculated by dividing the loss incurred by the year-end loan balance for each category. Historical loss percentages were then used to calculate the first portion of the ECL, by multiplying the projected balance by the 5-year loan loss percentage.

*Estimated Future Write-offs:*

Management reviewed the portfolio of stage 1 loans to identify loans with a high probability of default ("PD") over the next 12-month period. Loans categorised as stage 2 and stage 3 were reviewed for a high PD over the life of the loan. The future ECL was calculated by subtracting the estimated value of collateral held at the time of liquidation, from the loan balance. Any shortfall was recorded as a projected loss and added to the total ECL.

*Uninsured Collateral:*

Further adjustments to ECL included the calculation of loan impairment due to uninsured collateral. To determine the PD, the Bank applied the majority Shareholder's (i.e. Government of the Virgin Islands) credit rating per Caricris.com ("CariCRIS"), to Issuer-weighted cumulative sovereign default rates provided by Moody's. It is Management's assumption that the credit rating of its majority Shareholder is an indicator of the state of the BVI economy, which also correlates with the customers' ability to service loans issued by the Bank. The PD was then applied to the loan amount equal to or below the forced sale value of uninsured collateral. Any portion of the loan balance secured by other collateral not requiring insurance was excluded. The loan amount identified as being impaired due to lapsed insurance, was then added to the Bank's ECL.

*Other Macro-Economic Factors:*

Finally, the Bank considered the performance of macro-economic factors affecting the BVI, including the unemployment rate and gross domestic product, which were obtained from the Government's Central Statistics Office. Macro-economic factors would be reviewed to determine if the overall outlook was positive or negative; if negative, an adjusting factor was used to increase the ECL accordingly.

**Presentation of allowance for ECL in the Statement of Financial Position**

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;
- 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: as 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; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

## 2. ACCOUNTING POLICIES (Continued)

### 2.8 Impairment of financial assets (continued)

**Measurement of ECL (continued)**

*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 other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

### 2.9 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if, and only if, there is a current enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 2.10 Fair value measurements

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique which has variables that only include data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price. Any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument, but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

## 2. ACCOUNTING POLICIES (Continued)

### 2.10 Fair value measurements (continued)

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique dependent on unobservable parameters is not recognised in profit or loss immediately. Rather, the difference is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or ask price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price. Any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument, but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. 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 where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category also includes instruments that are valued based on prices quoted for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

### 2.11 Administrative services

The Bank provides administrative services that result in the holding of assets on behalf of Government agencies. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank. The value of such assets as at December 31, 2020 is $474,504 (2019: $856,288).

## 2. ACCOUNTING POLICIES (Continued)

### 2.12 Recognition of revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Interest and similar income*

Interest income on loans and advances to customers are recorded in the Statement of Comprehensive Income as it accrues until such time as the loan is classified as non-performing. At that time, a provision is raised for all accrued but non-recoverable interest. Interest is calculated using the simple interest method on daily balances of the principal amount outstanding. For all financial instruments measured at amortised cost, interest income or expense is recorded at the effective interest rate, which is the exact rate for discounting estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

*Fee and commission income*

Fees and commissions are recognised on an accrual basis when the service has been provided. The Bank earns fees and commissions from a range of services it provides to its customers. Fees and commissions that are linked to provision of a service are recognized at a point in time when the requisite service is fulfilled.

### 2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call, cash held with brokers and short-term, highly liquid investments with maturities of three months or less from the date of acquisition. Bank deposits with maturities of more than three months from date of acquisition are classified as due from banks.

### 2.14 Pension plan

The Bank is a member of a defined contribution pension plan. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate legal entity. Once the contributions have been paid, the Bank has no further obligations. The Bank’s contributions to the defined contribution pension plan are charged to the Statement of Comprehensive Income in the year to which they relate.

### 2.15 Taxation

The Bank is not subject to income taxes within the British Virgin Islands. Accordingly, no provision has been made for income taxes.

### 2.16 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

| | |
|---|---|
| Computer equipment | 2-5 years |
| Motor vehicles | 5 years |
| Furniture and fixtures | 3-10 years |
| Leasehold improvements | 3-10 years |
| Right-of-use assets | 2-15 years |

**2. ACCOUNTING POLICIES (Continued)**

**2.16 Property and equipment (continued)**

Assets are depreciated from the date that the asset is available for use. Land is not depreciated. Expenditure on repairs and maintenance of fixed assets made to restore or maintain future economic benefits expected from the assets is recognised as an expense when incurred.

**2.17 Impairment of non-financial assets**

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the Statement of Comprehensive Income whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is estimated as the greater of an asset's net selling price and value in use. If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the Statement of Comprehensive Income. An impairment 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.

**2.18 Collateral Valuation**

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, but primarily as cash or real estate. The fair value of collateral is generally assessed, at a minimum, at inception and periodically updated based on the Bank's policies and type of collateral.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties, such as independent appraisers and quantity surveyors.

**2.19 Leases**

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

*Initial recognition*

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Bank's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Right of use assets are initially measured as equal to the amount of the lease liability.

*Subsequent measurement*

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

**2. ACCOUNTING POLICIES (Continued)**

**2.19 Leases (continued)**

*Subsequent measurement (continued)*

When the Bank revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

*Renegotiation of contractual terms*

When the Bank renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the stand-alone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy.

- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of use asset being adjusted by the same amount.

- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Bank to use an identified asset and require services to be provided to the Bank by the lessor, the Bank has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and accounts separately for, any services provided by the supplier as part of the contract.

*Nature of leasing activities (in the capacity as lessee)*

The Bank leases a number of properties from which it operates. In some instances, lease contracts provide for payments to increase each year by inflation, and in others to be reset periodically to market rental rates. In other instances, the periodic rent is fixed over the lease term.

The Bank also leases certain items of plant and equipment and will on occasion lease vehicles. Leases of plant, equipment and vehicles comprise only fixed payments over the lease terms.

The percentages in the table below reflect the current proportions of lease payments that are either fixed or variable. The sensitivity reflects the impact on the carrying amount of lease liabilities and right-of-use assets if there was an uplift of 5% on the balance sheet date to lease payments that are variable.

*Expressed in United States Dollars*

**2. ACCOUNTING POLICIES (Continued)**

**2.19 Leases (continued)**

*Nature of leasing activities (in the capacity as lessee) (continued)*

| **31 December 2020** | **Lease Contracts Number** | **Fixed payments %** | **Variable payments %** | **Sensitivity** |
|---|---|---|---|---|
| Property leases with payments linked to inflation | 2 | - | 89.6% | 260,866 |
| Property leases with periodic uplifts to market rentals | 2 | - | 10.1% | 3,326 |
| Leases of plant and equipment | 1 | 0.3% | - | - |
| **Total** | **5** | **0.3%** | **99.7%** | **$264,192** |

The Bank sometimes negotiates break clauses in its property leases. On a case-by-case basis, the Bank will consider whether the absence of a break clause would expose the Bank to excessive risk.

Typical factors considered in deciding to negotiate a break clause include:

- the length of the lease term;
- the economic stability of the environment in which the property is located; and
- whether the location represents a new area of operations for the Bank.

As at December 31, 2020 the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses because on both dates it was considered reasonably certain that the Bank would not exercise its right to exercise any right to break the lease. Total lease payments of $1,095,428 (2019: $1,095,428) are potentially avoidable were the Bank to exercise break clauses at the earliest opportunity.

**2.20 Related Parties**

For the purposes of these financial statements, a party is considered to be related to the Bank if:

- the party has the ability, directly or indirectly through one or more intermediaries, to control the Bank or exercise significant influence over the Bank in making financial and operating policy decisions, or has joint control over the Bank;
- the Bank and the party are subject to common control;
- the party is an associate of the Bank;
- the party is a member of key management personnel of the Bank, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or
- the party is a close family member of a party referred to in the first point or is an entity under the control, joint control or significant influence of such individuals.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Bank.

*Expressed in United States Dollars*

## 2. ACCOUNTING POLICIES (Continued)

### 2.21 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

## 3. DUE FROM BANKS

| | 2020 | 2019 |
|---|---|---|
| Certificates of deposit | 103,862 | 19,575,734 |
| Add: interest receivable | 44,901 | 115,032 |
| | $148,763 | $19,690,766 |

The Bank has pledged $100,000 of amounts due from banks as security for corporate credit cards with an aggregate credit limit of $95,000 (2019: $95,000) as at December 31, 2020.

## 4. LOANS AND ADVANCES TO CUSTOMERS

The Bank lends funds for commercial and development purposes for periods primarily between 5 and 30 years. These funds are largely secured by commercial real estate, business assets and residential property.

The Bank analyses its loan portfolio by category as follows:

| 2020 | Commercial | Residential Mortgages | Other Personal | Total |
|---|---|---|---|---|
| Performing loans | 56,769,208 | 111,682,447 | 21,343,384 | 189,795,039 |
| Non-performing loans | 11,651,280 | 15,241,664 | 1,419,814 | 28,312,758 |
| Gross loans | 68,420,488 | 126,924,111 | 22,763,198 | 218,107,797 |
| Less: allowance for expected credit losses (Note 5) | (2,197,582) | (2,582,580) | (234,302) | (5,014,464) |
| | $66,222,906 | $124,341,531 | $22,528,896 | $213,093,333 |
| Add: interest receivable | | | | 4,013,858 |
| Less: interest provision on restructured and non-performing loans | | | | (2,435,363) |
| | | | | $214,671,828 |

*Expressed in United States Dollars*

## 4. LOANS AND ADVANCES TO CUSTOMERS (Continued)

| 2019 | Commercial | Residential Mortgages | Other Personal | Total |
|---|---|---|---|---|
| Performing loans | 59,243,208 | 103,399,469 | 19,472,331 | 182,115,008 |
| Non-performing loans | 7,620,467 | 16,355,218 | 688,335 | 24,664,020 |
| Gross loans | 66,863,675 | 119,754,687 | 20,160,666 | 206,779,028 |
| Less: allowance for expected credit losses (Note 5) | (2,047,248) | (2,935,315) | (110,576) | (5,093,139) |
| | $64,816,427 | $116,819,372 | $20,050,090 | $201,685,889 |
| Add: interest receivable | | | | 3,057,482 |
| Less: interest provision on restructured and non-performing loans | | | | (3,293,623) |
| | | | | $201,449,748 |

In general, interest rates on loans and advances range between 3.5% and 12.5% (2019: 3.5% and 14.0%) per annum. The weighted average interest rate on these loans was 5.71% (2019: 5.95%).

*Interest accruals on non-performing loans*

The interest receivable includes interest on non-performing loans totaling $1,690,850 (2019: $2,498,240) and the same has been fully provided. The corresponding provision is included within interest provision on restructured and non-performing loans.

*Renegotiated loans*

As at December 31, 2020, loans and advances to customers includes $744,513 (2019: $795,383) of interest which was outstanding at the date of restructuring. This interest is included as part of the restructured loans and advances as principal or converted into new loans. A corresponding provision has been recorded, which offsets the interest capitalised. As payments on these restructured loans are received, this provision is reduced in proportion to the restructured balance and a corresponding amount of interest is recognised as income.

## 5. EXPECTED CREDIT LOSSES ALLOWANCE

| | 2020 | 2019 |
|---|---|---|
| Opening balance | 5,093,139 | 5,596,001 |
| ECL Allowance | 600,419 | 653,023 |
| Releases | - | (4,834) |
| Write-offs | (679,094) | (1,151,051) |
| Ending balance | $5,014,464 | $5,093,139 |

During the calculation of estimated credit losses the Bank has made certain assumptions that were based amongst others, on: a) physical inspection findings of collateral with significant values; b) delinquency rates; and c) estimated time and efforts to liquidate collateral.

*Expressed in United States Dollars*

## 5. EXPECTED CREDIT LOSSES ALLOWANCE (Continued)

*Collateral repossessed*

During the year, the Bank exercised its power of sale over real estate collateral with a market value of $Nil (2019: $281,100).

*Impact of COVID-19 pandemic on expected credit losses for Loans and advances to customers*

As a result of the impact of the COVID-19 pandemic and the potential negative impact on the Bank's loan portfolio arising from the decline in economic activity, a heightened application of judgement in a number of areas was required in the determination of whether a significant increase in credit risk (SICR) has occurred. This included the careful evaluation of the evolving macroeconomic environment and the various client relief programs that were provided to our clients. Interest or principal deferments pursuant to various relief programs provided in some cases resulted in a SICR, that would trigger migration to stage 2 as we determined that there was a SICR based on our assessment of related forward-looking indicators. Customers who failed to recommence blended payments within three (3) months of the moratorium ceasing, were classified as non-performing and moved to stage 3.

*Modified financial assets and client relief moratorium programs*

On March 11, 2020, the outbreak of COVID-19 was officially declared a pandemic by the World Health Organization. During the financial year, the COVID-19 pandemic continues to have a significant adverse impact on the global economy. All territories across the region were negatively affected, and we were able to respond by providing support to our clients via our COVID-19 relief program.

As at December 31, 2020 the gross outstanding balance of loans in the moratorium program was $39.0 million for commercial loans, $48.3 million for residential mortgages, and $5.5 million for other personal loans.

Several of the regional regulators have provided guidance stating that clients who have entered into the COVID-19 moratorium programs should be frozen at their days past due position prior to entry into the program until expiry of the moratorium period. Additionally, no loans which have greater than 90 days past due (non-performing) should be granted entry into the program.

*Impact of relief moratorium programs on interest income*

During the moratorium period, customers with variable interest rate loans received a moratorium on principal payments, while interest payments remained due. For blended payment loans with fixed interest rates, interest continued to accrue to the general ledger, but neither principal or interest was due until the end of the moratorium period. Therefore, interest income in 2020 was not significantly affected by the moratorium relief program; the decrease noted was due to an increase in interest suspended for non-performing loans. Where customers accrued a significant interest balance due to the size of the loan facility and/or extended moratorium period, consideration will be given to the capitalisation of interest on a case-by-case basis, which could affect the interest income balance. (See Note 16.)

## 6. OTHER CUSTOMER RECEIVABLES

| | **2020** | **2019** |
|---|---:|---:|
| Merchant income | 2,154,892 | 531,084 |
| Insurance | 83,415 | - |
| Late charges | 973 | 36,047 |
| Other | 800 | 220 |
| | $2,240,080 | $567,351 |

*Expressed in United States Dollars*

### 7. FINANCIAL INVESTMENTS

| | 2020 | 2019 |
|---|---|---|
| Asset-backed securities | 21,930 | 258,325 |
| Corporate bonds | 25,252,936 | 18,013,043 |
| Government note | 10,000,000 | 10,000,000 |
| | 35,274,866 | 28,271,368 |
| Add: Interest receivable | 352,994 | 266,879 |
| | 35,627,860 | 28,538,247 |
| Less: Allowance for impairment | - | - |
| | $35,627,860 | $28,538,247 |

The following table presents movement in financial assets at amortised cost (excluding interest receivable).

| | 2020 | 2019 |
|---|---|---|
| Beginning balance | 28,271,368 | 15,434,179 |
| Purchases | 43,423,844 | 18,013,043 |
| Sales and repayments | (36,420,346) | (5,175,854) |
| | $35,274,866 | $28,271,368 |

Interest rates on the asset-backed securities range from 3.0% to 6.5% per annum. The remaining life of these securities range from 9.63 to 22.75 (2019: 10.63 to 23.75) years.

Interest rates on the corporate bonds range from 2.5% to 5.0% per annum. The remaining life of these bonds ranges from 0.04 to 3.59 years.

The government note is issued by the Government of St. Lucia and the balance of $10,000,000 was renewed for a term of 1 year. The government note matures on October 8, 2021 and carries an interest rate of 4.0% (2019: 4.0%).

*Expressed in United States Dollars*

## 8. FAIR VALUE INFORMATION

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 measurement is categorised:

| | Level 1 | Level 2 | Level 3 | Total | Carrying Value |
|---|---|---|---|---|---|
| **At December 31, 2020** | | | | | |
| **Financial instruments not measured at fair value** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 19,501,879 | - | - | 19,501,879 | 19,501,879 |
| Due from banks | 148,763 | - | - | 148,763 | 148,763 |
| Loans and advances to customers | - | - | 222,745,000 | 222,745,000 | 214,671,828 |
| Other customer receivables | - | 2,240,080 | - | 2,240,080 | 2,240,080 |
| Financial investments | - | 35,627,860 | - | 35,627,860 | 35,627,860 |
| General banking licence deposit | - | 500,000 | - | 500,000 | 500,000 |
| **Total** | $19,650,642 | $38,367,940 | $222,745,000 | $280,763,582 | $272,690,410 |
| **Liabilities** | | | | | |
| Amounts owed to demand deposit holders | - | 4,907,347 | - | 4,907,347 | 4,907,347 |
| Amounts owed to savings depositors | - | 73,900,259 | - | 73,900,259 | 70,676,210 |
| Amounts owed to certificate of deposit holders | - | 154,056,544 | - | 154,056,544 | 156,422,760 |
| Preference shares – liability component | - | 4,127,379 | - | 4,127,379 | 4,127,379 |
| Lease liabilities | - | 3,198,800 | - | 3,198,800 | 3,198,800 |
| Trade and other payables | - | 1,888,106 | - | 1,888,106 | 1,888,106 |
| **Total** | - | $242,078,435 | - | $242,078,435 | $241,220,602 |

| | Level 1 | Level 2 | Level 3 | Total | Carrying Value |
|---|---|---|---|---|---|
| **At December 31, 2019** | | | | | |
| **Financial instruments not measured at fair value** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 20,058,555 | - | - | 20,058,555 | 20,058,555 |
| Due from banks | 19,690,766 | - | - | 19,690,766 | 19,690,766 |
| Loans and advances to customers | - | - | 202,771,000 | 202,771,000 | 201,449,748 |
| Other customer receivables | - | 567,351 | - | 567,351 | 567,351 |
| Financial investments | - | 28,236,036 | - | 28,236,036 | 28,538,247 |
| General banking licence deposit | - | 500,000 | - | 500,000 | 500,000 |
| **Total** | $39,749,321 | $29,303,387 | $202,771,000 | $271,823,708 | $270,804,667 |
| **Liabilities** | | | | | |
| Amounts owed to demand deposit holders | - | 3,628,000 | - | 3,628,000 | 3,627,610 |
| Amounts owed to savings depositors | - | 65,910,000 | - | 65,910,000 | 64,617,854 |
| Amounts owed to certificate of deposit holders | - | 160,050,000 | - | 160,050,000 | 160,514,791 |
| Preference shares – liability component | - | 4,127,379 | - | 4,127,379 | 4,127,379 |
| Lease liabilities | - | 3,699,750 | - | 3,699,750 | 3,699,750 |
| Trade and other payables | - | 1,610,521 | - | 1,610,521 | 1,610,521 |
| **Total** | - | $239,025,650 | - | $239,025,650 | $238,197,905 |

*Expressed in United States Dollars*

## 9. PROPERTY AND EQUIPMENT

| | Motor Vehicles | Furniture & Fixtures | Computer Equipment | Leasehold Improvements | Land | Work in Progress | Right-of-use Assets | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| January 1, 2020 | 99,145 | 1,171,710 | 1,838,387 | 3,949,394 | 1,210,000 | 1,750,324 | 4,087,421 | 14,106,381 |
| Additions | 26,995 | 806 | 180,293 | 12,535 | - | 1,957,079 | - | 2,177,708 |
| Disposals | - | - | - | - | - | - | - | - |
| Transfers | - | 282 | 2,467,556 | 88,541 | - | (2,556,379) | - | - |
| Write-downs | - | - | - | - | - | (59,684) | (71,334) | (131,018) |
| December 31, 2020 | 126,140 | 1,172,798 | 4,486,236 | 4,050,470 | 1,210,000 | 1,091,340 | 4,016,087 | 16,153,071 |
| **Accumulated Depreciation** | | | | | | | | |
| January 1, 2020 | 25,501 | 825,583 | 1,638,762 | 2,575,011 | - | - | 480,245 | 5,545,102 |
| Charge | 24,297 | 106,583 | 294,911 | 453,812 | - | - | 462,349 | 1,341,952 |
| Disposals | - | - | - | - | - | - | - | - |
| December 31, 2020 | 49,798 | 932,166 | 1,933,673 | 3,028,823 | - | - | 942,594 | 6,887,054 |
| **Net Book Value** | | | | | | | | |
| December 31, 2019 | $73,644 | $346,127 | $199,625 | $1,374,383 | $1,210,000 | $1,750,324 | $3,607,176 | $8,561,279 |
| December 31, 2020 | $76,342 | $240,632 | $2,552,563 | $1,021,647 | $1,210,000 | $1,091,340 | $3,073,493 | $9,266,017 |

There are no capitalised borrowing costs related to the acquisition of property and equipment during the year (2019: $Nil). Transfer of assets from Work-in-Progress to Computer Equipment comprised the Bank's new core banking system, scanning software and other equipment. The balance transferred from Work-in-Progress to Leasehold Improvements comprised construction cost for additional office space and uninterrupted power supply for the Bank's premises.

*Expressed in United States Dollars*

## 10. REGULATORY DEPOSIT

In accordance with the Banks and Trust Companies Act, 1990 (as amended), a deposit of $500,000 (2019: $500,000) has been lodged with the British Virgin Islands Financial Services Commission ("BVI FSC"). The deposit is in the form of a non-negotiable certificate of indebtedness. Interest is earned semi-annually at a rate fixed periodically by the BVI FSC. The average rate of interest as at December 31, 2020 was 0.98% (2019: 0.75%).

## 11. CAPITAL AND RESERVES

| | 2020 | 2019 |
|---|---|---|
| **(a) Authorised share capital:** | | |
| • Golden share 1 (2019: 1) voting, no par value | - | - |
| • Ordinary shares 20,000,000 (2019: 20,000,000) voting, no par value | - | - |
| • Convertible redeemable preference shares 10,000,000 (2019: 10,000,000) voting, US $1 par value | 10,000,000 | 10,000,000 |
| • Non-voting common shares 10,000,000 (2019: 10,000,000) US$1 par value | 10,000,000 | 10,000,000 |
| **(b) Issued and fully paid share capital:** | | |
| • 1 (2019: 1) Golden share of no par value issued to the Government | - | - |
| • Ordinary shares 14,534,478 (2019: 14,534,478) | - | - |
| • Convertible redeemable preference shares – Equity component 5,503,172 (2019: 5,503,172) | 1,375,793 | 1,375,793 |
| **(c) Additional paid in capital:** | | |
| • 9,738,100 ordinary shares of no par value issued to the Government | 13,738,100 | 13,738,100 |
| • 4,796,378 ordinary shares of no par value issued at $1.98 per share to SSB | 9,496,828 | 9,496,828 |
| Total additional paid-in capital | 23,234,928 | 23,234,928 |
| **Total share capital and additional paid-in capital** | **$24,610,721** | **$24,610,721** |

As at December 31, 2020, the Government held 9,738,100 no par value ordinary shares for a consideration of $13,738,100 (2019: $13,738,100). The Government is the majority shareholder with a 67% interest in the Bank.

In December 2017, the Bank issued 4,796,378 ordinary shares at US$1.98 per share and 5,503,172 preference shares at US$1.00 per share to the SSB ("minority shareholder") for a consideration of $15,000,000 (2019: $15,000,000). This share purchase represents a 33% interest in the Bank.

### (d) Share rights

The Golden share has a right of decision to vote in certain specified circumstances. The holder does not participate in the payment of dividends.

The Ordinary shares give the holder the right to receive dividends as declared from time to time and to one vote per share at a meeting or on any resolution of the members and to an equal share in the distribution of the surplus assets of the Bank on liquidation.

*Expressed in United States Dollars*

## 11. CAPITAL AND RESERVES (Continued)

### (d) Share rights (continued)

The Convertible redeemable preference shares give the holder a right to cumulative preferential dividends of 4.5% per annum on the par value of the preference shares. The preference shares do not have other distribution or voting rights. Preference shares convert into ordinary shares based upon valuation at conversion but subject to a capped ratio of 1:1. The holder shall have the right to convert (i) on each 5-year anniversary date of the issue of the preference share, or (ii) at any other time with the consent of the other shareholders.

### (e) Preference shares

The Bank issued 5,503,172 convertible redeemable preference shares of $1 par value to the SSB. The preference shares are:

- Redeemable as they can be repurchased by the Bank under agreed terms
- Convertible as they can be exchanged for non-voting common shares of $1 par value.

Under IAS 32 redeemable shares should be assessed to determine if they are equity or liability. Based on an IAS 32 assessment, preference shares have been split into the following components:

| | 2020 | 2019 |
|---|---|---|
| Liability – the value of the liability component determined by a discounted cash flow calculation | 4,127,379 | 4,127,379 |
| Equity - the value of the equity component was determined by deducting the value of the liability component from the total | 1,375,793 | 1,375,793 |
| | 5,503,172 | 5,503,172 |

| Preference Share Dividend | 2020 | 2019 |
|---|---|---|
| Interest expense component | 185,732 | 185,732 |
| Dividend component | 61,911 | 61,911 |
| | 247,643 | 247,643 |

## 12. AMOUNTS OWED TO SAVINGS DEPOSITORS

| | 2020 | 2019 |
|---|---|---|
| Individuals | 57,727,286 | 50,034,196 |
| Businesses | 12,948,924 | 14,583,658 |
| | $70,676,210 | $64,617,854 |

The average effective rate of interest on customer deposits during the year was 0.25% (2019: 0.51%).

During the period ended December 31, 2020, the Bank transferred 85 (2019: 81) dormant accounts totaling $88,515 (2019: $45,209) to a special fund established for that purpose in accordance with the Dormant Accounts Act, 2011.

*Expressed in United States Dollars*

### 13. AMOUNTS OWED TO CERTIFICATE OF DEPOSIT HOLDERS

| | 2020 | 2019 |
|---|---|---|
| Individuals | 39,904,903 | 39,560,058 |
| Businesses | 112,487,556 | 118,719,623 |
| | 152,392,459 | 158,279,681 |
| Add: Interest payable | 4,030,301 | 2,235,110 |
| | $156,422,760 | $160,514,791 |

The average effective rate of interest on certificates of deposit during the year was 1.9% (2019: 2.22%).

### 14. LEASE LIABILITIES

The following table presents movement in lease liabilities.

| | Land and Buildings | Equipment | Total |
|---|---|---|---|
| **At 1 January 2020** | 3,672,662 | 27,088 | 3,699,750 |
| Interest Expense | 134,237 | 821 | 135,058 |
| Lease payments | (546,674) | (18,000) | (564,674) |
| Adjustments | (70,308) | (1,026) | (71,334) |
| **At 31 December 2020** | **$3,189,917** | **$8,883** | **$3,198,800** |

The table below presents the undiscounted commitments for short-term leases.

| | 2020 | 2019 |
|---|---|---|
| Short-term lease expense | 36,410 | 38,450 |
| Low value lease expense | 542 | 542 |
| Aggregate undiscounted commitments for short-term leases | **$36,952** | **$38,992** |

The table below shows the undiscounted lease obligations by maturity of the Bank's lease liabilities.

| 2020 | Within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Overs 5 years | Total |
|---|---|---|---|---|---|
| Lease liabilities | 141,218 | 416,155 | 2,197,695 | 999,688 | 3,754,756 |
| | $141,218 | $416,155 | $2,197,695 | $999,688 | $3,754,756 |

*Expressed in United States Dollars*

## 14. LEASE LIABILITIES (Continued)

The table below shows the undiscounted lease obligations by maturity of the Bank's lease liabilities.

| 2019 | Within 3 months | Over 3 months But within 1 year | Over 1 year but within 5 years | Overs 5 years | Total |
|---|---|---|---|---|---|
| Lease liabilities | 147,909 | 443,728 | 2,167,350 | 1,482,591 | 4,241,578 |
| | $147,909 | $443,728 | $2,167,350 | $1,482,591 | $4,241,578 |

## 15. TRADE AND OTHER PAYABLES

| | 2020 | 2019 |
|---|---|---|
| Insurance escrow | 890,537 | 661,961 |
| Trade payables | 653,714 | 563,896 |
| Dividends payable | 247,643 | 247,643 |
| Commissions payable | 58,463 | 104,487 |
| Accrued pension liability (Note 18) | 37,749 | 32,534 |
| | $1,888,106 | $1,610,521 |

## 16. INTEREST AND SIMILAR INCOME

| | 2020 | 2019 |
|---|---|---|
| Loans and advances to customers | 10,542,647 | 12,198,207 |
| Held-to-maturity investments | 938,669 | 1,024,862 |
| Cash and placements | 157,151 | 434,918 |
| Other | 4,884 | 3,735 |
| | $11,643,351 | $13,661,722 |

## 17. INTEREST EXPENSE

| | Note | 2020 | 2019 |
|---|---|---|---|
| Certificate of deposit holders | | 3,203,737 | 2,957,978 |
| Savings depositors | | 190,541 | 336,528 |
| Preference share dividend – interest component | 11 | 185,732 | 185,732 |
| Lease liabilities | | 135,058 | 176,003 |
| | | $3,715,068 | $3,656,241 |

## 18. FEES AND COMMISSIONS

| | 2020 | 2019 |
|---|---|---|
| Commitment fees | 204,584 | 313,901 |
| Merchant service fees | 65,393 | 14,743 |
| Commission earned on administrative services | 46,604 | 46,130 |
| Late charges | 25,101 | 105,716 |
| Other fees received | 191,096 | 172,245 |
| | $532,778 | $652,735 |

*Expressed in United States Dollars*

## 19. OTHER OPERATING EXPENSES

| | 2020 | 2019 |
|---|---|---|
| Staff costs | 5,168,775 | 4,945,349 |
| Professional fees | 477,608 | 353,254 |
| Repairs and maintenance | 448,168 | 351,185 |
| Licence fees and bank charges | 418,070 | 379,931 |
| Systems and communications | 193,616 | 178,577 |
| Business insurance | 133,307 | 119,820 |
| Security services | 116,891 | 117,929 |
| Marketing and advertising | 101,762 | 224,647 |
| Electricity and water | 91,234 | 127,686 |
| Stationery and postage | 80,605 | 51,209 |
| Staff training | 45,962 | 37,453 |
| Travel and entertainment | 39,086 | 165,216 |
| Rent | 28,426 | 38,538 |
| Commission expense | - | 419,600 |
| Write-down of fixed assets | - | 191,121 |
| Insurance write-offs | - | 19,907 |
| Other | 41,962 | 12,826 |
| | $7,385,472 | $7,734,248 |

**Analysis of staff costs:**

| | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 4,063,817 | 3,861,201 |
| Social security and payroll taxes | 348,782 | 322,886 |
| Pension expenses | 324,548 | 266,621 |
| Directors' expenses | 183,621 | 210,497 |
| National health insurance | 143,811 | 132,454 |
| Staff insurance | 64,543 | 49,657 |
| Staff uniforms | 8,280 | 65,209 |
| Other staff-related costs | 31,373 | 36,824 |
| | $5,168,775 | $4,945,349 |

During the year ended December 31, 2020, wages and salaries of $4,063,817 (2019: $3,861,201) were paid to an average of 75 employees (2019: 70).

**Pension**

The Virgin Islands Labour Code, 2010, stipulates that the employer should make a provision for retirement benefits to be paid to its permanent employees by means of a pension plan, an annuity, provident fund or other form of retirement plan which may be contributory.

Effective January 1, 2015, the Bank became a member of the Multi-Employer Pension Plan (the "Plan") established by the BVI Chamber of Commerce and Hotel Association. The Plan is a defined contribution plan, with contributions from pensionable earnings at a rate of 8% by the Bank and voluntary contributions of at least 4% by employees.

For the year ended December 31, 2020, pension expenses of $324,548 (2019: $266,621) were incurred.

## 20. RELATED PARTY TRANSACTIONS

(a) During the year ended December 31, 2020, the Bank did not approve any loans issued to current or former directors of the Bank and related persons. As at December 31, 2020, related party loans totaled $1,968,409 (2019: $2,043,752), which are included as part of loans and advances. The interest rates on these loans were recorded at 4.0% - 6.5% (2019: 4.0% - 6.5%).

(b) As at December 31, 2020, the Government held certificates of deposit totaling $28,107,611 (2019: $28,291,576). These certificates of deposit earn interest at rates ranging from 0.75% to 2.5% (2019: 1.5% to 2.5%) per annum. The Government also held savings deposits totaling $6,892,405 (2019: $8,584,856), which earned interest at a rate of 0.3% (2019: 0.5%) per annum.

(c) As at December 31, 2020, SSB held certificates of deposit totaling $73,437,127 (2019: $80,735,350) at interest rates ranging from 2.7% to 2.9% (2019: 2.0% to 2.5%). SSB also held savings deposits totaling $306,223 (2019: $469,253), which earned interest at a rate of 0.25% (2019: 0.5%) per annum.

(d) As at December 31, 2020, other Government statutory bodies held certificates of deposit totaling $7,657,038 (2019: $7,558,896) at interest rates ranging from 0.25% to 0.75% (2019: 0.6% to 1.25%).

(e) As at December 31, 2020, directors' allowances totaled $176,000 (2019: $198,000). These amounts are included within directors' expenses.

(f) As at December 31, 2020, commissions receivable totaled $720 (2019: $140) and commissions payable totaled $58,463 (2019: $104,487), in line with revised contract terms.

## 21. COMMITMENTS

*Undrawn loan commitments*

As at December 31, 2020, the Bank had undrawn commitments under existing customer loan agreements totaling $11,370,429 (2019: $10,023,623).

## 22. FINANCIAL RISK MANAGEMENT

### 22.1 Introduction

Risk is inherent in the Bank's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank's risk exposure includes credit risk, liquidity risk, market risk and operational risk.

**Risk Management Structure**

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are sub-committees of the Board of Directors responsible for managing and monitoring specific risk areas.

**22. FINANCIAL RISK MANAGEMENT (Continued)**

**22.1 Introduction (continued)**

*Board of Directors*

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies of the Bank.

*Assets and Liabilities Committee*

The Assets and Liabilities Committee is responsible for reviewing policies with respect to the management of asset and liability risks associated with the Bank's operations and monitoring the application and effectiveness of such policies, with recommended amendments for approval by the Board, as needed. The Assets and Liabilities Committee is authorised by the Board to undertake the strategic management of the Statement of Financial Position, aimed at achieving sustained growth, profitability, liquidity and solvency. This includes, but is not necessarily limited to, the formulation of long-term strategic goals and objectives and the management of various risks, including liquidity risk, interest rate risk and market risk.

*Audit and Compliance Committee*

The Audit and Compliance Committee is responsible for evaluating whether management is setting the appropriate 'control culture' by communicating the importance of internal control and management of risk. The Audit and Compliance Committee monitors the controls and processes which ensure that the financial statements derived from the underlying financial systems comply with relevant standards and requirements, and are subject to appropriate management review. In summary, the Audit and Compliance Committee is responsible for the evaluation of the overall effectiveness of the internal control and risk management frameworks. Currently, the Bank's Audit and Compliance Committee depends primarily on the reviews of its Internal Audit and Compliance Departments to determine any operational deficiencies, and thereafter, ensures implementation of requisite corrective measures.

*Credit Committee*

The Credit Committee is responsible for overseeing the credit risk management function of the Bank and approval of credit requests exceeding Management's lending authority. The Credit Committee establishes the credit risk strategy, as well as significant credit risk policies, on an annual basis at minimum. The Committee is also responsible for ensuring, through inputs to the capital planning processes, that the Bank's capital level is adequate for the risks assumed and assessing the appropriateness of the allowance for credit losses regularly.

**Risk measurement and reporting systems**

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss. The Bank also runs worst-case scenarios that would arise if extreme events were likely to occur. If these events in fact do occur, the Board of Directors feels that the Bank is adequately covered.

Reports compiled by the Bank (such as, non-performing loans reports and monthly management accounts) are prepared and reviewed to identify and assess risks at an early stage and effectively mitigate and control such risks. These reports are presented to the Board of Directors on a bi-monthly basis. The monthly management accounts include budget variances, liquidity requirements, loan assets movements, interest rate spread and capital adequacy calculations.

**Excessive risk concentration**

Concentrations arise when a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Management has recorded all loans and advances in a manner which allows for loans to be categorised by loan type, collateral and other variables in the Bank's Management Information System. This information can therefore be utilised by management to identify the Bank's excess risk concentration by the categories noted above.

## 22. FINANCIAL RISK MANAGEMENT (Continued)

### 22.2 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations to the Bank. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, and by monitoring exposures in relation to such limits.

*Maximum exposure to credit risk without taking account of collateral and other credit enhancements*

The maximum exposure to credit risk before any credit enhancement at December 31, 2020 is the carrying amount of the financial assets in the statement of financial position.

As at December 31, 2020, the Bank's cash and cash equivalents and certificates of deposit were held with five (5) financial institutions.

Deposits totaling $11,206,652 (2019: $20,234,460) or 4% (2019: 7%) of total assets are currently held at Bank of America, which has a long-term credit rating of A2 (2019: A2) per Moody's rating agency.

Deposits totaling $4,093,788 (2019: $8,301,128) or 1% (2019: 3%) of total assets are currently held at Banco Popular de Puerto Rico (Banco Popular), which has a long-term credit rating of B1 (2019: B1) per Moody's rating agency.

Deposits totaling $2,001,890 (2019: $9,412,776) or 1% (2019: 3%) of total assets are currently held at Raymond James Financial, which has a long-term credit rating of Baa1 (2019: Baa1) per Moody's rating agency.

Deposits totaling $138,308 (2019: $Nil) or 0.05% (2019: 0%) of total assets are currently held at St. Kitts-Nevis-Anguilla National Bank Limited, which is currently not rated by Moody's rating agency.

Deposits totaling $133,884 (2019: $46,617) or 0.05% (2019: 0.02%) of total assets are currently held at CIBC First Caribbean International Bank, which is currently not rated by Moody's rating agency.

*Collateral and other credit enhancements*

The amount and type of collateral required depends on an assessment of the credit risk of the customer. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main type of collateral obtained is mortgages over residential properties. The Bank also obtains guarantees from third parties related to its customers.

Management reviews the market value of collateral on non-performing loans during its review of the adequacy of the allowance for impairment losses. Updated appraisals are requested for developed properties with valuations older than one (1) year in order to determine the appropriate forced sale value for foreclosure proceedings. If the customer demonstrates their ability to remedy the loan without foreclosure, an updated appraisal is not obtained, unless requested by management.

It is the Bank's policy to dispose of repossessed properties as per legal guidelines. The proceeds are used to repay the outstanding loan balances and related expenses. In general, the Bank does not occupy repossessed properties for business use.

*Credit risk exposure for each internal risk rating*

For issuers of held-to-maturity investments, the Bank determines the internal rating based on external ratings of the respective issuers of the securities.

In respect of loans and advances to customers, the Bank currently assesses credit risk on loan applications using an internal risk rating based on capacity to repay the loan, capital invested, collateral and other conditions. The Bank's Management is actively reassessing the existing loan rating system.

*Expressed in United States Dollars*

## 22. FINANCIAL RISK MANAGEMENT (Continued)

### 22.2 Credit risk (continued)

The Bank's past due loans and advances to customers which are not considered impaired by management are noted below, excluding non-performing loans totaling $28,312,758 (2019: $24,664,020).

*As at December 31, 2020*

| | Less than 30 days | 30 to 59 days | 60 to 89 days | 90 days or more | Total |
|---|---|---|---|---|---|
| Commercial | 1,551,361 | 10,359,880 | 19,509,317 | - | 31,420,558 |
| Mortgages | 9,894,939 | 5,461,793 | 14,346,344 | - | 29,703,076 |
| Personal | 782,830 | 504,634 | 2,437,051 | - | 3,724,515 |
| | $12,229,130 | $16,326,307 | $36,292,712 | $ - | $64,848,149 |

During the year, the Bank renegotiated loans totaling $Nil (2019: $640,607).

*As at December 31, 2019*

| | Less than 30 days | 30 to 59 days | 60 to 89 days | 90 days or more | Total |
|---|---|---|---|---|---|
| Commercial | 1,339,464 | 6,126,316 | 1,713,990 | - | 9,179,770 |
| Mortgages | 13,075,233 | 2,478,618 | 515,378 | - | 16,069,229 |
| Personal | 2,981,622 | 433,315 | 66,504 | - | 3,481,441 |
| | $17,396,319 | $9,038,249 | $2,295,872 | $ - | $28,730,440 |

As at December 31, 2020, the credit ratings of issuers of the Bank's held-to-maturity investments (including interest receivable) as provided by the CariCRIS and Moody's rating agencies are as follows:

| 2020 | CariBBB Rated | A2 Rated | Baa1 Rated | Total |
|---|---|---|---|---|
| Government note securities | 10,100,015 | - | - | 10,100,015 |
| Corporate Bonds | - | 11,855,494 | 13,650,421 | 25,505,915 |
| Asset-backed securities | - | 21,930 | - | 21,930 |
| | $10,100,015 | $11,877,424 | $13,650,421 | $35,627,860 |

| 2019 | CariBBB Rated | A2 Rated | Baa1 Rated | Total |
|---|---|---|---|---|
| Government note securities | 10,100,000 | - | - | 10,100,000 |
| Corporate Bonds | - | 12,166,879 | 6,013,043 | 18,179,922 |
| Asset-backed securities | - | 258,325 | - | 258,325 |
| | $10,100,000 | $12,425,204 | $6,013,043 | $28,538,247 |

As detailed in Note 7, the government note was issued by the Government of St. Lucia and is repayable on October 8, 2021. The government note is 3.5% (2019: 3.6%) of total assets and therefore bankruptcy or insolvency of the issuer would have a moderate impact on the Bank's financial position.

*Expressed in United States Dollars*

## 22. FINANCIAL RISK MANAGEMENT (Continued)

### 22.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To date, the Bank's liquidity risk management has been confined to the monitoring approach, specifically, the liquid assets approach.

The Bank maintains liquid assets that can be drawn upon as needed, in the event of unforeseen interruption of cash flows. Liquid assets consist of cash and cash equivalents, short-term bank deposits and financial investments held-to-maturity. The Bank's financial investments held-to-maturity balance includes an ultra-short bond fund totalling $12.9M, which is open ended and allows investors to enter and exit at their convenience. The Board of Directors has determined that liquid assets held as the Bank's cash reserve, must be at least twenty percent (20%) of the Bank's short-term (less than 90 days) deposit liabilities. As at December 31, 2020, the ratio of liquid assets over short-term deposit liabilities was recorded at 28% (2019: 39%).

The table below shows a breakdown of the Bank's liquid assets:

| Liquid assets | **2020** | **2019** |
|---|---:|---:|
| Cash and cash equivalents | 19,501,879 | 20,058,555 |
| Due from banks | 148,763 | 19,690,766 |
| Financial investments held-to-maturity | 12,900,006 | - |
| | $32,550,648 | $39,749,321 |

*Concentration risk*

As at December 31, 2020, the Government held certificates of deposit totaling $28,107,611 (2019: $28,291,576) and its statutory bodies held certificates of deposit totaling $81,094,165 (2019: $88,294,246) and savings deposits totaling $6,892,405 and $306,223 respectively (2019: $8,584,856 and $469,253). Deposits issued to the Government and its statutory bodies represent 50% (2019: 55%) of deposits held, and withdrawal of these deposits would have a significant impact on the Bank's financial position.

*Analysis of financial liabilities by remaining contractual maturities*

The table below summarises the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, based on its deposit retention history, the Bank does not expect that many customers will request repayment at the contractual maturity date.

**2020**

| | **Within 3 months** | **Over 3 months, but within 1 year** | **Over 1 year but within 5 years** | **Over 5 years** | **Total** |
|---|---:|---:|---:|---:|---:|
| **Financial liabilities** | | | | | |
| Amounts owed to demand deposit holders | 4,907,347 | - | - | - | 4,907,347 |
| Amounts owed to savings depositors | 70,752,575 | - | - | - | 70,752,575 |
| Amounts owed to certificate of deposit holders | 40,016,177 | 109,675,245 | 8,726,205 | - | 158,417,627 |
| Trade and other payables | 1,888,106 | - | - | - | 1,888,106 |
| **Total** | $117,564,205 | $109,675,245 | $8,726,205 | $ - | $235,965,655 |

*Expressed in United States Dollars*

## 22. FINANCIAL RISK MANAGEMENT (Continued)

### 22.3 Liquidity risk and funding management (continued)

*Analysis of financial liabilities by remaining contractual maturities (continued)*

**2019**

| | Within 3 months | Over 3 months, but within 1 year | Over 1 year but within 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Amounts owed to demand deposit holders | 3,627,610 | - | - | - | 3,627,610 |
| Amounts owed to savings depositors | 64,693,415 | - | - | - | 64,693,415 |
| Amounts owed to certificate of deposit holders | 34,286,293 | 38,954,193 | 92,845,991 | - | 166,086,477 |
| Trade and other payables | 1,610,521 | - | - | - | 1,610,521 |
| **Total** | $104,217,839 | $38,954,193 | $92,845,991 | $ - | $236,018,023 |

The table below shows the contractual expiration by maturity of the Bank's commitments.

**2020**

| | Within 3 months | Over 3 months, but within 1 year | Over 1 year but within 5 years | Overs 5 years | Total |
|---|---|---|---|---|---|
| Commitments: | | | | | |
| Loans and advances | 6,878,183 | 2,619,086 | 1,873,159 | - | 11,370,428 |
| | $6,878,183 | $2,619,086 | $1,873,159 | $ - | $11,370,428 |

**2019**

| | Within 3 months | Over 3 months, but within 1 year | Over 1 year but within 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Commitments: | | | | | |
| Loans and advances | 6,385,078 | 3,443,385 | 195,160 | - | 10,023,623 |
| | $6,385,078 | $3,443,385 | $195,160 | $ - | $10,023,623 |

The Bank usually assigns a fixed term for disbursement of loan commitments as per project schedules.

*Expressed in United States Dollars*

**22. FINANCIAL RISK MANAGEMENT (Continued)**

**22.4 Market risk**

Market risk arises from the Bank's use of interest-bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Bank has no significant exposure to foreign currency risk and other price risk. It has minimal foreign currency denominated financial instruments and its investments are held-to-maturity.

*Interest rate risk*

The Bank is exposed to cash flow interest rate risk from floating rates on commercial loans and advances. The interest rates on mortgages, personal loans and advances and balances owed to savings depositors and certificate of deposit holders are generally fixed.

Variable interest rates are utilised for some commercial loans which are based on the US Prime Rate plus a fixed margin determined at the inception of the loan. Interest rates on other commercial loans are fixed for an agreed term, subject to renegotiation thereafter. The Bank has a negative interest rate gap within a year as it holds long-term loans and advances to customers; however, the balances owed to savings depositors and certificate of deposit holders are short-term. During periods of rising interest rates, interest rate movements generally will adversely affect the Bank. The Bank manages its interest rate risk by actively monitoring fluctuations in rates on earnings from investments placed with reputable financial institutions. On a periodic basis, the Bank also obtains comparable rates from local and regional banks, which are evaluated by Management prior to interest rate adjustments.

As at December 31, 2020, if market interest rates increased by 25 basis points (0.25%) (2019: 25 basis points), with all other variables held constant, the Bank's loss would have increased and total assets would have decreased by $484,014 (2019: $405,768). A decrease in market interest rates of 25 basis points (2019: 25 basis points), with all other variables held constant, would have an equal but opposite effect on the profit or loss and total assets of the Bank. A 25-basis point shift in market interest rates represents management's reasonable assumption for the possible change in interest rates.

The following table details the Bank's exposure to interest rate risk. It includes the Bank's interest-bearing financial assets and liabilities, stated at their carrying value, gross of any allowance for credit losses, categorised by the earlier of their contractual re-pricing or maturity date.

| **2020** | **Within 3 months** | **Over 3 months, but within 1 year** | **Over 1 year but within 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 19,501,879 | - | - | - | 19,501,879 |
| Due from banks | - | 148,763 | - | - | 148,763 |
| Gross loans and advances to customers | 16,852,655 | 5,979,386 | 27,614,139 | 167,661,617 | 218,107,797 |
| Regulatory deposit | - | - | - | 500,000 | 500,000 |
| Financial investments at amortised cost | 13,650,421 | 11,383,324 | 10,572,185 | 21,930 | 35,627,860 |
| **Total** | $50,004,955 | $17,511,473 | $38,186,324 | $168,183,547 | $273,886,299 |
| **Financial Liabilities** | | | | | |
| Amounts owed to savings depositors | 70,676,210 | - | - | - | 70,676,210 |
| Amounts owed to certificate of deposit holders | 40,007,746 | 108,368,075 | 8,046,939 | - | 156,422,760 |
| **Total** | $110,683,956 | $108,368,075 | $8,046,939 | $ - | $227,098,970 |
| **Total interest re-pricing gap** | $(60,679,001) | ($90,856,602) | $30,139,385 | $168,183,547 | $46,787,329 |

*Expressed in United States Dollars*

**22. FINANCIAL RISK MANAGEMENT (Continued)**

**22.4 Market risk (Continued)**

**2019**

| | Within 3 months | Over 3 months, but within 1 year | Over 1 year but within 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 20,058,555 | - | - | - | 20,058,555 |
| Due from banks | 3,124,406 | 16,566,360 | - | - | 19,690,766 |
| Gross loans and advances to customers | 16,984,749 | 13,438,314 | 30,481,829 | 145,874,136 | 206,779,028 |
| Regulatory deposit | - | - | - | 500,000 | 500,000 |
| Financial investments held-to-maturity | 1,984,303 | 14,128,740 | 12,166,879 | 258,325 | 28,538,247 |
| **Total** | 42,152,013 | 44,133,414 | 42,648,708 | 146,632,461 | 275,566,596 |
| **Financial Liabilities** | | | | | |
| Amounts owed to savings depositors | 64,617,854 | - | - | - | 64,617,854 |
| Amounts owed to certificate of deposit holders | 34,163,862 | 38,539,855 | 87,811,074 | - | 160,514,791 |
| **Total** | $98,781,716 | $38,539,855 | $87,811,074 | - | $225,132,645 |
| **Total interest re-pricing gap** | $(56,629,703) | $5,593,559 | $(45,162,366) | $146,632,461 | $50,433,951 |

*Prepayment risk*

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request payment earlier than expected.

There are cases where loans and advances to customers are paid out by other banks or repaid by the customer from their deposit accounts before the due date. To mitigate the possible loss in interest income, the Bank may implement an early repayment penalty clause built into the commitment letter. Based on the outstanding principal balance, the typical penalties are 6 months interest for prepayments made within one (1) year and 3 months interest for prepayments made after one (1) year or 1% of the outstanding principal balance, whichever is greater.

**22.5 Operational risk management**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When there is a breakdown in controls, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and assessment processes.

*Expressed in United States Dollars*

## 23. CAPITAL ADEQUACY REQUIREMENTS

The Bank is currently subject to financial supervision by the BVI FSC. The regulatory capital guidelines are intended to give effect to the Basel Capital Accord, which is primarily focused on ensuring that the capital resources of a bank are adequate to cover the credit risk associated with the on- and off- balance sheet exposures. For the Bank, Tier 1 (core) capital includes capital contributions and retained earnings and Tier 2 (supplementary) capital includes the component of preference shares classified as equity.

To meet minimum adequately capitalised regulatory requirements, an institution that holds a general banking licence must maintain a Tier 1 capital amount equal to or greater than $2,000,000 and a minimum risk weighted capital adequacy ratio of 12%. The Bank has adopted the regulatory requirements as its minimum standards. In addition, the Bank has further supplemented the risk-based capital adequacy guidelines by adopting a leverage ratio, defined as Tier 1 capital divided by average assets. The leverage ratio guidelines establish a minimum of 10% of the average assets.

The following presents the actual capital ratios and amounts for the Bank as at December 31, 2020:

| | **2020** | **2019** |
|---|---|---|
| Tier 1 Capital | 39,741,061 | 40,391,087 |
| Tier 2 Capital | 1,375,793 | 1,375,793 |
| Total Capital | 41,116,854 | 41,766,880 |
| Risk Weighted Capital Adequacy Ratio | 23.22% | 24.79% |
| Leverage Ratio | 13.92% | 15.06% |

## 24. CONTINGENCIES

Based on legal advice, the Bank has determined that there are no contingent liabilities resulting from pending legal cases.

## 25. SUBSEQUENT EVENTS

On January 22, 2021, Mr. Clarence Faulkner's term as Chairman of the Board of Directors expired. On even date, in accordance with Clause 11.8 of the Bank's Articles of Association, the Board of Directors resolved that Dr. Benedicta Samuels, Vice Chair, would assume the role of Chairman of the Board of Directors, effective January 23, 2021, until such time that an appointment is made by the Government of the Virgin Islands.

On March 24, 2021 the Board of Directors of the Bank resolved to pay a preferential dividend to the minority shareholder after confirming that the requisite solvency test was completed and satisfied. Payment of the preferential dividend in an aggregate amount of $247,643 was settled on March 31, 2021.