NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Audited Financial Statements

For The Year Ended December 31, 2018

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

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NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

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Board of Directors

Mr. Clarence Faulkner	Chairman
Dr. Benedicta Samuels	Vice Chair
Dr. Drexel Glasgow	Member
Ms. Nona Vanterpool	Member
Mr. Ivan Hudson Carr	Member
Ms. Antoinette Skelton	Member
Ms. Michelle Georges	Member
Mr. Mervyn Hope	Member
Ms. Joy Francis	Ex-Officio Member

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Independent Auditors' Report to the Board of Directors

Opinion

We have audited the financial statements of National Bank of the Virgin Islands Limited (the "Bank"), which comprise the statement of financial position as at December 31, 2018, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, 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 audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audits of the financial statements in the British Virgin Islands and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Independent Auditors' Report to the Board of Directors (continued)

Auditors' Responsibility 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG (BVI) LIMITED

September 30, 2019

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Financial Position
As at December 31, 2018
Expressed in United States Dollars

	Notes	2018	2017
ASSETS			
Cash and cash equivalents		19,835,475	34,159,357
Due from banks	3	14,404,064	3,147,368
Loans and advances to customers	4	189,997,655	171,232,684
Other customer receivables	6	348,212	217,837
Financial investments	7	15,564,658	10,648,712
Prepayments		427,373	371,293
Property and equipment	9	4,200,665	3,461,257
General banking licence deposit	10	500,000	500,000
TOTAL ASSETS		**$245,278,102**	**$223,738,508**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital and retained earnings			
Share capital	11	-	-
Additional paid-in capital	11	24,610,721	24,610,721
Retained earnings		15,914,725	11,990,026
Total share capital and retained earnings		40,525,446	36,600,747
Liabilities			
Amounts owed to demand deposit holders		2,015,872	1,178,678
Amounts owed to savings depositors	12	64,709,688	55,343,630
Amounts owed to certificate of deposit holders	13	132,588,402	125,789,369
Preference shares	11	4,127,379	4,127,379
Trade and other payables	14	1,311,315	698,705
Total liabilities		204,752,656	187,137,761
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**$245,278,102**	**$223,738,508**

APPROVED BY THE BOARD

Clarence Faulkner, *Chairman* Director

September 30, 2019 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, 2018
Expressed in United States Dollars

	Notes	2018	2017
Interest and similar income	15	11,816,511	9,096,379
Interest expense	16	(2,494,870)	(1,957,038)
Net interest income		9,321,641	7,139,341
Fees and commissions	17	734,441	495,986
Other operating income		109,266	128,833
Total operating income		10,165,348	7,764,160
Credit loss expenses	5	(1,865,442)	(3,836,383)
Net operating income		**8,299,906**	**3,927,777**
EXPENSES			
Depreciation	9	(557,732)	(520,196)
Other operating expenses	18	(6,586,354)	(5,928,158)
Total operating expenses		(7,144,086)	(6,448,354)
NET PROFIT/(LOSS) FOR THE YEAR		**$1,155,820**	**($2,520,577)**

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, 2018
Expressed in United States Dollars

	2018			
	Share Capital	Additional Paid-in Capital	Retained Earnings	Total
Balance at the beginning of the year	-	24,610,721	11,990,026	36,600,747
IFRS 9 adjustment due to ECL Allowance (See Note 2.5)	-	-	2,830,790	2,830,790
Net profit for the year	-	-	1,155,820	1,155,820
Preference share dividend	-	-	(61,911)	(61,911)
BALANCE AT THE END OF THE YEAR	**$ -**	**$24,610,721**	**$15,914,725**	**$40,525,446**

	2017			
	Share Capital	Additional Paid-in Capital	Retained Earnings	Total
Balance at the beginning of the year	-	13,738,100	14,510,603	28,248,703
Contributions to capital	-	10,872,621	-	10,872,621
Net loss for the year	-	-	(2,520,577)	(2,520,577)
BALANCE AT THE END OF THE YEAR	**$ -**	**$24,610,721**	**$11,990,026**	**$36,600,747**

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, 2018
Expressed in United States Dollars

	2018	2017
OPERATING ACTIVITIES		
Interest, commission and other income received	12,443,236	9,510,076
Interest paid	(1,520,595)	(1,682,088)
General and administrative expenses paid	(6,029,824)	(5,894,021)
	4,892,817	1,933,967
Changes in operating assets and liabilities:		
Net increase in loans advanced to customers	(17,874,155)	(11,344,271)
Net decrease in other receivables	-	195,000
Net increase in demand deposits	837,194	1,178,678
Net increase in savings deposits	9,366,058	1,446,116
Net increase/(decrease) in certificates of deposit	5,824,758	(9,242,000)
Cash flows from/(used in) operating activities	3,046,672	(15,832,510)
INVESTING ACTIVITIES		
Net movement on amounts due from banks	(11,111,614)	1,721,832
Net movement on financial investments	(4,906,015)	5,165,255
Purchase of fixed assets	(1,352,925)	(495,508)
Sales proceeds from disposal of fixed assets	-	50,774
Cash flows (used in)/from investing activities	(17,370,554)	6,442,353
FINANCING ACTIVITIES		
Capital contributions	-	10,872,621
Issuance of preference shares	-	4,127,379
Cash flows from financing activities	-	15,000,000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(14,323,882)	5,609,843
CASH AND CASH EQUIVALENTS		
At the beginning of the year	34,159,357	28,549,514
At the end of the year	**$19,835,475**	**$34,159,357**
CASH AND CASH EQUIVALENTS:		
Cash in hand and current account balances with other banks	17,488,019	27,939,782
Fixed deposits with brokers	332,923	152,562
Certificates of deposit with other banks	2,014,533	6,067,013
	$19,835,475	**$34,159,357**

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

1. ORGANIZATION 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, 2018 were authorized for issue in accordance with a resolution of the directors on September 30, 2019.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") 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 organized 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 Standards, amendments and interpretations to existing standards effective and relevant to the Bank

- **IFRS 9, Financial Instruments.** IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement.

  IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss ("ECL") model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

- **IFRS 15, Revenue from Contracts with Customers.** IFRS 15 was issued in May 2015 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

  IFRS 9 and 15 are addressed in Changes in accounting policies (Refer to Note 2.5). None of the other new standards, interpretations and amendments, which are effective for periods beginning after January 1, 2018, had any effect on the Bank's financial statements.

2. ACCOUNTING POLICIES (Continued)

2.3 Standards, amendments and interpretations to existing standards in issue but not yet effective and relevant to the Bank

The following new standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the Bank's future financial statements:

- **IFRS 16, Leases.** On January 13, 2017, the IASB issued IFRS 16, Leases, which requires a lessee to recognize an asset for the right to use the leased item and a liability for the present value of its future lease payments. IFRS 16 will result in leases being recorded on the Bank's statement of financial position, including those currently classified as operating leases, except for short-term leases and leases with low value of the underlying asset. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

  A lessee will apply IFRS 16 to its leases either retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying IFRS 16 being recognized at the date of initial application. IFRS 16 is effective for the Bank on January 1, 2019, with early adoption permitted from the date the Bank applies IFRS 15, Revenue from Contracts with Customers, on or before the date of initial application of IFRS 16. On transition, there are practical expedients available whereby the Bank will not need to reassess whether a contract is, or contains a lease, or reassess the accounting of sale leaseback transactions recognized prior to the date of initial application. The Bank is assessing the potential impact on the financial statements resulting from the application of IFRS 16.

None of the other new standards, interpretations and amendments, which are effective for periods beginning after January 1, 2019 and which have not been adopted early, are expected to have a material effect on the Bank's future financial statements.

2.4 Comparative figures

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

2.5 Changes in accounting policies

The Bank has adopted IFRS 9 and IFRS 15 from January 1, 2018. Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect its requirements. The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers recognized by the Bank.

The effect of initially applying IFRS 9 is mainly attributed to the following:

- a decrease in impairment losses recognized on financial assets
- additional disclosures related to IFRS 9

Except for the changes noted for the 2018 fiscal year, the Bank has consistently applied the accounting policies as outlined in the financial statements for all years presented.

IFRS 9 Financial Instruments

IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. The requirements of IFRS 9 represent a significant change from IAS 39 and bring fundamental changes to the accounting for financial assets.

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.5 Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

IFRS 9 introduced changes to the classification and measurement of financial assets and the accounting for impairment of financial assets from an incurred loss approach to a forward-looking ECL approach. New or amended disclosures have been provided for the current period, where applicable.

As permitted by the transition provisions of IFRS 9, the Bank elected not to restate comparative financial information for 2017 for financial instruments within the scope of IFRS 9. As such, the comparative financial information for 2017 is reported under IAS 39 and is not comparable to the information presented in 2018 under IFRS 9. Adjustments to carrying amounts of financial assets and liabilities arising from the adoption of IFRS 9 have been recognized in opening retained earnings as at January 1, 2018.

As at January 1, 2018 the Bank reclassified assets classified as loans and receivables and financial investments held-to-maturity, to assets at amortized cost. Despite the change in classification due to the removal of categories noted above (i.e. loans and receivables and financial investments held-to-maturity) for financial assets under IFRS 9, the measurement of these financial assets remains at amortized cost. As such, the only remeasurement noted with the adoption of IFRS 9 from IAS 39, is the recalculation of impairment losses from the incurred approach, to the ECL approach.

The table below presents a reconciliation between the carrying amounts under IAS 39 with the carrying amounts of the balances under IFRS 9 as at January 1, 2018, including the effect of reclassification and remeasurements.

	IAS 39 measurement at 31.12.17	Category	Reclassification	Remeasurement ECL	IFRS 9 carrying amount at 1.1.2018	Category
Financial Assets						
Cash and cash equivalents	34,159,357	L&R	-	-	34,159,357	AC
Due from banks	3,147,368	L&R	-	-	3,147,368	AC
Other customer receivables	217,837	L&R	-	-	217,837	AC
Loans and advances	171,232,684	L&R	-	2,830,790	174,063,474	AC
Financial investments	10,648,712	HTM	-	-	10,648,712	AC
General banking licence deposit	500,000	L&R	-	-	500,000	AC
Total	**219,905,958**		**-**	**2,830,790**	**222,736,748**	
Financial Liabilities						
Amounts owed to demand depositors	1,178,678	AC	-	-	1,178,678	AC
Amounts owed to savings depositors	55,343,630	AC	-	-	55,343,630	AC
Amounts owed to certificate of deposit holders	125,789,369	AC	-	-	125,789,369	AC
Preference shares liability	4,127,379	AC	-	-	4,127,379	AC
Trade and other payables	698,705	AC	-	-	698,705	AC
Total	**187,137,761**		**-**	**-**	**187,137,761**	

L&R - Loans & Receivables, HTM - Held-to-Maturity and AC - Amortized Cost

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.5 Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

The following table reconciles:

- the closing impairment allowance for financial assets under IAS 39 as at December 31, 2017; to
- the opening ECL allowance determined under IFRS 9 as at January 1, 2018.

	Provision for Impairment under IAS 39 at 31.12.17	Remeasurement at January 1, 2018	ECLs under IFRS 9
Provision for impairment of:			
Loans and advances	7,311,641	(2,830,790)	4,480,851
Total	**7,311,641**	**(2,830,790)**	**4,480,851**

2.6 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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

2. ACCOUNTING POLICIES (Continued)

2.6 Significant accounting judgments and estimates (continued)

Policy applicable from January 1, 2018:

Impairment losses on loans and advances

At each reporting date, the Bank assesses whether financial assets carried at amortized 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 reorganization; 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 2.10, Impairment of financial assets.

Policy applicable before January 1, 2018:

Impairment losses on loans and advances

The Bank assesses impairment for loans both individually and collectively. The main considerations for the loan impairment assessment include whether any payments of principal or interest are past due by 90 days or more, whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

Items considered when determining if a loan is impaired include:

- the sustainability of the customer's income;
- the customer's ability to improve performance once a financial difficulty has arisen;
- projected receipts and the timing of expected cash flows;
- the availability of other financial support; and
- the realizable value of collateral.

The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require enhanced attention.

Loans and advances that have been individually assessed and found not to be impaired are then grouped with assets having similar credit risk characteristics for further review. Categories utilized by the Bank to perform a collective assessment of impairment for the remaining loans are satisfactory, special mention, substandard, doubtful, loss and non-accrual. Each category is assigned a level of provision (of up to 100%), which is multiplied by the current balance to determine the allowance assigned to the group of loans.

2. ACCOUNTING POLICIES (Continued)

2.7 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 realized gains and losses on disposals or settlements of monetary assets and liabilities are recognized 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.

2.8 Financial assets and financial liabilities

Date of recognition

The Bank recognizes loans and advances and deposits on the date on which they are originated. All other financial assets and liabilities are initially recognized 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 - Policy applicable from January 1, 2018:

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 whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
   - the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

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 fair value through profit or loss.

2. ACCOUNTING POLICIES (Continued)

2.8 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

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 amortized cost based on the business model within which the assets are held and an assessment of whether contractual terms of the financial asset are solely for payments of principal and interest ("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 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.

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. periodical reset of interest rates).

2. ACCOUNTING POLICIES (Continued)

2.8 Financial assets and financial liabilities (continued)

Financial liabilities - Policy applicable from January 1, 2018:

All financial liabilities are measured at amortized cost, except for financial liabilities at fair value through profit or loss. 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 fair value through profit or loss (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 amortized cost or fair value through other comprehensive income to be measured at fair value through profit or loss 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.

Financial assets and liabilities – Policy applicable before January 1, 2018:

The Bank classifies its financial assets into one of the categories discussed below. The Bank's accounting policy for each category is as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured initially at fair value plus transaction costs that are directly related to their acquisition on issue.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization impact is included in 'Interest and similar income' and losses arising from impairment are recognized in 'Credit loss expenses' in the statement of comprehensive income.

The Bank's loans and receivables comprise of cash and cash equivalents, due from banks, loans and advances to customers, other customer receivables, other receivable and general banking licence deposit.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the Bank's management has the positive intention and ability to hold to maturity. These assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debt securities held to maturity is established when there is objective evidence that the Bank will not be able to collect all amounts due according to their original terms.

2. ACCOUNTING POLICIES (Continued)

2.8 Financial assets and financial liabilities (continued)

Financial Liabilities

These are financial instruments where the substance of the contractual arrangement results in the Bank having an obligation to deliver cash or another financial asset to the counterparty, in order to satisfy its obligation. The Bank recognizes its financial liabilities on the date it becomes a party to the contractual provisions of these instruments. Financial liabilities are not recognized unless one of the parties has performed. Financial liabilities are measured initially at fair value (transaction price) plus transaction costs that are directly attributable to the issue of the financial liability. After initial measurement, borrowings are subsequently measured at amortized cost using the effective interest rate method. The Bank's financial liabilities comprise of amounts owed to demand deposit holders, savings depositors, certificate of deposit holders, preference shares, and trade and other payables.

2.9 Derecognition of financial assets and financial liabilities

Financial assets

A financial asset is derecognized 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 derecognizes 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.

2.10 Impairment of financial assets

Policy applicable from January 1, 2018:

Loans and advances to customers

The Bank recognises loss allowances for 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 result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

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

2. ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (continued)

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" in that 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. The 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

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 customers 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.

2. ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (continued)

Measurement of ECL (continued)

Credit risk at subsequent measurement (continued):

The Bank categorizes 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 classified as non-performing which are classified as stage 3.

Migration Analysis:

The Bank is also mindful that there can 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, 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 was determined. 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

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 loan balance for each category in the respective year. 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 categorized 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.

2. ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (continued)

Measurement of ECL (continued)

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, 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 and if negative, an adjusting factor 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.

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. ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (continued)

Policy applicable before January 1, 2018:

Loans and advances to customers

The Bank assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired at each statement of financial position date. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments.

Allowance for impairment of loans and advances is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of the loans and advances. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan or receivable is impaired. When assessing loans individually for impairment, the amount of the allowance is the difference between the asset's carrying value and an estimated foreclosure value based on the appraised value of the collateral in accordance with IAS 39. Loans and advances that have been individually assessed, and found not to be impaired, are then grouped with assets having similar credit risk characteristics for further review. Categories utilized by the Bank to perform a collective assessment of impairment for the remaining loans are satisfactory, special mention, substandard, doubtful, loss and non-accrual. Each category is assigned a level of provision (currently up to 100%), which is multiplied by the current balance to determine the allowance assigned to the loan category.

The amount of the allowance is recognized in the statement of comprehensive income and is based on estimates made by management. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

The Bank's loans and advances include a sub-type classification identified as non-performing (or non-current) loans, which are classified as non-performing when payment of principal or interest is contractually 90 days or more past due or the loan matures with a balance.

Loans and advances are also classified in the "Watch List" when:

- payment of principal or interest is contractually 60 – 89 days (2017: 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.

When a loan is classified as non-performing, all accrued and accruing interest which has not yet been paid is provided for, to the extent the amount is determined as not recoverable. When a repayment is received against a non-current loan, the repayment is recorded as a reduction, first, against any outstanding interest receivable on the loan, and second, against the outstanding principal balance, unless an alternate allocation is approved by management. Non-performing loans may revert to performing status when all payments become current and remain current for 90 consecutive days.

2. ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (continued)

Loans and advances to customers (continued)

Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and/or all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to 'Provision for loan losses'.

As part of its operating activities, the Bank also restructures loans where the terms of contract(s) have been modified as a result of the weakened financial position of the borrower.

When a loan is restructured, all accrued and unpaid interest is either rolled up into a new loan contract along with the outstanding principal, or converted into a new separate loan or all interest, or portion thereof, is forgiven. Subsequent payments received on restructured loans are applied in the same way as for normal loans.

Restructured loans are moved to performing status, after remaining current for 90 consecutive days. Thereafter, loans are transferred to the Watch List for continued monitoring for a minimum of 90 days, during which time they must remain current. If the loans do not remain current, they will remain on the Watch List or be reclassified to non-performing status, as applicable.

Investments at amortized cost (2017: Held-to-maturity investments)

For investments at amortized cost, the Bank assesses individually, whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income. In the absence of estimated future cash flows, the Bank uses the instrument's fair value using an observable market price when calculating impairment.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the statement of comprehensive income.

2.11 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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.12 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.

2. ACCOUNTING POLICIES (Continued)

2.12 Fair value measurements (continued)

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 recognized 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.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss immediately. Rather, the difference is recognized 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.

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.

2.13 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, 2018 is $937,256 (2017: $1,182,534).

2. ACCOUNTING POLICIES (Continued)

2.14 Recognition of revenue

Revenue is recognized 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 recognized:

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 amortized 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 recognized 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 after fulfilling the requisite service.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise of 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.

2.16 Pension

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.

2.17 Taxation

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

2.18 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

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 recognized as an expense when incurred.

2. ACCOUNTING POLICIES (Continued)

2.19 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 recognized 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 amortization, if no impairment loss had been recognized.

2.20 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.

2.21 Operating Lease Agreements

Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recorded in the statement of comprehensive income on a straight-line basis over the lease term.

2.22 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 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.

2.23 Provisions

A provision is recognized 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 recognized as a finance cost.

Expressed in United States Dollars

3. DUE FROM BANKS

	2018	2017
Certificates of deposit	14,235,723	3,130,235
Add: interest receivable	168,341	17,133
	$14,404,064	$3,147,368

The Bank has pledged $100,000 of amounts due from banks as security for corporate credit cards with an aggregate credit limit of $90,000 (2017: $70,000) as at December 31, 2018.

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:

2018	Commercial	Mortgages	Personal	Total
Performing loans	48,174,716	100,323,875	19,051,260	167,549,851
Non-performing loans	15,329,175	12,300,781	670,783	28,300,739
Gross loans	63,503,891	112,624,656	19,722,043	195,850,590
Less: allowance for credit losses (Note 5)	(3,754,715)	(1,756,902)	(84,384)	(5,596,001)
	$59,749,176	$110,867,754	$19,637,659	$190,254,589
Add: interest receivable				3,396,382
Less: interest provision on restructured and non-performing loans				(3,653,316)
				$189,997,655

2017	Commercial	Mortgages	Personal	Total
Performing loans	36,920,479	93,303,226	15,649,167	145,872,872
Non-performing loans	17,209,431	13,498,676	2,226,306	32,934,413
Gross loans	54,129,910	106,801,902	17,875,473	178,807,285
Less: allowance for credit losses (Note 5)	(4,764,635)	(1,843,633)	(703,373)	(7,311,641)
Adjustment due to ECL allowance				
	$49,365,275	$104,958,269	$17,172,100	$171,495,644
Add: interest receivable				3,690,877
Less: interest provision on restructured and non-performing loans				(3,953,837)
				$171,232,684

In general, interest rates on loans and advances range between 3.5% and 14.0% (2017: 3.5% and 14.0%) per annum. The weighted average interest rate on these loans was 6.12% (2017: 6.05%).

Expressed in United States Dollars

4. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Interest accruals on non-performing loans

The interest receivable includes interest on non-performing loans totaling $2,557,395 (2017: $2,777,358) 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, 2018, loans and advances to customers includes $1,095,921 (2017: $1,117,090) 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 capitalized. As payments on these restructured loans are received, this provision is reduced in proportion to balance received and a corresponding amount of interest is recognized as income.

5. ECL ALLOWANCE (2017: IMPAIRMENT ALLOWANCE)

	2018	2017
Opening balance	7,311,641	3,612,840
Adjustment as at January 1, 2018 (Refer to Note 2.5)	(2,830,790)	-
ECL Allowance (2017: Impairment Allowance)	1,865,442	3,836,383
Releases	(221,067)	(137,582)
Write-offs	(529,225)	-
Ending balance	$5,596,001	$7,311,641

The British Virgin Islands were severely impacted by the passage of hurricanes Irma and Maria in September 2017. In order to reaffirm the Bank's commitment to its customers in the wake of these hurricanes and to allow them to recover from the severe natural disasters, the Bank granted an automatic 3-month moratorium (that is, a temporary suspension) on all personal loans and a voluntary 3-month moratorium on all residential mortgages and commercial loans. Under the moratorium, all principal repayments were deferred and the Bank waived all interest charges on the loan accounts for 3 months.

As a result of this moratorium, the Bank therefore waived its right to interest income of $440,982 (2017: $1,966,904) from loans participating in the 3-month moratorium.

Further, the hurricanes damaged collateral that the Bank holds against its loan portfolio. In estimating the provision for loan losses as a result of these damages, the Bank has made certain assumptions that were based amongst others, on: a) average insurance settlements; b) physical inspection findings of collateral with significant values; c) delinquency rates compared to pre-hurricane levels and d) estimated time and efforts to liquidate collateral.

Collateral repossessed

During the year, the Bank exercised its power of sale over real estate collateral with a market value of $300,000 (2017: $215,000).

Expressed in United States Dollars

6. OTHER CUSTOMER RECEIVABLES

	2018	2017
Commissions	269,133	132,971
Late charges	60,789	66,576
Insurance	18,250	18,250
Other	40	40
	$348,212	$217,837

7. FINANCIAL INVESTMENTS

	2018	2017
Asset-backed securities	434,179	528,165
Corporate bond	5,000,000	-
Government note	10,000,000	10,000,000
	15,434,179	10,528,165
Add: Interest receivable	130,479	120,547
	15,564,658	10,648,712
Less: Allowance for impairment	-	-
	$15,564,658	$10,648,712

The following table presents movement in held-to-maturity investments (excluding interest receivable).

	2018	2017
Beginning balance	10,528,165	15,693,419
Purchases	5,000,000	-
Sales and repayments	(93,986)	(5,165,254)
	$15,434,179	$10,528,165

Interest rates on the asset-backed securities range from 3.0% to 6.5% per annum. The remaining life of these securities range from 11.65 to 24.75 (2017: 0.23 to 25.75) 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 9, 2019 and carries an interest rate of 5.0%.

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 analyzes them by the level in the fair value hierarchy into which each fair value measurement is categorized:

	Level 1	Level 2	Level 3	Total	Carrying Value
At December 31, 2018					
Financial instruments not measured at fair value					
Assets					
Cash and cash equivalents	19,835,475	-	-	19,835,475	19,835,475
Due from banks	14,404,064	-	-	14,404,064	14,404,064
Loans and advances to customers	-	-	194,911,229	194,911,229	189,997,655
Other customer receivables	-	348,212	-	348,212	348,212
Financial investments	-	15,564,658	-	15,564,658	15,564,658
General banking licence deposit	-	500,000	-	500,000	500,000
Total	$34,239,539	$16,412,870	$194,911,229	$245,563,638	$240,650,064
Liabilities					
Amounts owed to demand deposit holders	-	2,015,872	-	2,015,872	2,015,872
Amounts owed to savings depositors	-	64,709,688	-	64,709,688	64,709,688
Amounts owed to certificate of deposit holders	-	133,129,910	-	133,129,910	132,588,402
Preference shares	-	4,127,379	-	4,127,379	4,127,379
Trade and other payables	-	1,311,315	-	1,311,315	1,311,315
Total	-	$205,294,164	-	$205,294,164	$204,752,656

	Level 1	Level 2	Level 3	Total	Carrying Value
At December 31, 2017					
Financial instruments not measured at fair value					
Assets					
Cash and cash equivalents	34,159,357	-	-	34,159,357	34,159,357
Due from banks	3,147,368	-	-	3,147,368	3,147,368
Loans and advances to customers	-	-	174,584,429	174,584,429	171,232,684
Other customer receivables	-	217,837	-	217,837	217,837
Financial investments	-	10,587,418	-	10,587,418	10,648,712
General banking licence deposit	-	500,000	-	500,000	500,000
Total	$37,306,725	$11,305,255	$174,584,429	$223,196,409	$219,905,958
Liabilities					
Amounts owed to demand deposit holders	-	1,178,678	-	1,178,678	1,178,678
Amounts owed to savings depositors	-	56,599,639	-	56,599,639	55,343,630
Amounts owed to certificate of deposit holders	-	125,053,694	-	125,053,694	125,789,369
Preference shares	-	4,127,379	-	4,127,379	4,127,379
Trade and other payables	-	698,705	-	698,705	698,705
Total	-	187,658,095	-	$187,658,095	$187,137,761

Expressed in United States Dollars

9. PROPERTY AND EQUIPMENT

	Motor Vehicles	Furniture & Fixtures	Computer Equipment	Leasehold Improvements	Land	Work in Progress	Total
Cost							
January 1, 2018	77,990	991,009	1,636,413	3,024,249	1,210,000	431,794	7,371,455
Additions	25,995	-	43,187	13,530	-	1,270,213	1,352,925
Disposals	-	(65,008)	(1,121)	(9,959)	-	-	(76,088)
Transfers	-	178,961	33,633	846,422	-	(1,059,016)	-
Write-downs	-	-	-	-	-	(55,785)	(55,785)
December 31, 2018	$103,985	$1,104,962	$1,712,112	$3,874,242	$1,210,000	$587,206	$8,592,507
Accumulated Depreciation							
January 1, 2018	7,853	705,215	1,366,155	1,830,975	-	-	3,910,198
Charge	16,097	77,812	145,949	317,874	-	-	557,732
Disposals	-	(65,008)	(1,121)	(9,959)	-	-	(76,088)
December 31, 2018	$23,950	$718,019	$1,510,983	$2,138,890	-	-	$4,391,842
Net Book Value							
December 31, 2018	$80,035	$386,943	$201,129	$1,735,352	$1,210,000	$587,206	$4,200,665
December 31, 2017	$70,137	$285,794	$270,258	$1,193,274	$1,210,000	$431,794	$3,461,257

There are no capitalized borrowing costs related to the acquisition of property and equipment during the year (2017: $Nil).

Expressed in United States Dollars

10. GENERAL BANKING LICENCE DEPOSIT

In accordance with the Banks and Trust Companies Act, 1990 (as amended), a deposit of $500,000 (2017: $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 of December 31, 2018 was 0.20% (2017: 0.11%).

11. SHARE CAPITAL

	2018	2017
Authorized:		
(a) Golden share 1 (2017: 1) voting, no par value	-	-
(b) Ordinary shares 20,000,000 (2017: 20,000,000) voting, no par value	-	-
(c) Convertible redeemable preference shares 10,000,000 (2017: 10,000,000) voting, US $1 par value	10,000,000	10,000,000
(d) Non-voting common shares 10,000,000 (2017: 10,000,000) US$1 par value	10,000,000	10,000,000
Issued and fully paid:		
(a) Golden share 1 (2017: 1)	-	-
(b) Ordinary shares 14,534,478 (2017: 14,534,478)	-	-
(c) Convertible redeemable preference shares 5,503,172 (2017: 5,503,172)	1,375,793	1,375,793

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 Social Security Board ("minority shareholder"). This share purchase represents a 33% interest in the Bank. The minority shareholder is entitled to a cumulative preferential dividend of 4.5% per annum on the par value of the preference shares. Due to the dividend requirement, $4,127,379 of the amount invested in preference shares has been recorded as a long-term liability based on the discounted cash flows of dividend payments.

As at December 31, 2018, the Government held 9,738,100 no par value ordinary shares for a consideration of $13,738,100 (2017: $13,738,100). The Government is the majority shareholder with a 67% interest in the Bank. In addition, the Government is the holder of the Golden share, which has voting rights but does not participate in the payment of dividends. The liability of the shareholders is limited by shares.

Holders of ordinary shares are entitled 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.

12. AMOUNTS OWED TO SAVINGS DEPOSITORS

	2018	2017
Individuals	50,013,411	49,440,208
Businesses	14,696,277	5,903,422
	$64,709,688	$55,343,630

The average effective rate of interest on customer deposits during the year was 0.51% (2017: 0.50%).

During the period ended December 31, 2018, the Bank transferred 1,307 (2017: 102) dormant accounts totaling $65,069 (2017: $70,205) 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

	2018	2017
Individuals	37,539,341	36,258,048
Businesses	93,080,059	88,535,700
	130,619,400	124,793,748
Add: Interest payable	1,969,002	995,621
	$132,588,402	$125,789,369

The average effective rate of interest on certificates of deposit during the year was 1.78% (2017: 1.34%)

14. TRADE AND OTHER PAYABLES

	2018	2017
Insurance escrow	531,578	363,990
Trade payables	509,030	311,854
Dividends payable	247,643	-
Accrued pension liability (Note 18)	23,064	22,861
	$1,311,315	$698,705

15. INTEREST AND SIMILAR INCOME

	2018	2017
Loans and advances to customers	10,883,006	8,201,885
Held-to-maturity investments	531,000	741,496
Cash and placements	401,508	152,463
Other	997	535
	$11,816,511	$9,096,379

As detailed in note 5, the Bank granted an automatic 3-month principal and interest moratorium (that is, a temporary suspension) on all personal loans and a voluntary 3-month moratorium on all residential mortgages and commercial loans. As a result of this moratorium, the Bank waived $440,982 (2017: $1,966,904) of interest that would otherwise have been accrued on these loans and recorded as interest income, had the moratorium not been granted.

16. INTEREST EXPENSE

	2018	2017
Certificate of deposit holders	2,001,638	1,727,453
Savings depositors	307,500	229,585
Preference share liability	185,732	-
	$2,494,870	$1,957,038

17. FEES AND COMMISSIONS

	2018	2017
Commitment fees	230,447	203,073
Commission earned on administrative services	136,152	123,426
Late charges	193,205	66,858
Other fees received	174,637	102,629
	$734,441	$495,986

Expressed in United States Dollars

18. OTHER OPERATING EXPENSES

	2018	2017
Staff costs	3,859,575	3,661,727
Rent	554,081	406,258
Professional fees	445,518	253,894
Repairs and maintenance	336,138	433,133
Licence fees and bank charges	330,817	190,661
Systems and communications	193,342	167,343
Marketing and advertising	158,495	134,746
Security services	149,338	162,405
Stationery and postage	130,966	57,239
Travel and entertainment	119,405	78,376
Electricity and water	100,618	95,940
Business insurance	96,705	98,268
Staff training	55,517	60,267
Write-down of fixed assets	1,050	-
Insurance write-offs	-	63,245
Disaster recovery expense	-	31,972
Other	54,789	32,684
	$6,586,354	$5,928,158

Analysis of staff costs:

	2018	2017
Wages and salaries	3,018,871	2,835,846
Social security and payroll taxes	241,469	237,039
Pension expenses	207,934	213,674
Directors' expenses	181,812	139,950
National health insurance	103,528	103,511
Staff insurance	58,011	41,503
Other staff-related costs	47,950	90,204
	$3,859,575	$3,661,727

During the year ended December 31, 2018, wages and salaries of $3,018,871 (2017: $2,835,846) were paid to an average of 56 employees (2017: 54).

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, 2018, pension expenses of $207,934 (2017: $213,674) were incurred.

19. RELATED PARTY TRANSACTIONS

(a) During the year ended December 31, 2018, the Bank did not approve any loans issued to current or former directors of the Bank and related persons. As at December 31, 2018, related party loans totaled $1,938,134 (2017: $2,016,474), which are included as part of loans and advances. The interest rates on these loans were recorded at 4.0% - 8.5% (2017: 4.0% - 8.5%).

(b) As at December 31, 2018, the Government held certificates of deposit totaling $24,614,008 (2017: $24,466,646). These certificates of deposit earn interest at rates ranging from 0.6% to 1.9% (2017: 0.6% to 1.9%) per annum. Additionally, Government statutory bodies held certificates of deposit totaling $64,249,856 (2017: $61,849,930) at interest rates ranging from 0.6% to 2.0% (2017: 0.6% to 2.0%).

(c) As at December 31, 2018, Government statutory bodies held savings deposits totaling $218,590 (2017: $216,522). These savings accounts earn interest at a rate of 0.5% (2017: 0.5%) per annum.

(d) As at December 31, 2018, directors' allowances totaled $167,985 (2017: $126,000). These amounts are included within directors' expenses.

20. COMMITMENTS

Undrawn loan commitments

As at December 31, 2018, the Bank had undrawn commitments under existing customer loan agreements totalling $3,940,896 (2017: $7,318,991).

Lease commitments

Refer to note 21.3 for schedule of future minimum rental payments for the Bank, under non-cancellable operating leases payable as at December 31, 2018.

21. FINANCIAL RISK MANAGEMENT

21.1 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.

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 authorized by the Board to undertake the strategic management of the balance sheet, aimed at achieving sustained growth, profitability 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.

21. FINANCIAL RISK MANAGEMENT (Continued)

21.1 Introduction (continued)

Risk Management Structure (continued)

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 should monitor 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 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 categorized by loan type, collateral and other variables in the Bank's Management Information System. This information can therefore be utilized by management to identify the Bank's excess risk concentration by the categories noted above.

21.2 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, 2018 is the carrying amount of the financial assets in the statement of financial position.

As at December 31, 2018, the Bank's cash and cash equivalents and certificates of deposit were held with three (3) financial institutions.

Expressed in United States Dollars

21. FINANCIAL RISK MANAGEMENT (Continued)

21.2 Credit risk (continued)

Deposits totalling $16,648,227 (2017: $9,264,214) or 7% (2017: 4%) of total assets are currently held at Bank of America, which has a long-term credit rating of A3 (2017: A3) per Moody's rating agency.

Deposits totalling $9,786,864 (2017: $23,585,032) or 4% (2017: 10%) of total assets are currently held at Banco Popular de Puerto Rico (Banco Popular), which has a long-term credit rating of B2 (2017: B2) per Moody's rating agency.

Deposits totalling $6,175,288 (2017: $2,006,796) or 3% (2017: 1%) of total assets are currently held at Raymond James Financial, which has a long-term credit rating of Baa1 (2017: Baa1) per 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 their 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.

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 $28,300,739 (2017: $32,934,413).

As at December 31, 2018

	Less than 30 days	**30 to 59 days**	**60 to 89 days**	**90 days or more**	**Total**
Commercial	10,490,742	4,186,286	3,724,010	-	18,401,038
Mortgages	14,578,859	2,980,896	3,256,121	-	20,815,876
Personal	1,782,362	696,275	179,782	-	2,658,419
	$26,851,963	$7,863,457	$7,159,913	-	$41,875,333

During the year, the Bank renegotiated loans totaling $148,220 (2017: $2,767,974).

Expressed in United States Dollars

21. FINANCIAL RISK MANAGEMENT (Continued)

21.2 Credit risk (continued)

As at December 31, 2017

	Less than 30 days	30 to 59 days	60 to 89 days	90 days or more	Total
Commercial	12,202,367	1,504,588	1,276,778	-	14,983,733
Mortgages	7,567,320	2,160,304	3,904,545	-	13,632,169
Personal	1,598,428	182,363	19,237	-	1,800,028
	$21,368,115	$3,847,255	$5,200,560	-	$30,415,930

As at December 31, 2018, 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:

2018	CariBBB Rated	Aaa Rated	Not Rated	Total
Government note securities	10,125,000	-	-	10,125,000
Corporate Bonds	-	5,000,000	-	5,000,000
Asset-backed securities	-	439,658	-	439,658
	$10,125,000	$5,439,658	$ -	$15,564,658

2017	CariBBB Rated	Aaa Rated	Not Rated	Total
Government note securities	10,115,069	-	-	10,115,069
Asset-backed securities	-	193,963	339,680	533,643
	$10,115,069	$193,963	$339,680	$10,648,712

As detailed in Note 8, the government note was issued by the Government of St. Lucia and is repayable on October 9, 2019. The government note is 4% (2017: 5%) of total assets and therefore bankruptcy or insolvency of the issuer would have a moderate impact on the Bank's financial position.

21.3 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 and short-term bank deposits. 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, 2018, the ratio of liquid assets over short-term deposit liabilities was recorded at 31% (2017: 35%).

Expressed in United States Dollars

21. FINANCIAL RISK MANAGEMENT (Continued)

21.3 Liquidity risk and funding management (continued)

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

Liquid assets	2018	2017
Cash and cash equivalents	19,835,475	34,159,357
Due from bank	14,404,064	3,147,368
	$34,239,539	$37,306,725

Concentration risk

As at December 31, 2018, the Government held certificates of deposit totaling $24,614,008 (2017: $24,466,646) and its statutory bodies held certificates of deposit totaling $64,249,856 (2017: $61,849,930) and savings deposits totaling $218,590 (2017: $216,522). Deposits issued to the Government and its statutory bodies represent 45% (2017: 47%) of deposits held, and withdrawal of these deposit 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.

2018	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	2,015,872	-	-	-	2,015,872
Amounts owed to savings depositors	64,785,843	-	-	-	64,785,843
Amounts owed to certificate of deposit holders	43,154,797	76,476,056	14,564,195	-	134,195,048
Trade and other payables	1,311,315	-	-	-	1,311,315
Total	$111,267,827	$76,476,056	$14,564,195	-	$202,308,078

Expressed in United States Dollars

21. FINANCIAL RISK MANAGEMENT (Continued)

21.3 Liquidity risk and funding management (continued)

2017

	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	1,178,678	-	-	-	1,178,678
Amounts owed to savings depositors	55,422,846	-	-	-	55,422,846
Amounts owed to certificate of deposit holders	49,825,959	28,864,650	50,022,847	-	128,713,456
Trade and other payables	698,705	-	-	-	698,705
Total	$107,126,188	$28,864,650	$50,022,847	-	$186,013,685

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

2018	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	2,187,772	1,753,124	-	-	3,940,896
Lease commitments	134,888	404,665	1,983,495	1,832,912	4,355,960
	$2,322,660	$2,157,789	$1,983,495	$1,832,912	$8,296,856

2017	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	2,461,876	4,546,488	310,627	-	7,318,991
Lease commitments	153,583	412,860	1,983,495	2,319,786	4,869,724
	$2,615,459	$4,959,348	$2,294,122	$2,319,786	$12,188,715

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

Expressed in United States Dollars

21. FINANCIAL RISK MANAGEMENT (Continued)

21.4 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 utilized for most commercial loans which are based on the US Prime Rate plus a fixed margin determined at the inception of the loan. 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, 2018, if market interest rates increased by 25 basis points (0.25%) (2017: 25 basis points), with all other variables held constant, the Bank's loss would have increased and total assets would have decreased by $348,437 (2017: $287,844). A decrease in market interest rates of 25 basis points (2017: 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 assumption for the reasonably 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, categorized by the earlier of their contractual re-pricing or maturity date.

2018	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	19,835,475	-	-	-	19,835,475
Due from banks	11,049,392	3,354,672	-	-	14,404,064
Gross loans and advances to customers	19,577,463	17,004,041	17,569,510	141,699,576	195,850,590
General banking licence deposit	-	-	-	500,000	500,000
Financial investments at amortized cost	-	10,125,000	5,000,000	439,658	15,564,658
Total	50,462,330	30,483,713	22,569,510	142,639,234	246,154,787
Financial Liabilities					
Amounts owed to savings depositors	64,709,688	-	-	-	64,709,688
Amounts owed to certificate of deposit holders	43,014,236	75,733,615	13,840,551	-	132,588,402
Total	107,723,924	75,733,615	13,840,551	-	197,298,090
Total interest re-pricing gap	$(57,261,594)	$(45,249,902)	$8,728,959	$142,639,234	$48,856,697

Expressed in United States Dollars

21. FINANCIAL RISK MANAGEMENT (Continued)

21.4 Market risk (Continued)

2017	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	34,159,357	-	-	-	34,159,357
Due from banks	-	3,147,368	-	-	3,147,368
Gross loans and advances to customers	14,514,090	14,137,841	17,032,410	133,122,944	178,807,285
General banking licence deposit	-	-	-	500,000	500,000
Financial investments held-to-maturity	120,547	10,000,000	-	528,165	10,648,712
Total	48,793,994	27,285,209	17,032,410	134,151,109	227,262,722
Financial Liabilities					
Amounts owed to savings depositors	55,343,630	-	-	-	55,343,630
Amounts owed to certificate of deposit holders	49,663,894	28,584,813	47,540,662	-	125,789,369
Total	105,007,524	28,584,813	47,540,662	-	181,132,999
Total interest re-pricing gap	$(56,213,530)	$(1,299,604)	$(30,508,252)	$134,151,109	$46,129,723

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 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.

21.5 Operational risk

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

22. 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 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, 2018:

	2018	**2017**
Tier 1 Capital	39,149,653	35,224,954
Tier 2 Capital	1,375,793	1,375,793
Total Capital	40,525,446	36,600,747
Risk Weighted Capital Adequacy Ratio	26.50%	27.41%
Leverage Ratio	16.23%	15.55%

23. CONTINGENCIES

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

24. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated and disclosed all material subsequent events up to September 30, 2019, which is the date that the financial statements were available to be issued.