NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Audited Financial Statements

For the Year Ended December 31, 2019

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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
Mrs. Michelle Todman-Smith	Member
Mr. Mervyn Hope	Member
Ms. Joy Francis	Ex-Officio Member

Registered Office

Harneys Corporate Services Limited
Craigmuir Chambers
P.O. Box 71
Road Town, Tortola VG1110
British Virgin Islands

Tel: (284) 494 3783
Fax: (284) 494 2220
www.bdo.vg

PO Box 34
Sea Meadow House
Tobacco Wharf
Road Town
Tortola VG1110
British Virgin Islands

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Bank of the Virgin Islands Limited (the "Bank"), which comprise of the statement of financial position as at December 31, 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Bank for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on September 30, 2019.

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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Independent Auditor's Report (Continued)

Report on the Audit of the Financial Statements (Continued)

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

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

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

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

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

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

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

BDO Limited

Tortola, British Virgin Islands
October 13, 2020

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Financial Position
As at December 31, 2019
Expressed in United States Dollars

	Notes	2019	2018
ASSETS			
Cash and cash equivalents		20,058,555	19,835,475
Due from banks	3	19,690,766	14,404,064
Loans and advances to customers	4	201,449,748	189,997,655
Other customer receivables	6	567,351	348,212
Financial investments	7	28,538,247	15,564,658
Prepayments		598,839	427,373
Property and equipment	9	8,561,279	4,200,665
Regulatory deposit	10	500,000	500,000
TOTAL ASSETS		**$279,964,785**	**$245,278,102**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	1,375,793	1,375,793
Additional paid-in capital	11	23,234,928	23,234,928
Retained earnings		17,156,159	15,914,725
Total capital and reserves		41,766,880	40,525,446
Liabilities			
Amounts owed to demand deposit holders		3,627,610	2,015,872
Amounts owed to savings depositors	12	64,617,854	64,709,688
Amounts owed to certificate of deposit holders	13	160,514,791	132,588,402
Preference shares	11	4,127,379	4,127,379
Lease liabilities	14	3,699,750	-
Trade and other payables	15	1,610,521	1,311,315
Total liabilities		238,197,905	204,752,656
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**$279,964,785**	**$245,278,102**

APPROVED BY THE BOARD

______________________ Director
Clarence Faulkner, *Chairman*

October 13, 2020 ______________ 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, 2019
Expressed in United States Dollars

	Notes	2019	2018
Interest and similar income	16	13,661,722	11,816,511
Interest expense	17	(3,656,241)	(2,494,870)
Net interest income		10,005,481	9,321,641
Fees and commissions	18	652,735	734,441
Other operating income		199,456	109,266
Total operating income		10,857,672	10,165,348
Credit loss expenses	5	(653,023)	(1,865,442)
Net operating income		**10,204,649**	**8,299,906**
EXPENSES			
Depreciation	9	(1,167,056)	(557,732)
Other operating expenses	19	(7,734,248)	(6,586,354)
Total operating expenses		(8,901,304)	(7,144,086)
NET PROFIT FOR THE YEAR		**$1,303,345**	**$1,155,820**

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, 2019
Expressed in United States Dollars

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

	2018			
	Share Capital	Additional Paid-in Capital	Retained Earnings	Total
Balance at the beginning of the year	1,375,793	23,234,928	11,990,026	36,600,747
IFRS 9 adjustment due to ECL Allowance	-	-	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	**$1,375,793**	**$23,234,928**	**$15,914,725**	**$40,525,446**

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, 2019
Expressed in United States Dollars

	2019	2018
OPERATING ACTIVITIES		
Interest, commission and other income received	14,491,428	12,443,236
Interest paid	(3,390,094)	(1,520,595)
General and administrative expenses paid	(7,606,508)	(6,029,824)
	3,494,826	4,892,817
Changes in operating assets and liabilities:		
Net increase in loans and advances to customers	(12,384,861)	(17,874,155)
Net increase in demand deposit holders	1,611,738	837,194
Net (decrease)/increase in savings deposit holders	(91,834)	9,366,058
Net increase in certificates of deposit holders	27,660,242	5,824,758
Cash flows from operating activities	20,290,111	3,046,672
INVESTING ACTIVITIES		
Net movement on amounts due from banks	(5,340,011)	(11,111,614)
Net movement on financial investments	(12,837,189)	(4,906,015)
Purchase of property and equipment	(1,671,754)	(1,352,925)
Sales proceeds from disposal of property and equipment	29,566	-
Cash flows used in investing activities	(19,819,388)	(17,370,554)
FINANCING ACTIVITIES		
Preference shares dividend	(247,643)	-
Cash flows used in financing activities	(247,643)	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	223,080	(14,323,882)
CASH AND CASH EQUIVALENTS		
At the beginning of the year	19,835,475	34,159,357
At the end of the year	**$20,058,555**	**$19,835,475**
CASH AND CASH EQUIVALENTS:		
Cash in hand and current account balances with other banks	9,998,223	17,488,019
Fixed deposits with brokers	10,060,332	332,923
Certificates of deposit with other banks	-	2,014,533
	$20,058,555	**$19,835,475**

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

1. ORGANISATION AND ACTIVITIES

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

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

The financial statements for the year ended December 31, 2019 were authorised for issue in accordance with a resolution of the directors on October 13, 2020.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

2.2 Standards, amendments and interpretations to existing standards effective and relevant to the Bank

- **IFRS 16, Leases.** IFRS 16 has replaced IAS 17 Leases and IFRIC 4, for determining whether an arrangement contains a Lease.

  IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Bank does not acting as a lessor in any leasing activities.

  IFRS 16 is 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, 2019, had any effect on the Bank's financial statements.

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

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods; the Bank has decided not to adopt them early. The most significant of these are as follows, which are effective for the period beginning January 1, 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- Revised Conceptual Framework for Financial Reporting

The Bank is currently assessing the impact of these new accounting standards, amendments and interpretations.

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

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

IFRS 16 Leases

The Bank adopted IFRS 16 with a transition date of January 1, 2019. The Bank has chosen not to restate comparatives on adoption of the above standard, and therefore, the revised requirements are not reflected in the prior year's financial statements.

Transition Method and Practical Expedients Utilised

The Bank adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (January 1, 2019), without restatement of comparative figures. The Bank has reassessed whether a contract is or contains a lease at the date of initial application. The definition of a lease under IFRS 16 was applied to existing contracts entered into on or before January 1, 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Bank applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Rely on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and
- Apply the exemption, which allows for non-recognition of right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Bank previously classified leases as operating leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most leases. However, the Bank has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

On adoption of IFRS 16, the Bank recognised right-of-use assets and lease liabilities as follows:

Classification under IAS 17	Right-of-use assets	Lease liabilities
Operating leases not meeting the definition of investment property in IAS 40.	Office space: Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.	Measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as at January 1, 2019. The Bank's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted average rate applied was 4.5%.

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.5 Changes in accounting policies (continued)

The following table presents the impact of adopting IFRS 16 on the Statement of Financial Position as at January 1, 2019:

	December 31, 2018 as originally presented	**IFRS 16**	**January 1, 2019**
Assets			
Property and equipment (addition of Right-of-use assets)	$4,200,665	$4,087,421	$8,288,086
Liabilities			
Lease liabilities (a)	$ -	$4,087,421	$4,087,421
Equity			
Retained earnings	$15,914,725	$ -	$15,914,725

(a) The following table reconciles the minimum lease commitments disclosed in the Bank's December 31, 2018 annual financial statements to the amount of lease liabilities recognised on January 1, 2019:

	January 1, 2019
Minimum operating lease commitments at 31 December 2018	4,355,960
Plus: contracts not identified as leases under IAS 17 and IFRIC 4	45,000
Plus: effect of extension options reasonably certain to be exercised	413,521
Undiscounted lease payments	4,814,481
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(727,060)
Lease liabilities for leases classified as operating type under IAS 17	$4,087,421

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 recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. ACCOUNTING POLICIES (Continued)

2.6 Significant accounting judgments and estimates (continued)

Going concern

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

Impairment losses on loans and advances

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

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

- significant financial difficulty of a borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that is overdue for 90 days or more is considered credit impaired. For information on the calculation of impairment losses, refer to note 2.10, Impairment of financial assets.

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

2.8 Financial assets and financial liabilities

Date of recognition

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

2. ACCOUNTING POLICIES (Continued)

2.8 Financial assets and financial liabilities (continued)

Initial recognition of financial instruments

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

Classification of financial assets and financial liabilities

Financial assets

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

1. Amortised cost — a financial asset is measured at amortised cost if both of the following conditions are met:
   - the asset is held within a business model which has an objective to hold assets in order to collect contractual cash flows; and
   - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.
2. Fair value through other comprehensive income ("FVOCI") — financial assets are classified and measured at fair value through other comprehensive income if both of the following conditions are met:
   - they are held in a business model where the objective is achieved by collecting contractual cash flows and selling financial assets; and
   - the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.
3. Fair value through profit or loss ("FVTPL") — any financial assets that are not held in one of the two business models mentioned above are measured at FVTPL.

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

Business model assessment

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

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's Management;

2. ACCOUNTING POLICIES (Continued)

2.8 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

Business model assessment (continued)

- 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. periodic reset of interest rates).

Financial liabilities

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

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

Fair value option

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

2. ACCOUNTING POLICIES (Continued)

2.9 Derecognition of financial assets and financial liabilities

Financial assets

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

Financial liabilities

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

2.10 Impairment of financial assets

Loans and advances to customers

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

- financial assets that are debt instruments; and
- loan commitments issued.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

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

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

Measurement of ECL

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

Profile Segmentation:

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

2. ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (continued)

Measurement of ECL (continued)

Staging:

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

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

A financial asset also moves to stage 2 of the impairment model once there has been a significant increase in credit risk ("SICR") compared to the credit risk present at the time of initial recognition. One such factor identified as causing a significant increase in credit risk, is the customer's inability to renew insurance coverage for collateral pledged.

Movement to stage 3 in the impairment model occurs when a financial asset becomes credit impaired or non-performing after payment of principal or interest is contractually 90 Days or more past due or the loan matures with a balance.

Credit risk at initial recognition:

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

Credit risk at subsequent measurement:

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

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

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

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

2. ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (continued)

Measurement of ECL (continued)

Credit risk at subsequent measurement (continued):

Migration Analysis:

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

Estimated Credit Loss Calculation:

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

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

Historical Credit Losses:

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

Estimated Future Write-offs:

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

Uninsured Collateral:

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

2. ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (continued)

Measurement of ECL (continued)

Other Macro-Economic Factors:

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

Presentation of allowance for ECL in the Statement of Financial Position

Loss allowances for ECL are presented in the Statement of Financial Position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: as a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

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.

2.11 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 recognised amounts and there is an intention to settle on a net basis, or to realise 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.

2. ACCOUNTING POLICIES (Continued)

2.12 Fair value measurements (continued)

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

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

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

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

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

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

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

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

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

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, 2019 is $856,288 (2018: $937,256).

2.14 Recognition of revenue

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

Interest and similar income

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

Fee and commission income

Fees and commissions are recognised on an accrual basis when the service has been provided. The Bank earns fees and commissions from a range of services it provides to its customers. Fees and commissions that are linked to provision of a service are recognised 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 plan

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

2.17 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
Right-of-use assets	2-15 years

2. ACCOUNTING POLICIES (Continued)

2.18 Property and equipment (continued)

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

2.19 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 recognised in the Statement of Comprehensive Income whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is estimated as the greater of an asset's net selling price and value in use. If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the Statement of Comprehensive Income. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.20 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 Leases

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

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

IFRS 16 was adopted as at January 1, 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at January 1, 2019, see Note 2.5. The following policies apply subsequent to the date of initial application, January 1, 2019.

Initial recognition

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

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

Subsequent measurement

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

2. ACCOUNTING POLICIES (Continued)

2.21 Leases (continued)

Subsequent measurement (continued)

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

Renegotiation of contractual terms

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

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

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

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

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

Nature of leasing activities (in the capacity as lessee)

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

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

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

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.21 Leases (continued)

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

31 December 2019	Lease Contracts Number	Fixed payments %	Variable payments %	Sensitivity
Property leases with payments linked to inflation	2	-	90%	158,490
Property leases with periodic uplifts to market rentals	2	-	9%	16,424
Leases of plant and equipment	1	1%		-
Total	**5**	**1%**	**99%**	**$174,914**

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

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

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

As at December 31, 2019 the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses because on both dates it was considered reasonably certain that the Bank would not exercise its right to exercise any right to break the lease. Total lease payments of $937,800 (2018 – $937,800) are potentially avoidable were the Bank to exercise break clauses at the earliest opportunity.

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 the first point or is an entity under the control, joint control or significant influence of such individuals.

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

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.23 Provisions

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

3. DUE FROM BANKS

	2019	2018
Certificates of deposit	19,575,734	14,235,723
Add: interest receivable	115,032	168,341
	$19,690,766	$14,404,064

The Bank has pledged $100,000 of amounts due from banks as security for corporate credit cards with an aggregate credit limit of $95,000 (2018: $90,000) as at December 31, 2019.

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:

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

Expressed in United States Dollars

4. LOANS AND ADVANCES TO CUSTOMERS (Continued)

2018	Commercial	Residential Mortgages	Other 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)
Adjustment due to ECL allowance				
	$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

In general, interest rates on loans and advances range between 3.5% and 14.0% (2018: 3.5% and 14.0%) per annum. The weighted average interest rate on these loans was 5.95% (2018: 6.12%).

Interest accruals on non-performing loans

The interest receivable includes interest on non-performing loans totaling $2,498,240 (2018: $2,557,395) 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, 2019, loans and advances to customers includes $795,383 (2018: $1,095,921) of interest which was outstanding at the date of restructuring. This interest is included as part of the restructured loans and advances as principal or converted into new loans. A corresponding provision has been recorded, which offsets the interest capitalised. As payments on these restructured loans are received, this provision is reduced in proportion to the restructured balance and a corresponding amount of interest is recognised as income.

Expressed in United States Dollars

5. ECL ALLOWANCE

	2019	2018
Opening balance	5,596,001	7,311,641
Adjustment as at January 1, 2018	-	(2,830,790)
ECL Allowance	653,023	1,865,442
Releases	(4,834)	(221,067)
Write-offs	(1,151,051)	(529,225)
Ending balance	$5,093,139	$5,596,001

The British Virgin Islands was 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 $Nil (2018: $440,982) 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 $281,100 (2018: $300,000).

6. OTHER CUSTOMER RECEIVABLES

	2019	2018
Merchant income	531,084	-
Commissions	140	269,133
Late charges	36,047	60,789
Insurance	-	18,250
Other	80	40
	$567,351	$348,212

Expressed in United States Dollars

7. FINANCIAL INVESTMENTS

	2019	2018
Asset-backed securities	258,325	434,179
Corporate bonds	18,013,043	5,000,000
Government note	10,000,000	10,000,000
	28,271,368	15,434,179
Add: Interest receivable	266,879	130,479
	28,538,247	15,564,658
Less: Allowance for impairment	-	-
	$28,538,247	$15,564,658

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

	2019	2018
Beginning balance	15,434,179	10,528,165
Purchases	18,013,043	5,000,000
Sales and repayments	(5,175,854)	(93,986)
	$28,271,368	$15,434,179

Interest rates on the asset-backed securities range from 3.0% to 6.5% per annum. The remaining life of these securities range from 10.63 to 23.75 (2018: 11.65 to 24.75) years.

Interest rates on the corporate bonds range from 2.1% to 5.0% per annum. The remaining life of these bonds ranges from 0.40 to 4.59 years.

The government note is issued by the Government of St. Lucia and the balance of $10,000,000 was renewed for a term of 1 year. The government note matures on October 8, 2020 and carries an interest rate of 4.0% (2018: 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 analyses them by the level in the fair value hierarchy into which each measurement is categorised:

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

	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

Expressed in United States Dollars

9. PROPERTY AND EQUIPMENT

	Motor Vehicles	Furniture & Fixtures	Computer Equipment	Leasehold Improvements	Land	Work in Progress	Right-of-use Assets	Total
Cost								
January 1, 2019	103,985	1,104,962	1,712,112	3,874,242	1,210,000	587,206	4,087,421	12,679,928
Additions	35,150	8,950	123,404	66,056	-	1,438,194	-	1,671,754
Disposals	(35,990)	-	-	-	-	-	-	(35,990)
Transfers	-	57,798	2,871	9,096	-	(69,765)	-	-
Write-downs	(4,000)	-	-	-	-	(205,311)	-	(209,311)
December 31, 2019	99,145	1,171,710	1,838,387	3,949,394	1,210,000	1,750,324	4,087,421	14,106,381
Accumulated Depreciation								
January 1, 2019	23,950	718,019	1,510,983	2,138,890	-	-	-	4,391,842
Charge	15,347	107,564	127,779	436,121	-	-	480,245	1,167,056
Disposals	(13,796)	-	-	-	-	-	-	(13,796)
December 31, 2019	25,501	825,583	1,638,762	2,575,011	-	-	480,245	5,545,102
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, 2019	$73,644	$346,127	$199,625	$1,374,383	$1,210,000	$1,750,324	$3,607,176	$8,561,279

There are no capitalised borrowing costs related to the acquisition of property and equipment during the year (2018: $Nil).

Expressed in United States Dollars

10. REGULATORY DEPOSIT

In accordance with the Banks and Trust Companies Act, 1990 (as amended), a deposit of $500,000 (2018: $500,000) has been lodged with the British Virgin Islands Financial Services Commission ("BVI FSC"). The deposit is in the form of a non-negotiable certificate of indebtedness. Interest is earned semi-annually at a rate fixed periodically by the BVI FSC. The average rate of interest as at December 31, 2019 was 0.75% (2018: 0.20%).

11. CAPITAL AND RESERVES

	2019	2018
(a) Authorised share capital:		
• Golden share 1 (2018: 1) voting, no par value	-	-
• Ordinary shares 20,000,000 (2018: 20,000,000) voting, no par value	-	-
• Convertible redeemable preference shares 10,000,000 (2018: 10,000,000) voting, US $1 par value	10,000,000	10,000,000
• Non-voting common shares 10,000,000 (2018: 10,000,000) US$1 par value	10,000,000	10,000,000
(b) Issued and fully paid share capital:		
• 1 (2018: 1) Golden share of no par value issued to the Government	-	-
• Ordinary shares 14,534,478 (2018: 14,534,478)	-	-
• Convertible redeemable preference shares 5,503,172 (2018: 5,503,172)	1,375,793	1,375,793
(c) Additional paid in capital:		
• 9,738,100 ordinary shares of no par value issued to the Government	13,738,100	13,738,100
• 4,796,378 ordinary shares of no par value issued at $1.98 per share to SSB	9,496,828	9,496,828
Total additional paid-in capital	23,234,928	23,234,928
Total share capital and additional paid-in capital	**$24,610,721**	**$24,610,721**

As at December 31, 2019, the Government held 9,738,100 no par value ordinary shares for a consideration of $13,738,100 (2018: $13,738,100). The Government is the majority shareholder with a 67% interest in the Bank.

In December 2017, the Bank issued 4,796,378 ordinary shares at US$1.98 per share and 5,503,172 preference shares at US$1.00 per share to the SSB ("minority shareholder") for a consideration of $15,000,000 (2018: $15,000,000). This share purchase represents a 33% interest in the Bank.

(d) Share rights

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

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

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

Expressed in United States Dollars

11. CAPITAL AND RESERVES (Continued)

(e) Preference shares

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

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

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

	2019	2018
Liability – the value of the liability component determined by a discounted cash flow calculation	4,127,379	4,127,379
Equity - the value of the equity component was determined by deducting the value of the liability component from the total	1,375,793	1,375,793
	5,503,172	5,503,172

12. AMOUNTS OWED TO SAVINGS DEPOSITORS

	2019	2018
Individuals	50,034,196	50,013,411
Businesses	14,583,658	14,696,277
	$64,617,854	$64,709,688

The average effective rate of interest on customer deposits during the year was 0.51% (2018: 0.51%).

During the period ended December 31, 2019, the Bank transferred 81 (2018: 1,307) dormant accounts totaling $45,209 (2018: $65,069) to a special fund established for that purpose in accordance with the Dormant Accounts Act, 2011.

13. AMOUNTS OWED TO CERTIFICATE OF DEPOSIT HOLDERS

	2019	2018
Individuals	39,560,058	37,539,341
Businesses	118,719,623	93,080,059
	158,279,681	130,619,400
Add: Interest payable	2,235,110	1,969,002
	$160,514,791	$132,588,402

The average effective rate of interest on certificates of deposit during the year was 2.22% (2018: 1.78%)

Expressed in United States Dollars

14. LEASE LIABILITIES

The following table presents movement in lease liabilities.

	Land and Buildings	Equipment	Total
At 1 January 2019	4,043,954	43,467	4,087,421
Additions	-	-	-
Interest Expense	174,382	1,621	176,003
Lease payments	(545,674)	(18,000)	(563,674)
At 31 December 2019	**$3,672,662**	**$27,088**	**$3,699,750**

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

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

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

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

15. TRADE AND OTHER PAYABLES

	2019	2018
Insurance escrow	661,961	531,578
Trade payables	563,896	509,030
Dividends payable	247,643	247,643
Commissions payable	104,487	-
Accrued pension liability (Note 18)	32,534	23,064
	$1,610,521	$1,311,315

16. INTEREST AND SIMILAR INCOME

	2019	2018
Loans and advances to customers	12,198,207	10,883,006
Held-to-maturity investments	1,024,862	531,000
Cash and placements	434,918	401,508
Other	3,735	997
	$13,661,722	$11,816,511

Expressed in United States Dollars

16. INTEREST AND SIMILAR INCOME (continued)

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 $Nil (2018: $440,982) of interest that would otherwise have been accrued on these loans and recorded as interest income, had the moratorium not been granted.

17. INTEREST EXPENSE

	2019	2018
Certificate of deposit holders	2,957,978	2,001,638
Savings depositors	336,528	307,500
Preference share dividend	185,732	185,732
Lease liabilities	176,003	-
	$3,656,241	$2,494,870

18. FEES AND COMMISSIONS

	2019	2018
Commitment fees	313,901	230,447
Late charges	105,716	193,205
Commission earned on administrative services	46,130	136,152
Other fees received	186,988	174,637
	$652,735	$734,441

19. OTHER OPERATING EXPENSES

	2019	2018
Staff costs	4,945,349	3,859,575
Commission expense	419,600	-
Licence fees and bank charges	379,931	330,817
Professional fees	353,254	445,518
Repairs and maintenance	351,185	336,138
Marketing and advertising	224,647	158,495
Write-down of fixed assets	191,121	1,050
Systems and communications	178,577	193,342
Travel and entertainment	165,216	119,405
Electricity and water	127,686	100,618
Business insurance	119,820	96,705
Security services	117,929	149,338
Stationery and postage	51,209	130,966
Rent	38,538	554,081
Staff training	37,453	55,517
Insurance write-offs	19,907	-
Other	12,826	54,789
	$7,734,248	$6,586,354

Expressed in United States Dollars

19. OTHER OPERATING EXPENSES (Continued)

Analysis of staff costs:

	2019	2018
Wages and salaries	3,861,201	3,005,213
Social security and payroll taxes	322,886	241,469
Pension expenses	266,621	207,934
Directors' expenses	210,497	181,812
National health insurance	132,454	103,528
Staff uniforms	65,209	23,449
Staff insurance	49,657	58,011
Other staff-related costs	36,824	38,159
	$4,945,349	$3,859,575

During the year ended December 31, 2019, wages and salaries of $3,861,201 (2018: $3,005,213) were paid to an average of 70 employees (2018: 56).

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, 2019, pension expenses of $266,621 (2018: $207,934) were incurred.

20. RELATED PARTY TRANSACTIONS

(a) During the year ended December 31, 2019, the Bank approved two (2) loans issued to current or former directors of the Bank and related persons. As at December 31, 2019, related party loans totaled $2,043,752 (2018: $1,938,134), which are included as part of loans and advances. The interest rates on these loans were recorded at 4.0% - 6.5% (2018: 4.0% - 8.5%).

(b) As at December 31, 2019, the Government held certificates of deposit totaling $28,291,576 (2018: $24,614,008). These certificates of deposit earn interest at rates ranging from 1.5% to 2.5% (2018: 0.6% to 1.9%) per annum. The Government also held savings deposits totaling $8,584,856 (2018: $7,268,497), which earned interest at a rate of 0.5% (2018: 0.5%) per annum.

(c) As at December 31, 2019, SSB held certificates of deposit totaling $80,735,350 (2018: $56,772,851) at interest rates ranging from 2.0% to 2.5% (2018: 1.25% - 2.0%). SSB also held savings deposits totaling $469,253 (2018: $218,590), which earned interest at a rate of 0.5% (2018: 0.5%) per annum.

(d) As at December 31, 2019, other Government statutory bodies held certificates of deposit totaling $7,558,896 (2018: $7,477,005) at interest rates ranging from 0.6% to 1.25% (2018: 0.6% to 1.15%).

(e) As at December 31, 2019, directors' allowances totaled $198,000 (2018: $167,985). These amounts are included within directors' expenses.

(f) As at December 31, 2019, commissions receivable totaled $140 (2018: $267,133) and commissions payable totaled $104,487 (2018: $Nil), in line with revised contract terms.

21. COMMITMENTS

Undrawn loan commitments

As at December 31, 2019, the Bank had undrawn commitments under existing customer loan agreements totaling $10,023,623 (2018: $3,940,896).

22. FINANCIAL RISK MANAGEMENT

22.1 Introduction

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

Risk Management Structure

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

Board of Directors

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

Assets and Liabilities Committee

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

Audit and Compliance Committee

The Audit and Compliance Committee is responsible for evaluating whether management is setting the appropriate 'control culture' by communicating the importance of internal control and management of risk. The Audit and Compliance Committee 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.

22. FINANCIAL RISK MANAGEMENT (Continued)

22.1 Introduction (continued)

Credit Committee

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

Risk measurement and reporting systems

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

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

Excessive risk concentration

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

22.2 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, 2019 is the carrying amount of the financial assets in the statement of financial position.

As at December 31, 2019, the Bank's cash and cash equivalents and certificates of deposit were held with four (4) financial institutions.

Deposits totaling $20,234,460 (2018: $16,648,227) or 7% (2018: 7%) of total assets are currently held at Bank of America, which has a long-term credit rating of A2 (2018: A3) per Moody's rating agency.

Deposits totaling $9,412,776 (2018: $6,175,288) or 3% (2018: 3%) of total assets are currently held at Raymond James Financial, which has a long-term credit rating of Baa1 (2018: Baa1) per Moody's rating agency.

Deposits totaling $8,301,128 (2018: $9,786,864) or 3% (2018: 4%) of total assets are currently held at Banco Popular de Puerto Rico (Banco Popular), which has a long-term credit rating of B1 (2018: B2) per Moody's rating agency.

Deposits totaling $46,617 (2018: $Nil) or 0.02% (2018: 0%) are currently held at CIBC First Caribbean International Bank, which is currently not rated by Moody's rating agency.

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.2 Credit risk (continued)

Collateral and other credit enhancements

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

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

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

Credit risk exposure for each internal risk rating

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

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

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 $24,664,020 (2018: $28,300,739).

As at December 31, 2019

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

During the year, the Bank renegotiated loans totaling $640,607 (2018: $148,220).

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

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.2 Credit risk (continued)

As at December 31, 2019, the credit ratings of issuers of the Bank's financial investments at amortised cost (including interest receivable) as provided by the CariCRIS and Moody's rating agencies are as follows:

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

2018	CariBBB Rated	A3 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

As detailed in Note 7, the government note was issued by the Government of St. Lucia and is repayable on October 8, 2020. The government note is 3.6% (2018: 4.1%) of total assets and therefore bankruptcy or insolvency of the issuer would have a moderate impact on the Bank's financial position.

22.3 Liquidity risk and funding management

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

The Bank maintains liquid assets that can be drawn upon as needed, in the event of unforeseen interruption of cash flows. Liquid assets consist of cash and cash equivalents 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, 2019, the ratio of liquid assets over short-term deposit liabilities was recorded at 39% (2018: 31%).

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

Liquid assets	2019	2018
Cash and cash equivalents	20,058,555	19,835,475
Due from banks	19,690,766	14,404,064
	$39,749,321	$34,239,539

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.3 Liquidity risk and funding management (continued)

Concentration risk

As at December 31, 2019, the Government held certificates of deposit totaling $28,291,576 (2018: $24,614,008) and its statutory bodies held certificates of deposit totaling $88,294,246 (2018: $64,249,856) and savings deposits totaling $8,584,856 and $469,253 respectively (2018: $7,268,497 and $218,590). Deposits issued to the Government and its statutory bodies represent 55% (2018: 45%) 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.

2019

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

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

22. FINANCIAL RISK MANAGEMENT (Continued)

22.3 Liquidity risk and funding management (continued)

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

2019	**Within 3 months**	**Over 3 months, but within 1 year**	**Over 1 year but within 5 years**	**Overs 5 years**	**Total**
Commitments:					
Loans and advances	6,385,078	3,443,385	195,160	-	10,023,623
	$6,385,078	$3,443,385	$195,160	$ -	$10,023,623

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

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

22.4 Market risk

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

Interest rate risk

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

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

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.4 Market risk (continued)

Interest rate risk (continued)

As at December 31, 2019, if market interest rates increased by 25 basis points (0.25%) (2018: 25 basis points), with all other variables held constant, the Bank's loss would have increased and total assets would have decreased by $405,768 (2018: $348,437). A decrease in market interest rates of 25 basis points (2018: 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, categorised by the earlier of their contractual re-pricing or maturity date.

2019	Within 3 months	Over 3 months, but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Financial Assets					
Cash and cash equivalents	20,058,555	-	-	-	20,058,555
Due from banks	3,124,406	16,566,360	-	-	19,690,766
Gross loans and advances to customers	16,984,749	13,438,314	30,481,829	145,874,136	206,779,028
Regulatory deposit	-	-	-	500,000	500,000
Financial investments at amortised cost	1,984,303	14,128,740	12,166,879	258,325	28,538,247
Total	$42,152,013	$44,133,414	$42,648,708	$146,632,461	$275,566,596
Financial Liabilities					
Amounts owed to savings depositors	64,617,854	-	-	-	64,617,854
Amounts owed to certificate of deposit holders	34,163,862	38,539,855	87,811,074	-	160,514,791
Total	$98,781,716	$38,539,855	$87,811,074	$ -	$225,132,645
Total interest re-pricing gap	$(56,629,703)	$5,593,559	$(45,162,366)	$146,632,461	$50,433,951

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.4 Market risk (Continued)

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
Regulatory deposit	-	-	-	500,000	500,000
Financial investments held-to-maturity	-	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

Prepayment risk

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

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

22.5 Operational risk management

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

23. CAPITAL ADEQUACY REQUIREMENTS

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

Expressed in United States Dollars

23. CAPITAL ADEQUACY REQUIREMENTS (Continued)

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, 2019:

	2019	2018
Tier 1 Capital	40,391,087	39,149,653
Tier 2 Capital	1,375,793	1,375,793
Total Capital	41,766,880	40,525,446
Risk Weighted Capital Adequacy Ratio	24.79%	26.50%
Leverage Ratio	15.06%	16.23%

24. CONTINGENCIES

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

25. SUBSEQUENT EVENTS

On September 1, 2020, the Bank implemented to a new core banking system which will enable it to better serve its customers and provide a stronger platform for the ongoing expansion of its product and service offerings. In preparing these financial statements, Management has evaluated and disclosed all material subsequent events up to September 29, 2020, which is the date that the financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and known now as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak, which have impacted global business operations. As of the date of issuance of the financial statements, the Bank’s operations have been impacted by the downturn in the local economy due to the closure of the Territory’s borders and other restrictions placed on conducting business. No impairments were recorded as of the balance sheet date as no triggering events or changes in circumstances had occurred as of year-end; however, due to significant uncertainty surrounding the situation, Management's judgment regarding impairments could change in the future. In addition, while it is expected that the Bank’s results of operations, cash flows and financial condition will be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.