WORKING HARDER TODAY FOR A BRIGHTER TOMORROW

ST. KITTS-NEVIS-ANGUILLA
NATIONAL BANK LIMITED

2020 VISION

PROTECTING, PRESERVING, PROGRESSING.

ANNUAL REPORT 2020

2020
VISION

PROTECTING, PRESERVING, PROGRESSING.

The theme for the 2020 Annual Report speaks to the unique role of the Board, Management and Staff of the Bank through a global pandemic and its impact on the local, regional and global economy. **PROTECTING** the powerful and solid position of the Bank and the funds of depositors has been at the heart of the first tranche of response, ensuring that the legacy of reliability continues even today. By **PRESERVING** this public trust, we have been able to stabilise and reinforce the Bank's portfolio of clients and activities to be a beacon of stability in times of doubt. We continue our commitment to **PROGRESSING** our key mandate and demonstrate daily the successes of our initiatives. From flexibility in financing for business and personal loans, to personal protection equipment for staff to ensure the health and safety of our branches and key operations centers. Our Bank continues to serve with passion and personal commitment. Thus the annual report theme for 2020 underscores the key ways in which the Bank and its Leadership Team have resolutely responded to the greatest challenge of our times **with an eye to the past achievements** in need of protection, the current stability we have successfully created and the future progress that is assured for all stakeholders as we emerge from this uncertainty to again prove the power of indigenous knowledge teamed with international best practices.

~VISION~

To be recognized internationally as the premier financial institution through advanced technology, strategic alliances and superior products and services.

~MISSION~

To be an efficient, profitable and growth-oriented financial institution, promoting social and economic development in the national and regional community by providing high quality financial services and products at competitive prices.

~CUSTOMER CHARTER~

- To keep the Bank a customer friendly institution.
- To treat customers as an integral part of the Bank and serve them with the highest levels of integrity, fairness and goodwill.
- To provide customers with the products and services they need, in the form and variety they demand them, at the time they require them, and at prices they can afford.
- To give our customers good value for the prices they pay.

~POLICY STATEMENT~

- To mobilize domestic and foreign financial resources and allocate them to efficient productive uses to gain the highest levels of economic development and social benefits.
- To promote and encourage the development of entrepreneurship for the profitable employment of available resources.
- To exercise sound judgment, due diligence, professional expertise and moral excellence in managing our corporate business and advising our customers and clients.
- To maintain the highest standard of confidentiality, integrity, fairness and goodwill in all dealing with customers, clients and the general public.
- To create a harmonious and stimulating work environment in which our employees can experience career fulfillment, job satisfaction and personal accomplishment; to provide job security; to pay fair and adequate compensation based on performance, and to recognize and reward individual achievements.
- To promote initiative, dynamism and a keen sense of responsibility in our Managers; to hold them accountable personally for achieving performance targets and to require of them sustained loyalty and integrity.
- To provide our shareholders with a satisfactory return on their capital and thus preserve and increase the value of their investment.
- To be an exemplary corporate citizen providing managerial, organizational and ethical leadership to the business community.

The policies set out above inform and inspire our customer relationships, staff interactions and public communication; guide our corporate decision making process; influence the manner in which we perform our daily tasks and direct our recruitment, organizational, operational and development policies, plans and programmes.

Our Directors, Management and Staff are unreservedly committed to the observance of the duties and responsibilities stated above for the fulfillment of our Mission.

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NOTICE OF MEETING

Notice is hereby given that the FIFTIETH ANNUAL GENERAL MEETING OF ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED will be held at the St. Kitts Marriott Beach Resort, Frigate Bay on Thursday 17th June 2021 at 5:00 p.m. for the following purposes: -

1. To read and confirm the Minutes of the Meeting held on 9th December 2019.
2. To consider matters arising from the Minutes.
3. To receive the Directors' Report.
4. To receive the Auditor's Report.
5. To receive and consider the Accounts for the year ended 30th June 2020.
6. To declare a Dividend.
7. To elect Directors.
8. To reconfirm the appointment of Auditors for year ending 30th June 2021 and to authorize the Directors to fix the remuneration of the Auditors.
9. To discuss any other business for which notice in writing is delivered to the Company's Secretary three (3) clear banking days prior to the meeting.

By Order of the Board

Stephen O. A. Hector
Secretary

SHAREHOLDERS OF RECORD

All shareholders of record as at 30th November 2020 will be entitled to receive a dividend in respect of the financial year ended 30th June 2020.

PROXY

A member of the Company who is entitled to attend and vote at this meeting is entitled to appoint a proxy to vote in his/her stead. No person shall be appointed a proxy who is not entitled to vote at the meeting for which the proxy is given. The proxy form must be delivered to the Company's Secretary not less than 24 hours before the meeting.

ARTICLES GOVERNING MEETINGS

ARTICLE 42
At any meeting, unless a poll is demanded as hereinafter provided, every resolution shall be decided by a majority of the Shareholders of their proxies present and voting, either by show of hands or by secret ballot, and in case there shall be an equality of votes, the Chairman of such meeting shall have a casting vote in addition to the vote to which he may be entitled as a member.

ARTICLE 43
If at any meeting a poll is demanded by ten members present in person or by proxy and entitled to vote, the poll shall be taken in every such manner as the Chairman shall direct: and in such case every member present at the taking of the poll, either personally or by proxy, shall have a number of votes, to which he may be entitled as hereinafter provided: and in case at any such poll there shall be an equality of votes, the Chairman of the meeting at which such poll shall be taken shall be entitled to a casting vote in addition to any votes to which he may be entitled as a member and proxy.

ARTICLE 45
Every member shall on a poll have one vote for every dollar of the capital in the Company held by him.

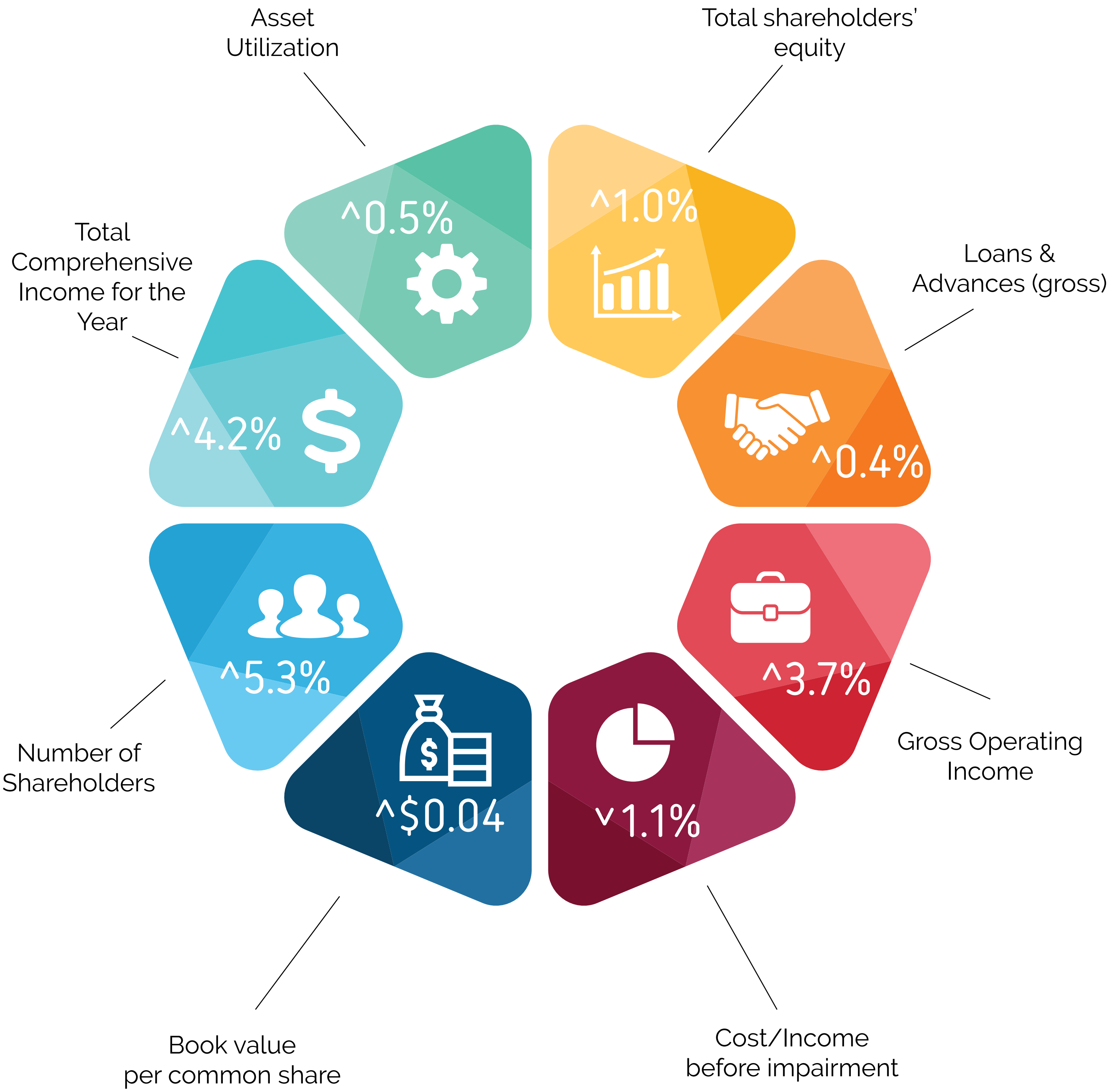
ARTICLE 56
At every ordinary meeting one-third of the Directors shall retire from office. If the number of Directors be not divisible by three, then the nearest to one-third of the number of Directors shall retire from office. The Directors to retire shall be those who have been longest in office since their last election. As between Directors of equal seniority in office, the Directors to retire shall be elected from amongst them by lot. A retiring Director shall be immediately, or at any future time, if still qualified, eligible for re-election.

ARTICLE 59
No one (other than a retiring Director) shall be eligible to be a Director, unless notice in writing that he is a candidate for such office shall have been given to the Company by two other members of the Company at least seven days before the day of holding the meeting at which election is to take place.

FINANCIAL HIGHLIGHTS

	2020 EC $'000	2019 EC $'000	2018 EC $'000	2017 EC $'000	2016 EC $'000
BALANCE SHEET INFORMATION					
Total assets	3,359,921	3,690,301	3,683,801	3,778,329	3,697,059
Total customers' deposits	2,525,825	2,840,108	2,834,300	3,032,091	3,049,273
Loans & advances (gross)	904,321	900,563	828,885	767,377	758,341
Investment securities	1,119,200	1,158,413	1,250,766	1,030,054	728,586
Cash and Money at call	455,188	709,816	551,695	764,096	952,871
OPERATING RESULTS					
Gross operating income	218,636	210,760	223,662	181,676	161,236
Interest income	67,162	89,281	82,899	85,643	92,372
Interest expense	44,494	43,601	45,874	53,614	60,188
Net Income	28,382	52,268	52,087	39,450	28,374
Operating expenses/provisions	139,062	101,276	95,261	92,207	70,976
Number of employees	263	267	266	258	257
Gross revenue per employee	831	789	841	704	627
Total assets per employee	13,403	13,809	14,027	14,645	14,385
SHARE CAPITAL & DIVIDEND INFORMATION					
Common shares issued and outstanding (in thousands)	135,000	135,000	135,000	135,000	135,000
Total shareholders' equity	612,989	606,858	595,048	549,439	467,572
Dividends paid	20,250	13,500	13,500	13,500	13,500
Number of shareholders	5,893	5,596	5,470	5,568	5,612
Earnings per share ($)	0.21	0.39	0.39	0.29	0.21
Dividends per share ($)	0.15	0.10	0.10	0.10	0.10
Book value per common share	4.54	4.50	4.41	4.07	3.46
BALANCE SHEET AND OPERATING RESULTS RATIOS (%)	%	%	%	%	%
Loans and advances to deposits	35.8	31.7	29.2	25.3	24.9
Staff Cost/Total Cost	16.0	23.0	20.5	21.6	19.2
Staff Cost/Total Revenue	13.4	15.8	12.9	17.3	15.7
Cost/Income (Efficiency) before impairment	53.2	54.3	49.0	63.3	69.9
Cost/Income (Efficiency) after impairment	79.9	60.6	53.6	72.0	70.2
Return on Equity	4.7	8.7	9.1	7.8	6.0
Return on Assets	0.8	1.4	1.4	1.1	0.8
Asset Utilization	6.2	5.7	6.0	4.9	4.4
Yield on Earning Assets	2.2	2.9	2.7	2.8	3.3
Cost to fund Earning Assets	1.5	1.4	1.5	1.8	2.1
Net Interest Margin	0.8	1.5	1.2	1.1	1.1

YEAR AT A GLANCE



CORPORATE INFORMATION

BOARD OF DIRECTORS

Alexis Nisbett	Chairman
Dr. Analdo Bailey	1st Vice Chairman
Franklin Maitland	2nd Vice Chairman
Talibah Byron	Director
Elreter Simpson-Browne	Director
Dr. Cardell Rawlins	Director
Lionel Benjamin	Director
Lorna Hunkins	Director
Wallis Wilkin	Director
William Liburd	Director

SECRETARY

Stephen O.A. Hector

SOLICITORS

Kelsick, Wilkin & Ferdinand
Chambers
South Independence Square
BASSETERRE
St. Kitts

AUDITORS

Grant Thornton
Corner Bank Street & West Independence Square
P. O. Box 1038
BASSETERRE
St. Kitts

BRANCHES

Head Office
Central Street,
Basseterre

Nevis Branch
Charlestown, Nevis

Sandy Point Branch
Main Street, Sandy Point, St. Kitts

Pelican Mall Branch
Bay Road, Basseterre, St. Kitts

Agency Office
RLB International Airport

ATMS

Basseterre Branch
Buckley's
Cayon
CAP Southwell Industrial Park
Frigate Bay
Lodge
Mapau - Port Zante
Molineux
Nevis Branch
Old Road
Pelican Mall
RLB International Airport
Sandy Point
Saddlers
St. Kitts Marriott Hotel
St. Paul's
St. Peter's
Tabernacle
The Circus

SUBSIDIARIES CONSOLIDATED

National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited
Sands Complex, BASSETERRE, St. Kitts

National Caribbean Insurance Company Limited
Church Street, BASSETERRE, St. Kitts

St. Kitts and Nevis Mortgage and Investment Company Limited
Sands Complex, BASSETERRE, St. Kitts

REGISTERED OFFICE OF THE PARENT COMPANY

St. Kitts-Nevis-Anguilla National Bank Limited
Central Street, BASSETERRE, St. Kitts

CORPORATE GOVERNANCE

BOARD RESPONSIBILITIES

The Board's key responsibilities are to provide strategic guidance for the Group and effective monitoring and oversight of management's performance and implementation of the Group's strategic objectives. The Board acts in the best interests of the Group and its stakeholders, guided by a philosophy based on transparency, accountability and responsibility. The Group's values and standards are established to ensure that its obligations to its shareholders, employees, and customers are met.

The Board has in place several Committees that consider key matters of the Group, under the guidance of clearly documented Charters. These committees are the Audit Committee, Budget Committee, Risk and Compliance Committee, Corporate Governance Committee, Credit Committee, Human Resource Committee, Information Technology Committee, Investment Committee and Property Management/ Space Committee. The Charters for each Committee have been approved by the Board of Directors and are reviewed and revised, as prescribed, by the respective Committees and ratified by the Board of Directors.

BOARD SIZE AND COMPOSITION

The Articles of Association mandates a Board size for effective decision-making is between five to ten directors for the Bank, four to ten for NCIC, and four to fifteen for the National Bank Trust Company. Board size and composition are reviewed annually based on changes in legal requirements, best practices, the skills and experiences required to enhance the Board's effectiveness and the number of directors needed to discharge the duties of the Board and its sub-committees effectively.

The Board of the St. Kitts-Nevis-Anguilla National Bank was comprised of ten (10) members who were elected and appointed by the holders of ordinary shares.

The Board of NCIC is comprised of five (5) members.

The Board of National Bank Trust Company is comprised of five (5) members.

The Table below outlines the relevant qualifications of each Director.

DIRECTOR	QUALIFICATION
Alexis Nisbett	Bachelor of Commerce (Accounting) Master of Science (Accounting) Audit Committee Certificate (ACC)
Dr. Analdo Bailey	Master of Business Administration Doctor of Divinity Accredited Director (Acc. Dir)
Franklin Maitland	Master of Science – Finance GCIB Fellow Chartered Certified Accountant
Dr. Cardell Rawlins	Bachelor of Science – Medical Doctor
Elreter Simpson-Browne	Bachelor of Science – Management Master of Business Administration Accredited Director (Acc. Dir)
Talibah Byron	Bachelor of Laws Master of Laws Accredited Director (Acc. Dir)
Lionel Benjamin	Certificate in Business Management Accredited Director (Acc. Dir)
Lorna Hunkins	Bachelor of Science – Economics/Accounts
Wallis Wilkin	Associate of Science – Architectural Engineering Bachelor of Science – Management Studies Accredited Director (Acc. Dir)
William Liburd	Bachelor of Economics and History

INDEPENDENCE

The Board believes that director independence is very important. A Director is considered independent only where the Board determines that the director has no material relationship with the National Bank Group of Companies. A material relationship is a relationship which could be reasonably expected to interfere with the exercise of an independent director's judgment.

All Directors must take decisions objectively in the best interest of the Group. The Board has established clear delineation of responsibilities between the operation of the Board and the executive responsible for the day to day running of the Group. No one individual has unrestricted powers of decision making. The roles of Chairman and Chief Executive Officer cannot be exercised by the same individual and no individual or group of individuals dominates the decision-making process.

CONFLICTS OF INTEREST

All Directors of the Company and its subsidiaries must avoid any situation which might give rise to a conflict between their personal interests and those of the Group. Prior to appointment, potential conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent that person from taking on the role. Directors are responsible for notifying the Chairman and Company Secretary as soon as they become aware of actual or potential conflicting situations.

If Directors or Executive Officers have an interest in a material transaction or agreement with the National Group that is being considered by the Board or a Board committee, they:

1) disclose that interest;
2) leave the meeting during Board or committee discussion; and
3) do not vote on the matter.

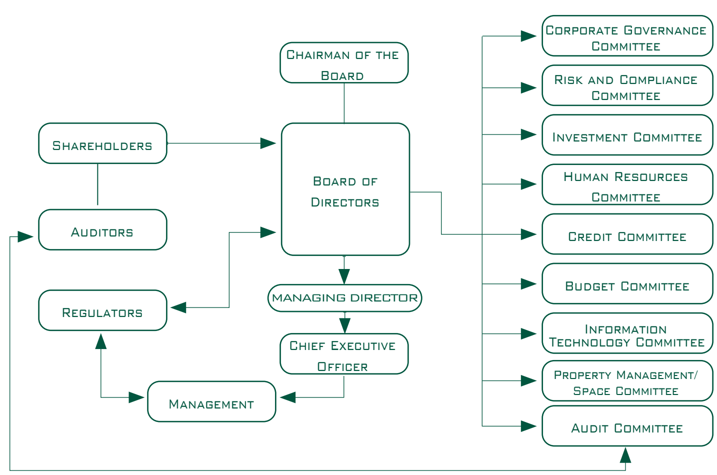
THE DEVELOPMENT OF DIRECTORS' KNOWLEDGE, EXPERIENCE AND SKILLS

During the financial period, Directors participated in various regional and international seminars and conferences aimed at maintaining and developing the knowledge, experience and skills needed in the performance of their duties and responsibilities. These seminars and conferences focused on areas including but not limited to:

- Anti-Money Laundering/Anti-terrorist Financing Compliance
- Risk Management
- Human Resources Management
- Bank Card Operations
- Online Meeting Management Platform
- ATM Infrastructure and networks
- Health and Safety Management

COMMUNICATION

Management provides reporting to the Board of Directors allowing them to carry out their roles and responsibilities effectively. Additionally, information may be requested by the Directors and the diagram below provides an overview of how the Board interacts with the various stakeholder groups.



Attendance At Board Meetings

SKNANB Board Meeting Attendance Report
The attendance at Board meetings is shown in the table below.

St. Kitts-Nevis-Anguilla National Bank Limited Board Meeting Attendance Report

Director	No. of Meetings Attended	Meeting Attendance	
		Number	Rate (%)
Mr. Alexis Nisbett	19 of 20	19	95.0
Dr. Analdo Bailey	16 of 20	16	80.0
Mr. Franklin Maitland	17 of 20	17	85.0
Dr. Cardell Rawlins	17 of 20	17	85.0
Mrs. Elreter Simpson-Browne	13 of 20	13	65.0
Ms. Talibah Byron	18 of 20	18	90.0
Mr. Lionel Benjamin	17 of 20	17	85.0
Mrs. Lorna Hunkins	17 of 20	17	85.0
Mr. Wallis Wilkin	17 of 20	17	85.0
Mr. William Liburd	18 of 20	18	90.0
Mr. Stephen Hector (Secretary)	19 of 20	19	95.0
No. of Meetings	**20**		

It should be noted that there were some instances where Directors were absent from the meetings of the Board as a result of the Group's business.

Meetings of the Board of NCIC are held monthly. The attendance at Board meetings is shown in the table below.

NCIC Board Meeting Attendance Report

Director	No. of Meetings Attended	Meeting Attendance	
		Number	Rate (%)
Mr. Howard Richardson	11	11 of 11	100
Mrs. Jenifer Howell	10	10 of 11	91
Ms. Jacynth Francis	9	9 of 11	82
Mrs. Sonia Henry	10	10 of 11	91
Ms. Joycelyn Mitcham	9	9 of 11	82
Ms. Tracy Herbert (Secretary)	11	11 of 11	100
No. of Meetings	**11**		

National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited Board Meeting Attendance Report

Director	No. of Meetings Attended	Meeting Attendance	
		Number	Rate (%)
Mr. O'Grenville Browne	7	7 of 7	100
Ms. Shirley Julius*	6	6 of 7	86
Ms. Cyndie Demming	6	6 of 7	86
Mr. Crace Lewis	7	7 of 7	100
Dr. Patricia Bartlette (Secretary)	5	5 of 7	71
No. of Meetings	**7**		

**Director Shirley Julius resigned effective 31 July 2020 and has not been replaced to date.*

St Kitts and Nevis Mortgage and Investment Company Limited

The Board of Directors of the St. Kitts-Nevis-Anguilla National Bank Ltd functions as the Board of Directors for the St. Kitts and Nevis Mortgage and Investment Company Ltd (MICO). However, the St. Kitts-Nevis-Anguilla National Bank Trust Company Ltd assumed responsibility for those operations previously conducted by the company effective March 1, 2017.

Directors' Rotation

At every ordinary general meeting one-third of the Directors shall retire from office. If the number of Directors be not divisible by three, then the nearest to one-third of the number of Directors shall retire from office. The retiring Directors shall be those who have been in office longest since being last election. Where Directors are of equal seniority in office, the Directors to retire shall be selected from amongst them by lot. A retiring Director shall be immediately, or at any future time, if still qualified, eligible for re-election.

Directors' Remuneration

Directors' fees are included in Note 27 "Other Expenses".

Directors' Shareholdings

Director	No. of Shares Owned	Type of Director
Mr. Alexis Nisbett	635	Non-Executive
Dr. Analdo Bailey	32,500	Executive
Mr. Franklin Maitland	8,250	Non-Executive
Dr. Cardell Rawlins	5,333	Non-Executive
Mrs. Elreter Simpson-Browne	8,475	Non-Executive
Ms. Talibah Byron	4,520	Non-Executive
Mr. Lionel Benjamin	50,000	Non-Executive
Ms. Lorna Hunkins	800	Non-Executive
Mr. Wallis Wilkin	4,700	Non-Executive
Mr. William Liburd	25,416	Non-Executive

Election

Unless it be resolved to reduce the number of Directors, the ordinary general meeting at which Directors retire shall elect a successor to each retiring Director. A retiring Director shall remain in office until the close of the meeting notwithstanding the election of his successor.

Retiring Directors to continue if no others elected. If at any meeting where there is no one elected to replace a retiring Director, the retiring Director shall continue to be a Director as though he/she had been re-elected at such meeting.

Notice of Candidates

No one (other than a retiring Director) shall be eligible to be a Director, unless notice in writing that he is a candidate for such office shall have been given to the Company by two other members of the Company at least seven days before the day of holding the meeting at which the election is to take place.

Resignation

A Director may at any time give one month's notice in writing to the Company of his desire to resign, and at the expiration of such notice his office shall be vacated.

The role of the Board Committees

In an effort to effectively allocate tasks and responsibilities at the Board level, the Board has established nine (9) standing committees for the Bank and three (3) for the NCIC.

The Boards are supported by its sub-committees which make recommendations to the Board on matters delegated to them, in particular in relation to internal control, risk, financial reporting, governance and employee matters. This enables the Board to spend a greater proportion of its time on strategic, forward looking agenda items. Each Committee is chaired by an experienced Chairman.

St. Kitts-Nevis-Anguilla National Bank Ltd Board Committees

The Board of the St. Kitts-Nevis-Anguilla National Bank Limited is supported by the following committees which make recommendations to the Board on matters delegated to them.

Audit Committee

The Audit Committee is responsible for reviewing the integrity of the financial statements of the National Bank Group of Companies, related management's discussion and analysis (MD&A) and internal control over financial reporting, monitoring the system of internal control, monitoring compliance with legal and regulatory requirements, selecting external auditors for shareholder approval, reviewing the qualifications, independence and performance of the external auditors, reviewing the qualifications, independence and performance of the internal auditors, monitoring the internal audit function and reviews significant accounting and reporting issues; including critical accounting estimates and judgments used in applying accounting principles as well as the treatment of complex or unusual transactions to understand their impact on the financial statements.

The members of the Committee are as follows:

Mr. Franklin Maitland – CHAIRMAN
Ms. Talibah Byron
Dr. Analdo Bailey
Ms. Lorna Hunkins
Ms. Sheena Robinson – RECORDER*

**Ms. Sheena Robinson resigned effective 24 September 2020; with Mr. Irvin Liddie appointed Officer-In-Charge effective 25 August 2020.*

Budget Committee

The Budget Committee is responsible for reviewing the strategy and goals, and monitor progress toward these goals, provide oversight of the company's budget and financial performance reports, review the company's annual planning and budgeting prior to consideration by the Board of Directors.

The members of the committee are as follows:

Mr. Alexis Nisbett – CHAIRMAN
Mr. Franklin Maitland
Mrs. Elreter Simpson-Browne
Dr. Cardell Rawlins
Mr. Anthony Galloway – RECORDER
Mr. Donald Thompson – EX OFFICIO

Risk and Compliance Committee

The Risk and Compliance Committee ensures that the Group has an appropriate program in place to identify and effectively mitigate compliance risk, considers and approves the scope of the compliance function having regard to each regulatory framework and the Group's compliance standards, reviews and monitors the Group's compliance activities and the effectiveness of the compliance program for the Group, ensures that Senior Management are taking the appropriate measures to satisfy all of the regulatory requirements applicable to the Group and monitor compliance with regulatory, prudential, legal and ethical standards.

The members of the committee are as follows:

Ms. Talibah Byron – CHAIRMAN
Mr. Lionel Benjamin
Mr. Alexis Nisbett
Mrs. Elreter Simpson-Browne
Ms. Lorna Hunkins
Mrs. Jacqueline Hewlett – RECORDER

Corporate Governance Committee

The Corporate Governance Committee's major responsibilities are to provide oversight of corporate governance matters, make recommendation on Board and Committee structure and composition, make recommendations on nomination, resignation and removal of Directors and establishing an annual performance assessment of Directors.

The members of the committee are as follows:

Mr. Franklin Maitland – CHAIRMAN
Dr. Cardell Rawlins
Mr. William Liburd
Dr. Analdo Bailey
Mr. Anthony Galloway – RECORDER
Mr. Donald Thompson – EX OFFICIO

Credit Committee/Nonperforming Facilities

The Credit Committee/Nonperforming Facilities is responsible for reviewing credit applications, and monitoring and reviewing nonperforming facilities. The Committee also reviews applications and approved loans to ensure that they are in compliance with the lending regulations and the Group's lending policy. The Credit Committee reviews all special lending products and make appropriate recommendations to the Board of Directors. The Credit Committee also reviews all loan requests when special considerations are necessary.

The members of the committee are as follows:

Mr. Alexis Nisbett – CHAIRMAN
Dr. Analdo Bailey
Mr. Lionel Benjamin
Ms. Talibah Byron
Mrs. Elreter Simpson-Browne
Dr. Cardell Rawlins
Mr. William Liburd
Mr. Wallis Wilkin
Ms. Lorna Hunkins
Mr. Franklin Maitland
Mr. Stephen Hector – SECRETARY
Mr. Donald Thompson – EX OFFICIO

Human Resources Committee

The Committee is responsible for assisting the Board in fulfilling its governance and supervisory responsibilities for strategic oversight of the Group's human capital, including organization effectiveness, succession planning and compensation, and their alignment with the Group's strategy of consistent, sustainable performance, its risk appetite and control framework.

The members of the committee are as follows:

Mrs. Elreter Simpson-Browne – CHAIRMAN
Mr. Lionel Benjamin
Mr. Alexis Nisbett
Ms. Talibah Byron
Mrs. Pansyna Bailey – RECORDER
Mr. Donald Thompson – EX OFFICIO

Information Technology Committee

The Information Technology Committee is responsible for assisting the Board of Directors in fulfilling its governance and supervisory responsibilities for strategic oversight of National Bank Group change initiatives, information technology and security effectiveness, and their alignment with the strategy of consistent, sustainable performance, as well as control matters.

The members of the committee are as follows:

Dr. Analdo Bailey – CHAIRMAN
Mr. Wallis Wilkin
Mrs. Elreter Simpson-Browne
Ms. Lorna Hunkins
Mr. Quincy Prentice – RECORDER
Mr. Donald Thompson – EX OFFICIO

Investment Committee

The Committee shall draw up and regularly review Investment Guidelines and recommend Investment Policy amendments to the Board, regularly monitor the investments of the Group to ensure that they are consistent with the Investment Policy and report to the Board, regularly review the performance of both the investment portfolio and external fund managers against agreed benchmarks and report the findings to the Board.

The members of the committee are as follows:

Dr. Analdo Bailey – CHAIRMAN
Mr. Wallis Wilkin
Ms. Talibah Byron
Mrs. Elreter Simpson-Browne
Dr. Cardell Rawlins
Mr. Anthony Galloway – RECORDER
Mr. Donald Thompson – EX OFFICIO

Property Management/Space Committee

The Property Management/Space Committee works closely with the facilities management team to provide safe and comfortable environment for employees and customers through space planning construction and renovation projects.

The members of the committee are as follows:

Mr. Wallis Wilkin – CHAIRMAN
Mr. William Liburd
Mr. Lionel Benjamin
Mrs. June O'Brien – RECORDER
Mr. Donald Thompson – EX OFFICIO

National Caribbean Insurance Company Limited (NCIC) Board Committees

The Board of the National Caribbean Insurance Company Limited (NCIC) is supported by the following committees which make recommendations to the Board on matters delegated to them.

Audit Committee

The Audit Committee of NCIC has the same responsibility as the Audit Committee of the Bank as outlined earlier.
The members of the Committee are as follows:

Jenifer Howell
Jacynth Francis
Irvin Liddie – RECORDER

Compliance Committee

The Compliance Committee of NCIC has the same responsibility as the Risk and Compliance Committee of the Bank as outlined earlier.
The members of the committee are as follows:

Mr. Howard Richardson – CHAIRMAN
Mrs. Sonia Henry
Ms. Joycelyn Mitcham
Mrs. Patricia Herbert – RECORDER
Mrs. Jacqueline Hewlett – EX OFFICIO

Investment Committee

The Investment Committee of NCIC has the same responsibility as outlined above for the Investment and Budget Committees.
The members of the committee are as follows:

Howard Richardson – CHAIRMAN
Jenifer Howell
Cedric L. K. Jeffers - EX OFFICIO
Sherlene Johnson – RECORDER

Internal Audit Function Oversight

The third line of defense is the Internal Audit function, which is charged with providing independent, objective assurance by delivering an objective evaluation of the risk and internal controls.

The Audit Committee has the ultimate responsibility for the internal audit function and oversees its performance.

Organization Placement

The Chief Internal Auditor (or designate) is responsible for the independent functioning of the Internal Audit Unit, reports functionally to the Audit Committee and administratively to the Chief Executive Officer. The Chief Internal Auditor has unencumbered access to the Audit Committee and may freely discuss audit policies, audit findings, and recommendations, audit follow-up, guidance issues and other matters.

Professional Standards and Independence

The Internal Audit Unit follows the professional standards of relevant professional organizations including:

i) Code of Ethics of the Institute of Internal Auditors; and
ii) The International Standards for the Professional Practice of Internal Auditing.

Resources and skill set

The Committee recognizes that internal auditors must possess the required expertise and knowledge to perform his/her functions consistent with the requirements of the professional standards as outlined above.

The Chief Internal Auditor therefore provides the Audit Committee with a regular report on the Unit's personnel, including the sufficiency of resources, their qualifications, certifications, and training and development needs.

Independence

The Chief Internal Auditor periodically discusses standards of professional audit independence with the Audit Committee Chair and Audit Committee. The Audit Committee reviews the reporting relationships of the Chief Internal Auditor periodically.

To emphasize the Internal Audit Unit's independence, the Unit is restricted from implementing internal controls, developing procedures, installing systems, preparing records, or engaging in any other activity that may impair the internal auditor's judgment.

Periodic Review

The Audit Committee is responsible for reviewing the effectiveness of the Internal Audit function and receive reports from the Chief Internal Auditor. On a periodic basis, the Audit Committee may engage an independent third party to assess the Internal Audit function in accordance with professional standards promulgated by the Institute of Internal Auditors and in the context of regulatory expectations and practices of leading institutions. The Audit Committee reviews the results of those assessments.

Audit Plan

The Audit Committee is responsible for reviewing and approving the annual audit plan which includes the audit scope and the overall risk assessment methodology presented by the Chief Internal Auditor to assess whether it is appropriate, risk based and addresses all relevant activities over a measurable cycle. The Chief Internal Auditor, on a quarterly basis, reviews the status of the audit plan and any changes needed, including reviews of:

i) the results of audit activities, including any significant issues reported to management and management's response and/or corrective actions;

ii) the status of identified control weaknesses; and

iii) the adequacy and degree of compliance with its systems of internal control.

CHAIRMAN'S REPORT

Protecting life - Preserving progress - Producing performance: The Board of Directors and Management of the Bank are committed to sustaining the hard-won successes of the past through these challenging times, while ensuring the health and safety of all stakeholders as a primary objective.

INTRODUCTION

Shareholders: As Chairman of the Board of Directors of St. Kitts-Nevis-Anguilla National Bank Limited ("SKNANB" or the "Bank"), it is an honour for me, to place before you the Annual Report and Audited Financial Statements for the financial year ended June 30, 2020. It goes without saying that the financial year – July 1 2019 to June 30, 2020 was the most difficult and challenging year that SKNANB and by extension the local, regional and international financial systems have ever faced, certainly in any of our lifetimes. The onset of the global pandemic COVID-19/Corona virus literally turned the financial world as we know it upside down and prompted a collective response from all stakeholders in the financial industry to navigate these unprecedented waters. Through it all, your Board of Directors continued to work alongside the management and staff of the Bank to keep the depositors' and the shareholders' monies safe and secure. Along with the Boards of Directors of the subsidiary companies that make up the National Bank Group of Companies ("the Group"), and with careful and deliberate decision-making, the SKNANB Board was able to lead the Group through yet another successful year, a point that cannot be understated given the economic realities of the time.

Indeed, the performance of the Bank and the Group as shown in the Annual Report, is emblematic of the strong strategic direction charted by the Board, but more importantly, the ability to adapt the strategic course almost overnight to the demands of a global pandemic that the world simply did not foresee.

THE BOARD OF DIRECTORS

The Board of Directors continued to meet at least twice monthly over the course of the financial year. Additionally, as the need arose, the Board convened special Board meetings to tackle various matters and issues. In fact, during the time that the Federation was forced to lock down in the early attempts to grapple with COVID-19, the Board utilized the technology available and continued to meet virtually to discuss, deliberate and decide on major issues in accordance with its responsibilities to the customers, depositors, shareholders and partners of the Bank.

The Credit Committee, made up of all the Directors also met at least twice monthly (where possible) to address all matters related to the SKNANB credit portfolio. The work of the Credit Committee took on an even greater level of significance over the course of the financial year as it had to address key strategic decisions regarding the plight of existing customers who were faced with unexpected layoffs from work and termination of employment, the worsening of the plight of those customers already in dubious positions relating to their ability to meeting their obligations, and the considerations to be given to new customers in assessing the likelihood of their ability to meet their financial obligations with such an uncertain future looming.

And all this had to be done in the face of ever-increasing competition. The Credit Committee also took advantage of available technology to meet virtually whenever necessary.

The Board of Directors continued to rely on the work done by each of its sub-committees. Over the course of the financial year the Board considered and approved new policies and updated existing ones to assist its sub-committees' oversight in the areas of human resources, operational risk and anti-bribery, and corruption, fraud, money laundering and terrorist financing prevention. The sub-committees and indeed the Board of Directors as a whole benefited immensely from the tools contained in a Board Collaboration Platform that was seamlessly introduced and implemented by the Bank's IT department via the information technology sub-committee. These sub-committees also continued to meet regularly.

The non-performing loan portfolio remains an area that commands significant time and attention of the Board of Directors. After pursuing several options with some of the larger debt exposures to negotiate amicable yet swift resolutions to the matters, the Board surged ahead with the exercise of the Bank's available legal avenues to enforce the security provided for several of the said large exposures. While the Board expects these ventures to bear fruit, it has at the same time continued in other respects to pursue viable attempts at restructuring where possible.

THE MANAGING DIRECTOR

On the 13th July 2020, Dr. N. Analdo Bailey began his work in the post of the Managing Director. In conjunction with the Board of Directors of the Bank, and with the respective Boards of Directors of the subsidiaries, Dr. Bailey provides oversight of the operations of the National Bank Group of Companies and ensures that the approved strategic direction of the Bank as the parent company of the Group is being executed effectively and efficiently by the management and staff of the Group. **The Board views the post of Managing Director as a key post in the execution of the Strategic Plan of the Bank and the Group of Companies moving forward.**

THE SENIOR EXECUTIVE TEAM

The Board of Directors commends the work of the Senior Executive Team over the challenging financial year. Never before were the talents of leadership and resilience more required and more "on display" than during the several months following the onset of the COVID-19 pandemic. You, the shareholders, as well I am sure all the other stakeholders in the Bank and the Group, were able to comfortably focus your energies on the challenges that you faced personally knowing that there was a team at the helm of the Bank working to protect your interests.

Unfortunately, at the end of the financial year the Bank faced the departure of the Chief Internal Auditor. The Board responded quickly to fill the post, and currently a new CIA is scheduled to fill this post on 01 April 2021.

The appointment of a Chief Credit Risk Officer remains an extremely challenging endeavor for the Bank. To date the Human Resources sub-Committee of the Board has shortlisted 6 candidates over the last financial year and a total of 16 candidates over the last five years.

The Board received great assistance in this search from Caribbean Jobs in Trinidad, a recruitment agency that provided the Board with candidates for consideration.

The Board is pleased to announce that Ms. Keesha Jones has been employed at the Nevis Branch to fill the post of branch manager replacing Mrs. Sherming Lewis who is retiring from the Bank after 16 years of service. The Board takes this opportunity to thank Mrs. Lewis for her service and to wish her all the best in her future ventures while at the same time express its confidence in Ms. Jones as she endeavours to continue the forward movement of the Nevis Branch.

THE ECONOMY

Prior to the COVID-19 crisis, growth for St. Kitts & Nevis was forecasted at 3.2% for 2020, according to the Eastern Caribbean Central Bank. However, the coronavirus pandemic has reduced the gains that were expected to strengthen the economic position of the local economy. The impact of the pandemic on the tourism sector, which generates over 60% of GDP, has had a domino effect across the economy causing GDP growth rate to decline by 16.3% in 2020 based on ECCB's annual review. According to the IMF World Economic Outlook for 2021, real GDP growth for St. Kitts & Nevis is predicted to rise by 7.9%.

FINANCIAL RESULTS

The Group enjoyed a satisfactory year in so far as it relates to asset quality, business developments and diversification, investment returns and contracts with third parties. Relationships with our correspondent banks and reinsurance providers continued to develop and grow to the benefit of the Bank and its stakeholders. The Bank's correspondent banking relationships continue to be strong in these challenging times.

Net Income for the year ended **June 2020 was $28.38** compared to $52.27 million for the year ended June 30, 2019.

Total assets were at **$3.36 billion** for the financial year ended **June 30, 2020** compared to $3.69 billion at the end of the year ended June 30, 2019.

In 2020, cash and cash equivalents stood at **$0.5 billion** compared with $0.7 billion in 2019.

THE BANKING LANDSCAPE

COVID-19: PRESENT AND FUTURE IMPACT

It is difficult to predict when the COVID-19 induced economic crisis will end, and until then, we will continue to operate in a somewhat uncertain environment. The effects of COVID-19 and the generous moratorium on credit facilities granted to borrowers will require SKNANB to revisit historic loss rates and forward-looking information in the IFRS 9 model. Forward looking information will include adverse scenarios related to the spread of the virus. These may include, for example, segmentation of customers into sub-portfolios based on the sector exposure to the effects of the pandemic.

QUALIFICATION OF ACCOUNTS

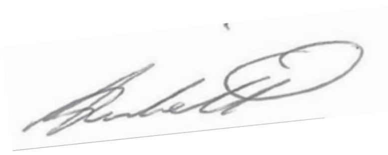
Once again you will note that the Board has had to deal with the issue of the ABI Bank loan of 2009 and the impact that it presents for the asset quality of the Bank. The position of our auditor remains the same and it has once again resulted in a qualification to the accounts. The reasons given by the auditor are stated in the Financial Statements exhibited in the Annual Report. The Board remains confident in the potential for recoverability with regards to this matter. The issue which concerns the Bank's purchase of Certificates of Participation in a Government of Antigua and Barbuda Seven (7) Year Long Term Note (the Certificates of Participation) securitized by the ABI Bank Limited (ABIB) of Antigua has progressed to the stage where the Bank has initiated legal action to recover its interest.

The Bank, through its external counsel, has filed a claim against ABIB, the Eastern Caribbean Amalgamated Bank (ECAB), the Receiver of ABIB and the Antigua and Barbuda Government on 23rd December 2020. In this claim the Bank seeks full payment for the sums owed under the long term note as well as interest and costs. Despite the qualification the Board considers that this initiation of legal action is a significant step over the course of the financial year.

The Board continues to rely on the expert legal advice received by the Bank thus far as pertains to the prospects of enforcing recovery. The Board also remains resolute in its commitment to its fiduciary duties to the Bank and further to the defense of the rights of its shareholders and depositors.

CONCLUSION

The Board is pleased with the performance of the Bank and the Group (as a whole) over the course of the Financial Year. The Board remains vigilant in all attempts to protect the Bank, its shareholders and depositors. On behalf of my fellow Directors on the SKNANB Board and the Chairmen and Directors of the Boards of the subsidiary companies that make up the Group, I would like to offer special thanks to the shareholders, and all other stakeholders for the support that you have given the Board and the Bank over the course of this tumultuous year. Together we have achieved immeasurable success over the years and together we will come out of this challenging time a BIGGER BETTER STRONGER NATIONAL BANK!



Alexis Nisbett
CHAIRMAN

BOARD OF DIRECTORS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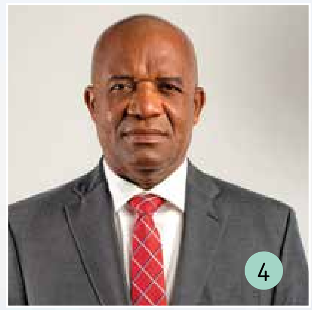
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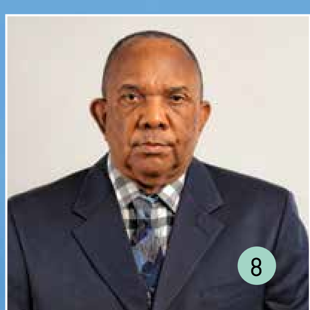
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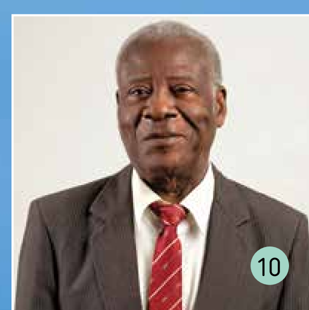
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LEFT TO RIGHT

1. Alexis Nisbett — Chairman
2. Dr. Analdo Bailey — 1st Vice Chairman
3. Franklin Maitland — 2nd Vice Chairman
4. Dr. Cardell Rawlins — Director
5. Talibah Byron — Director
6. Elreter Simpson-Browne — Director
7. Wallis Wilkin — Director
8. Lionel Benjamin — Director
9. Lorna Hunkins — Director
10. William Liburd — Director
11. Stephen O.A. Hector — Corporate Secretary

Many people don't focus enough on execution. If you make a commitment to get something done, you need to follow through on that commitment.

Kenneth Irvine Chenault
First black CEO and Chairman of American Express 2001 until 2018

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report for the financial year ended June 30, 2020.

DIRECTORS

In accordance with the Bank's Articles of Association one third of the Directors shall retire by rotation at every Annual General Meeting. Retiring Directors shall be eligible for re-election.
The retiring Directors by rotation are:

Mr. Franklin Maitland
Ms. Lorna Hunkins
Mr. Wallis Wilkin

The retiring Directors, being eligible, offer themselves for re-appointment.

BOARD COMMITTEES

In keeping with its Management function and fiduciary duties, the Board of Directors operates through nine (9) committees namely: Audit, Budget, Corporate Governance, Credit, Human Resources, Investment, Risk and Compliance, Information Technology and Property Management/Space.
All committees work closely with management to deal with the many challenges facing the financial services industry and the Bank in particular.

Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion.

Stephen OA Hector
Corporate Secretary

FINANCIAL RESULTS AND DIVIDENDS

Activities of the Bank are focused on increasing shareholders value by providing them with a reasonable return on their investments. During the period June 2016 to June 2020, dividend payments were $13.5m (for the financial year ended June 30, 2016), $13.5m (for the financial year ended June 30, 2017), $13.5m (for the financial year ended June 30, 2018) and $20.3m (for the financial year ended June 30, 2019) for a total of $60.8m over a four-year period.

The Directors report that profit after taxation for the year ended June 30, 2020 amounted to $28.4 million, with earnings per common share of $0.21.

Further discussion of the performance of the Company can be found in Management's Discussion and Analysis of the financial condition and results of operations presented in a separate section of this Annual Report.

The Directors have decided to recommend a dividend combination payment of 10% for the financial year ended June 30, 2020, which will comprise of a 5% cash dividend and a 5% stock dividend. This recommendation, if approved by the Annual General Meeting, will mean a total dividend of $13.5 million for the financial ended June 30, 2020.

By Order of the Board of Directors

Stephen O. A. Hector
SECRETARY

SENIOR EXECUTIVE TEAM

__Top: From Left To Right__

Donald Thompson,
Chief Executive Officer

Anthony Galloway,
Chief Financial Officer

Pansyna Bailey,
Chief Human Resources Officer

Quincy Prentice,
Chief Information Officer

Bernice Grant-Kelly,
Chief Electronic Services Officer

Jacqueline Hewlett,
Chief Risk and Compliance Officer

Ermelin Sebastian-Duggins,
Chief Legal Counsel

__Bottom: From Left To Right__

David Edwards,
Executive Manager, Systems

Paula Morton,
Officer in Charge, Credit Division

June O'Brien,
Executive Manager, Administration Department

Anthony Morton,
Executive Manager, Marketing

Deirdre Venner,
Senior Manager Retail Banking

Vision, Focus and Staying the Course mean that a clear destination has to be envisaged and charted.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides an overview of the economic conditions that existed globally and domestically during the financial year ended 30 June 2020, and an analysis of the results of operations and financial condition of St Kitts-Nevis-Anguilla National Bank Limited and its subsidiaries (the "Group") for the same period. This should be read in conjunction with the Consolidated Financial Statements and related notes found on pages 47 to 148.

OPERATING ENVIRONMENT

St Kitts-Nevis-Anguilla National Bank Limited and its subsidiaries (the "Group") started the financial year with expectancy and optimism as global growth was forecasted by the IMF at 3.2% for the latter half of 2019, increasing to 3.5% in 2020. However, in the first quarter of 2020 the economic landscape changed with the rise in COVID-19 cases worldwide. Globally many organizations were faced with overwhelming challenges and uncharted waters, having to navigate the impacts of the pandemic. In April 2020, global growth estimates were revised downwards to -3.0%, much worse than during the 2008–09 financial crisis. The protection of lives and the resilience of health care systems became of primary importance to leaders worldwide. Governments mandated lockdowns, isolation and widespread business closures to slow the spread of the virus, which severely impacted global economic activity.

Central Banks around the world sprang into action, rolling out monetary policies to avert a systemic collapse. In the U.S., the Federal Reserve's swift and far-ranging response surpassed those it took during the global financial crisis of 2007-2008. These coordinated efforts helped stabilize financial markets and, both stock and bond markets which had fallen in the first quarter of 2020, partially rebounded by the end of the second quarter 2020.

Against this background of extensive lockdowns and travel restrictions introduced by both advanced and emerging economies, economic activity in the Eastern Caribbean Currency Union (ECCU) contracted sharply in the first half of 2020. The Eastern Caribbean Central Bank (ECCB) projected several potential scenarios which considered the economic impact of COVID-19 in the ECCU. Based on two such scenarios, economic activity in the ECCU was projected to contract between 10.0% and 20.0% in 2020, accompanied by a sharp rise in unemployment. This decline reflected contractions in the major sectors in all member countries, particularly in tourism and its ancillary sectors, as countries implemented stringent measures to curb the transmission of the Virus.

In St. Kitts-Nevis and other ECCU territories, the latter half of the 2019/20 tourism season was eroded, and the whole of the 2020/21 season remained doubtful. Amidst this uncertainty, our recovery strategies will depend largely on the rate at which the world re-opens and what eventually happens to traveller-confidence. Regardless of the outcome, governments are likely to be called upon to provide additional financial support for various businesses. The impact on our tourism-dependent islands is difficult to quantify.

In St Kitts and Nevis during the first half of 2020, the effects of the COVID-19 pandemic were unparalleled as contraction was seen in all areas of economic activity. In St Kitts and Nevis activity declined in the first two quarters of 2020, relative to the comparable period of the previous year. This development necessitated the implementation of containment measures in the Federation. Fiscal countermeasures by the government were implemented to moderate the impact.

Additionally, given the losses in household and business income resulting from the impact of the COVID-19 pandemic, the Banks in the ECCU, supported by the ECCU Bankers Association and the ECCB implemented a support programme, which included a loan repayment moratorium for six months in the first instance. Despite the deferral of some loan payments, the Federation's banking system remained liquid at the end of June 2020, measured against ECCB benchmarks.

Despite a challenging year impacted by the coronavirus which resulted in a global recession, St. Kitts-Nevis-Anguilla National Bank Group reports another profitable year of operations.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the year was $22.7 million, a decrease of $23 million or 50.3% when compared with $45.7 million reported for 2019.

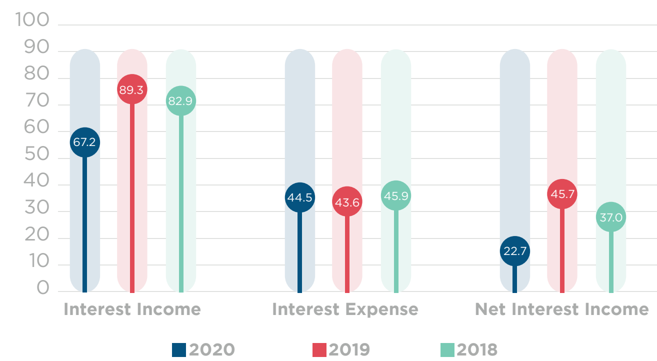
This year-over-year decrease in net interest income was the result of lower interest income and higher interest expenses for the period. (See Table 1)

Lower interest income was earned on loans, advances and investments whilst interest expense increased primarily on savings accounts during the year. Consequently, the Bank's net interest margin (net interest income as a percentage of average assets) decreased to 0.8% in 2020 from 1.5% in 2019.

Table 1

(In Millions)	2020	2019	Change $	Change %
Interest Income	**67.2**	**89.3**	**(22.1)**	**(24.7)**
Loans & Advances	36.3	47.5	(11.2)	(23.6)
Investments	30.9	41.8	(10.9)	(26.1)
Interest Expense	**44.5**	**43.6**	**(0.9)**	**2.1**
Demand	1.0	1.0	0.0	0.0
Savings	10.0	9.0	1.0	11.1
Time	33.5	33.6	(0.1)	(0.3)
Net Interest Income	**22.7**	**45.7**	**(23.0)**	**(50.3)**

NET INTEREST INCOME



Non-Interest Income

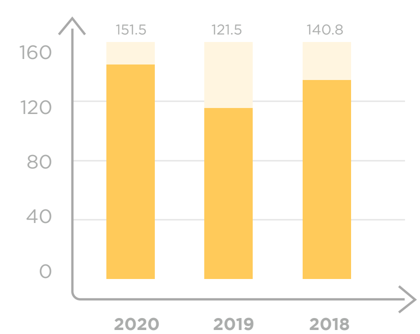
Non-interest income increased by $30.0 million or 24.7% when compared with 2019. The Group saw a rise of 58.6% in gains from investment securities when compared with the previous year, following fair value increases in investment securities. The investment markets in the USA experienced increased volatility during the earlier part of 2020 following the outbreak of the coronavirus and numerous state lock-downs. This resulted in a sharp downturn in the markets in the first quarter of 2020. However, positive feedback regarding reduced hospitalizations and death rate and reopening of businesses during the second quarter of 2020, helped to fuel investor confidence which resulted in a turnaround of the market and rise in the values of securities.

Excluding the impact of lower foreign exchange gains and dividend income, all other categories of non-interest income showed year-over-year growth. Fees and commission increased by $1.9 million or 11.3%, net gains on investments increased by $29.1 million or 58.6% and Insurance related income rose by $2.6 million or 7.2%.(see table 2)

Table 2

(In Millions)	2020	2019	Change $	Change %
Fee and Commission Income	18.7	16.8	1.9	11.3
Dividend	9.1	10.8	(1.7)	(15.7)
Net Gain on AFS Investments	78.8	49.7	29.1	58.6
Net Insurance related income	38.7	36.1	2.6	7.2
Foreign Exchange gains	5.7	7.6	(1.9)	(25.0)
Other	0.5	0.5	0.0	0.0
Non-Interest Income	**151.5**	**121.5**	**30.0**	**24.7**

NON-INTEREST INCOME



Non-Interest Expenses

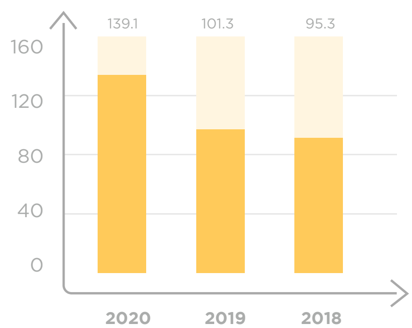
In 2020, non-interest expenses increased by $37.8 million or 37.3% from $101.3 million in 2019 to $139.1 million in 2020. Growth in non-interest expenses was primarily due to an increase in impairment charges from $10.5 million in 2019 to $46.5 in 2020, a growth of 342.9%.

Consequently, before adjustments for impairment, the efficiency ratio improved by 110 basis points from 54.2% in 2019 to 53.2% in 2020. However, after adjusting for impairment, the efficiency ratio moved from 60.6% in 2019 to 79.9% in 2020. In the banking industry, the efficiency ratio show's how well bank's managers control their overhead expenses, which is calculated as non-interest expenses/revenue. An efficiency ratio of 50% or under is considered optimal and a lower efficiency ratio means that the bank is operating better. If the efficiency ratio increases, it means a bank's expenses are increasing or its revenues are decreasing.

Table 3

(In Millions)	2020	2019	Change $	Change %
Administrative and general expenses	43.3	46.9	(3.6)	(7.7)
Net Claims incurred	21.1	23.2	(2.1)	(9.1)
Fee expenses	22.8	16.2	6.6	40.7

NON-INTEREST EXPENSES



(In Millions)	2020	2019	Change $	Change %
Impairment charges	46.5	10.5	36.0	342.9
Depreciation and amortization	3.5	2.6	0.9	34.6
Directors Fees & Expenses	1.1	1.1	0.0	0.0
Professional fees and related expenses	0.8	0.8	0.0	0.0
Non-Interest Expenses	**139.1**	**101.3**	**37.8**	**37.3**

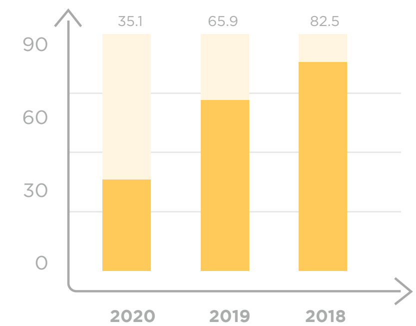
Net Income

The net effect of the change in net interest income, non-interest income and non-interest expenses was a $30.8 million or 46.7% decrease in net income before tax for 2020 over 2019. Net income for 2020 was $23.9 million or 45.7% lower than the $52.3 million achieved in 2019. Consequently, earnings per share (basic and diluted) was $0.21 in 2020 when compared to $0.39 in 2019. (See table 4)

Table 4

(In Millions)	2020	2019	Change $	Change %
Net Interest Income	$ 22.7	$ 45.7	(23.0)	(50.3)
Non-Interest Income	151.5	121.5	30.0	24.7
Non-Interest Expenses	(139.1)	(101.3)	(37.8)	37.3
Net Income (Profit b/f Tax)	**35.1**	**65.9**	**(30.8)**	**(46.7)**

PROFIT BEFORE TAX



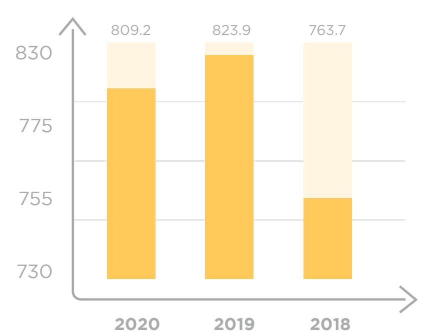
FINANCIAL CONDITIONS

Loans and Advances

Total Loans and Advances to customers decreased by $14.6 million or 1.8% to $809.2 million in 2020 over 2019, mainly due to the net effect of a decrease in non-performing loans of $15.8 million and an increase in provision for expected credit losses of $19.9 million and an increase in mortgages loans of $9.3 million.

SKNANB's market share of total loans and advances in the Federation of St. Kitts and Nevis decreased from 43.0% in 2019 to 42.2% in 2020 and when compared to the ECCU, moved from 6.5% to 6.2% over the same period.

LOANS AND ADVANCES



Deposits

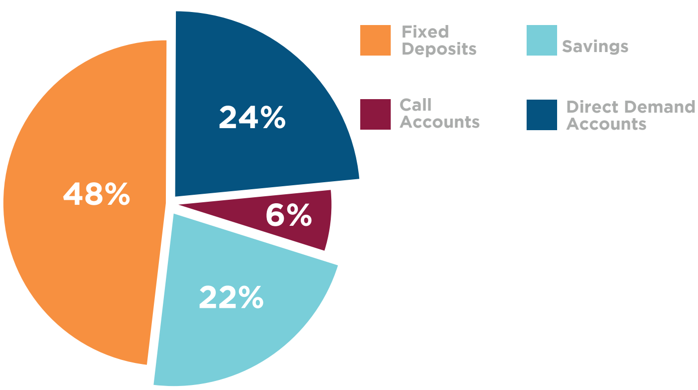
Customer deposits declined by $314.3 million or 11.1% to $2.5 billion in 2020 when compared with $2.8 billion 2019.

Direct demand deposits, Fixed deposits and Call accounts were the main contributing factors to the decline in customer deposits. During the pandemic period, customers withdrew deposits at the bank due to job losses or reduced income during lockdowns and other measures taken to deal with the coronavirus pandemic.

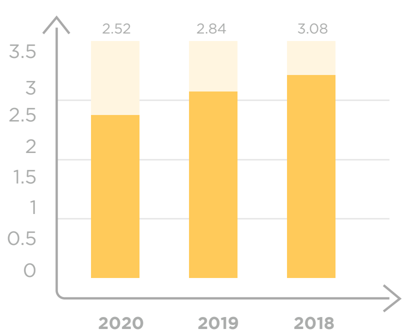
Additionally, the Government stimulus package resulted in the reduction in Public Sector demand deposits and fixed deposits during the year. The Bank also experienced increased demand for funds from financial institutions in the region who were experiencing liquidity challenges caused by the pandemic.

Interest payments on deposits amounted to $44.5 million in 2020 compared to $43.6 million in 2019. The average effective rate of interest paid on customers' deposits was 1.75% in 2020, compared with 1.64% in 2019.

DEPOSIT MIX



CUSTOMER DEPOSITS



CAPITAL AND LIQUIDITY

The Group continued to maintain a very strong capital position in financial year 2020 as evidenced by the end of period Tier 1 capital ratio of 38.0% and Basel ratio of 38.0%. Shareholders' equity has increased by $6.1 million or 1.0% in 2020, Return on assets decreased to 0.8% in 2020 when compared to 1.4% in 2019. The Return on equity moved lower to 4.7% in 2020 from 8.7% in 2019.

The Group also remained highly liquid and maintained a high level of liquid assets in 2020. Total liquid assets maturing within one (1) year were $2.0 billion in 2020 (2019 - $2.4 billion), equal to 62.2% of total assets versus 63.9% the previous year. Despite the lower position, it is still an indication that the bank possesses a sufficient amount of liquidity in support of its assets, giving it the ability to meet its contractual obligations as they fall due.

RISK MANAGEMENT

During the financial year 2019-2020, notable enhancements were made to the Bank's Enterprise Risk Management (ERM) framework which assisted the Bank to better manage the resulting effects of the global Covid-19 pandemic. Special focus has been placed on proactively identifying emerging risks in an effort to mitigate such prior to the occurrence of actual risk events.

As a retail bank, financial risk management is of critical importance and the implementation of stress testing of the investment portfolio ensures that potential losses for various downside risk scenarios are identified, reviewed and reported so that the Board is aware of the associated risks. Liquidity risk management was enhanced via the introduction of weekly and monthly cash flow forecasting as well as stress testing. These risk management processes proved invaluable in mitigating the risk of not being able to meet liquidity obligations especially when dealing with the reduced liquidity as a result of the Covid-19 pandemic.

With credit being one of major sources of income for banks, credit risk management is of vital importance. The Bank has been working assiduously to reduce the level of non-productive loans and advances which are expected to worsen in the face of recent business closures especially related to the tourism industry and the resulting loss or reduction of income. The Bank will be seeking to further strengthen its credit risk management framework over the coming financial year.

The operational risk management programme has been implemented throughout the Bank with operational risk meters, dashboards and logs being provided monthly for all functional areas. Operational risk is quantified, and this will be further developed over the coming period to introduce the reporting of loss events associated with operational risk. A dashboard of the various areas of operational risk is collated to provide a more comprehensive view of the Bank's exposure as well as to assess the effectiveness of mitigating controls. During the 2020-2021 financial year, operational risk reporting is to be rolled out to the various Group subsidiaries.

The Eastern Caribbean Central Bank (ECCB) has commenced implementation of the Basel II/III Capital Adequacy Framework (Basel II/III) in the Eastern Caribbean Currency Union (ECCU) using a hybrid approach, and the Bank's participation in this process is ongoing. The first phase of this implementation, which contemplates commencement of reporting based on the proposed Basel II/III Capital Standard (using the Basel III definition of capital and incorporating additional capital charges for credit, operational and market risk), is currently targeted for implementation by December 2021. The Bank is currently in the process of preparing for this implementation.

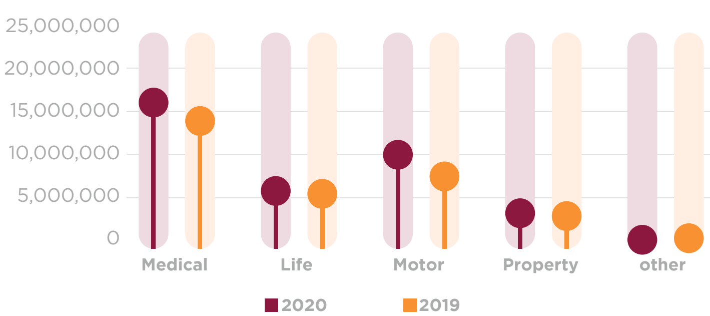
The Bank remains resolute in its efforts to continue to develop its ERM framework to ensure that all relevant risks are effectively managed based on its strategic direction, the continuously evolving global environment, and in alignment with regulatory requirements.

NATIONAL CARIBBEAN INSURANCE COMPANY (NCIC)

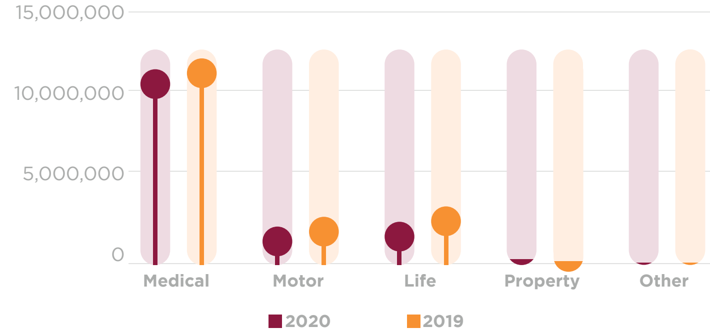
For the period under review, the company achieved a Net Profit before Tax of $10.0 million. This marked a significant increase over the prior year profit of $6.1 million and was mainly attributable to strong underwriting results for the year.

NCI continues to strengthen its position in the market, achieving 11% growth in gross premium income which stood at $52.1 million for the year ($47.7 million in 2019). This increase in premiums, however, was slightly countered by a $2.4 million or 21% rise in the cost of reinsurance coverage. The company also experienced a 9% reduction in claims expenses as total claims moved from $23.2 million in 2019 to $21.1 million in 2020.

ANALYSIS OF PREMIUMS



ANALYSIS OF CLAIMS



NATIONAL BANK TRUST COMPANY

At the end of June 2020, National Bank Trust Company also reported a successful year of operations when compared to the previous year. Its income before taxation was $206,000, which represents a $81,200 or 501.2% increase over the previous year's $103,100.

The profit achieved for financial year 2020 was due mainly to $141.2 million reduction in total expenses. This decrease in expenses was due mainly to decreases in employee's compensation and benefits and administrative expenses.

MICO

Although the St. Kitts-Nevis Mortgage and Investment Company reported a loss of $469,600 in 2020, the loss was 5.5% less than that reported in 2019. The improvement over the previous year was attributable to higher operating income and lower expenses over the period. The main expenses incurring over the period were administration and general expenses and depreciation.

OUTLOOK

As the St. Kitts-Nevis-Anguilla National Bank Limited celebrates the auspicious milestone of 50 years of operations, the Board of Directors, Management and Staff take this opportunity to thank our shareholders, customers, and employees for their continued support. During these challenging times, we will remain focused. The areas of major focus for 2021 will be improvement in asset quality, credit revenue generation, maintaining and growing market share, liquidity preservation, enhancing our technological capabilities, regulatory requirements, risk mitigation and investment management. We will utilize our personnel and systems to improve all-around efficiencies, strategies and achieve our targets.

CONSOLIDATED **FINANCIAL STATEMENTS**

June 30, 2020
(expressed in thousands of Eastern Caribbean Dollars)

Grant Thornton

An instinct for growth™

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Independent Auditor's Report

To the Shareholders of
St. Kitts-Nevis-Anguilla National Bank Limited

Opinion

We have audited the consolidated financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** (the "Bank") and its subsidiaries (the 'Group"), which comprise the consolidated statement of financial position as of June 30, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

Originated debts on the Group's consolidated statement of financial position include certain long-term notes issued by a third party, ABI Bank Limited (in receivership) ("ABIB"), amounting to $36,242,620 which have matured and remain outstanding. The loans were to be fully repaid by cash flows from loans ABIB made to the Government of Antigua and Barbuda. However, on November 27, 2015, ABIB was placed in receivership. No provision for potential losses has been made in the consolidated financial statements in respect of these notes.

We were unable to obtain sufficient appropriate audit evidence or satisfy ourselves by alternative methods, as to the recoverability of the $36,242,620 due to the Group. Consequently, we were unable to determine whether any adjustment to this amount was necessary in the consolidated financial statements.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group 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 these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Expected credit losses ("ECL") of financial assets

Description of the Matter

The ECL of financial assets is a key audit matter, as it requires the application of critical management judgement and use of subjective estimates in determining the amount of ECL that are required to be recognised in the consolidated financial statements. As of June 30, 2020, the Group's financial assets with credit risk that are subject to ECL assessment amounted to $1,747,799,000 which represents 52% of total assets.

Accordingly, the Group used the ECL model in determining the credit loss allowance for its financial assets. Under IFRS 9, the assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of default occurring, the associated loss ratio and of default correlation between counterparties. Furthermore, the Group incorporates forward-looking information into the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition to the measurement of ECL. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

The disclosures relating to the credit loss allowances for the financial assets, and the related credit risk are included in notes 3 to 10 and 32 to the consolidated financial statements.

How the Matter was addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the adequacy of the ECL allowance on the financial assets, which was considered to be a significant risk, included the following:

- Obtained an understanding of and critically assessed the Group's updated accounting policies relating to the classification, measurement and ECL assessment of financial assets;

- Assessed and evaluated the effectiveness of controls over the approval, recording and monitoring of financial assets, classification into credit risk stages, and calculation of ECL allowance;

- Evaluated the inputs and assumptions, as well as the formulas used in the development of the ECL models for the various financial assets. This includes assessing the appropriateness of design of the ECL impairment model and formulae used in determining the ECL;

- Evaluated the classification of credit-impaired loans and advances to customers to stage 3 for completeness of the population of loans and advances to customers included in the stage 3 ECL calculation. Independently tested the accuracy of management's stage 3 ECL calculation on a sample basis;

Key Audit Matters *...continued*

Expected credit losses ("ECL") of financial assets *...continued*

How the Matter was addressed in the Audit ...continued

- Examined the collateral values recorded by management by comparing them to independent valuation reports of independent professional valuators;
- Assessed the estimated costs and time to sell pledged collaterals used in the ECL calculation for reasonableness; and
- Assessed the key credit risk factors such as default history, macro-economic factors and financial capability of counterparties.

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

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

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *...continued*

- 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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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

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

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

From the matters communicated to the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lisa M. Roberts.

Grant Thornton

Chartered Accountants
December 23, 2020
Basseterre, St. Kitts

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Consolidated Statement of Financial Position
As of June 30, 2020

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2020 $	2019 $
Assets			
Cash and balances with Central Bank	5	**185,395**	220,505
Treasury bills	6	**69,898**	69,615
Deposits with other financial institutions	7	**458,554**	591,769
Loans and advances to customers	8	**809,249**	823,883
Originated debts	9	**136,597**	224,215
Financial asset	32	**568,409**	682,075
Investment securities	10	**982,603**	934,198
Property inventory	11	**8,565**	8,553
Investment property	12	**4,040**	4,040
Income tax recoverable	19	**28,587**	16,948
Property and equipment	13	**38,424**	33,348
Intangible assets	14	**458**	658
Right of use assets	15	**1,137**	–
Other assets	16	**51,414**	62,192
Deferred tax asset	19	**16,591**	18,302
Total assets		**3,359,921**	3,690,301
Liabilities			
Customers' deposits	17	**2,525,825**	2,840,108
Due to other financial institutions		**–**	124
Accumulated provisions, creditors and accruals	18	**208,254**	226,724
Acceptances, guarantees and letters of credit		**6,375**	6,375
Income tax liability	19	**1,992**	6,797
Lease liabilities	15	**1,127**	–
Deferred tax liability	19	**3,359**	3,315
Total liabilities		**2,746,932**	3,083,443
Shareholders' equity			
Issued share capital	20	**135,000**	135,000
Share premium		**3,877**	3,877
Reserves	21	**354,755**	339,773
Retained earnings		**119,357**	128,208
Total shareholders' equity		**612,989**	606,858
Total liabilities and shareholders' equity		**3,359,921**	3,690,301

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

Approved for issue by the Board of Directors on December 23, 2020.

Chairman **Director**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Consolidated Statement of Income
For the year ended June 30, 2020

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2020 $	2019 $
Interest income	22	**67,162**	89,281
Interest expense	22	**(44,494)**	(43,601)
Net interest income		**22,668**	45,680
Fees and commission income	23	**18,749**	16,841
Fees expenses	23	**(22,800)**	(16,247)
Net fees and commission (expense)/income		**(4,051)**	594
Other income, net	24	**132,725**	104,638
Operating income		**151,342**	150,912
Operating expenses			
Credit impairment charges	26	**46,501**	10,472
Administrative and general expenses	25	**43,262**	46,861
Other expenses	27	**26,499**	27,696
Total operating expenses		**116,262**	85,029
Net income before tax		**35,080**	65,883
Income tax expense	19	**(6,698)**	(13,615)
Net income for the year		**28,382**	52,268
Earnings per share (basic and diluted)	28	**0.21**	0.39

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Consolidated Statement of Comprehensive Income
For the year ended June 30, 2020

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2020 $	2019 $
Net income for the year		**28,382**	52,268
Other comprehensive (loss)/income, net of tax:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Financial assets measures at FVOCI – debt instruments:			
Net unrealised gains on investment securities, net of tax		**737**	1,195
Reclassification adjustments for net losses included in income, net of tax		**(9)**	(26)
	21	**728**	1,169
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation surplus	21	**6,263**	–
Financial assets measured at FVOCI – equity instruments:			
Net unrealised gains/(losses) due to changes in fair value, net of tax	21	**3,632**	(25,795)
Realised losses, net of tax	21	**(10,261)**	–
Re-measurement loss on defined benefit asset, net of tax	21	**(2,350)**	(2,304)
		(8,979)	(28,099)
Total other comprehensive loss for the year		**(1,988)**	(26,930)
Total comprehensive income for the year		**26,394**	25,338

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Consolidated Statement of Changes in Shareholders' Equity
For the year ended June 30, 2020

(expressed in thousands of Eastern Caribbean dollars)

	Notes	Issued share capital $	Share premium $	Reserves $	Retained earnings $	Total $
Balance at July 1, 2018		**135,000**	**3,877**	**358,192**	**97,951**	**595,020**
Net income for the year		–	–	–	52,268	52,268
Other comprehensive loss		–	–	(26,930)	–	(26,930)
Total comprehensive income for the year		–	–	**(26,930)**	**52,268**	**25,338**
Transfer to reserves	21	–	–	8,511	(8,511)	–
Transaction with owners:						
Dividends	29	–	–	–	(13,500)	(13,500)
Balance at June 30, 2019		**135,000**	**3,877**	**339,773**	**128,208**	**606,858**
Changes on initial application of IFRS 16	2.2	–	–	–	(13)	(13)
Balance at July 1, 2019, restated		**135,000**	**3,877**	**339,773**	**128,195**	**606,845**
Net income for the year		–	–	–	28,382	28,382
Other comprehensive loss		–	–	8,273	(10,261)	(1,988)
Total comprehensive income for the year		–	–	**8,273**	**18,121**	**26,394**
Transfer to reserves	21	–	–	6,709	(6,709)	–
Transaction with owners:						
Dividends	29	–	–	–	(20,250)	(20,250)
Balance at June 30, 2020		**135,000**	**3,877**	**354,755**	**119,357**	**612,989**

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Consolidated Statement of Cash Flows
For the year ended June 30, 2020

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2020 $	2019 $
Cash flows from operating activities			
Net income before tax		**35,080**	65,883
Adjustments for items not affecting cash:			
Credit impairment charges	26	**46,501**	10,472
Interest expense	23	**44,494**	43,601
Net unrealised losses on FVTPL investment securities		**15,433**	2,713
Depreciation and amortisation		**3,433**	2,627
Pension expense	34	**818**	543
Revaluation loss on land and buildings	13	**223**	–
Write-off of projects ongoing to expense		**–**	455
Loss on disposal of property inventory		**–**	38
Gain on disposal of property and equipment		**(9)**	–
Dividend income	24	**(9,114)**	(10,846)
Interest income	22	**(67,162)**	(89,281)
Operating income before changes in operating assets and liabilities		**69,697**	26,205
(Increase)/decrease in operating assets:			
Loans and advances to customers		**(27,147)**	(71,678)
Mandatory deposits with Central Bank		**14,264**	(134)
Financial asset		**101,500**	100,340
Other assets		**8,319**	(4,345)
Increase/(decrease) in operating liabilities:			
Customers' deposits		**(315,600)**	5,942
Due to other financial institutions		**(124)**	124
Accumulated provisions, creditors and accruals		**(17,732)**	7,377
Cash (used in)/generated from operations		**(166,823)**	63,831
Interest received		**57,901**	71,783
Pension contributions paid	34	**(1,810)**	(1,751)
Income tax paid	19	**(17,775)**	(24,244)
Interest paid		**(43,177)**	(43,735)
Net cash (used in)/from operating activities		**(171,684)**	65,884
Cash flows from investing activities			
Disposal of investment securities and originated debts		**1,859,738**	1,822,085
Interest received		**18,466**	16,329
Dividends received		**9,114**	10,846
Proceeds from disposal of property and equipment		**81**	–
Proceeds from disposal of property inventory		**–**	160
Acquisition of property inventory		**(12)**	–
Acquisition of intangible assets		**(56)**	(467)
(Increase)/decrease in restricted term deposits and treasury bills		**(184)**	3,056
Acquisition of property and equipment		**(1,109)**	(1,587)
Purchase of investment securities and originated debts		**(1,947,913)**	(1,743,508)
Net cash (used in)/from investing activities		**(61,875)**	106,914
Subtotal carried forward		**(233,559)**	172,798

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Consolidated Statement of Cash Flows …continued
For the year ended June 30, 2020

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2020 $	2019 $
Subtotal brought forward		**(233,559)**	172,798
Cash flows from financing activities			
Dividends paid	29	**(20,250)**	(13,500)
Repayments of lease liabilities	15	**(776)**	–
Interest paid on lease liabilities	15	**(43)**	–
Decrease in acceptances, guarantees and letters of credit		**–**	(1,177)
Net cash used in financing activities		**(21,069)**	(14,677)
Net (decrease)/increase in cash and cash equivalents		**(254,628)**	158,121
Cash and cash equivalents, beginning of year		**709,816**	551,695
Cash and cash equivalents, end of year	33	**455,188**	709,816

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

(expressed in thousands of Eastern Caribbean dollars)

1 Incorporation and principal activity

St. Kitts-Nevis-Anguilla National Bank Limited (the "Bank") was incorporated as a public limited company on February 15, 1971 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 1999. The Bank operates in both St. Kitts and Nevis and is subject to the provisions of the Banking Act of 2015. The Bank is a public company listed on the Eastern Caribbean Securities Exchange.

The Bank's registered office is at Central Street, Basseterre, St. Kitts. The principal activities of the Bank and its subsidiaries (the "Group") are described below.

The Bank is principally involved in the provision of financial services being primarily commercial banking and investment activities. The Bank is regulated by the Eastern Caribbean Central Bank (ECCB).

The Bank's subsidiaries and their activities are as follows:

- *National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited ("Trust Company")*

  The Trust Company was incorporated on January 26, 1972 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 1999.

  The principal activity of the Trust Company is the provision of long-term mortgage financing, raising long-term investment funds, real estate development, property management and the provision of trustee services.

- *National Caribbean Insurance Company Limited ("Insurance Company")*

  The Insurance Company was incorporated on June 20, 1973 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 1999.

  The Insurance Company provides life insurance coverage, non-life insurance coverage and pension schemes.

- *St. Kitts and Nevis Mortgage and Investment Company Limited ("MICO")*

  MICO was incorporated on May 25, 2001 under the Companies Act No. 22 of 1996 and commenced operations on May 13, 2002.

  MICO acts as the real estate arm of the Bank with its main operating activities being the acquisition and sale of properties.

2 Significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments, and in accordance with the going concern assumption.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.2 Changes in accounting policies

New and revised standards that are effective for annual periods beginning July 1, 2019

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

IFRS 16, Leases

IFRS 16, *Leases*, replaces International Accounting Standard (IAS) 17, *Leases*, along with three Interpretations (IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC 15, *Operating Leases – Incentives*, and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*).

The adoption of this new standard has resulted in the Group recognising right-of-use assets and related lease liabilities in connection with all former operating leases except for those identified having a remaining lease term of less than twelve (12) months or those leases considered to be low value from the date of initial application.

The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as a lease under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use assets for operating leases in existence at the date of initial application of IFRS 16, being July 1, 2019.

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

New and revised standards that are effective for annual periods beginning July 1, 2019 *...continued*

IFRS 16, Leases ...continued

At this date, the Group has also elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to the lease liability recognised under IFRS 16 was 3%.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The impact on the opening retained earnings as a result of the implementation of IFRS 16 on July 1, 2019 was a decrease of $13.

IFRIC 23, Uncertainty over Income Tax Treatments

The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

Management determines that the impact of IFRIC 23 on the consolidated financial statements of the Group is not significant.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

New and revised standards that are effective for annual periods beginning July 1, 2019 *...continued*

Other amendments to standards

Other standards and amendments that are effective for the first time on July 1, 2019 are as follows:

- IFRS 9, *Prepayment features with Negative Compensation* (Amendments to IFRS 1);
- IAS 28*, Long-term interests in Associates and Joint Ventures* (Amendments to IAS 28*)*;
- Annual improvements to IFRS 2015-2017 cycle (IAS 12, IAS 23, IFRS 3 and IFRS 11); and
- IAS 19, *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19).

These amendments do not have significant impact on these consolidated financial statements and therefore the disclosures have not been made.

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

At the date of authorisation of these consolidated financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's consolidated financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

IFRS 17 Insurance Contracts (effective from January 1, 2023)

IFRS 17 was issued in May 2017 as replacement for IFRS 4, *Insurance Contracts*. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group *...continued*

IFRS 17 Insurance Contracts (effective from January 1, 2023) ...continued

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the consolidated financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Group has commenced the review of this standard but has not yet assessed the impact.

There are no other new or amended standards and interpretations that are issued but not yet effective, that are expected to have a significant impact on the accounting policies or financial disclosure of the Group.

2.3 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of June 30, 2020. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of June 30. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.4 Cash and cash equivalents

Cash comprises cash on hand and demand and call deposits with Groups. Cash equivalents are short-term, highly liquid investments with original maturities of ninety (90) days or less that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents are subject to an insignificant risk of change in value. Cash and cash equivalents exclude balances held to meet statutory requirements and restricted deposits.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.5 Financial assets and liabilities

Classification and measurement

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

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

i) Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

Business model test:

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

Solely payments of principal and interest (SPPI) test:

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

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Classification and measurement *...continued*

i) Debt instruments ...continued

Solely payments of principal and interest (SPPI) test: ...continued

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognized in profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss.

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

ii) Equity instruments

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

Credit risk measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'stage 1'. Financial instruments in stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Credit risk measurement *...continued*

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet deemed to be credit-impaired. Instruments in stage 2 have their ECL measured based on expected credit losses on a lifetime basis.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'stage 3'. Instruments in stage 3 have their ECL measured based on expected credit losses on a lifetime basis.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis.

For debt securities, the Group examines the issuer's capital adequacy, financial performance, liquidity position, and credit rating to assess whether the issuer has experience significant increase in credit risk since the origination of the assets. When no external credit rating is available, the Group assigns internal credit rating based on internal risk criteria. The Group also considers if there is any negative press or adverse market information that may indicate changes in credit risk.

For loans and advances and other receivables, delinquency status is utilized as the main indicator for changes in credit risk. Credit management actions are triggered by movement in days past due. Other qualitative factors are considered, which include but are not limited to:

- Early signs of cash flow/liquidity problems;
- In short-term forbearance;
- Known adverse change in financial conditions; and,
- Known adverse changes in business or economic conditions in which the borrower operates.

Significant increase in credit risk (SICR)

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Credit risk measurement *...continued*

Backstop

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

If an asset is in investment grade at reporting date, it will be in stage 1 irrespective of its origination rating. With respect to loans and advances to customers however, the Group has not used the low credit risk exemption for any of those financial instruments for the years ended June 30, 2020 and June 30, 2019.

Default

For debt securities, default is defined as having missed the contractual payments of principal or interest. For loans and advances, and other receivables, the Group defines default based on the following criteria:

Quantitative criteria

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

Qualitative criteria

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

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

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

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Impairment measurement

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instruments carried at amortised cost and FVOCI and with the exposure arising from loan commitments. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

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

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

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). EAD is assessed based on contractual terms of the debt instrument.

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

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

Forward looking information

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

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Impairment measurement*...continued*

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

Derecognition of financial assets

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

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities include customers’ deposits, due to other financial institutions, acceptances, guarantees and letters of credit and accumulated provisions, creditors and accruals.

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.6 Offsetting financial instruments

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

2.7 Employee benefits

i) Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in accumulated provisions, creditors and accruals, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

ii) Gratuity

The Group provides a gratuity to its employees after fifteen (15) years of employment. The amount of the gratuity payment to eligible employees at retirement is computed with reference to final salary and calibrated percentage rates based on the number of years of service. Provisions for these amounts are included in the consolidated statement of financial position.

iii) Pension plan

The Group operates a defined benefit plan. The administration of the plan is conducted by the Insurance Company, one of the subsidiaries. The plan is funded through payments to trustee-administered deposit funds determined by periodic actuarial calculations. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement based on factors such as age, years of service and final salary. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuation being carried out at the end of each reporting period.

The asset figure recognised in the consolidated statement of financial position in respect of net defined benefit asset is the fair value of the plan assets less the present value of the defined benefit obligation at the reporting date. The retirement benefit asset recognised in the consolidated statement of financial position represents the actuarial surplus in the defined benefit plan. Re-measurements comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the consolidated statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Re-measurement recorded in other comprehensive income is not recycled. However, the Group may transfer those amounts recognised in other comprehensive income within equity.

2 Significant accounting policies *...continued*

2.8 Property and equipment

Land and buildings held for use in the rendering of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity, usually every five (5) years, such that the carrying amount does not differ materially from that which would be determined using fair values at the year end.

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

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

Projects ongoing represents structures under construction and project development not yet completed and is stated at cost. This includes the costs of construction and other direct costs. Projects ongoing is not depreciated until such time that the relevant assets are ready for use.

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on the following bases:

Buildings:	25 – 45 years
Leasehold improvements:	25 years, or over the period of lease if less than 25 years
Equipment, fixtures and fittings and motor vehicles:	3 – 10 years
Right-of-use assets:	3 – 10 years

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

All repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

2 Significant accounting policies *...continued*

2.9 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and to bring into use the specific software. These costs are amortised on the basis of the expected useful life of such software which is three to five years.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2.10 Impairment of non-financial assets

Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Insurance contracts

i) Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

ii) Recognition and measurement

Insurance contracts issued are classified as short-term insurance contracts and long-term insurance contracts with fixed and guaranteed payments.

Short-term insurance contracts

- Property and casualty insurance business

  Property and casualty insurance contracts are generally one year renewable contracts issued by the Group covering insurance risks over property, motor, accident and marine.

  Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of the property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

  Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damages (public liability).

2 Significant accounting policies *...continued*

2.11 Insurance contracts *...continued*

ii) Recognition and measurement ...continued

Short-term insurance contracts…continued

- Property and casualty insurance business *...continued*

  Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unexpired insurance risk. Premiums are shown before deduction of commissions.

  Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using:

  - the input of assessments for individual cases reported to the Group; and
  - statistical analyses for the claims incurred but not reported.

  These are used to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

- Health insurance business

  Health insurance contracts are generally one year renewable contracts issued by the Group covering insurance risks for medical expenses of insured persons. The liabilities of health insurance policies are estimated in respect of claims that have been incurred but not reported and claims that have been reported but not yet paid, due to the time taken to process the claim.

Long-term insurance contracts with fixed and guaranteed terms

- Life insurance business

  These contracts insure events associated with human life (for example, death and survival) over a long duration. Premiums are recognised as revenue when they are received or become receivable from the policyholder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

  The determination of actuarial liabilities on life policies is based on the Net Level Premium (“NLP”) reserve method. This reserve method uses net premiums as opposed to calculating reserves on a first principles gross premium valuation. The NLP reserve method does not use lapse rates or expenses and takes into consideration only the bonus additions allocated to the policy to date. Future bonus additions are not considered in the valuation. The Group utilises an actuary for the determination of the actuarial liabilities. These liabilities consist of amounts that together with future premiums and investment income are required to provide for policy benefits,

2 Significant accounting policies *...continued*

2.11 Insurance contracts *...continued*

ii) Recognition and measurement ...continued

Long-term insurance contracts with fixed and guaranteed terms…continued

- *Life insurance business ...continued*

expenses and taxes on life insurance contracts. The process of calculating actuarial liabilities for future policy benefits involves the use of estimates concerning factors such as mortality and morbidity rates, future investment yields and future expense levels and persistency.

The liabilities are recalculated at each end of the reporting period using the assumptions established at inception of the contracts.

iii) Reinsurance contracts held

The Group obtains reinsurance contracts coverage for insurance risks underwritten. The Group cedes insurance premiums and risk related to property and casualty contracts in the normal course of business in order to limit the potential for losses arising from its exposures. Reinsurance does not relieve the Group of its liability. The benefits to which the Group are entitled under reinsurance contracts held are recognised as reinsurance assets. Reinsurance assets are assessed for impairment and if evidence that the asset is impaired exists, the impairment is recorded in the consolidated statement of income. The obligations of the Group under reinsurance contracts held are included under insurance contract liabilities.

iv) Liability adequacy test

At the end of the reporting period, liability adequacy tests are performed by the Group to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows.

If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. The deficiency is included in the consolidated statement of income under claims and benefits.

v) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated statement of income. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated under the same method used for these financial assets.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.11 Insurance contracts *...continued*

vi) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets until the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets until the liability is settled. The allowance is the amount of the assets that can be recovered from the action against the liable third party.

2.12 Guarantees and letters of credit

Guarantees and letters of credit comprise undertaking by the Group to pay bills of exchange drawn on customers. The Group expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers.

2.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 Significant accounting policies *...continued*

2.14 Leased assets

As described in Note 2.2, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 7 and IFRIC 4.

Accounting policy applicable from July 1, 2019

For any new contracts entered into on or after July 1, 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets, if any, using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.14 Leased assets*...continued*

Measurement and recognition of leases as a lessee...continued
The right-of-use assets and lease liabilities have been disclosed separately on the consolidated statement of financial position.

Accounting policy applicable before July 1, 2019

Leases – Group as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Group are primarily operating leases. The total payments made under the operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.15 Revenue recognition

The Group determines whether to recognize revenue based on a 5-step process:

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

The Group's revenue generating activities are described below.

i) Interest income and expense
Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the consolidated statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, estimates of cash flows that consider all contractual terms of the financial instrument are included (for example, repayment options), except future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2 Significant accounting policies *...continued*

2.15 Revenue recognition*...continued*

ii) Fees and commission income
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of business – are recognised on completion of the underlying transaction.

iii) Dividend income
Dividends are recognised in the consolidated statement of income when the right to receive payment is established.

iv) Premiums
Written premiums for non-life insurance relate to contracts beginning in the financial year and are stated gross of commissions payable to intermediaries and exclusive of taxes levied on premiums. Written premiums for life contracts are recognised when due from the policyholder. Unearned premiums are those proportions of the premium which relate to periods of risk after the reporting date.

v) Property sales
Revenue from property sales are recognised when title of the properties has passed to the buyer.

2.16 Operating expenses and fees expenses

Operating expenses and fees expenses are recognised in the consolidated statement of income upon utilisation of the services or as incurred.

2.17 Foreign currency translation

i) Functional and presentation currency
Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates (the "functional currency"). The consolidated financial statements are presented in Eastern Caribbean Dollars, which is the Group's functional and presentation currency. The values presented in the consolidated financial statements have been rounded to the nearest thousands unless otherwise stated.

ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statement of income within 'Other income'.

2 Significant accounting policies *...continued*

2.18 Equity, reserves and dividend payments

i) *Issued share capital and share premium*
Issued share capital represents the proceeds of shares that have been issued. Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

ii) *Dividends on ordinary shares*
Dividends on ordinary shares are recognised in equity in the period in which they are paid by the Board of Directors and or approved by the Group's shareholders.

iii) *Other components of equity*

Other components of equity include the following:

- *Statutory reserve* – reserve fund as per the regulatory requirement;
- *Revaluation reserve* – represents gains and losses from the revaluation of land and buildings;
- *Fair value reserves – FVOCI* – represent unrealised gains and losses from changes in the fair value of the FVOCI investment securities; and
- *Other reserves* – comprises the defined benefit pension plan reserve, regulatory reserve for loan impairment, regulatory reserve for interest accrued on non-performing loans, insurance and claims equalisation reserve and general reserve.

iv) *Retained earnings*
Retained earnings include cumulative balance of net income, dividend distributions, effect of changes in accounting policy and other capital adjustments.

2.19 Current and deferred income tax

Income tax payable on profits, based on applicable tax law in St. Kitts and Nevis is recognised as an expense in the period in which profits arise, except to the extent that it relates to items recognised directly in equity. In such cases, the tax is recognised in a deferred tax liability account. The tax expense for the period comprises current and deferred tax.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or deferred tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment and revaluation of certain financial assets. However, deferred tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. The rates enacted or substantively enacted at the reporting date are used to determine deferred income tax.

A deferred tax asset is recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.19 Current and deferred income tax*...continued*

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognised as a component of tax charge or credit in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of available-for-sale investment securities) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

The Group is subjected to the following tax rates:

(i) Income tax rates
The Group is subject to corporate income taxes at a rate of 33%.

(ii) Premium tax rates
Insurers are subject to tax on premium revenues generated in certain jurisdictions. The principal rate of premium tax is 5% for general insurance and nil for life insurance.

2.20 Deposit funds

Deposit administration contracts are issued by the Group to registered pension schemes for the deposit of pension plan assets with the Group.

Deposit administration liabilities are recognised initially at fair value and are subsequently stated at:

- amortised cost where the insurer is obligated to provide investment returns to the pension scheme in the form of interest; and

- fair value through income where the Group is obligated to provide investment returns to the pension scheme in direct proportion to the investment returns on specified blocks of assets.

Deposit administration contributions are recorded directly as liabilities. Withdrawals are deducted directly from the liability. The interest or investment return provided is recorded as an interest expense.

2.21 Investment property

Investment property is property held to earn rental and/or for capital appreciation, including property under construction for such purposes. Investment property is measured at cost, including transaction cost.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in income in the period in which the property is derecognised.

2 Significant accounting policies *...continued*

2.22 Property inventory

Property inventory is measured at the lower of cost and net realizable value (NRV). The cost of property inventory comprises all costs incurred in bringing the properties to their present condition. NRV represents the estimated selling price less all estimated costs necessary to make the sale.

2.23 Business segments

Business segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2.24 Events after the financial reporting date

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

2.25 Earnings per share

Basic earnings per share are determined by dividing profit by the weighted average number of ordinary shares outstanding during the period after giving retroactive effect to stock dividends declared, stock splits and reverse stock splits during the period, if any.

Diluted earnings per share are computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Group does not have dilutive potential shares outstanding, hence, the diluted earnings per share is equal to the basic earnings per share.

2.26 Comparatives

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

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks

The Group's activities expose it to a variety of financial and insurance risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the commercial Banking business and insurance, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse risks, to set appropriate levels and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Credit Division and Comptroller Division under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as approved policies covering specific areas, such as foreign exchange, interest rate, insurance and credit risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of financial and insurance risks are credit risk, liquidity risk, market risk, insurance risk (property, casual and life insurance risk) and other operational risk. Market risk includes foreign exchange risk, interest rate risk and other price risk.

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparties will cause financial losses for the Group by failing to discharge their obligations. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management, therefore, carefully manages its exposure to such credit risks. Credit exposure arises principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio.

There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised and reported to the Board of Directors.

The Group's exposure to credit risk is managed through regular analysis of the ability of its borrowers and potential borrowers to meet interest and capital repayment obligations. Credit risk is managed also in part by the taking of collateral and corporate and personal guarantees as securities on advances.

i) Loans and advances to customers

The prudential guidelines of the Group's regulators are included in the daily credit operational management of the Group. The operational measurements can be contrasted with impairment allowances required under IFRS 9, which are based on an expected credit loss model approach.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *…continued*

3.1 Credit risk *…continued*

i) Loans and advances …continued

The Group assesses the probability of default of individual borrowers using internal rating tools tailored to the various categories of the counterparty. These rating tools are fashioned from the guidelines of the commercial Group's regulators. Advances made by the Group are segmented into five rating classes that reflect the range of default probabilities for each rating class. The rating tools are kept under review and upgraded as necessary.

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

ii) Debt securities and other bills

For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by the Group Treasury/Fund Managers for managing the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

3.1.1 Risk limit control and mitigation policies

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

The Group structures the levels of credit risks it undertakes by placing limits on the amount of risk acceptable in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review, when considered necessary by the Board of Directors.

The exposure to any one borrower, including Groups and other financial institutions, is further restricted by sub-limits covering on-balance sheet and off-balance sheet exposures. Actual exposures against limits are monitored. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.1 Risk limit control and mitigation policies *...continued*

Other specific controls and mitigation measures are outlined below:

i) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

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

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

ii) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit (which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans and advances, guarantees or letters of credit. With respect to credit risk, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning

The debt securities are summarised as follows in the consolidated financial statements:

	Deposits with other financial institutions (term deposits) $	Treasury bills $	Originated debts $	Financial asset $	Debt securities – FVOCI $	Other assets $	Total $
Credit grade:							
Investment grade	42,969	–	27,164	–	44,932	–	115,065
Non-investment grade	61,272	70,252	74,205	569,982	3,019	12,772	791,502
Watch	–	–	–	–	–	–	–
Default	–	–	36,243	–	–	–	36,243
Gross carrying amount	104,241	70,252	137,612	569,982	47,951	12,772	942,810
Loss allowance	(316)	(354)	(1,015)	(1,573)	(477)	(525)	(4,260)
Carrying amount as at June 30, 2020	**103,925**	**69,898**	**136,597**	**568,409**	**47,474**	**12,247**	**938,550**
Credit grade:							
Investment grade	83,533	–	188,367	–	85,471	–	357,371
Non-investment grade	131,928	69,721	–	682,076	3,354	12,842	899,921
Watch	–	–	–	–	–	–	–
Default	–	–	36,243	–	–	–	36,243
Gross carrying amount	215,461	69,721	224,610	682,076	88,825	12,842	1,293,535
Loss allowance	(177)	(106)	(395)	(1)	(210)	(525)	(1,414)
Carrying amount as at June 30, 2019	**215,284**	**69,615**	**224,215**	**682,075**	**88,615**	**12,317**	**1,292,121**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

The loans and advances to customers are summarised as follows in the consolidated financial statements:

	Loans to customers $	Overdrafts $	Credit cards $	Total $
Credit grade:				
Performing	404,018	14,517	7,611	426,146
Underperforming	9,468	–	712	10,180
Non-performing	385,556	84,342	788	470,686
Gross carrying amount	799,042	98,859	9,111	907,012
Loss allowance	(65,061)	(30,964)	(1,738)	(97,763)
Carrying amount as at June 30, 2020	**733,981**	**67,895**	**7,373**	**809,249**
Credit grade:				
Performing	393,886	9,462	7,154	410,502
Underperforming	4,233	4	494	4,731
Non-performing	360,008	125,910	583	486,501
Gross carrying amount	758,127	135,376	8,231	901,734
Loss allowance	(43,000)	(33,923)	(928)	(77,851)
Carrying amount as at June 30, 2019	**715,127**	**101,453**	**7,303**	**823,883**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

The following tables contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

Debt securities	**Stage 1 12-month ECL**	**Stage 2 lifetime ECL**	**Stage 3 lifetime ECL**	**Total**
	$	**$**	**$**	**$**
Credit grade:				
Investment grade	109,227	–	5,838	115,065
Non-investment grade	760,157	31,051	294	791,502
Watch	–	–	–	–
Default	–	–	36,243	36,243
Gross carrying amount	869,384	31,051	42,375	942,810
Loss allowance	(2,004)	(1,731)	(525)	(4,260)
Carrying amount as at June 30, 2020	**867,380**	**29,320**	**41,850**	**938,550**
Credit grade:				
Investment grade	357,371	–	–	357,371
Non-investment grade	892,768	769	6,384	899,921
Watch	–	–	–	–
Default	–	–	36,243	36,243
Gross carrying amount	1,250,139	769	42,627	1,293,535
Loss allowance	(742)	(147)	(525)	(1,414)
Carrying amount as at June 30, 2019	**1,249,397**	**622**	**42,102**	**1,292,121**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Loans and advances to customers	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Total $
Credit grade:				
Performing	426,146	–	–	426,146
Underperforming	–	10,180	–	10,180
Non-performing	–	–	470,686	470,686
Gross carrying amount	426,146	10,180	470,686	907,012
Loss allowance	(4,740)	(1,075)	(91,948)	(97,763)
Carrying amount as at June 30, 2020	**421,406**	**9,105**	**378,738**	**809,249**
Credit grade:				
Performing	410,502	–	–	410,502
Underperforming	–	4,731	–	4,731
Non-performing	–	–	486,501	486,501
Gross carrying amount	410,502	4,731	486,501	901,734
Loss allowance	(1,872)	(607)	(75,372)	(77,851)
Carrying amount as at June 30, 2019	**408,630**	**4,124**	**411,129**	**823,883**

Loss allowances

The allowance for ECL is recognised in each reporting period and is impacted by a variety of factors, as described below:

- Transfers between stages due to financial assets experiencing significant movement in credit risk or becoming credit-impaired during the period;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to inputs used in the calculation including the movement between 12-month and lifetime ECL;
- Impacts on the measurement of ECL due to changes made to models and model assumptions; and
- Foreign exchange retranslations for assets denominated in foreign currencies.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Loss allowances *...continued*

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Debt securities	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Loss allowance as at June 30, 2019	742	147	525	1,414
Transfers:				
Transfer from stage 2 to stage 1	7	(7)	–	–
New financial assets originated or purchased	1,241	–	–	1,241
Financial assets fully derecognised during the year	(491)	–	–	(491)
Changes to inputs used in ECL calculation	505	1,591	–	2,096
Loss allowance as at June 30, 2020	**2,004**	**1,731**	**525**	**4,260**
Loss allowance as at June 30, 2018	669	156	525	1,350
Transfers:				
Transfer from stage 1 to stage 2	(1)	1	–	–
New financial assets originated or purchased	408	1	–	409
Financial assets fully derecognised during the year	(124)	–	–	(124)
Changes to inputs used in ECL calculation	(210)	(11)	–	(221)
Loss allowance as at June 30, 2019	**742**	**147**	**525**	**1,414**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Loss allowances *...continued*

Loans and advances to customers	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Loss allowance as at June 30, 2019	1,872	607	75,372	77,851
Transfers:				
Transfer from stage 1 to stage 2	(35)	35	–	–
Transfer from stage 1 to stage 3	(424)	–	424	–
Transfer from stage 2 to stage 1	343	(343)	–	–
Transfer from stage 2 to stage 3	–	(124)	124	–
Transfer from stage 3 to stage 1	88	–	(88)	–
Transfer from stage 3 to stage 2	–	41	(41)	–
New financial assets originated or purchased	426	42	91	559
Financial assets fully derecognised during the year	(138)	(37)	(23,568)	(23,743)
Changes to inputs used in ECL calculation	2,608	854	39,634	43,096
Loss allowance as at June 30, 2020	**4,740**	**1,075**	**91,948**	**97,763**
Loss allowance as at June 30, 2018	1,547	357	65,538	67,442
Transfers:				
Transfer from stage 1 to stage 2	(34)	34	–	–
Transfer from stage 1 to stage 3	(147)	–	147	–
Transfer from stage 2 to stage 1	99	(99)	–	–
Transfer from stage 2 to stage 3	–	(232)	232	–
Transfer from stage 3 to stage 1	573	–	(573)	–
Transfer from stage 3 to stage 2	–	87	(87)	–
New financial assets originated or purchased	706	24	1,777	2,507
Financial assets fully derecognised during the year	(60)	(15)	75	–
Changes to inputs used in ECL calculation	(812)	451	8,263	7,902
Loss allowance as at June 30, 2019	**1,872**	**607**	**75,372**	**77,851**

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $151,671 (2019: $84,324). The loan loss provision calculated under IFRS 9 for the loans held by the Group amounted to $97,763 (2019: $77,851). When the ECCB loan loss provision is greater than the loan loss provision calculated under IFRS 9, the difference is set aside as a non-distributable reserve through equity. As of June 30, 2020, the loan loss provision calculated under IFRS 9 was less than the ECCB provision for the loans held by the Group. Therefore, a non-distributable reserve through equity was required at the reporting date and is included in other reserves in equity (note 21). The gross carrying value of impaired loans at the year-end was $470,686 (2019: $486,501).

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Loss allowances *...continued*

Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $78,247 (2019: $68,849) and is included in other reserves in equity (note 21).

IFRS 9 carrying values

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

Debt securities	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Gross carrying amount as at June 30, 2019	1,250,139	769	42,627	1,293,535
Transfers:				
Transfer from stage 1 to stage 2	(30,589)	30,589	–	–
Transfer from stage 1 to stage 3	325	(325)	–	–
New financial assets originated or purchased	338,166	–	–	338,166
Financial assets fully derecognised during the year	(688,104)	–	–	(688,104)
Changes in principal and interest	(553)	18	(252)	(787)
Gross carrying amount at June 30, 2020	**869,384**	**31,051**	**42,375**	**942,810**
Gross carrying amount as at June 30, 2018	1,247,413	250	43,422	1,291,085
Transfers:				
Transfer from stage 1 to stage 2	(55)	55	–	–
New financial assets originated or purchased	333,168	26	–	333,194
Financial assets fully derecognised during the year	(328,129)	–	–	(328,129)
Changes in principal and interest	(2,258)	438	(795)	(2,615)
Gross carrying amount as at June 30, 2019	**1,250,139**	**769**	**42,627**	**1,293,535**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

IFRS 9 carrying values *...continued*

Loans and advances to customers	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 lifetime ECL $	Total $
Gross carrying amount as at June 30, 2019	410,502	4,731	486,501	901,734
Transfers:				
Transfer from stage 1 to stage 2	(19,214)	6,863	12,351	–
Transfer from stage 1 to stage 3	(2,241)	–	2,241	–
Transfer from stage 2 to stage 1	1,024	(1,024)	–	–
Transfer from stage 2 to stage 3	–	(1,460)	1,460	–
Transfer from stage 3 to stage 1	535	–	(535)	–
Transfer from stage 3 to stage 2	–	380	(380)	–
New financial assets originated or purchased	36,752	235	540	37,527
Financial assets fully derecognised during the year	(14,104)	(491)	(36,840)	(51,435)
Changes in principal and interest	12,892	946	5,348	19,186
Gross carrying amount as at June 30, 2020	**426,146**	**10,180**	**470,686**	**907,012**
Gross carrying amount as at June 30, 2018	248,820	73,640	506,770	829,230
Transfers:				
Transfer from stage 1 to stage 2	(2,937)	2,937	–	–
Transfer from stage 1 to stage 3	(34,548)	–	34,548	–
Transfer from stage 2 to stage 1	1,819	(1,819)	–	–
Transfer from stage 2 to stage 3	14	(68,408)	68,394	–
Transfer from stage 3 to stage 1	2,923	–	(2,923)	–
Transfer from stage 3 to stage 2	–	512	(512)	–
New financial assets originated or purchased	179,896	377	22,911	203,184
Financial assets fully derecognised during the year	(15,071)	(1,618)	(140,598)	(157,287)
Changes in principal and interest	29,586	(890)	(2,089)	26,607
Gross carrying amount as at June 30, 2019	**410,502**	**4,731**	**486,501**	**901,734**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at June 30, are set out below.

As at June 30, 2019

		2020	2021
World GDP growth rate	Base	3.5%	3.6%
	Upside	4.7%	4.8%
	Downside	2.2%	2.4%
US GDP growth rate	Base	2.2%	1.8%
	Upside	3.8%	3.5%
	Downside	0.5%	0.2%
US inflation rate	Base	2.0%	2.1%
	Upside	2.9%	3.1%
	Downside	1.0%	1.1%
St. Kitts and Nevis GDP growth rate	Base	2.8%	2.8%
	Upside	6.7%	6.7%
	Downside	(1.1)%	(1.1)%
St. Lucia GDP growth rate	Base	2.8%	2.8%
	Upside	7.0%	7.0%
	Downside	(1.5)%	(1.5)%

As at June 30, 2020

		2021	2022
World GDP growth rate	Base	1.4%	5.8%
	Upside	2.6%	7.0%
	Downside	0.2%	4.6%
US GDP growth rate	Base	(0.8%)	4.0%
	Upside	0.8%	5.6%
	Downside	(2.4%)	2.4%
US inflation rate	Base	1.3%	1.7%
	Upside	2.2%	2.6%
	Downside	0.4%	0.8%
St. Kitts and Nevis GDP growth rate	Base	(16.1%)	
	Upside	0.0%	
	Downside	(16.1%)	
St. Lucia GDP growth rate	Base	(15.4%)	
	Upside	0.0%	
	Downside	(15.4%)	

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning *...continued*

Economic variable assumptions *...continued*

The scenario weightings assigned to each economic scenario were as follows:

Year	Base	Upside	Downside
June 30, 2020	**80%**	**10%**	**10%**
June 30, 2019	80%	10%	10%

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

		ECL impact of:	
Loss Given Default	**Change in threshold**	**Increase in value $**	**Decrease in value $**
Debt securities – amortised cost	+/- 5%	163	(163)
Debt securities – FVOCI	+/- 5%	39	(39)
		ECL impact of:	
Collateral haircut	**Change in threshold**	**Increase in value $**	**Decrease in value $**
Loans	+/- 5%	404	(345)
Advances	+/- 5%	9	(9)

Purchased or originated credit-impaired (POCI) financial assets

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL is less than the amount of ECL included in the estimated cash flows on initial recognition.

Loans and advances to customers renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans at the reporting date stood at $244 (2019: $nil).

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.3 Geographical concentrations of on-balance sheet and off-balance sheet with credit risk exposure

The Group operates three (3) business segments as follows:

- commercial and retail banking;
- insurance coverage; and
- Real estate and trust services.

These are predominantly localised to St. Kitts and Nevis. Commercial Banking activities, however, account for a significant portion of credit risk exposure.

The credit risk exposure is, therefore, spread geographically and over a diversity of personal and commercial customers.

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean Territories $	Total $
As of June 30, 2020					
Cash and balances with Central Bank	11,937	–	–	–	11,937
Treasury bills	69,898	–	–	–	69,898
Deposits with other financial institutions	41,379	371,411	41,332	4,432	458,554
Financial asset	568,409	–	–	–	568,409
Loans and advances to customers	727,537	74,891	1,735	5,086	809,249
Originated debts	22,933	27,124	–	86,540	136,597
Debt investment securities	–	91,511	1,895	–	93,406
Acceptances, guarantees and letters of credit	6,375	–	–	–	6,375
Other assets	16,901	8,682	–	–	25,583
	1,465,369	**573,619**	**44,962**	**96,058**	**2,180,008**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.3 Geographical concentrations of on-balance sheet and off-balance sheet with credit risk exposure *...continued*

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean Territories $	Total $
As of June 30, 2019					
Cash and balances with Central Bank	23,685	–	–	–	23,685
Treasury bills	69,615	–	–	–	69,615
Deposits with other financial institutions	37,687	432,832	116,670	4,580	591,769
Financial asset	682,075	–	–	–	682,075
Loans and advances to customers	717,382	99,663	1,928	4,910	823,883
Originated debts	22,137	101,665	–	100,413	224,215
Debt investment securities	–	151,379	1,806	–	153,185
Acceptances, guarantees and letters of credit	6,375	–	–	–	6,375
Other assets	26,265	8,682	–	–	34,947
	1,585,221	**794,221**	**120,404**	**109,903**	**2,609,749**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.4 Concentration of risks of financial assets with credit exposure

The following tables break down the Group's main credit exposures at their carrying amounts, as categorised by industry sectors of the counterparties:

	Public sector	Construction	Tourism	Financial institutions	Individuals	Other industries	Total
	$	$	$	$	$	$	$
As of June 30, 2020							
Cash and balances with Central Bank	–	–	–	11,937	–	–	11,937
Treasury bills	69,898	–	–	–	–	–	69,898
Deposits with other financial institutions	30,315	–	–	428,239	–	–	458,554
Financial asset	568,409	–	–	–	–	–	568,409
Loans and advances to customers	249,748	91,868	166,887	8,491	197,282	94,973	809,249
Originated debts	108,481	–	–	28,116	–	–	136,597
Debt investment securities	4,787	116	79	66,305	–	22,119	93,406
Acceptances, guarantees and letters of credit	2,299	–	–	–	–	4,076	6,375
Other assets	–	–	–	22,075	505	3,003	25,583
	1,033,937	**91,984**	**166,966**	**565,163**	**197,787**	**124,171**	**2,180,008**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.1 Credit risk *...continued*

3.1.4 Concentration of risks of financial assets with credit exposure *...continued*

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2019							
Cash and balances with Central Bank	–	–	–	23,685	–	–	23,685
Treasury Bills	69,615	–	–	–	–	–	69,615
Deposits with other financial institutions	30,361	–	–	561,408	–	–	591,769
Financial asset	682,075	–	–	–	–	–	682,075
Loans and advances to customers	242,983	103,811	183,407	7,222	188,046	98,414	823,883
Originated debts	120,252	–	–	103,963	–	–	224,215
Debt investment securities	40,572	79	80	77,385	–	35,069	153,185
Acceptances, guarantees and letters of credit	2,299	–	–	–	–	4,076	6,375
Other assets	–	–	–	20,557	540	13,850	34,947
	1,188,157	**103,890**	**183,487**	**794,220**	**188,586**	**151,409**	**2,609,749**

3 Management of financial and insurance risks *...continued*

3.1.4 Concentration of risks of financial assets with credit exposure *…continued*

The Government of St. Kitts and Nevis accounts for $796,860 (2019: $897,277) or 37% (2019: 34%) of $2,180,008 (2019: $2,609,749) the total credit exposure, which represents a significant concentration of credit risk. The amounts due from the Government are included in the Public Sector category.

3.2 Market risk

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

The Group's exposure to market risks primarily arise from the interest rate management of the Group's retail and commercial Banking assets and liabilities, debt investment securities and equity risks arising from its FVOCI investments.

3.2.1 Price risk

The Group is exposed to equities price risk because of investments held by the Group and classified on the consolidated statement of financial position as FVTPL and FVOCI. To manage this price risk arising from investments in equity securities, the Group diversifies its investment portfolio.

3.2.2 Foreign exchange risk

The Group is exposed to foreign exchange risk through fluctuation in certain prevailing foreign exchange rates on its consolidated financial position and cash flows. The Board of Directors limits the level of exposure by currency and in total which are monitored daily. The Group's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The Group uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollars (EC$). The Group has set the mid-rate of exchange rate of the Eastern Caribbean (EC$) to the United States dollar (US$) at EC$2.7026 = US$1.00 since 1976.

The following table summarises the Group's exposure to foreign currency exchange rate risk at the reporting date. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.2 Market risk *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk

As of June 30, 2020	XCD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	179,153	6,187	11	13	24	7	–	185,395
Treasury bills	69,898	–	–	–	–	–	–	69,898
Deposits with other financial institutions	44,739	407,651	951	2,305	2,448	440	20	458,554
Loans and advances to customers	501,037	308,212	–	–	–	–	–	809,249
Originated debts	70,665	65,932	–	–	–	–	–	136,597
Acceptances, guarantees and letters of credit	6,375	–	–	–	–	–	–	6,375
Investment securities – FVOCI	10,013	96,007	–	–	–	–	–	106,020
Investment securities – FVTPL	1,033	875,550	–	–	–	–	–	876,583
Financial asset	568,409	–	–	–	–	–	–	568,409
Other assets	22,546	3,037	–	–	–	–	–	25,583
Total financial assets	**1,473,868**	**1,762,576**	**962**	**2,318**	**2,472**	**447**	**20**	**3,242,663**
Liabilities								
Customers' deposits	2,140,639	384,794	30	70	292	–	–	2,525,825
Acceptances, guarantees and letters of credit	6,375	–	–	–	–	–	–	6,375
Lease liabilities	1,127	–	–	–	–	–	–	1,127
Other liabilities	194,249	1,888	44	503	57	146	2	196,889
Total financial liabilities	**2,342,390**	**386,682**	**74**	**573**	**349**	**146**	**2**	**2,730,216**
Net on-balance sheet	**(868,522)**	**1,375,894**	**888**	**1,745**	**2,123**	**301**	**18**	**512,447**
Credit commitments	**27,131**	**9,638**	–	–	–	–	–	**36,769**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.2 Market risk *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk *...continued*

As of June 30, 2019	XCD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	213,452	6,897	25	107	8	16	–	220,505
Treasury bills	69,615	–	–	-	–	–	–	69,615
Deposits with other financial institutions	40,891	536,671	9,554	2,194	1,710	716	33	591,769
Loans and advances to customers	500,357	323,526	–	–	–	–	–	823,883
Originated debts	81,897	142,318	–	–	–	–	–	224,215
Acceptances, guarantees and letters of credit	6,375	–	–	–	–	–	–	6,375
Investment securities – FVOCI	11,661	185,706	–	–	–	–	–	197,367
Investment securities – FVTPL	1,030	735,801	–	–	–	–	–	736,831
Financial asset	682,075	–	–	–	–	–	–	682,075
Other assets	24,832	10,115	–	–	–	–	–	34,947
Total financial assets	**1,632,185**	**1,941,034**	**9,579**	**2,301**	**1,718**	**732**	**33**	**3,587,582**
Liabilities								
Customers' deposits	2,357,385	482,325	36	53	309	–	–	2,840,108
Due to other financial institutions	–	124	–	–	–	–	–	124
Acceptances, guarantees and letters of credit	6,375	–	–	–	–	–	–	6,375
Other liabilities	184,125	30,498	44	498	57	137	–	215,359
Total financial liabilities	**2,547,885**	**512,947**	**80**	**551**	**366**	**137**	–	**3,061,966**
Net on-balance sheet	**(915,700)**	**1,428,087**	**9,499**	**1,750**	**1,352**	**595**	**33**	**525,616**
Credit commitments	**28,935**	**2,283**	–	–	–	–	–	**31,218**

3 Management of financial and insurance risks *...continued*

3.2 Market risk *...continued*

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board of Directors limits the level of mismatch of interest rates repricing that may be undertaken.

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

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.2 Market risk *...continued*

3.2.3 Interest rate risk *...continued*

As of June 30, 2020	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	185,395	185,395
Treasury bills	11,427	3,070	54,993	–	–	408	69,898
Deposit with other financial institutions	299,264	13,414	27,122	–	–	118,754	458,554
Loans and advances to customers	350,836	323	6,812	29,809	418,778	2,691	809,249
Originated debts	–	25,405	988	47,132	62,223	849	136,597
Investment securities – FVOCI	6,085	781	4,479	18,184	16,540	59,951	106,020
Investment securities – FVTPL	–	378	2,772	42,782	–	830,651	876,583
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,375	6,375
Financial asset	–	–	–	558,025	–	10,384	568,409
Other assets	303	–	–	–	–	25,280	25,583
Total assets	**667,915**	**43,371**	**97,166**	**695,932**	**497,541**	**1,240,738**	**3,242,663**
Liabilities							
Customers' deposits	826,941	166,553	912,356	1,001	–	618,974	2,525,825
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,375	6,375
Lease liabilities	36	72	318	635	66	–	1,127
Other liabilities	2,523	–	–	–	53,937	140,429	196,889
Total liabilities	**829,500**	**166,625**	**912,674**	**1,636**	**54,003**	**765,778**	**2,730,216**
Total interest repricing gap	**(161,585)**	**(123,254)**	**(815,508)**	**694,296**	**443,538**	**474,960**	**512,447**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.2 Market risk *...continued*

3.2.3 Interest rate risk *...continued*

As of June 30, 2019	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	220,505	220,505
Treasury bills	11,427	3,070	54,711	–	–	407	69,615
Deposit with other financial institutions	339,779	43,538	27,106	–	–	181,346	591,769
Loans and advances to customers	376,663	356	47,366	31,347	366,980	1,171	823,883
Originated debts	88,856	–	24,382	47,305	62,452	1,220	224,215
Investment securities – FVOCI	51,135	–	294	21,672	14,243	110,023	197,367
Investment securities – FVTPL	1,248	–	11,963	51,359	–	672,261	736,831
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,375	6,375
Financial asset	–	–	–	659,525	–	22,550	682,075
Other assets	276	–	–	–	–	34,671	34,947
Total assets	**869,384**	**46,964**	**165,822**	**811,208**	**443,675**	**1,250,529**	**3,587,582**
Liabilities							
Customers' deposits	801,911	224,982	951,665	1,012	–	860,538	2,840,108
Due to Financial Institutions	124	–	–	–	–	–	124
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,375	6,375
Other liabilities	3	–	–	–	51,567	163,789	215,359
Total liabilities	**802,038**	**224,982**	**951,665**	**1,012**	**51,567**	**1,030,702**	**3,061,966**
Total interest repricing gap	**67,346**	**(178,018)**	**(785,843)**	**810,196**	**392,108**	**219,827**	**525,616**

3 Management of financial and insurance risks *...continued*

3.2 Market risk *...continued*

3.2.3 Interest rate risk *...continued*

The Group's fair value market rate risk arises from debt securities classified as fair value through other comprehensive income and fair value through profit or loss. Had market interest rates at the reporting date been 100 basis points higher/lower with all variables held constant, equity for the year would have been $423 (2019: $390) lower/higher as a result of the decrease/increase in revaluation reserve for fair value through other comprehensive income debt securities and profit or loss for the year would have been $2,453 (2019: $646) lower/higher due to an decrease/increase in fair value of debt securities measured at fair value through profit or loss.

Cash flow interest rate risk arises from loans and advances to customers at available rates. Had variable rates at the reporting date been 100 basis points higher/lower with all other variables held constant, profits for the year would have been $2,940 (2019: $3,991) higher/lower, mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

3.3.1 Liquidity risk management

The Group's liquidity is managed and monitored by the Comptroller Division with guidance, where necessary, from the Board of Directors. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This includes:

- Daily monitoring of the Group's liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers.

- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, industry and term.

- Daily monitoring of the statement of financial position liquidity ratios against internal and regulatory requirements.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.3 Liquidity risk *...continued*

3.3.1 Liquidity risk management *...continued*

- Managing the concentration and profile of debt maturities.

- Formalised arrangements with non-regional financial institutions to fund any liquidity needs that may arise.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification of geography, currency, providers, products and terms. The Group holds a diversified portfolio of cash loans and investment securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk include the following:

- Cash and balances with Central Bank;
- Deposits with other financial institutions;
- Loans and advances to customers
- Treasury bills; and
- FVOCI debt and equity investment securities.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.3 Liquidity risk *...continued*

3.3.3 Cash flows

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

As of June 30, 2020	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
Financial liabilities						
Customers' deposits	1,433,977	169,600	943,166	1,002	–	2,547,745
Lease liabilities	37	74	334	664	74	1,183
Acceptances, guarantees and letters of credit	–	–	6,375	–	–	6,375
Other liabilities	130,248	10,608	–	–	56,033	196,889
Total financial liabilities	**1,564,262**	**180,282**	**949,875**	**1,666**	**56,107**	**2,752,192**
Assets held to manage liquidity risk	**1,824,741**	**40,110**	**123,007**	**730,350**	**473,073**	**3,191,281**
Net liquidity gap	**260,479**	**(140,172)**	**(826,868)**	**728,684**	**416,966**	**439,089**
As of June 30, 2019						
Financial liabilities						
Customers' deposits	1,651,209	228,699	980,101	1,013	–	2,861,022
Due to other financial institutions	124	–	–	–	–	124
Acceptances, guarantees and letters of credit	–	–	6,375	–	–	6,375
Other liabilities	149,137	12,560	–	–	53,662	215,359
Total financial liabilities	**1,800,470**	**241,259**	**986,476**	**1,013**	**53,662**	**3,082,880**
Assets held to manage liquidity risk	**2,160,031**	**28,196**	**169,513**	**789,865**	**388,637**	**3,536,242**
Net liquidity gap	**359,561**	**(213,063)**	**(816,963)**	**788,852**	**334,975**	**453,362**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.3 Liquidity risk *...continued*

3.3.4 Off-balance sheet items

Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (note 31), are summarised in the table below.

As of June 30, 2020	Up to 1 year $	1 to 3 years $	Over 3 years $	Total $
Loan commitments	6,331	134	17,632	24,097
Credit card commitments	12,672	–	–	12,672
	19,003	**134**	**17,632**	**36,769**
As of June 30, 2019				
Loan commitments	10,412	84	11,526	22,022
Credit card commitments	9,196	–	–	9,196
	19,608	**84**	**11,526**	**31,218**

3.4 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

To limit the Group's exposure of potential loss on an insurance policy, the Group ceded certain levels of risk to a reinsurer. The Group selects reinsurers which have a well-established capability to meet their contractual obligations and which generally have high credit ratings.

For its property risks, the Group uses quota share and excess of loss catastrophe reinsurance treaties to obtain reinsurance coverage. Catastrophe reinsurance is obtained for multiple claims arising from one event or occurring within a specified time period. However, treaty limits may apply and may expose the insurer to further claims exposure.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefits payments exceed the carrying amount of the insurance liabilities. This could occur because of the frequency or severity of claims and if benefits payments are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.4 Insurance risk *...continued*

The concentration of insurance risk before and after reinsurance by risk category is summarised below, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from insurance contracts:

	Gross liability		**Reinsurers' share**		**Net liability**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**	**$**	**$**
St. Kitts	**4,597**	5,553	**–**	–	**4,597**	5,553
Nevis	**639**	594	**–**	–	**639**	594
Anguilla	**93**	170	**–**	–	**93**	170
	5,329	6,317	**–**	–	**5,329**	6,317
Health & Life	**2,694**	3,340	**–**	–	**2,694**	3,340
Motor	**2,329**	2,598	**–**	–	**2,329**	2,598
Property	**306**	347	**–**	–	**306**	347
Liability	**–**	32	**–**	–	**–**	32
	5,329	6,317	**–**	–	**5,329**	6,317

i) *Property insurance*

Property insurance contracts are underwritten using the following main risk categories: fire, business interruption, weather damage and theft.

Frequency and severity of claims
For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, flooding, hurricanes, earthquake, etc), increase the frequency and severity of claims and their consequences. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from fire, hurricane and earthquake damage. The Group has reinsurance cover for such damage to limit losses to $0.50 million (2019: $0.50 million) in any one occurrence, per individual property risk.

3 Management of financial and insurance risks *...continued*

3.4 Insurance risk *...continued*

i) Property insurance ...continued

Sources of uncertainty in the estimation of future claim payments
Claims on property contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. There are several variables that affect the amount and timing of cash flows from these contracts. The compensation paid on these contracts is the monetary awards granted for property damage caused by insured perils as stated in the contract of insurance.

The estimated costs of claims include direct expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Property claims are less sensitive as the shorter settlement period for these claims allows the Group to achieve a higher degree of certainty about the estimated cost of claims. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported (IBNR) and a provision for reported claims not yet paid (outstanding claims) at the reporting date.

ii) Casualty insurance

The Group's casualty insurance is motor, marine and liability insurance.

Frequency and severity of claims
The frequency and severity of claims can be affected by several factors. The most significant is the number of cases coming to Court that have been inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period required to settle these cases.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Furthermore, the Group's strategy limits the total exposure to the Group only by the use of reinsurance treaty arrangements. The reinsurance arrangements include excess of loss cover. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance loss of more than $0.30 million (2019: $0.30 million) per risk for casualty insurance.

Sources of uncertainty in the estimation of future claim payments
Claims on casualty contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. As a result, casualty and financial risk claims are settled over a longer period of time. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employers' liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur because of the accident.

3 Management of financial and insurance risks *...continued*

3.4 Insurance risk *...continued*

ii) Casualty insurance ...continued

Sources of uncertainty in the estimation of future claim payments*...continued*
The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported (IBNR) and a provision for reported claims not yet paid (outstanding claims) and a provision for unexpired risks at the reporting date. The Group's IBNR loss reserves are derived using paid loss development estimation method (triangular method). Each business classes' IBNR was calculated using claims data and loss history. The quantum of casualty claims is particularly sensitive to the level of Court awards and to the development of legal precedent on matters of contract and tort.

iii) Life insurance contracts

The Group is exposed to potential loss on its life insurance policies from the possibility that an insured event occurs. The Group has no reinsurance on its life insurance contracts. Hence, this risk is fully borne by the Group.

iv) Claims development

The Group employs loss (claims) development tables as a means of measuring actual claims compared with previous estimates. Claims are typically resolved within one year and are assessed on a case-by-case basis. The claims that tend to extend beyond one year are normally from the Accident line of business and to a lesser extent, the Motor line.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.4 Insurance risk *...continued*

iv) Claims development ...continued

Claims reserve for the individual accident years at the respective reporting dates (gross)

EC$					**Accident year**						
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Date	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
30/6/2011	18,775	–	–	–	–	–	–	–	–	–	**18,775**
30/6/2012	14,864	2,526	–	–	–	–	–	–	–	–	**17,390**
30/6/2013	2,742	747	4,422	–	–	–	–	–	–	–	**7,911**
30/6/2014	1,698	693	1,571	2,707	–	–	–	–	–	–	**6,669**
30/6/2015	942	523	1,307	358	3,385	–	–	–	–	–	**6,515**
30/6/2016	448	433	758	561	358	3,454	–	–	–	–	**6,012**
30/6/2017	93	374	673	380	212	256	3,244	–	–	–	**5,232**
30/6/2018	93	259	619	344	114	205	474	5,632	–	–	**7,740**
30/6/2019	–	115	–	331	61	145	417	1,102	4,147	–	**6,318**
30/6/2020	–	83	–	40	61	145	417	972	437	3,174	**5,329**

Claims reserves are made up as follows (see note 18):

	$
Outstanding claims – Life	**819**
Outstanding claims – Non-life	**2,623**
Claims IBNR – Non-life	**1,887**
	5,329

3 Management of financial and insurance risks *...continued*

3.5 Fair values of financial assets and liabilities

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. The following methods and assumptions were used to estimate the fair value of financial instruments.

The fair values of cash resources, other assets and liabilities, items in transit are assumed to approximate their carrying values due to their short-term nature. The fair values of off-balance sheet commitments are also assumed to approximate the amount disclosed in note 31. Fair values of financial assets and financial liabilities are also determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with pricing models based on discounted cash flow analysis using prices from observable current market transactions.

i) Treasury bills
Treasury bills are assumed to approximate their carrying value due to their short-term nature.

ii) Deposits with other financial institutions
Deposits with other financial institutions include cash on operating accounts fixed deposits. These deposits are estimated to approximate their carrying values due to their short-term nature.

iii) Loans and advances to customers and originated debts
The estimated fair values of loans and advances to customers and originated debts represent the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rate to determine fair value. Initial loan values are taken as fair value and where observed values are different, adjustments are made.

iv) Customers' deposits
The estimated fair value of deposits with no stated maturity, which includes non interest-bearing deposits, is the amount repayable on demand. Deposits payable on a fixed date and are at rates which reflect market conditions, are assumed to have fair values which approximate carrying values.

v) Due to financial institutions
The estimated fair value of 'due to financial institutions' is the amount payable on demand.

vi) Acceptances, guarantees and letters of credit
Acceptances, guarantees and letters of credit are short-term in nature therefore fair value in this category is estimated to approximate carrying value.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.5 Fair values of financial assets and liabilities *...continued*

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

	Carrying value		Fair value	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with Central Bank	**185,395**	220,505	**185,395**	220,505
Treasury bills	**69,898**	69,615	**69,898**	69,615
Deposits with other financial institutions	**458,554**	591,769	**458,554**	591,769
Financial asset	**568,409**	682,075	**568,409**	682,075
Loans and advances to customers	**809,249**	823,883	**805,000**	828,983
Originated debt	**136,597**	224,215	**136,597**	224,215
Acceptances, guarantees and letters of credit	**6,375**	6,375	**6,375**	6,375
Other assets	**25,583**	34,947	**25,583**	34,947
	2,260,060	2,653,384	**2,255,811**	2,658,484
Financial liabilities				
Customers' deposits	**2,525,825**	2,840,108	**2,525,825**	2,840,108
Lease liabilities	**1,127**	–	**1,127**	–
Acceptances, guarantees and letters of credit	**6,375**	6,375	**6,375**	6,375
Due to other financial institutions	**–**	124	**–**	124
Other liabilities	**196,889**	215,359	**196,889**	215,359
	2,730,216	3,061,966	**2,730,216**	3,061,966

3.5.1 Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observed.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair values measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks*...continued*

3.5 Fair values of financial assets and liabilities *...continued*

3.5.1 Fair value measurements recognised in the consolidated statement of financial position *...continued*

FVTPL and FVOCI

	Level 1	Level 2	Level 3	Total
As of June 30, 2020	**$**	**$**	**$**	**$**
Debt securities	40,462	–	53,421	93,883
Equities	850,349	23,030	15,818	889,197
	890,811	**23,030**	**69,239**	**983,080**
As of June 30, 2019				
Debt securities	82,725	2,706	67,964	153,395
Equities	768,310	1,497	11,206	781,013
	851,035	**4,203**	**79,170**	**934,408**

3.6 Fair value measurement of non-financial assets

The following table shows the level within the hierarchy of non-financial assets measured at fair value:

	Level 1	Level 2	Level 3	Total
	$	**$**	**$**	**$**
As of June 30, 2020				
Land and buildings	–	**33,710**	–	**33,710**
As of June 30, 2019				
Land and buildings	–	27,962	–	27,962

The fair value of the Group's land and buildings included in property, plant and equipment is estimated based on appraisals performed by an independent property valuer. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the Board of Directors. The appraisal was carried out primarily using a market based approach that reflects the selling prices for similar properties and incorporates adjustments for factors specific to the properties in question, including square footage, location and current condition/use.

3.7 Capital management

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

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

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Central Bank for supervisory purposes.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.7 Capital management *...continued*

In addition, there are also capital requirements for the insurance business based on the Insurance Act No. 8 of 2009. According to the Act, the required paid-up capital is $2,000 (2019: $2,000). The Group has met this capital requirement for its insurance business.

The Central Bank requires each Group or Banking group to: (a) hold the minimum level of the regulatory capital of $20,000 and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the international agreed minimum of 8%.

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the Group for the two-year presentation. During those two years, the Group complied with all of the externally imposed capital requirements to which it must comply.

	2020 $	2019 $
Tier 1 capital		
Issued share capital	**135,000**	135,000
Share premium	**3,877**	3,877
Issued bonus shares from capitalisation of unrealised assets revaluation gain reserve	**(4,500)**	(4,500)
Reserves	**354,755**	339,773
Add fair value reserves – FVOCI	**35,083**	39,443
Less revaluation reserve	**(25,924)**	(19,661)
Retained earnings	**119,357**	128,208
Total qualifying tier 1 capital	**617,648**	622,140
Tier 2 capital		
Fair value reserves – FVOCI	**(35,083)**	(39,443)
Revaluation reserve	**25,924**	19,661
Bonus shares capitalisation	**4,500**	4,500
Total qualifying tier 2 capital	**(4,659)**	(15,282)
Total regulatory capital	**612,989**	606,858

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risks *...continued*

3.7 Capital management *...continued*

	2020 $	2019 $
Risk-weighted assets:		
On-balance sheet	**1,573,096**	1,569,537
Off-balance sheet	**34,580**	31,211
Total risk-weighted assets	**1,607,676**	1,600,748
Tier 1 capital ratio	**38%**	39%
Basel ratio	**38%**	38%

4 Critical accounting estimates and judgements

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below:

i) Fair value of financial instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Group's financial assets at FVOCI and FVTPL and the amounts of fair value changes recognised on those assets are disclosed in Note 10.

(expressed in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *...continued*

ii) Testing of cash flow characteristics of financial assets and continuing evaluation of the business model

In determining the classification of financial assets under IFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortised cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, IFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortised cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

iii) Measurement of the expected credit loss allowance

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

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

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

Detailed information about the judgements and estimates made by the Group in the above areas is set out before in note 3.1.2 "Impairment and provisioning".

4 Critical accounting estimates and judgements *…continued*

iii) Measurement of the expected credit loss allowance …continued

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences in estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision for loans and advances to customers would be estimated as ($8,854) lower or ($9,495) higher (2019: $4,618 lower or $4,222 higher).

iv) Estimate of insurance actuarial liabilities

The Group issues whole life, limited payment life, endowment, term insurance, health and medical insurance policies. The estimation of the actuarial liabilities arising under these insurance contracts is dependent on estimates made by the Group. The estimate is subject to several sources of uncertainty that need to be considered in determining the future benefit payments.

i. Mortality – Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to the risk. The Group bases these estimates on the UK A67/70 for assured lives. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments. An increase in the rate of mortality will lead to a larger number of claims, resulting in lower income. Were the mortality rate to differ by +/-10% from management's estimate, the actuarial liabilities would decrease by approximately $5,645 or increase by approximately $4,704.

ii. Discount rate – Estimates are also made as to the discount rate use in the valuation of the insurance plans to determine the actuarial liabilities. A net rate of 2.9% (2019: 2.95%) was used as the discount rate in the valuation of insurance plans having a reversionary bonus, which is used to distribute profits to the policies. A net rate of 3.65% (2019: 3.70%) is used in the valuation for plans which do not participate in profits. Were the discount rate to differ by +/-50 basis points from management's estimate, the actuarial liabilities would decrease by approximately $11,289 or increase by approximately $15,994.

v) Estimate of outstanding claims

The estimation of the ultimate liability arising from claims incurred under property and casualty insurance contracts is subject to several sources of uncertainty that need to be considered in determining the amount that the insurer will ultimately pay for such claims. Provisions are made at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. These are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions, economic conditions and changes in medical condition of claimants.

4 Critical accounting estimates and judgements *...continued*

v) Estimate of outstanding claims ...continued

The estimation of the ultimate liability arising from claims incurred under property and casualty insurance contracts is subject to several sources of uncertainty that need to be considered in determining the amount that the insurer will ultimately pay for such claims. Provisions are made at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. These are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions, economic conditions and changes in medical condition of claimants.

However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claims has happened.

If the IBNR rates were adjusted by +/-1%, the change in the statement of comprehensive income would be to decrease or increase reported profits by approximately -/+$88.

Management engages loss adjusters and independent actuaries, either to assist in making or to confirm the estimate of claim liabilities. The ultimate liability arising from claims incurred under property and casualty insurance contracts may be mitigated by recovery arising from reinsurance contracts held.

vi) Pension benefits

The present value of the defined benefit pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation. Additional information is disclosed in note 34.

(expressed in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *...continued*

vii) Estimation of current and deferred income taxes

Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The extent to which deferred tax assets and tax credits can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. The estimated deferred tax asset and tax credit may vary from the actual amounts recovered in the future.

(vii)Fair value measurement of land and buildings

Management uses valuation techniques to determine the fair value of its non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the asset. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 13). Additional information is disclosed in note 3.6.

5 Cash and balances with Central Bank

	2020 $	2019 $
Cash on hand	**15,756**	24,854
Balances with Central Bank other than mandatory deposits	**11,937**	23,685
Included in cash and cash equivalents (note 33)	**27,693**	48,539
Mandatory deposits with Central Bank	**157,702**	171,966
	185,395	220,505

The Group is required to maintain an Automated Clearing Housing (ACH) collateral amount with the Central Bank. This amount can be in the form of cash and/or ECCU member Government securities issued on the Regional Government Securities Market. The Group's collateral amount held with the Central Bank at June 30, 2020 amounted to $7,783 (2019: $6,079).

Commercial banks are also required under Section 57 of the Banking Act, 2015 to maintain a reserve deposit with the Central Bank equivalent to 6 percent of their total customer deposits. This reserve deposit is not available to finance the Group's day-to-day operations.

Cash and balances with Central Bank, which include mandatory and ACH collateral deposits are not interest bearing.

(expressed in thousands of Eastern Caribbean dollars)

6 Treasury bills

	2020 $	2019 $
Treasury bills	**69,844**	69,314
Interest receivable	**408**	407
Treasury bills, gross	**70,252**	69,721
Less: provision for expected credit losses	**(354)**	(106)
Total treasury bills, net	**69,898**	69,615

	2020 $	2019 $
Treasury bills with original maturities of 3 months or less	**12,154**	11,625
Interest receivable	**114**	119
Treasury bills included in cash and cash equivalents (note 33)	**12,268**	11,744
Treasury bills with original maturities of more than 3 months	**57,690**	57,689
Interest receivable	**294**	288
	70,252	69,721
Less: provision for expected credit losses	**(354)**	(106)
	69,898	69,615

Treasury bills are held with the Government of Saint Kitts and Nevis with maturities of 30 days to one year. Interest on treasury bills is accrued at an interest rate of 4.0% (2019: 3.75% to 5.5%).

The movement in the treasury bills during the year is as follows:

	2020 $	2019 $
Balance at beginning of year	**69,615**	102,766
Additions	**530**	73,598
Disposals (sales/redemptions)	**–**	(106,610)
Expected credit (losses)/recoveries, net	**(248)**	56
Movement of interest receivable	**1**	(195)
Balance at end of year	**69,898**	69,615

The movement in the provision for expected credit losses is as follows:

	2020 $	2019 $
Balance at beginning of year	**106**	162
Expected credit losses/(recoveries), net	**248**	(56)
Balance at end of year	**354**	106

(expressed in thousands of Eastern Caribbean dollars)

7 Deposits with other financial institutions

	2020 $	2019 $
Operating cash balances	**350,145**	369,415
Interest bearing term deposits	**60,598**	171,747
Items in the course of collection	**4,484**	7,070
Included in cash and cash equivalents (note 33)	**415,227**	548,232
Restricted term deposits	**42,969**	42,791
	458,196	591,023
Interest receivable	**674**	923
Total deposits with other financial institutions, gross	**458,870**	591,946
Less: provision for expected credit losses	**(316)**	(177)
Total deposits with other financial institutions, net	**458,554**	591,769

The operating balances earn interest at rates of 0% to 4% (2019: 0% to 4%). The amounts held in these accounts are to facilitate the short-term commitments and day-to-day operations of the Group.

Restricted term deposits are interest bearing fixed deposits collateral used in the Group's international business operations. These deposits are not available for use in the day-to-day operations of the Group.

Interest earned on restricted term deposits is credited to the consolidated statement of income. The effective interest rate on 'Deposits with other financial institutions' at June 30, 2020 was 2.10% (2019: 2.12%).

Interest bearing term deposits are interest bearing which earn interest at a rate of 1.5% to 3.25% per annum (2019: 1.5% to 3.25%) and have original terms of maturity of one year ending within the period July 2020 to June 2021 (2019: July 2019 to June 2020).

The movement in expected credit losses is as follows:

	2020 $	2019 $
Balance at beginning of year	**177**	46
Expected credit losses (net of recoveries)	**139**	131
Balance at end of year	**316**	177

(expressed in thousands of Eastern Caribbean dollars)

8 Loans and advances to customers

	2020 $	2019 $
Performing		
Demand	**255,747**	255,151
Mortgages	**118,284**	109,009
Other secured	**22,440**	23,041
Overdrafts	**14,517**	9,462
Credit cards	**7,611**	7,154
Consumer	**4,856**	5,514
Under-performing		
Demand	**3,897**	1,031
Mortgages	**4,828**	3,123
Other secured	**675**	41
Overdrafts	**–**	4
Credit cards	**712**	494
Consumer	**68**	38
Non-performing	**470,686**	486,501
Interest receivable	**2,691**	1,171
Total loans and advances to customers, gross	**907,012**	901,734
Less: provision for expected credit losses	**(97,763)**	(77,851)
Total loans and advances to customers, net	**809,249**	823,883
Current	**360,662**	425,556
Non-current	**448,587**	398,327
	809,249	823,883

The weighted average effective interest rate on performing loans and advances excluding overdrafts at June 30, 2020 was 6.4% (2019: 6.5%) and overdrafts were 6.7% (2019: 6.8%).

Provision for expected credit losses

The movement in provision for expected credit losses is as follows:

	2020 $	2019 $
Balance at beginning of year	**77,851**	67,442
Expected credit losses, net of recoveries	**43,655**	10,409
Write offs	**(23,743)**	–
Balance end of year	**97,763**	77,851

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debts

	2020 $	2019 $
Local sovereign bonds	**21,909**	21,104
Regional sovereign bonds	**50,585**	62,472
Certificates of participation	**36,243**	36,243
International corporate bond	**27,026**	–
Regional corporate bond	**1,000**	2,270
	136,763	122,089
Included in cash and cash equivalents:		
International commercial paper (note 33)	**–**	101,301
	136,763	223,390
Interest receivable	**849**	1,220
Total originated debts, gross	**137,612**	224,610
Less: provision for expected credit losses	**(1,015)**	(395)
Total originated debts, net	**136,597**	224,215
Current	**27,242**	114,458
Non-current	**109,355**	109,757
	136,597	224,215

Originated debts are bonds held with sovereigns in the Eastern Caribbean Currency Union (ECCU), a certificate of participation in Government of Antigua and Barbuda, bonds in a regional financial institution and international financial institutions as well as short term commercial paper in an international financial institution.

i) Local and regional sovereign bonds

The Group has certain investment securities which comprise of fixed rate bonds held with sovereigns in the ECCU. Bonds yield interest at rates of 1.5% – 7.5% (2019: 1.5% – 7.5%). Bonds have terms ranging from 2 – 45 years (2019: 2 – 45 years) and will mature between July 17, 2020 and April 18, 2057 (2019: July 17, 2019 and April 18, 2057) and pay semi-annual coupon interest payments until maturity.

ii) Certificates of participation in Government of Antigua and Barbuda 7-Year Long Term Note

The Group placed funds on deposit with ABI Group Limited (ABIB). These deposits were placed with ABIB, which at the time was facing serious liquidity challenges, at the request of the ECCB, having regard to the contagion effect on the ECCU and the Group that would result if ABIB were unable to mitigate its liquidity risks.

By April 28, 2010, the Group had placed total deposits of $32,000 with ABIB. On May 7, 2010, these deposits, along with an additional $6,710 were used to purchase from ABIB a series of certificates of participation (COPs) in the cash flows from a Long-Term Note issued by the Government of Antigua and Barbuda (GoAB), which had been securitized by ABIB.

9 Originated debts *...continued*

ii) Certificates of participation in Government of Antigua and Barbuda 7-Year Long Term Note ...continued

On July 22, 2011, ECCB was directed by the Monetary Council to exercise the special emergency powers conferred on it by Part IIA, Article 5B of the ECCB Agreement Act 1983 to assume control of ABIB. During the years of ECCB's control of ABIB, the Group received an annual confirmation from ECCB of the total outstanding amounts of the COPs, with the stated objective of stabilizing the operations of ABIB so that all obligations would be settled in the normal course of business. ABIB was placed in receivership on November 27, 2015 by ECCB.

On July 11, 2019 the Group wrote to Caribbean Financial Services Corporation informing them that the Group intends to exercise its rights under clause 9.2 of the Trust Deed to bring proceedings against the Government of Antigua and Barbuda and/or any holder of the proceeds of the Long-Term Note.

As at June 30, 2020, the Group's interest under the COP's amounted to $36,243 (2019: $36,243). All of the COP's have now matured and are past due. As at the date of approval of these consolidated financial statements, the Group has not been advised of any time frame for payment of the outstanding balance.

The Group is continuing to pursue its entitlement under the COPs and has commenced legal action to recover its interest. The Group's external legal counsel team has been buttressed by the retention of Legal Counsel out of the United Kingdom, who the Group is advised is an expert in this particular area of the law.

The Group continues to rely on the expert legal advice received thus far as pertains to the prospects of enforcing recovery. Therefore, the Bank is of the view that it would not be appropriate for the COPs to be written down as at the reporting date.

iii) International corporate bond

The Group holds a corporate bond with Wells Fargo which is denominated in United States Dollars and which accrues interest at a rate of 1.75%. The bond matures on March 17, 2025.

The Group held 30-day commercial paper with Wells Fargo which yielded interest rate at rates of 1.98% – 2.15% (reported in the comparative 2019 figures) which matured between July 15, 2019 and July 22, 2019. These financial instruments were included as cash and cash equivalents.

iv) Regional corporate bond

The Group holds a bond with Antigua Commercial Group Limited which was denominated in Eastern Caribbean Dollars and which yielded interest rate at a rate of 9% (2019: 9%). The bond will mature on September 30, 2025.

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debts*...continued*

The movement in the originated debts during the year is as follows:

	2020 $	2019 $
Balance at beginning of year	**224,215**	256,641
Additions	**614,748**	830,606
Disposals (sales/redemptions)	**(701,375)**	(863,048)
Expected credit losses/(recoveries), net	**(620)**	14
Movement in interest receivable	**(371)**	2
Balance at end of year	**136,597**	224,215

The movement in the provision for expected credit losses is as follows:

	2020 $	2019 $
Balance at beginning of year	**395**	409
Expected credit losses/(recoveries), net	**620**	(14)
Balance at end of year	**1,015**	395

10 Investment securities

FVTPL

	2020 $	2019 $
Equity investments	**830,651**	672,261
Debt investments	**45,932**	64,570
	876,583	736,831

FVOCI – equity securities

	2020	2019
Quoted equity investments	**48,987**	97,546
Unquoted equity investments	**9,559**	11,206
	58,546	108,752

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *...continued*

FVOCI – debt securities

	2020 $	2019 $
Quoted corporate bonds	**42,598**	44,119
Quoted sovereign bonds	**3,948**	43,435
Interest receivable	**1,405**	1,271
Total debt securities – FVOCI (gross)	**47,951**	88,825
Less: provision for expected credit losses	**(477)**	(210)
Total debt securities – FVOCI (net)	**47,474**	88,615
Total investment securities	**982,603**	934,918
Current	**846,551**	738,172
Non-current	**136,052**	196,026
Total investment securities	**982,603**	934,198

The movement in investment securities during the year is as follows:

	FVTPL $	Equity securities – FVOCI $	Debt securities – FVOCI $	Total $
Balance at beginning of year ended June 30, 2019	**736,831**	**108,752**	**88,615**	**934,198**
Additions	1,157,393	16,301	159,471	1,333,165
Disposals (sales/redemptions)	(1,002,208)	(71,423)	(201,558)	(1,275,189)
Fair value losses – net	(15,433)	4,916	1,079	(9,438)
Expected credit loss allowance	–	–	(267)	(267)
Interest receivable	–	–	134	134
Balance at end of year ended June 30, 2020	**876,583**	**58,546**	**47,474**	**982,603**

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *…continued*

	FVTPL $	Equity securities – FVOCI $	Debt securities – FVOCI $	Total $
Balance at beginning of year ended June 30, 2018	862,136	97,329	35,845	995,310
Additions	705,004	56,040	151,858	912,902
Disposals (sales/redemptions)	(819,862)	(3,174)	(102,033)	(925,069)
Fair value losses – net	(10,447)	(41,443)	2,014	(49,876)
Expected credit loss allowance	–	–	(2)	(2)
Interest receivable	–	–	933	933
Balance at end of year ended June 30, 2019	**736,831**	**108,752**	**88,615**	**934,198**

i) FVTPL – quoted instruments

The Group maintains certain debt and equity instruments trading in regional and international markets denominated in USD and XCD currency.

ii) FVOCI – equity instruments

The Group maintains certain equity instruments which are quoted and unquoted. The instruments are denominated in USD and XCD currency. The Group has made the irrevocable election to classify these securities as FVOCI – equity instruments as management has not obtained these instruments for the purposes of speculation or active trading.

For unquoted securities, the Group undertakes a fair value assessment at each reporting date to assess the gains or losses attributable to such assets. During the financial year, net fair value gains related to financial assets in equity securities which are not trading in an active market amounted to $1,025 (2019: $2,092).

iii) FVOCI – debt securities – quoted corporate and sovereign bonds

The Group has certain investment securities which comprise of quoted corporate and sovereign fixed rate bonds trading. Bonds have coupon rates of 0.88% to 9.00% (2019: 0.88% to 9.00%); whilst, the effective interest rate for these bonds ranges from 2.00% to 13.00% (2019: 2.00% to 13.0%). Bonds have a maximum term of ten (10) years and will mature between July 2020 and May 2030 and pay semi-annual coupon interest payments until maturity. As at June 30, 2020, the fair values of these amounted to $47,474 (2019: $88,615).

The movement in the provision for expected credit losses is as follows:

	2020 $	2019 $
Balance at beginning of year	**210**	208
Expected credit losses, net	**267**	2
Balance at end of year	**477**	210

(expressed in thousands of Eastern Caribbean dollars)

11 Property inventory

	2020 $	2019 $
Balance at beginning of year	**8,553**	8,751
Additions during the year	**12**	141
Disposal of property	–	(339)
Balance at end of year	**8,565**	8,553

Property inventory relates mainly to land and buildings held for sale by certain companies within the Group and, is measured at the lower of cost and net realisable value.

	2020 $	2019 $
Cost	**8,783**	8,783
Net realisable value	**8,565**	8,553

12 Investment property

	2020 $	2019 $
Land at Camps	**2,021**	2,021
Land at Brighton	**2,019**	2,019
	4,040	4,040

All of the Group's investment property is held under freehold interests. The estimated fair market value of the investment property is $4,355 based on an independent valuation that was performed in 2020.

(expressed in thousands of Eastern Caribbean dollars)

13 Property and equipment

	Land and Buildings $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
At June 30, 2018						
Cost or valuation	33,056	21,371	1,031	161	1,541	57,160
Accumulated depreciation	(4,129)	(17,438)	(748)	(160)	–	(22,475)
Net book value	**28,927**	**3,933**	**283**	**1**	**1,541**	**34,685**
Year ended June 30, 2019						
Opening net book value	28,927	3,933	283	1	1,541	34,685
Additions	–	1,342	245	–	–	1,587
Disposals	–	(231)	(180)	–	(455)	(866)
Depreciation charge	(965)	(1,369)	(134)	–	–	(2,468)
Write-back on disposals	–	230	180	–	–	410
Closing net book value	**27,962**	**3,905**	**394**	**1**	**1,086**	**33,348**
At June 30, 2019						
Cost or valuation	33,056	22,482	1,096	161	1,086	57,881
Accumulated depreciation	(5,094)	(18,577)	(702)	(160)	–	(24,533)
Net book value	**27,962**	**3,905**	**394**	**1**	**1,086**	**33,348**

(expressed in thousands of Eastern Caribbean dollars)

13 Property and equipment *...continued*

	Land and Buildings $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2020						
Opening net book value	27,962	3,905	394	1	1,086	33,348
Additions	158	851	100	–	–	1,109
Disposals	–	(465)	(126)	–	(41)	(632)
Depreciation charge	(969)	(1,424)	(127)	–	–	(2,520)
Write-back on disposals	–	463	97	–	–	560
Effect of elimination of accumulated depreciation against valuation:						
Valuation	(4,903)	–	–	–	–	(4,903)
Accumulated depreciation	4,903	–	–	–	–	4,903
Revaluation surplus	6,782	–	–	–	–	6,782
Revaluation loss	(223)	–	–	–	–	(223)
Closing net book value	**33,710**	**3,330**	**338**	**1**	**1,045**	**38,424**
At June 30, 2020						
Cost or valuation	34,870	22,868	1,070	161	1,045	60,014
Accumulated depreciation	(1,160)	(19,538)	(732)	(160)	–	(21,590)
Net book value	**33,710**	**3,330**	**338**	**1**	**1,045**	**38,424**

(expressed in thousands of Eastern Caribbean dollars)

13 Property and equipment *...continued*

In 2020, the Group's land and buildings were revalued based on the appraisal made by an independent firm of appraisers. Valuations were made on the basis of comparative recent market transactions on arm's length terms. The revaluation surplus was credited to 'revaluation reserve' in shareholders' equity.

The following is the historical cost carrying amount of land and buildings carried at revalued amounts.

	Land $	Buildings $	Total $
Cost	3,792	17,935	21,727
Accumulated depreciation	–	(6,506)	(6,506)
Net book value as of June 30, 2020	**3,792**	**11,429**	**15,221**
Cost	3,792	17,935	21,727
Accumulated depreciation	–	(6,091)	(6,091)
Net book value as of June 30, 2019	**3,792**	**11,844**	**15,636**

(expressed in thousands of Eastern Caribbean dollars)

14 Intangible assets

	Computer software licenses $
At June 30, 2018	
Cost	7,715
Accumulated amortisation	(7,365)
Net book value	**350**
Year ended June 30, 2019	
Opening net book value	**350**
Additions	467
Amortisation charge	(159)
Closing net book value	**658**
At June 30, 2019	
Cost	8,182
Accumulated amortisation	(7,524)
Net book value	**658**
Year ended June 30, 2020	
Opening net book value	**658**
Additions	56
Amortisation charge	(256)
Closing net book value	**458**
At June 30, 2020	
Cost	8,238
Accumulated amortisation	(7,780)
Net book value	**458**

(expressed in thousands of Eastern Caribbean dollars)

15 Leases

The Group leases properties and equipment for its operations with lease terms ranging from 3 to 10 years. The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets.

Information about leases for which the Group is a lessee is presented below.

i) *Amounts recognised in the consolidated statement of financial position:*

Right of use asset	**$**
Effect of IFRS 16	
Cost	1,810
Accumulated depreciation	(1,278)
Balance at July 1, 2019	**532**
Year ended June 30, 2020	
Opening net book value	532
Additions	1,358
Disposals	(1,232)
Write-back on disposals	1,232
Depreciation charge	(753)
Closing net book value	**1,137**
Cost	1,936
Accumulated depreciation	(799)
Balance as at June 30, 2020	**1,137**

Lease liabilities	**$**
As at July 1, 2019 upon application of IFRS 16	545
Additions	1,358
Interest expense	43
Lease payments	(819)
Balance as at June 30, 2020	**1,127**
Current	426
Non-current	701
Balance as at June 30, 2020	**1,127**

(expressed in thousands of Eastern Caribbean dollars)

15 Leases *...continued*

ii) Amounts recognised in the consolidated statement of income:

	$
Depreciation charge on right-of-use assets	753
Interest expense on lease liabilities	43
Balance as at June 30, 2020	**796**

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublease the asset to another party, the right-of-use asset can only be used by the Group. Each lease is either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Group is prohibited from selling or pledging the underlying leased asset as security. Further, the Group must keep the lease properties in a good state of repair and return the lease properties in its original condition at the end of the lease. Also, the Group must insure items of property and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activity by type of right-of-use assets recognised on the consolidated statement of financial position.

Right-of-use asset	No. of right-of-use asset leased	Range of remaining term	Average remaining lease term	No. of leases with extension option	No. of leases with options to purchase	No. of leases with variable payments linked to an index	No. of leases with termination options
Office buildings	6	1 to 4 years	3 years	6	–	–	4
Storage facilities	2	3 to 9 years	6 years	2	–	–	1
IT Equipment	8	Up to 2.5 years	2 years	8	–	–	–

The lease liabilities are unsecured and future minimum lease payments at June 30, 2020 is as follows.

	Within 1 year $	1 – 2 years $	2 – 3 years $	3 – 4 years $	4 – 5 years $	After 5 years $	Total $
Lease payments	445	435	128	82	19	74	1,183
Finance charges	(19)	(17)	(6)	(4)	(2)	(8)	(56)
Net present values	**426**	**418**	**122**	**78**	**17**	**66**	**1,127**

(expressed in thousands of Eastern Caribbean dollars)

15 Leases *...continued*

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Paymentss made under such leases are expensed on a straight-line basis.

16 Other assets

	2020 $	2019 $
Insurance and other receivables, gross	**24,422**	22,910
Provision for expected credit losses	**(525)**	(525)
Insurance and other receivables, net	**23,897**	22,385
Net defined benefit asset (note 34)	**16,281**	18,740
Acceptances, guarantees and letters of credit	**6,375**	6,375
Prepayments	**3,807**	13,701
Stationery and card stock	**1,054**	991
	51,414	62,192
Current	**29,531**	37,715
Non-current	**21,883**	24,477
	51,414	62,192

17 Customers' deposits

	2020 $	2019 $
Fixed deposit accounts	**1,207,630**	1,307,970
Direct demand accounts	**589,942**	831,436
Savings accounts	**563,101**	506,079
Call accounts	**152,360**	183,148
	2,513,033	2,828,633
Interest payable	**12,792**	11,475
	2,525,825	2,840,108

(expressed in thousands of Eastern Caribbean dollars)

17 Customers' deposits *...continued*

Customers' deposits represent all types of deposit accounts held by the Group on behalf of customers. The deposits include demand deposit accounts, call accounts, savings accounts and fixed deposits. All customers' deposits were current for both years.

The Group pays interest on all categories of customers' deposits except demand deposits. At the reporting date, total interest expense on customers' deposit accounts for the year amounted to $44,451 (2019: $43,601). The average effective rate of interest paid on customers' deposits was 1.75% (2019: 1.64%).

18 Accumulated provisions, creditors and accruals

	2020 $	2019 $
Actuarial liabilities	**98,386**	94,083
Deposit pension funds	**53,937**	51,567
Other payables	**25,637**	54,249
Insurance contract liabilities	**21,333**	21,780
Managers' cheques and banker's payments	**5,962**	2,332
Unpaid drafts on other banks	**2,999**	2,713
	208,254	226,724
Current	**154,317**	175,157
Non-current	**53,937**	51,567
	208,254	226,724

Actuarial liabilities
Actuarial liabilities comprise the reserves maintained for the Group's individual life insurance business. The actuarial liabilities are calculated using the Net Level Premium (NLP) reserve method. This reserve method is a net premium reserve method that does not use lapse rates or expenses.

	2020 $	2019 $
Whole life plans	**84,676**	81,082
Endowment plans	**8,100**	7,722
Limited payment life plans	**4,275**	3,918
Other plans	**1,335**	1,361
Total actuarial liabilities	**98,386**	94,083

The actuarial liabilities are largely backed by short-term deposits, cash and treasury bills. The valuation rate for insurance plans is based on an expected ultimate short-term (one year or less) reinvestment rate assumption. Non-participating plans use an ultimate rate of 3.65% (2019: 3.7%). A spread of 0.75% is deducted for the plans with reversionary bonuses in support of bonus payments for a net rate of 2.9% (2019: 2.95%).

(expressed in thousands of Eastern Caribbean dollars)

18 Accumulated provisions, creditors and accruals *...continued*

Deposit pension funds

	2020 $	2019 $
Contributions	**2,139**	2,144
Interest	**2,060**	1,985
	4,199	4,129
Less expenses		
Group pension benefits	**1,630**	1,158
Management expenses	**199**	103
	1,829	1,261
Surplus for the year	**2,370**	2,868
Fund at beginning of the year	**51,567**	48,699
Fund at end of the year	**53,937**	51,567

The deposit pension funds represent pension funds which the Group manages for its employees and certain other entities. The fund provides a guaranteed minimum rate of 4% (2019: 4%). The fund balance represents the amount standing on account of the contributors to the fund and those liabilities are supported by term deposits and treasury bills.

Insurance contract liabilities
The insurance contract liabilities primarily relate to the non-life insurance business and are comprised of the following:

	2020 $	2019 $
Life		
Outstanding claims	**819**	923
Non-life		
Unexpired risks	**11,335**	10,248
Reinsurance premiums payable	**3,397**	4,098
Outstanding claims	**2,623**	3,007
IBNR	**1,887**	2,387
Premiums received in advance	**1,272**	1,117
	20,514	20,857
	21,333	21,780

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation

During the year, as part of the COVID-19 stimulus package, the Government of St. Kitts and Nevis granted a reduction in the corporate income tax rate from 33% to 25% on the assessable income for businesses that retain at least 75% of their employees. This temporary reduction resulted in an effective tax rate of 31% for the year.

	2020 $	2019 $
Net income before tax	**35,080**	65,883
Income tax expense at effective tax rate of 31% (2019: 33%)	**10,875**	21,741
Non-deductible expenses and other permanent differences	**9,654**	13,429
Tax effect of change in income tax rate	**404**	–
Deferred tax movement not recorded	**382**	160
Prior year's deferred income tax	**82**	222
Income not subject to tax	**(5,959)**	(6,248)
Tax credit from discounted interest on government loans	**(8,740)**	(15,689)
Income tax expense	**6,698**	13,615
Represented as follows:		
Current income tax expense		
Current year's income tax expense	**15,515**	28,539
Tax credit from discounted interest on government loans	**(8,740)**	(15,689)
	6,775	12,850
Deferred tax (credit)/expense	**(77)**	765
Income tax expense	**6,698**	13,615

During the year, the Group incurred realised losses of $15,636, on FVOCI equity securities that were transferred directly to retained earnings. The tax benefit of $5,375 associated with these losses was also recognised directly in retained earnings. Accordingly, the current year's income tax liability for the year was $10,140, being the current year's income tax expense of $15,515 less the tax benefit in retained earnings of $5,375.

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

Deferred tax asset/(liability)

The net deferred tax asset/(liability) is comprised as follows:

	2020 $	2019 $
Items recognised in profit or loss:		
Decelerated depreciation	**1,340**	1,177
Net defined benefit asset	**(3,053)**	(2,967)
	(1,713)	(1,790)
Items recognised directly in other comprehensive income:		
Unrealised losses on FVOCI securities	**18,912**	21,326
Revaluation of buildings	**(1,849)**	(1,330)
Net defined benefit asset	**(2,118)**	(3,219)
	14,945	16,777
	13,232	14,987
Comprised as follows on the consolidated statement of financial position:		
Deferred tax asset	**16,591**	18,302
Deferred tax liability	**(3,359)**	(3,315)
	13,232	14,987

The movements on deferred tax asset/(liability) are as follows:

	2020 $	2019 $
Balance at beginning of year	**14,987**	(9,997)
Net unrealised (gains)/losses on investment securities	**(2,414)**	24,615
Deferred tax movement for pension asset in profit and loss	**(86)**	(777)
Deferred taxes on depreciation of property and equipment	**163**	12
Deferred tax provided – revaluation of buildings	**(519)**	–
Re-measurement loss of defined benefit asset	**1,101**	1,134
Balance at end of year	**13,232**	14,987

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

Income tax liability

The movement in the current income tax liability is as follows:

	2020 $	2019 $
Balance at beginning of year	**6,797**	17,557
Transfer to income tax recoverable	**(450)**	19
Tax expense for the year (not offset against the income tax recoverable)	**4,420**	5,358
Taxes paid during the year	**(8,775)**	(17,576)
Adjustments to income tax from prior years	–	1,439
Balance at end of year	**1,992**	6,797

Tax losses

The Group has incurred income tax losses amounting to $2,982 (2019: $3,402) which may be carried forward and applied to reduce taxable income by an amount not exceeding one half of taxable income in any one year of assessment within 5 years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department.

The losses expire as follows:

	$
2021	772
2022	648
2023	579
2024	513
2025	470
	2,982

Deferred tax asset

At the year end, the Group had a deferred tax asset of $928 (2019: $1,127) which was not recognised in the consolidated financial statements due to the uncertainty of its recovery.

Income tax recoverable

Included in the consolidated statement of financial position is an amount of $28,587 (2019: $16,948) that relates to income tax credits/advance tax payments due from the IRD in respect of tax assessments that were finalised up to the year ended June 30, 2014 and the change in the Group's estimate of the current income tax expense based on a settlement agreement with the IRD. The amount may be applied against any future taxes payable by the Group, with certain agreed restrictions.

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

Income tax recoverable *...continued*

The movement in the income tax recoverable is as follows:

	2020 $	2019 $
Balance, beginning of year	**16,948**	17,791
Transfer from income tax payable	**(381)**	(19)
Current year's income tax credit	**8,740**	15,689
Taxes paid during the year	**9,000**	6,668
Current year's income tax expense offset	**(5,720)**	(23,181)
Balance, end of year	**28,587**	16,948

20 Issued share capital

	2020 $	2019 $
Authorised 270,000,000 ordinary shares of $1 each	**270,000**	270,000
Issued and fully paid 135,000,000 ordinary shares of $1 each	**135,000**	135,000

21 Reserves

The reserves are comprised as follows:

	2020 $	2019 $
Statutory reserve	**144,457**	140,646
Revaluation reserve	**25,924**	19,661
Fair value reserves – FVOCI	**(35,083)**	(39,443)
Other reserves	**219,457**	218,909
	354,755	339,773

i) Statutory reserve

	2020 $	2019 $
Balance at beginning of year	**140,646**	133,792
Addition	**3,811**	6,854
Balance at end of year	**144,457**	140,646

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves *…continued*

i) Statutory reserve …continued

In accordance with Section 45 (1) of Saint Christopher and Nevis Banking Act, 2015, the Group is required to maintain a reserve fund into which it shall transfer not less than 20% of its net income of each year whenever the reserve fund is less than the Group's paid-up capital.

ii) Revaluation reserve

	2020 $	**2019 $**
Balance at beginning of year	**19,661**	19,661
Increase in fair value of land and buildings	**6,263**	–
Balance at end of year	**25,924**	19,661

iii) Fair value reserves – FVOCI

	2020 $	**2019 $**
Balance at beginning of year	**(39,443)**	(14,817)
Movement in market value of securities, net	**4,360**	(24,626)
Net realised losses during the year	**(10,261)**	–
Net realised losses transferred to retained earnings, net of tax	**10,261**	–
Balance at end of year	**(35,083)**	(39,443)

iv) Other reserves

	2020 $	**2019 $**
Balance at beginning of year	**218,909**	219,556
Transfer to regulatory reserve for loan impairment	**47,435**	1,221
Transfer to regulatory reserve for interest accrued on non-performing loans	**9,398**	12,794
Transfer to insurance and claims equalisation reserves	**2,898**	1,657
Remeasurement loss on defined benefit asset, net of tax	**(2,350)**	(2,304)
Transfer from general reserve to regulatory reserves	**(56,833)**	(14,015)
Balance at end of year	**219,457**	218,909

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves *…continued*

iv) Other reserves …continued

	2020 $	2019 $
Other reserves is represented by:		
Regulatory reserve for interest accrued on non-performing loans (note 3.1.2)	**78,247**	68,849
Regulatory reserve for loan impairment (note 3.1.2)	**53,908**	6,473
General reserve	**43,351**	100,184
Insurance and claims equalisation reserves	**39,767**	36,869
Defined benefit pension plan reserve	**4,184**	6,534
	219,457	218,909

Included in other reserves are the following individual reserves:

General reserve
General reserve is used from time to time to transfer profits from retained earnings at the discretion of the Board of Directors. There is no policy of regular transfer.

Insurance and claims equalisation reserves
The insurance reserve is a discretionary reserve for the health and public liability insurance business. The underlying assets are included in the Group's cash balances which form part of 'Cash and cash equivalents'.

Claims equalisation reserve represents cumulative amounts appropriated from retained earnings based on the discretion of the Board of Directors as part of the Insurance Company's risk management strategies to mitigate against catastrophic events. Annually, the claims equalisation reserve is assessed, and transfers made as considered necessary by the Board of Directors. This reserve is in addition to the catastrophe reinsurance cover.

Regulatory reserve for loan impairment
Regulatory reserve represents cumulative amounts appropriated from retained earnings based on the prudential guidelines of the ECCB. When the ECCB loan provision is greater than the loan provision calculated under IFRS 9, the difference is set aside in a reserve in equity

Reserve for interest accrued on non-performing loans
This reserve is created to set aside interest accrued on non-performing loans where certain conditions are met in accordance with IFRS 9. The prudential guidelines of the ECCB do not allow for the accrual of such interest. As a result, the interest is set aside in a reserve and it is not available for distribution to shareholders until received.

Defined benefit pension plan reserve
This reserve is used to record the actuarial re-measurement of the defined benefit pension asset in other comprehensive income.

(expressed in thousands of Eastern Caribbean dollars)

22 Net interest income

	2020 $	2019 $
Interest income		
Loans and advances to customers	**36,346**	47,476
Investment securities at FVTPL and FVOCI	**9,580**	6,634
Financial asset (note 32)	**8,820**	20,242
Originated debts	**5,811**	6,867
Deposits with other financial institutions	**3,766**	4,493
Others	**2,839**	3,569
Interest income for the year	**67,162**	89,281
Interest expense		
Fixed deposit accounts	**33,546**	33,646
Savings accounts	**9,926**	8,998
Direct demand accounts	**672**	634
Call accounts	**307**	323
Finance lease liabilities	**43**	–
Interest expense for the year	**44,494**	43,601
Net interest income	**22,668**	45,680

23 Net fees and commission (expense)/income

	2020 $	2019 $
Fees and commission income		
International business and foreign exchange	**10,255**	9,043
Brokerage and other fees and commission	**4,717**	4,312
Credit related fees and commission	**3,777**	3,486
Fees and commission income for the year	**18,749**	16,841
Fee expenses		
International business and foreign exchange	**13,173**	8,604
Other fee expenses	**7,948**	6,127
Brokerage and other related fee expenses	**1,679**	1,516
Fee expenses for the year	**22,800**	16,247
Net fees and commission (expense)/income	**(4,051)**	594

(expressed in thousands of Eastern Caribbean dollars)

24 Other income

	2020 $	2019 $
Net gains on FVTPL investment securities	**78,876**	50,415
Net insurance premium income (note 36)	**38,717**	36,060
Dividend income	**9,114**	10,846
Foreign exchange gain	**5,731**	7,597
Other operating income	**369**	470
Net losses on financial assets measured at FVOCI reclassified to profit or loss	**(82)**	(750)
	132,725	104,638

25 Administrative and general expenses

	2020 $	2019 $
Employee cost	**29,307**	33,386
Repairs and maintenance	**6,519**	5,659
Other general	**1,432**	1,361
Communication	**967**	1,003
Utilities	**781**	784
Sundry losses	**726**	134
Legal fees and expenses	**708**	358
Stationery and supplies	**705**	880
Security services	**602**	529
Advertisement and marketing	**563**	1,030
Insurance	**417**	589
Taxes and licences	**267**	252
Shareholders' expenses	**150**	238
Premises upkeep	**63**	30
Rent and occupancy	**55**	628
	43,262	46,861

(expressed in thousands of Eastern Caribbean dollars)

25 Administrative and general expenses *...continued*

Employee cost

	2020 $	2019 $
Salaries and wages	**20,049**	19,631
Other staff cost	**6,952**	11,053
Insurance and other benefits	**1,488**	2,159
Pension expense (note 34)	**818**	543
	29,307	33,386

26 Credit impairment charges

	2020 $	2019 $
Loans and advances to customers (note 8)	**43,655**	10,409
Investment securities and other financial assets at amortised cost	**2,846**	63
	46,501	10,472

27 Other expenses

	2020 $	2019 $
Net claims incurred (note 36)	**21,103**	23,189
Depreciation and amortisation (notes 13, 14 and 15)	**3,529**	2,627
Directors' fees and expenses	**1,089**	1,113
Professional fees and related expenses	**778**	767
	26,499	27,696

(expressed in thousands of Eastern Caribbean dollars)

28 Earnings per share

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

	2020 $	2019 $
Net income attributable to shareholders	**28,382**	52,268
Weighted average number of ordinary shares in issue (in thousands)	**135,000**	135,000
Basic and diluted earnings per share	**0.21**	0.39

29 Dividends

The consolidated financial statements reflect dividends of $20,250 or $0.15 per share for the financial year ended June 30, 2020 (2019: $13,500 or $0.10 per share) paid on December 9, 2019. Approval of the payment was given at the Forty-eighth Annual General Meeting held on December 9, 2019.

30 Related parties balances and transactions

A related party relationship exists when one party has the ability to control directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between or among entities under common control, with the reporting enterprise and its key management personnel, directors and shareholders.

Government of St. Kitts and Nevis

The Government of St. Kitts and Nevis holds 51% of the Group's issued share capital. The remaining 49% of the issued share capital is held by individuals and other institutions (over 5,500 shareholders). The Government is a customer of the Group and, as such, all transactions executed by the Group on behalf of the government are performed on strict commercial banking terms at existing market rates.

(expressed in thousands of Eastern Caribbean dollars)

30 Related parties balances and transactions *...continued*

	2020 $	2019 $
Public sector		
Customers' deposits	**1,380,666**	1,701,618
Financial asset	**568,409**	682,075
Loans and advances to customers	**360,099**	353,128
Interest on deposits	**29,701**	28,741
Interest on financial asset	**8,820**	20,242
Gross premiums written	**20,859**	18,872
Interest on loans and advances to customers	**11,432**	12,642
Gross claims incurred	**8,859**	10,645
Insurance contract liabilities	**1,607**	3,213
Associated companies		
Loans and advances to customers	**69,882**	69,830
Customers' deposits	**11,740**	11,355
Interest on customers' deposits	**111**	110
Directors and associates		
Loans and advances to customers	**1,226**	1,296
Directors' fees and expenses	**1,089**	1,113
Customers' deposits	**849**	594
Interest from loans and advances to customers	**59**	79
Gross premiums written	**5**	5
Interest on customers' deposits	**8**	4
Key management		
Salaries and short-term benefits	**6,277**	5,368
Loans and advances to customers	**2,367**	2,728
Customers' deposits	**1,195**	907
Interest from loans and advances to customers	**133**	195
Gross written premiums	**92**	92
Interest on customers' deposits	**15**	16
Insurance contract liabilities	**12**	12

As at June 30, 2020, directors held total shares in the Group of $140 (2019: $107) and key management held total shares in the Group of $31 (2019: $31).

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.6% (2019: 6.0%). Secured loans are collaterised by cash and mortgages over properties.

A provision of $18,630 (2019: $18,578) has been recognised in respect to advances made to related parties (associated company).

(expressed in thousands of Eastern Caribbean dollars)

31 Contingent liabilities and commitments

Insurance claims

The Group, like all other insurers, is subject to litigation in the normal course of its business. The Group does not believe that such litigation will have a material effect on its consolidated financial statements.

Commitments

As at reporting date, the Group had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	2020 $	2019 $
Loan commitments	**24,097**	22,022
Credit card commitments	**12,672**	9,196
	36,769	31,218

32 Financial asset

The financial asset of $568,409 (2019: $682,075) represents the Group's right to that amount of cash flows from the sale of certain lands pursuant to a Shareholder's Agreement (Agreement) dated April 18, 2012 and September 4, 2014 between the Group and its majority shareholder, the Government of St. Kitts & Nevis ("GOSKN"), and the Nevis Island Administration ("NIA"), respectively. Under the terms of the Agreement, the secured debt obligations owed to the Group by the GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Group in exchange for the transfer of certain land assets to the Group. Further, the unsecured debt obligations owed to the Group by GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Group in exchange for the transfer of certain unencumbered land assets to a specially created entity, Special Land Sales Company (St. Kitts) Limited ("SLSC") and the allocation of certain shares in SLSC to the Group. SLSC was incorporated for the purpose of selling land assets in order to fulfill the terms of the Agreement of the contracting parties. Other lands would be transferred to the SLSC for sale, if necessary, in order to satisfy the agreement of the contracting parties.

By way of supplemental agreements, the effective date of the Agreement was amended to July 1, 2013. Accordingly, the first step in the 'Land for Debt' swap took place on July 1, 2013 in the amount of $565,070, which is the value of the 1,200 acres of land in the first tranche based on an independent valuation. The second and third tranches were completed during 2015 and the amounts swapped amounted to $230,951 which is the value of 735 acres of land.

Based on the terms of the Agreement:

1. On the effective date, SLSC shall use all appropriate commercial efforts to sell the secured land assets that were vested to the Group at the best price reasonably possible and as soon as reasonably practicable.

(expressed in thousands of Eastern Caribbean dollars)

32 Financial asset *...continued*

2. Commencing from the effective date of the Agreement, July 1, 2013, the Group is entitled to receive interest payments at a rate of 3.5% per annum on the face value of the eligible secured debt that was exchanged for the secured land assets. The amount is to be paid by the GOSKN annually from the effective date. Subsequently, the interest rate was reduced to 2.75% for the period July 1, 2017 to June 30, 2019.

3. Distribution of sale proceeds of the Group land assets shall be applied as follows:

   a. First towards the payment of selling and operational costs of SLSC;

   b. Secondly to the Group until the Group has received the face amount of the eligible secured debt immediately prior to the effective date and the interest payments, less amounts paid to the Group;

   c. Thirdly to the Group in exchange for the redemption of its relative interest in SLSC which was allotted for the release of eligible unsecured debt that was owed to the Group prior to the effective date; and

   d. Fourthly to the Government of St. Kitts and Nevis.

For the year ended June 30, 2020, the Group's consolidated statement of income includes interest income amounting to $8,820 (2019: $20,242). Further, as of June 30, 2020 interest receivable of $11,956 (2019: $22,550) was pending from the GOSKN. During the year (2019: $28,861), no payments of cumulative interest payments were received from the GOSKN. The increase in the provision for expected credit losses amounted to $1,572 (2019: $1) during the year.

Based on the terms of the Agreement, all of the risks and rewards of ownership of the secured land assets have not been transferred to the Group. The Group is only entitled to receive cash flows from the sales of said lands up to the face value of the eligible secured debt that was exchanged and any interest payments as noted above. Additionally, if the lands are sold for less than the value that was transferred, the GOSKN and NIA is obligated to transfer additional lands to make up for the shortfall. The Group's interest in the land assets is not subject to variation of returns as there is no risk of loss for the Group, and also the Group does not stand to benefit should the lands be sold for more than the value. Therefore, the Group has not classified the amounts received in exchange for the loans as inventory, but as a financial asset based on its rights to the cash flows from the sales of the land assets under the Agreement.

The Group has not included in these consolidated financial statements any investment in SLSC. Further, the Group has not invested any funds in SLSC.

33 Cash and cash equivalents

	2020 $	2019 $
Deposits with other financial institutions (note 7)	**415,227**	548,232
Cash and balances with Central Bank (note 5)	**27,693**	48,539
Treasury bills (note 6)	**12,268**	11,744
Originated debts (note 9)	–	101,301
	455,188	709,816

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of June 30, 2020 by independent actuaries. The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2020 Per annum %	2019 Per annum %
Actuarial assumptions		
Discount rate	**3.50**	3.75
Return on plan assets	**5.00**	5.00
Future salary increases	**3.00**	3.25

Mortality table (UP94 table projected to 2020 using Scale AA) in both years

	2020 $	2019 $
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	**46,119**	41,211
Current service cost	**2,132**	1,968
Interest cost	**1,614**	1,545
Actuarial losses	**2,790**	2,781
Benefits paid	**(1,421)**	(1,386)
Closing defined benefit obligation	**51,234**	46,119
Changes in the fair value of the plan assets		
Opening fair value of plan assets	**64,859**	62,182
Interest income	**3,243**	3,109
Return on plan assets (other than net interest)	**(661)**	(658)
Employer's contribution	**1,810**	1,751
Benefit paid	**(1,421)**	(1,386)
Management fees	**(315)**	(139)
Closing fair value of plan assets	**67,515**	64,859
Benefit cost		
Current service cost	**2,132**	1,968
Interest cost	**1,614**	1,545
Management fees	**315**	139
Interest on plan assets	**(3,243)**	(3,109)
Pension expense (note 25)	**818**	543

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset *...continued*

	2020 $	2019 $
Amount recognised in other comprehensive income		
Actuarial losses	**2,790**	2,781
Interest income on plan assets	**3,243**	3,109
Actual return on plan assets	**(2,582)**	(2,451)
Loss on re-measurement of net defined benefit asset	**3,451**	3,439

	2020 $	2019 $
Net defined benefit asset recognised in the consolidated statement of financial position		
Fair value of plan assets	**67,515**	64,859
Present value of defined benefit obligation	**(51,234)**	(46,119)
Net defined benefit asset	**16,281**	18,740

	2020 $	2019 $
Reconciliation: Net defined benefit asset		
Opening balance	**18,740**	20,971
Employer's contribution	**1,810**	1,751
Period cost	**(818)**	(543)
Other effects recognised in other comprehensive income	**(3,451)**	(3,439)
Closing balance (note 16)	**16,281**	18,740

Plan assets allocation is as follows:

	2020 %	2019 %
Certificates of deposits	**99.5**	99.5
Shares and treasury bills	**0.5**	0.5
	100	100

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset *...continued*

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit obligation.

	Discount rate plus 50 basis points $	Discount rate minus 50 basis points $
Increase/(decrease) in obligation	**(2,609)**	2,389

	Mortality plus 10% $	Mortality minus 10% $
Increase/(decrease) in obligation	**(1,057)**	931

35 Subsidiaries

	Percentage of direct and indirect equity interest held	
	2020 %	**2019 %**
National Group Trust Company (St. Kitts-Nevis-Anguilla) Limited	**100**	100
National Caribbean Insurance Company Limited	**100**	100
St. Kitts and Nevis Mortgage and Investment Company Limited	**100**	100

(expressed in thousands of Eastern Caribbean dollars)

36 Segmental statement of insurance related income – product line

Year ended of June 30, 2020	Medical $	Fire $	Motor $	Marine $	Public liability $	Sundry $	Other $	Total non-life $	Life assurance $	Total $
Gross premiums written	20,526	14,080	6,243	192	1,146	40	706	42,933	9,202	52,135
Reinsurers' share of gross premiums	–	(11,243)	(284)	(163)	(984)	–	(706)	(13,380)	–	(13,380)
	20,526	2,837	5,959	29	162	40	–	29,553	9,202	38,755
Net change in provision for unearned premiums	–	(76)	(54)	7	74	(3)	–	(52)	14	(38)
Net insurance premium income (note 24)	**20,526**	**2,761**	**5,905**	**36**	**236**	**37**	**–**	**29,501**	**9,216**	**38,717**
Claims and benefits	12,389	19	2,535	(3)	32	–	–	14,972	2,816	17,788
Change in insurance contract liabilities	(542)	(15)	(295)	–	(32)	–	–	(884)	(104)	(988)
Change in actuarial liabilities	–	–	–	–	–	–	–	–	4,303	4,303
Net claims incurred (note 27)	**11,847**	**4**	**2,240**	**(3)**	**–**	**–**	**–**	**14,088**	**7,015**	**21,103**

(expressed in thousands of Eastern Caribbean dollars)

36 Segmental statement of insurance related income – product line *...continued*

Year ended of June 30, 2019	Medical $	Fire $	Motor $	Marine $	Public liability $	Sundry $	Other $	Total non-life $	Life assurance $	Total $
Gross premiums written	18,665	10,968	6,118	280	1,580	36	1,081	38,728	8,963	47,691
Reinsurers' share of gross premiums	–	(8,148)	(269)	(154)	(1,372)	–	(1,081)	(11,024)	–	(11,024)
	18,665	2,820	5,849	126	208	36	–	27,704	8,963	36,667
Net change in provision for unearned premiums	–	(121)	(175)	(1)	(132)	13	–	(416)	(191)	(607)
Net insurance premium income (note 24)	**18,665**	**2,699**	**5,674**	**125**	**76**	**49**	**–**	**27,288**	**8,772**	**36,060**
Claims and benefits	12,667	453	3,238	2	–	–	–	16,360	3,743	20,103
Change in insurance contract liabilities	(61)	(985)	(361)	–	–	–	–	(1,407)	(16)	(1,423)
Change in actuarial liabilities	–	–	–	–	–	–	–	–	4,509	4,509
Net claims incurred (note 27)	**12,606**	**(532)**	**2,877**	**2**	**–**	**–**	**–**	**14,953**	**8,236**	**23,189**

37 Business segments

As of June 30, 2020, the operating segments of the Group were as follows:

1. Commercial and retail banking incorporating deposit accounts, loans and advances, investment brokerage services and debit, prepaid and gift cards;
2. Insurance including coverage of life assurance, non-life assurance and pension schemes; and
3. Real estate, property management and the provision of trustee services.

Transactions between the business segments are carried out on normal commercial terms and conditions. These operating segments are monitored by the Group's chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results.

(expressed in thousands of Eastern Caribbean dollars)

37 Business segments ...*continued*

The table below gives the results and balances of those transactions:

	Commercial and retail Banking $	Insurance $	Real estate and trust services $	Consolidation and other adjustments $	Total $
June 30, 2020					
Total segment revenues	177,302	47,062	916	–	**225,280**
Intersegment revenues	(627)	(5,795)	(222)	–	**(6,644)**
Revenue for the year from external customers	176,675	41,267	694	–	**218,636**
Cost of revenue generation	(147,279)	(35,533)	(744)	–	**(183,556)**
Income tax expense	(3,646)	(2,919)	(133)	–	**(6,698)**
Net income for the year	**25,750**	**2,815**	**(183)**	–	**28,382**
Property and equipment and intangible assets	30,361	8,504	17	–	**38,882**
Depreciation and amortisation	2,856	623	50	–	**3,529**
Segment assets	3,304,576	282,572	14,430	(241,657)	**3,359,921**
Segment liabilities	2,765,462	192,817	748	(212,095)	**2,746,932**
June 30, 2019					
Total segment revenues	172,355	44,052	950	–	**217,357**
Intersegment revenues	(580)	(5,794)	(223)	–	**(6,597)**
Revenue for the year from external customers	171,775	38,258	727	–	**210,760**
Cost of revenue generation	(107,015)	(37,017)	(845)	–	**(144,877)**
Income tax expense	(11,765)	(1,797)	(53)	–	**(13,615)**
Net income for the year	**52,995**	**(556)**	**(171)**	–	**52,268**
Property and equipment and intangible assets	26,444	7,541	21	–	**34,006**
Depreciation and amortisation	2,086	538	3	–	**2,627**
Segment assets	3,647,759	271,052	7,215	(235,725)	**3,690,301**
Segment liabilities	3,105,527	187,800	721	(210,605)	**3,083,443**

37 Business segments *...continued*

Segment information is based on internal reporting about the results of operating segments, such as revenue, expenses, profits or losses, assets, liabilities and other information on operations that are regularly reviewed by the Boards of Directors of the various Group companies.

38 Comparatives

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

39 Impact of Covid-19 Pandemic

Since December 31, 2019, the spread of a novel strain of coronavirus, COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

The Government of St. Kitts and Nevis and the ECCB have responded with monetary and fiscal interventions to stabilise economic conditions in the Federation. This is including a loan repayment deferral programme (moratorium) in conjunction with the Eastern Caribbean Currency Union Bankers Association. Accordingly, as of June 30, 2020, the Group had a total of $169,657 loans that were included in the moratorium programme. As at October 31, 2020, the loans amounted to $154,357. The moratoriums were issued for a period of 3 months and then extended by 4 months with further extensions in light of changes in the economic outlook brought about by the pandemic.

The Group considered the impact of the COVID-19 pandemic in the forward looking information used to derive the expected credit losses on its financial assets. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of the government and ECCB responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the consolidated financial position and results of the Group for future periods.

SUMMARY SEPARATE FINANCIAL STATEMENTS

JUNE 30, 2020

(expressed in Eastern Caribbean dollars)

Grant Thornton

An instinct for growth™

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Independent Auditor's Report

To the Shareholders of
St. Kitts-Nevis-Anguilla National Bank Limited

Opinion

The summary separate financial statements, which comprise the summary separate statement of financial position as of June 30, 2020, the summary separate statement of comprehensive income, summary separate statement of changes in shareholders' equity and summary separate statement of cash flows for the year then ended, and the related note, are derived from the audited separate financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** (the "Bank") for the year ended June 30, 2020. We expressed a qualified opinion in our report dated December 23, 2020.

In our opinion, the accompanying summary separate financial statements are consistent, in all material respects, with the audited separate financial statements, on the basis described in Note 1. However, the summary separate financial statements are misstated to the equivalent extent as the audited separate financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** for the year ended June 30, 2020.

Summary Separate Financial Statements

The summary separate financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary separate financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited separate financial statements and the auditor's report thereon.

The Audited Separate Financial Statements and Our Report Thereon

We expressed a qualified audit opinion on the audited separate financial statements in our report dated December 23, 2020. The basis for our qualified audit opinion was that originated debts on the Bank's separate statement of financial position includes certain long term notes issued by a third party, ABI Bank Limited (in receivership) ("ABIB"), amounting to $36,242,620, which have matured and remain outstanding. The loans were to be fully repaid by cash flows from loans ABIB made to the Government of Antigua and Barbuda. However, on November 27, 2015, ABIB was placed in receivership. No provision for potential losses has been made in the separate financial statements in respect of these notes.

We were unable to obtain sufficient appropriate audit evidence or satisfy ourselves by alternative methods, as to the recoverability of the $36,242,620 due to the Bank. Consequently, we were unable to determine whether any adjustment to this amount was necessary in the separate financial statements.

Grant Thornton

Our report also includes the communication of key audit matters. Key audit matters are those matters that in our professional judgement, were of most significance in our audit of the separate financial statements of the current period.

Management's Responsibility for the Summary Separate Financial Statements

Management is responsible for the preparation of the summary separate financial statements on the basis described in Note 1.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary separate financial statements are consistent, in all material respects, with the audited separate financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements.*

Grant Thornton

Chartered Accountants
December 23, 2020
Basseterre, St. Kitts

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Summary Separate Statement of Financial Position
As at June 30, 2020

(expressed in Eastern Caribbean dollars)

	2020 $	2019 $
Assets		
Cash and balances with Central Bank	**184,956,154**	213,144,357
Treasury bills	**54,833,484**	55,001,900
Deposits with other financial institutions	**453,482,357**	590,561,782
Loans and advances to customers	**819,276,788**	835,944,866
Originated debts	**136,596,805**	224,214,629
Financial asset	**568,409,151**	682,074,899
Investment securities	**962,865,352**	925,047,843
Investment in subsidiaries	**25,443,650**	26,750,000
Acceptances, guarantees and letters of credit	**6,374,705**	6,374,705
Income tax recoverable	**28,586,916**	16,567,010
Property and equipment	**29,968,173**	25,853,099
Intangible assets	**392,506**	590,741
Right-of-use assets	**1,032,859**	–
Other assets	**15,765,652**	27,331,063
Deferred tax asset	**16,591,346**	18,302,402
Total assets	**3,304,575,898**	3,647,759,296
Liabilities		
Customers' deposits	**2,727,846,471**	3,038,721,022
Due to other financial institutions	**–**	124,223
Accumulated provisions, creditors and accruals	**29,326,890**	53,511,226
Acceptances, guarantees and letters of credit	**6,374,705**	6,374,705
Income tax payable	**869,847**	6,797,243
Lease liabilities	**1,045,405**	–
Total liabilities	**2,765,463,318**	3,105,528,419
Shareholders' equity		
Issued share capital	**135,000,000**	135,000,000
Share premium	**3,877,424**	3,877,424
Reserves	**310,511,873**	298,355,520
Retained earnings	**89,723,283**	104,997,933
Total shareholders' equity	**539,112,580**	542,230,877
Total liabilities and shareholders' equity	**3,304,575,898**	3,647,759,296

Approved for issue by the Board of Directors on December 23, 2020.

Chairman **Director**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Summary Separate Statement of Income
For the year ended June 30, 2020

(expressed in Eastern Caribbean dollars)

	2020 $	2019 $
Interest income	**67,026,510**	88,702,725
Interest expense	**(50,604,503)**	(49,711,997)
Net interest income	**16,422,007**	38,990,728
Fees and commission income	**17,397,711**	15,599,931
Fees expense	**(21,216,856)**	(14,831,273)
Net fees and commission (expense)/income	**(3,819,145)**	768,658
Net gains on investments in debt and equity instruments	**78,264,017**	49,485,361
Dividend income	**8,748,392**	10,774,252
Gain on foreign exchange (net)	**5,731,364**	7,596,838
Other operating income	**133,531**	195,432
Other income	**92,877,304**	68,051,883
Total operating income	**105,480,166**	107,811,269
Operating expenses		
Credit and other impairment charges	**(47,701,412)**	(10,420,590)
Administrative and general expenses	**(30,751,758)**	(34,593,931)
Depreciation and amortisation	**(2,857,027)**	(2,085,061)
Directors' fees and expenses	**(890,238)**	(879,173)
Professional fees and related expenses	**(577,897)**	(504,167)
Total operating expenses	**(82,778,332)**	(48,482,922)
Operating profit before tax	**22,701,834**	59,328,347
Income tax expense	**(3,645,962)**	(11,765,238)
Net income for the year	**19,055,872**	47,563,109
Basic earnings per share (basic and diluted)	**0.14**	0.35

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Summary Separate Statement of Comprehensive Income
For the year ended June 30, 2020

(expressed in Eastern Caribbean dollars)

	2020 $	2019 $
Net income for the year	**19,055,872**	47,563,109
Other comprehensive (loss)/income, net of tax:		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Financial assets measured at FVOCI – debt instruments:		
Net unrealised gains on investment securities, net of tax	**667,624**	1,209,807
Reclassification adjustments for net losses included in income, net of tax	**(9,104)**	(25,567)
	658,520	1,184,240
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Revaluation surplus of properties	**5,383,347**	–
Financial assets measured at FVOCI – equity instruments:		
Unrealised gain/(loss) on investment securities, net of tax	**3,632,192**	(25,739,142)
Realised losses transferred to retained earnings, net of tax	**(10,259,533)**	–
Re-measurement loss on defined benefit asset, net of tax	**(1,328,880)**	(1,339,969)
	(7,956,221)	(27,079,111)
Total other comprehensive loss for the year, net of tax	**(1,914,354)**	(25,894,871)
Total comprehensive income for the year	**17,141,518**	21,668,238

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Summary Separate Statement of Changes in Shareholders' Equity
For the year ended June 30, 2020

(expressed in Eastern Caribbean dollars)

	Issued share capital $	Share premium $	Reserves $	Retained earnings $	Total $
Balance as of July 1, 2018	**135,000,000**	**3,877,424**	**317,396,277**	**77,788,938**	**534,062,639**
Net income for the year	–	–	–	47,563,109	47,563,109
Other comprehensive loss	–	–	(25,894,871)	–	(25,894,871)
Total comprehensive income for the year	**–**	**–**	**(25,894,871)**	**47,563,109**	**21,668,238**
Transfer to reserve	–	–	6,854,114	(6,854,114)	–
Transaction with owners					
Dividends	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2019	**135,000,000**	**3,877,424**	**298,355,520**	**104,997,933**	**542,230,877**
Changes on initial application of IFRS 16	–	–	–	(9,815)	(9,815)
Balance as of July 1, 2019, restated	**135,000,000**	**3,877,424**	**298,355,520**	**104,988,118**	**542,221,062**
Net income for the year	–	–	–	19,055,872	19,055,872
Other comprehensive income/(loss)	–	–	8,345,179	(10,259,533)	(1,914,354)
Total comprehensive income for the year	**–**	**–**	**8,345,179**	**8,796,339**	**17,141,518**
Transfer to reserve	–	–	3,811,174	(3,811,174)	–
Transaction with owners					
Dividends	–	–	–	(20,250,000)	(20,250,000)
Balance as of June 30, 2020	**135,000,000**	**3,877,424**	**310,511,873**	**89,723,283**	**539,112,580**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Summary Separate Statement of Cash Flows
For the year ended June 30, 2020

(expressed in Eastern Caribbean dollars)

	2020 $	2019 $
Cash flows from operating activities		
Operating profit before tax	**22,701,834**	59,328,347
Adjustments for:		
Interest expense	**50,604,503**	49,711,997
Credit and other impairment charges	**47,701,412**	10,420,590
Unrealised losses on FVTPL investment securities	**15,828,627**	2,886,496
Depreciation and amortisation	**2,857,027**	2,085,061
Retirement benefit expense	**688,589**	532,931
Property revaluation loss on land and property	**165,144**	–
Gain on disposal of equipment	–	(23,249)
Dividend income	**(8,748,392)**	(10,774,252)
Interest income	**(67,026,510)**	(88,702,725)
Operating income before changes in operating assets and liabilities	**64,772,234**	25,465,196
(Increase)/decrease in operating assets:		
Loans and advances to customers	**(25,087,239)**	(73,344,096)
Mandatory deposits with Central Bank	**14,265,022**	(133,790)
Other assets	**10,240,757**	(6,690,631)
Increase/(decrease) in operating liabilities:		
Customers' deposits	**(312,093,702)**	1,631,718
Due to other financial institutions	**(124,223)**	124,223
Accumulated provisions, creditors and accruals	**(24,184,336)**	3,657,925
Cash used in operations	**(272,211,487)**	(49,289,455)
Interest received	**58,317,355**	75,774,242
Pension contributions paid	**(1,289,848)**	(1,231,815)
Income taxes paid	**(16,357,432)**	(23,137,901)
Interest paid	**(49,350,317)**	(49,540,067)
Net cash used in operating activities	**(280,891,729)**	(47,424,996)
Cash flows from investing activities		
Proceeds from sale of investment securities and originated debts	**1,850,248,150**	1,787,326,867
Payments received from the financial asset	**101,499,049**	100,341,552
Interest received from investment securities and originated debts	**17,911,381**	12,565,441
Dividends received	**8,748,392**	10,774,252
Proceeds from sale of equipment	**42,835**	479,540
(Increase)/decrease in restricted term deposits and treasury bills	**(177,856)**	33,600,000
Purchase of equipment and intangible assets	**(984,386)**	(1,768,557)
Increase in investment securities and originated debts	**(1,927,591,427)**	(1,700,257,751)
Decrease in special term deposit	–	(30,526,555)
Net cash from investing activities	**49,696,138**	212,534,789

Summary Separate Statement of Cash Flows…. Continued
For the year ended June 30, 2020

(expressed in Eastern Caribbean dollars)

	2020 **$**	**2019** $
Cash flows from financing activities		
Dividends paid	**(20,250,000)**	(13,500,000)
Interest paid on lease liabilities	**(35,035)**	–
Repayments of lease liabilities	**(611,381)**	–
Net cash used in financing activities	**(20,896,416)**	(13,500,000)
Net (decrease)/increase in cash and cash equivalents	**(252,092,007)**	151,609,793
Cash and cash equivalents, beginning of year	**689,502,389**	537,892,596
Cash and cash equivalents, end of year	**437,410,382**	689,502,389

(expressed in Eastern Caribbean dollars)

1 Basis of preparation

These summary separate financial statements are derived from the audited consolidated financial statements of St. Kitts-Nevis-Anguilla National Bank Limited for the year ended June 30, 2020.

WORKING HARDER TODAY FOR A BRIGHTER TOMORROW

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ANNUAL REPORT 2020