Financial Statements of

**Finance and Development Company Limited**

October 31, 2019

**Finance and Development Company Limited**

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# INDEPENDENT AUDITORS' REPORT

**To the Shareholders of Finance and Development Company**

## Limited Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of Finance and Development Company Limited ("the Company"), which comprise the statement of financial position as at October 31, 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Eastern Caribbean and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

**To the Shareholders of Finance and Development Company Limited**

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

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

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

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

**To the Shareholders of Finance and Development Company Limited**

***Auditors' Responsibilities for the Audit of the 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG

Chartered Accountants

August 14, 2020
Antigua and Barbuda

# FINANCE AND DEVELOPMENT COMPANY LIMITED

Statement of Financial Position

As at October 31, 2019
With comparative figures for 2018

*(Expressed in Eastern Caribbean dollars)*

| | Notes | | 2019 | 2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 12 | $ | 46,048,570 | 22,243,894 |
| Investment securities | 13 | | 50,667,899 | 42,485,234 |
| Statutory deposit | 14 | | 718,474 | 718,474 |
| Loans and advances, net | 15 | | 125,744,940 | 139,451,332 |
| Due from related parties, net | 28 | | 11,588,922 | 12,141,237 |
| Repossessed stock, net | 16 | | 1,282,914 | 1,264,078 |
| Property and equipment | 17 | | 704,633 | 480,491 |
| Intangible assets | 18 | | 686,954 | - |
| **Total Assets** | | $ | 237,443,306 | 218,784,740 |
| **Liabilities** | | | | |
| Customer deposits | 19 | $ | 217,193,398 | 198,302,057 |
| Accounts payable and accruals | 20 | | 845,681 | 769,915 |
| Income tax payable | 21 | | 4,000 | 4,000 |
| **Total Liabilities** | | | 218,043,079 | 199,075,972 |
| **Shareholders' Equity** | | | | |
| Stated capital | 22 | | 17,500,000 | 17,500,000 |
| Statutory reserve | 23 | | 7,274,115 | 7,274,115 |
| General reserve | | | 6,647,190 | 6,647,190 |
| Accumulated deficit | | | (12,021,078) | (11,712,537) |
| **Total Shareholders' Equity** | | | 19,400,227 | 19,708,768 |
| **Total Liabilities and Shareholders' Equity** | | $ | 237,443,306 | 218,784,740 |

**Approved by the Board of Directors:**

**Chairman** **Director**

*See accompanying notes to the financial statements.*

# FINANCE AND DEVELOPMENT COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income

For the year ended October 31, 20189
With comparative figures for 20178

*(Expressed in Eastern Caribbean dollars)*

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Income** | | | |
| Interest income from loans and advances | 24 | $ 13,971,746 | 15,465,352 |
| Income from deposits with other banks and investments, net | 24 | 3,380,440 | 1,852,722 |
| | | 17,352,186 | 17,318,074 |
| **Interest expense** | | (11,247,177) | (10,935,484) |
| **Net interest income** | | 6,105,009 | 6,382,590 |
| **Other operating income** | 25 | 1,045,444 | 1,528,976 |
| **Total income** | | 7,150,453 | 7,911,566 |
| **Operating expenses** | | | |
| General and administrative expenses | 27 | 4,840,406 | 4,997,648 |
| Provision for credit losses | 13, 15 | 3,673,418 | 5,582,283 |
| Directors' fees and expenses | 28 | 785,047 | 643,600 |
| Depreciation and amortisation | 17, 18 | 202,818 | 120,008 |
| | | 9,501,689 | 11,343,539 |
| Loss before tax | | (2,351,236) | (3,431,973) |
| Taxation | 21 | - | - |
| Loss for the year, being total comprehensive loss for the year | | $ (2,351,236) | (3,431,973) |

*See accompanying notes to the financial statements.*

# FINANCE AND DEVELOPMENT COMPANY LIMITED

Statement of Changes in Equity

For the year ended October 31, 2019
With comparative figures for 2018

*(Expressed in Eastern Caribbean dollars)*

| | | Stated Capital | Statutory Reserve | General Reserve | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|
| Balance at October 31, 2017 | $ | 17,500,000 | 7,274,115 | 5,387,036 | (7,020,410) | 23,140,741 |
| Loss for the year | | - | - | - | (3,431,973) | (3,431,973) |
| Increase in reserve for loan loss | | - | - | 1,260,154 | (1,260,154) | - |
| Balance at October 31, 2018 as previously stated | | 17,500,000 | 7,274,115 | 6,647,190 | (11,712,537) | 19,708,768 |
| Change on initial application of IFRS 9 | | - | - | - | 2,042,695 | 2,042,695 |
| Restated balance at November 1, 2018 | | 17,500,000 | 7,274,115 | 6,647,190 | (9,669,842) | 21,751,463 |
| Loss for the year | | - | - | - | (2,351,236) | (2,351,236) |
| Balance at October 31, 2019 | $ | 17,500,000 | 7,274,115 | 6,647,190 | (12,021,078) | 19,400,227 |

*See accompanying notes to the financial statements.*

# FINANCE AND DEVELOPMENT COMPANY LIMITED

Statement of Cash Flows

For the year ended October 31, 2019
With comparative figures for 2018

*(Expressed in Eastern Caribbean dollars)*

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss for the year | | $ (2,351,236) | (3,431,973) |
| Adjustment for: | | | |
| Depreciation and amortization | 17, 18 | 202,818 | 120,008 |
| Impairment losses on financial assets | 13, 15 | 3,673,418 | 1,080,640 |
| Impairment losses on repossessed stock | 16 | - | 1,725,328 |
| Fair value gains on investments | | (830,513) | - |
| Loss on disposal of property and equipment | | 1,271 | - |
| Interest income | | (17,352,186) | (17,318,074) |
| Interest expense | | 11,247,177 | 10,935,484 |
| Cash flows used in operating activities before changes in operating assets and liabilities | | (5,409,251) | (6,888,587) |
| *Changes in:* | | | |
| Customer deposits | | 18,891,341 | 6,896,541 |
| Accounts payable and accruals | | 75,766 | (854,671) |
| Loans and advances and repossessed stock | | 16,392,389 | 12,840,951 |
| Due from related parties, (net) | | (552,314) | 530,605 |
| Cash generated from operating activities | | 29,397,931 | 12,524,838 |
| Interest paid | | (11,281,469) | (10,644,850) |
| Interest received | | 13,518,152 | 14,221,472 |
| **Net cash flows from operating activities** | | 31,634,614 | 16,101,460 |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 17 | (380,632) | (136,445) |
| Proceeds from disposal of property and equipment | | 28,729 | - |
| Purchase of intangible assets | 18 | (763,282) | - |
| Net purchase of investment securities | | (6,714,753) | (12,826,040) |
| **Net cash flows used in investing activities** | | (7,829,938) | (12,962,485) |
| Increase in cash and cash equivalents during the year | | 23,804,676 | 3,138,975 |
| Cash and cash equivalents, beginning of year | | 22,243,894 | 19,104,919 |
| Cash and cash equivalents, end of year | 12 | $ 46,048,570 | 22,243,894 |

*See accompanying notes to the financial statements.*

*See accompanying notes to the financial statements.*

*(Expressed in Eastern Caribbean dollars)*

## 1. Reporting entity

Finance and Development Company Ltd. ("the Company") is a company incorporated as a private limited company under the laws of Antigua and Barbuda on December 19, 1984 under the provisions of the Companies Act, Caption 358.

The Company is licensed to do business as a financial institution in Antigua and Barbuda and is regulated by the Eastern Caribbean Central Bank (ECCB) in accordance with the Antigua and Barbuda Banking Act, No.10 of 2015 and the ECCB Prudential Guidelines No. 10 of 1983.

The Company provides primarily term financing secured by bills of sale on specific vehicles, loans to both the public and private sector and accepts deposits from a limited number of depositors.

The Company's registered office is located at Old Parham Road, St. John's, Antigua.

## 2. Basis of accounting preparation

The financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS). They were approved and authorized for issue by the Board of Directors on August 13, 2020.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of operations.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern assumption were not appropriate, then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

The Company incurred a net loss of $2,351,236 for the year ended October 31, 2019 (2018: $3,431,973) and as at October 31, 2019 accumulated deficit is $12,021,078 (2018: $11,712,537). The Company is revising its credit risk policies aimed at reducing the expected credit losses on loans. The Company will also be reviewing the nature and details of all expenses with the aim of reducing indirect costs. In addition, the shareholders have committed to continue their support of the Company.

Management therefore believes that the going concern basis is appropriate in the preparation of these financial statements.

## 3. Functional and presentation currency

These financial statements are presented in Eastern Caribbean dollars, which is the Company's functional currency. All amounts have been rounded to the nearest dollar.

*(Expressed in Eastern Caribbean dollars)*

**4. Use of judgements and estimates**

In preparing the financial statements in accordance with IFRS, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

A synopsis of significant judgements, assumptions and estimation uncertainties applicable in 2019 are as follows:

a) *Judgements*
Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements are as follows.

(i) classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payments of principal and interest (SPPI) on the principal amount outstanding.

(ii) establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

b) *Assumptions and estimation uncertainties*
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 October 2020 are as follows.

(i) impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

(ii) determination of the fair value of financial instruments with significant unobservable inputs.

(iii) recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

(iv) impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

## 4. Use of judgements and estimates (continued)

### 4.1 Significant management judgement in applying accounting policies and estimation uncertainty

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

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

(a) Impairment losses on loans and advances

**Applicable to 2019 only**
The measurement of the expected credit loss allowance for financial assets measured at amortised cost 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).

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

- The Company's criteria for determining if there has been a significant increase in credit risk and hence whether impairment allowances for financial assets should be measured on a lifetime expected credit loss (ECL) basis
- Choosing appropriate models and assumptions for the measurement of expected credit losses
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Establishing the number and relative weightings of forward-looking macroeconomic scenarios for each type of product or market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

**Applicable to 2018 only**
The Company reviews its loan portfolios to assess impairment on an annual basis. In determining whether an impairment loss should be recorded in profit or loss, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*(Expressed in Eastern Caribbean dollars)*

**4. Use of judgements and estimates (continued)**

**4.1 Significant management judgement in applying accounting policies and estimation uncertainty (continued)**

(a) Impairment losses on loans and advances (continued)

**Applicable to 2018 only (continued)**
The Company determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement.

In making this judgement, the Company evaluates among other factors, the normal volatility in share price. In addition, for unquoted available-for-sale equity investments, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Where observable impairment factors are identified, this may give rise to an uncertainty regarding the recoverability of the carrying value in the subsequent period and/or the eventual recoverability of the amounts invested in full.

(b) Classification of financial assets

**Applicable to 2019 only**
Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

(c) Classification of investments as held-to-maturity

**Applicable to 2018 only**
The Company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement about the Company's intention and ability to hold the security to maturity. In making this judgement, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than in specific circumstances - for example, selling an insignificant amount close to maturity - it will reclassify the entire class as available-for-sale. The investments would thereafter be measured at fair value not amortised cost.

(d) Impairment of non-financial assets

**Applicable to 2019 and 2018**
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the future cash inflows.

*(Expressed in Eastern Caribbean dollars)*

**4. Use of judgements and estimates (continued)**

**4.1 Significant management judgement in applying accounting policies and estimation uncertainty (continued)**

(e) Fair value of financial instruments

**Applicable to 2019 and 2018**
Financial instruments where recorded current market transactions or observable market data are not available, are recorded at fair value using valuation techniques. Fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimates of the most appropriate model assumptions.

(f) Current and deferred taxes

***Applicable to 2019 and 2018***
Significant judgment is required in determining the provision for income taxes including any liabilities for tax audit issues. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. In calculating the deferred tax asset, management uses judgment to determine the possibility that future taxable profits will be available to facilitate utilization of temporary tax differences which may arise.

**5. Changes in accounting policies**

**5.1 Adoption of new or revised standards, amendments to standards and interpretations**

The Company has adopted IFRS 9 and IFRS 15 from November 1, 2018.

Of these new standards and amendments applied for the first time in 2019, only IFRS 9 had a material impact on the annual financial statements of the Company.

Due to the transition method chosen by the Company in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect its requirements.

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

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

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers recognized by the Company.

*(Expressed in Eastern Caribbean dollars)*

**5. Changes in accounting policies (*continued)***

**5.1 Adoption of new or revised standards, amendments to standards and interpretations *(continued)***

A number of other new standards are also effective from November 1, 2018 but they do not have a significant impact on the Company's financial statements.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Except for the changes below, the Company has consistently applied the accounting policies as outlined to all periods presented in these financial statements.

The nature and the impact of each new standard or amendment are described below:

**IFRS 9 *Financial Instruments***

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* and sets out requirements- for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non financial items. The requirements of IFRS 9 represent a significant change from IAS 39 and brings fundamental changes to the accounting for financial assets.

IFRS 9 introduced changes to the classification and measurement of financial assets and the accounting for impairment of financial assets from an incurred loss approach with a forward-looking expected credit loss approach.

New or amended disclosures have been provided for the current period, where applicable.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized below:

***Changes to classification and measurement of financial assets and financial liabilities***

The standard eliminates the previous categories under IAS 39 of available-for-sale, held-to-maturity and loans and receivables.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). For classification purposes, IFRS 9 requires all financial assets, except equity instruments and derivatives to be assessed on the basis of the entity's business model for managing the assets and the contractual cash flow characteristics of the instruments.

*(Expressed in Eastern Caribbean dollars)*

## 5. Changes in accounting policies (*continued)*

### 5.1 Adoption of new or revised standards, amendments to standards and interpretations *(continued)*

***Changes to classification and measurement of financial assets and financial liabilities (continued)***

IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Equity instruments that are not held for trading may be irrevocably designated as at FVOCI, with no subsequent reclassification of gains or losses to profit or loss.

The Company will generally therefore classify its financial assets as follows:

- Debt instruments at amortised cost;
- Financial assets at fair value through profit or loss (FVTPL).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities and therefore, there have been no significant changes to the accounting for the Company's financial liabilities under IFRS 9.

***Impairment of financial assets***

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model for financial assets. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. These new requirements are forward-looking and eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the new approach it is no longer necessary for a credit event to have occurred before credit losses are recognized and therefore under IFRS 9, credit losses are recognized earlier than under IAS 39. The impairment allowance is based on a three-stage model that determines the expected credit loss based on the probability of default, the exposure at default and the loss given default for loans and loan commitments, debt securities not held for trading and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

***Transition disclosures***

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- As permitted by the transition provisions of IFRS 9, the Company elected not to restate comparative financial information for 2018 for financial instruments within the scope of IFRS 9. As such, the comparative financial information for 2018 is reported under IAS 39 and is not comparable to the information presented in 2019 under IFRS 9. Adjustments to carrying amounts of financial assets and liabilities arising from the adoption of IFRS 9 have been recognized in opening retained earnings as at November 1, 2018.

*(Expressed in Eastern Caribbean dollars)*

## 5. Changes in accounting policies (*continued)*

### 5.1 Adoption of new or revised standards, amendments to standards and interpretations *(continued)*

***Transition disclosures (continued)***

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held; and
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The quantitative impact of applying IFRS 9, as at November 1, 2018, is disclosed in the transition disclosures in Note 30.

**IFRS 15 *Revenue from Contracts with Customers***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced existing revenue recognition guidance, including IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes* and related interpretations.

The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires the Company to exercise judgement, taking into consideration all of the relevant circumstances when applying each step of the model to contracts with their customers. It also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Management has assessed that the main impact of this standard is in respect of other income. Based on preliminary review, IFRS 15 did not have a material impact on the timing and recognition of other income from contracts with customers and the related assets and liabilities recognized by the Company.

### 5.2 Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after November 1, 2018. The Company has not early adopted the following new or amended standards in preparing these financial statements.

*(Expressed in Eastern Caribbean dollars)*

## 5. Changes in accounting policies (*continued)*

### 5.2 Standards issued but not yet adopted (continued)

***Effective January 1, 2019***

***IFRS 16 Leases***

IFRS 16, Leases, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off- balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Companies will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest and the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with a value of US$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Finance lease accounting will be based on IAS 17 lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

The Company is assessing the impact that this standard will have on its 2020 financial

statements. **IFRIC 23 *Uncertainty over Income Tax Treatments***

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profits (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

**Amendments to IFRS 9 *Financial Instruments***

Amendments to IFRS 9 *Financial Instruments* relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

The Company anticipates that these standards and amendments will be adopted in the initial period when they become mandatorily effective. The impact of these are currently being assessed by the Company.

*(Expressed in Eastern Caribbean dollars)*

**6. Summary of significant accounting**

**policies 6.1 Overall considerations**

The financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

**6.2 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits at banks and other short-term highly liquid instruments with a maturity within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

**6.3 Financial instruments**

**Recognition, initial measurement and derecognition**

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

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

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

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

**Classification and subsequent measurement of financial assets**

***Policy applicable from November 1, 2018***

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

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

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

*(Expressed in Eastern Caribbean dollars)*

## 6. Summary of significant accounting policies (*continued)*

### 6.3 Financial instruments *(continued)*

**Classification and subsequent measurement of financial assets (continued)**

***Policy applicable from November 1, 2018 (continued)***

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

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

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

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at initial application, the business model assessment is based on facts and circumstances at that date. Also, IFRS 9 permits new elective designations at FVTPL or FVOCI to be made on the date of initial application and permits or requires revocation of previous FVTPL elections at the date of initial application depending on the facts and circumstances at that date.

*Business model assessment*

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How performance of the business model and the financial assets held within the model are evaluated and reported to key management personnel;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- The frequency and significance of past sales activity, the reason for those sales as well as expectations about future sales; and
- The significant risks affecting the performance of the business model for example, market risk and credit risk and the activities undertaken to manage those risks.

## 6. Summary of significant accounting policies *(continued)*

### 6.3 Financial instruments *(continued)*

**Classification and subsequent measurement of financial assets (*continued*)**

***Policy applicable from November 1, 2018 (continued)***

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

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

*Business models - Applicability to the Company*

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

- Hold to collect contractual cash flows (HTC) - the objective of this business model is to hold assets in order to collect contractual cash flows. Under this model, the Company holds loans and investment securities to collect contractual principal and interest cash flows. Sales are expected to be insignificant or infrequent; and
- Other business model - the objective of this business model is neither to hold assets in order to collect contractual cash flows, nor both collect contractual cash flows and to sell. Under this model collecting contractual cash flows is incidental to the objective of the model and sales may be significant in value and frequent. The Company holds certain debt and equity investments under this model.

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

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

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

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

*Reclassifications*

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

*(Expressed in Eastern Caribbean dollars)*

## 6. Summary of significant accounting policies *(continued)*

### 6.3 Financial instruments *(continued)*

**Classification and subsequent measurement of financial assets (*continued*)**

***Policy applicable from November 1, 2018 (continued)***

*Classification and Measurement under IFRS 9 – Applicability to the Company*

**Debt instruments measured at amortised cost**

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

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

**Debt instruments measured at Fair Value through Other Comprehensive Income**

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

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

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

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

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

## 6. Summary of significant accounting policies *(continued)*

### 6.3 Financial instruments *(continued)*

**Classification and subsequent measurement of financial assets** (***continued***)

***Policy applicable from November 1, 2018 (continued)***

**Debt instruments measured at FVTPL**

Debt instruments are measured at FVTPL if assets:

i) Are held for trading purposes;

ii) Are held as part of a portfolio managed on a fair value basis; or

iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

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

The Company has certain investments in this category.

**Equity instruments measured at FVTPL**

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

The Company has certain investments in this category.

**Equity instruments measured at FVOCI (designated)**

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

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

The Company does not have any investments in this category.

*(Expressed in Eastern Caribbean dollars)*

## 6. Summary of significant accounting policies *(continued)*

### 6.3 Financial instruments *(continued)*

**Impairment of financial assets**

***Policy applicable from November 1, 2018***

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

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

No impairment loss is recognized on equity investments.

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

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

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

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

**Credit impaired financial assets**

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

*(Expressed in Eastern Caribbean dollars)*

## 6. Summary of significant accounting policies *(continued)*

### 6.3 Financial instruments *(continued)*

**Impairment of financial assets** ***(continued)***

**Credit impaired financial assets** ***(continued)***

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

- Significant financial difficulty of the borrower or issuer, including an inability to satisfy the debt because of decreased or no cash flow (negative debt service ratio), inability to work or where the customer is unemployed in excess of 6 months;
- A breach of contract such as a default or past due event, including a history of chronic arrears;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise, or if a loan has been restructured more than three times in five years;
- Measurable decrease in the estimated future cash flows from the underlying assets that secure the loan;
- Default or delinquency in interest or principal payments;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, the Company considers that default has occurred and classifies a retail loan as credit impaired when it is more than 90 days past due.

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

**Significant increase in credit risk**

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

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

- Changes in market or general economic conditions;
- Expectation of potential breaches;
- Expected delays in payment;
- Deterioration in credit ratings; or
- Significant changes in operating results or financial position of the borrower.

## 6. Summary of significant accounting policies *(continued)*

### 6.3 Financial instruments *(continued)*

**Impairment of financial assets** ***(continued)***

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

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

**Measurement of ECL**

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

- *Financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *Undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- *Financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Company expects to recover.

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

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.
- Forward looking information – The standard requires the incorporation of forward-looking information in the estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.
- Discount rate – The standard requires the ECL to be discounted using the effective interest rate (EIR).

*(Expressed in Eastern Caribbean dollars)*

## 6. Summary of significant accounting policies *(continued)*

### 6.3 Financial instruments *(continued)*

**Impairment of financial assets** ***(continued)***

**Measurement of ECL** ***(continued)***

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

**Restructured financial assets**

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

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

**Expected life**

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

*(Expressed in Eastern Caribbean dollars)*

## 6. Summary of significant accounting policies *(continued)*

### 6.3 Financial instruments *(continued)*

<u>**Impairment of financial assets**</u> ***(continued)***

**Presentation of allowance for ECL**

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

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

**Write-off**

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

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

## 7. Financial instruments

**Policy applicable before November 1, 2018**

### 7.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

*(Expressed in Eastern Caribbean dollars)*

## 7. Financial instruments (continued)

### 7.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables;
- held-to-maturity (HTM) investments;
- fair value through profit or loss and
- Available-for-sale

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate or purchase the loan, including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method.

*Held-to-maturity investments*
Held- to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity, other than: (a) those that the Company upon initial recognition designates as at fair value through profit or loss; (b) those that the Company designates as available for sale; and (c) those that meet the definition of loans and receivables.

*(a) Available-for-sale financial assets*
AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's AFS financial assets include listed securities and debentures, and equity investments in various entities that are measured at cost less any impairment charges, where their fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the AFS reserve within equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss is reclassified from the equity reserve to profit or loss. Interest is calculated using the effective interest method and dividends are recognised in profit or loss under "other operating income".

AFS financial assets are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

*(Expressed in Eastern Caribbean dollars)*

**7. Financial instruments (continued)**

**7.3 Impairment of financial assets**

(a) *Assets carried at amortised cost*

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

i) significant financial difficulty of the issuer or obligor;

ii) a breach of contract, such as a default or delinquency in interest or principal payments;

iii) the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

iv) it is becoming probable that the borrower will enter Bankruptcy or other financial reorganisation;

v) the disappearance of an active market for that financial asset because of financial difficulties; or

vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

*(Expressed in Eastern Caribbean dollars)*

## 7. Financial instruments (continued)

### 7.3 Impairment of financial assets *(continued)*

(a) *Assets carried at amortised cost (continued)*

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The carrying amount is then reduced to the recoverable amount as at the reporting date. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude).

*(Expressed in Eastern Caribbean dollars)*

## 7. Financial instruments (continued)

### 7.3 Impairment of financial assets *(continued)*

(a) *Assets carried at amortised cost (continued)*

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to customers are classified in "loan impairment charges" whilst impairment charges relating to investment securities (loans and receivables categories) are classified in "provision for impairment of investment securities" in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

(b) *Assets classified as available-for-sale*

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through operating profit within the statement of income. Any subsequent changes in fair value are recognised in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through operating profit within the statement of income.

(c) *Renegotiated loans*

Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due, but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

*(Expressed in Eastern Caribbean dollars)*

## 7. Financial instruments (continued)

### 7.4 Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include customers' deposits and other liabilities and accrued expenses. Financial liabilities are measured subsequently at amortised cost using the effective interest method. All interest-related charges are included within "interest expense" in the statement of income.

### 7.5 Offsetting financial instruments

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

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

Provisions for legal disputes or other claims are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

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

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

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

### 7.6 Property and equipment and depreciation

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

*(Expressed in Eastern Caribbean dollars)*

### 7.6 Property and equipment and depreciation (continued)

| | |
|---|---|
| Motor vehicles | 20% |
| Office equipment | 15% |
| Computers | 20% |
| Security system | 10% |
| Storage facility | 5% |
| Computer software | 20% |

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

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

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

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

### 7.7 Impairment of non-financial assets

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

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

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

*(Expressed in Eastern Caribbean dollars)*

### 7.8 Dividends on ordinary shares and dividend income

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

Dividend income is recognised in “other operating income” in profit or loss when the entity’s right to receive payment is established.

### 7.9 Interest income and expense and revenue recognition

Interest income and expense for all interest-bearing financial instruments are recognised within “interest income” and “interest expense” in the 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, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider 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 an 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.

### 7.10 Fee and commission income and revenue recognition

Fees and commissions are generally recognised on the accrual basis when the service has been provided. Loan origination fees are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan.

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

*(Expressed in Eastern Caribbean dollars)*

### 7.11 Foreign currency translation

*Functional and presentation currency*

The financial statements are presented in Eastern Caribbean Dollars, which is also the functional currency of the Company.

*Foreign currency transactions and balances*

Foreign currency transactions are translated into Eastern Caribbean Dollars using the closing rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the statement of income.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

### 7.12 Leased assets

*Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All the Company's leases are treated as operating leases and the Company is a lessee. All payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

### 7.13 Current and deferred income taxes

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

*Current tax*

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. The calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in Antigua and Barbuda.

*Deferred tax*

Deferred income taxes are calculated on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

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

*(Expressed in Eastern Caribbean dollars)*

**7.13 Current and deferred income taxes (continued)**

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the Company’s forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

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

**7.14 Other liabilities**

Other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**7.15 Operating expenses**

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

**8. Financial instrument risk**

The Board provides guidance for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, Internal Audit is responsible for the independent review of risk management and the control environment. The risks arising from financial instruments to which the Company is exposed are:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

*Risk management framework*
The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Company's finance function.

*(Expressed in Eastern Caribbean dollars)*

## 8. Financial instrument risk (continued)

The Board provides guidance for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, Internal Audit is responsible for the independent review of risk management and the control environment. The risks arising from financial instruments to which the Company is exposed are credit risk, liquidity risk, market risk (which are discussed below) and other operational risk.

*Risk management policies*

The Company's risk management processes are essentially those mandated by the Board of Directors and are structured to facilitate identification of risks in its various business activities and to formulate risk management strategies, policies and procedures. Risks are maintained within established limits. The Company's risk management policies entail diversification of risk in its portfolios, the establishment of risk rating indicators for individual customers and lines of credit and continuous review of risk profiles for its customers and portfolios. Risk limits are also set in relation to groups of borrowers and industry and geographical segments. The policies also include review, analysis and evaluation of all risk-taking activities.

### 8.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Company’s customers, clients or market counterparties fail to fulfil their contractual obligations to the Company. Credit risk arises mainly from commercial and consumer loans and advances, and loan commitments arising from such lending activities. The Company is also exposed to other credit risks arising from investments in debt securities.

Credit risk is the single largest risk for the Company’s business; management therefore carefully manages its exposure to credit risk.

### 8.1.1 Credit risk management

a) *Loans and advances and other assets*

The Company’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company’s customer base, including the default risk of the country in which customers operate, has less of an influence on credit risk. Geographically there is concentration of credit risk as most customers are in Antigua and Barbuda. Credit risk on loans and advances is limited as these are shown net of an allowance for credit losses and most of the loans and advances are generally secured by bills of sale or legal charges over property and other assets.

b) *Debt securities and other bills*

The Company’s portfolio of debt securities and other bills consists of holdings with the Government of Antigua and Barbuda and other local financial institutions. The risk of default is assessed by continuous monitoring of the performance of these instruments through published financial information, and other data gleaned from various sources.

c) *Cash and cash equivalents*

Cash and cash equivalents are held with established and reputable financial institutions, which in management’s view represents minimum risk of default.

*(Expressed in Eastern Caribbean dollars)*

## 8. Financial instrument risk

### (continued) 8.1 Credit risk (continued)

### 8.1.2 Risk limit control and mitigation policies (continued)

The Company takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Company manages, limits and controls concentrations of credit risk wherever they are identified, in particular to individual counterparties and groups, and to industries.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The following specific control and mitigation measures are also utilised:

*(a)* *Collateral*

The Company 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 Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

*(b)* Repossessed Collateral

In certain circumstances property is repossessed following the foreclosure on loans that are in default. Repossessed properties are sold as soon as practicable and the proceeds used to reduce the outstanding indebtedness. When collateral is repossessed its value is not recorded in the statement of financial position to replace the existing loan receivable balance.

*(Expressed in Eastern Caribbean dollars)*

## 8. Financial instrument risk (continued)

### 8.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements Maximum

| | | Exposure | |
|---|---|---|---|
| **Credit risk exposures relating to on-balance sheet assets** | | 2019 | 2018 |
| Cash and cash equivalents | $ | 46,048,570 | 22,243,894 |
| *Loans and advances* | | | |
| Consumer loans | | 28,413,773 | 36,630,447 |
| Loans and advances to government entities | | 39,164,225 | 41,996,240 |
| Loans and advances - other | | 77,954,463 | 81,255,468 |
| Due from related parties | | 11,588,923 | 12,141,237 |
| *Investment securities* | | | |
| Held-to-maturity | | - | 38,633,998 |
| Amortised cost | | 39,377,947 | - |
| FVTPL | | 272,493 | - |
| **Credit risk exposures relating to off-balance sheet assets** | | | |
| Loan commitments and other credit related obligations | | 106,240 | 106,240 |
| **At October 31** | $ | 242,926,634 | 233,007,524 |

The above table represents a worse-case scenario of credit risk exposure to the Company at October 31, 2019 and 2018, without taking account of any collateral held or other credit enhancements attached. For on- balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

### 8.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations associated with its financial liabilities when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Company will be unable to do so is inherent in all financing operations and can be affected by a range of institution -specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

The Company is exposed to calls on its available cash resources from maturing deposits.

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

*(Expressed in Eastern Caribbean dollars)*

**8. Financial instrument risk**

**(continued) 8.2 Liquidity risk (continued)**

**Liquidity risk management process**

The Company’s liquidity risk management processes are carried out by the Company’s senior management and include the following:

- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting takes the form of cash flow measurement and projections on an on-going basis, as this is key for liquidity management. The starting point for this projection is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

**Funding approach**
Sources of liquidity are regularly reviewed by management and the Board of Directors in order to maintain a wide diversification of by-product and term

**Assets held for managing liquidity risk**
The Company holds a diversified portfolio of cash and high-quality highly- liquid securities to support payment obligations and contingent funding in a stressed market environment. The Company's assets held for managing liquidity risk comprise:

- Un-restricted cash in bank
- Certificates of deposit
- Unimpaired loans

*(Expressed in Eastern Caribbean dollars)*

## 8. Financial instrument risk

**(continued) 8.2 Liquidity risk (continued)**

(a) Residual contractual maturities of financial liabilities including interest contractually payable are as follows:

| | | Carrying amount | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Total |
|---|---|---|---|---|---|---|---|
| As at October 31, 2019 | | | | | | | |
| **Liabilities** | | | | | | | |
| Customer deposits | $ | 217,193,398 | 23,870,667 | 15,290,017 | 164,707,013 | 13,325,701 | 217,193,398 |
| Other liabilities | | 845,681 | 845,681 | - | - | - | 845,681 |
| | $ | 218,039,079 | 24,716,348 | 15,290,017 | 164,707,013 | 13,325,701 | 218,039,079 |
| As at October 31, 2018 | | | | | | | |
| **Liabilities** | | | | | | | |
| Customer deposits | $ | 198,302,057 | 18,316,759 | 15,619,945 | 164,265,069 | 100,284 | 198,302,057 |
| Other liabilities | | 769,915 | 669,915 | - | - | 100,000 | 769,915 |
| | $ | 199,071,972 | 18,986,674 | 15,619,945 | 164,265,069 | 200,284 | 199,071,972 |

*(Expressed in Eastern Caribbean dollars)*

## 8 Financial instrument risk

### (continued) 8.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the value of the Company's assets, the amount of its liabilities and/or income. Market risk arises from fluctuations in the value of liabilities and the value of investments held. The Company is exposed to market risk on certain of its financial assets.

(i) *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company does not face any such risk since its transactions are substantially in Eastern Caribbean Dollars, which is its functional currency. The United States Dollar, in which the Company also transacts business, is fixed in relation to the Eastern Caribbean Dollar.

*(ii) Price risk*

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all instruments traded in the market. The Company has no exposure to such risk since its existing available-for-sale investments are not listed in the market. The Company however has price risk on its listed assets that are carried at fair value through profit or loss.

*(iii) Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is affected where there is a mismatch between interest earning assets and interest-bearing liabilities, which are subject to interest rate adjustments within a specified period.

The Company actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Company's funding and investment activities is managed in accordance with Board-approved policies.

The Company advances loans and receives deposits as a part of its normal course of business from both related and third parties. The interest rates on loans generally reflect interest based on market rates. Investment securities and customer deposits generally attract fixed interest rates. The table below analyses the effective interest rates of each class of financial asset and financial liability:

| | 2019 | 2018 |
|---|---|---|
| **Loans and advances:** | | |
| Government loans | 8.50-10.00% | 8.50-10.00% |
| Other loans | 9.00-12.00% | 9.00-12.00% |
| **Investment securities:** | | |
| Government bonds | 6.50%-7.50% | 6.50%-7.50% |
| Other securities | 2.25%-3.80% | 2.25%-3.80% |

| **Deposits due to customers** | 2019 | 2018 |
|---|---|---|
| Personal deposits | 2.00%-6.50% | 2.00%-6.50% |
| Corporate deposits | 2.75%-6.50% | 2.75%-6.50% |

*(Expressed in Eastern Caribbean dollars)*

## 8. Financial instrument risk

### (continued) 8.3 Market risk (continued)

*(iii) Interest rate risk (continued)*

| | Interest rate | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|
| As at October 31, 2019 | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 0.01%-0.80% | $ - | - | 45,744,730 | - | - | 303,840 | 46,048,570 |
| Investments | 2.25%-7.50% | - | - | 14,531,281 | 2,000,000 | 34,136,619 | - | 50,667,900 |
| Loans and advances | 0.00%- 5.45% | 10,287,325 | 575,177 | 4,551,343 | 55,431,879 | 74,686,739 | - | 145,532,463 |
| **Total financial assets** | | 10,287,325 | 575,177 | 64,827,354 | 57,431,879 | 108,823,358 | 303,840 | 242,248,933 |
| **Liabilities** | | | | | | | | |
| Customer deposits | 2.00%-6.50% | 23,870,667 | 15,290,017 | 164,707,013 | 13,325,701 | - | - | 217,193,398 |
| Other liabilities | | - | - | - | - | - | 845,681 | 845,681 |
| **Total financial liabilities** | | 23,870,667 | 15,290,017 | 164,707,013 | 13,325,701 | - | 845,681 | 218,039,079 |
| **Total interest repricing gap** | | $ (13,583,342) | (14,714,840) | (99,879,659) | 44,106,178 | 108,823,358 | (541,841) | 24,209,854 |

*(Expressed in Eastern Caribbean dollars)*

## 8. Financial instrument risk

### (continued) 8.3 Market risk (continued)

*(iii) Interest rate risk (continued)*

| | Interest rate | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|
| As at October 31, 2018 | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 0.01%-0.80% | - | - | 20,975,401 | - | - | 1,268,493 | 22,243,894 |
| Investments | 2.25%-7.50% | - | - | 19,743,077 | 1,000,000 | 17,890,921 | 3,851,236 | 42,485,234 |
| Loans and advances (gross) | 0.00%-15.45% | $ 9,795,956 | 381,471 | 3,633,371 | 75,872,176 | 70,199,181 | - | 159,882,155 |
| **Total financial assets** | | 9,795,956 | 381,471 | 44,351,849 | 76,872,176 | 88,090,102 | 5,119,729 | 224,611,283 |
| **Liabilities** | | | | | | | | |
| Customer deposits | 2.00%-6.50% | 17,940,664 | 14,946,068 | 161,129,880 | 4,285,445 | - | - | 198,302,057 |
| Other liabilities | | - | - | - | - | - | 769,915 | 769,915 |
| **Total financial liabilities** | | 17,940,664 | 14,946,068 | 161,129,880 | 4,285,445 | - | 769,915 | 199,071,972 |
| **Total interest repricing gap** | | $ (8,144,708) | (14,564,597) | (116,778,031) | 72,586,731 | 88,090,102 | 4,349,814 | 25,539,311 |

*(Expressed in Eastern Caribbean dollars)*

## 8. Financial instrument risk(continued)

### 8.3 Market risk (continued)

#### 8.3.1 Price risk

The Company's investment portfolio includes securities that are quoted on the Eastern Caribbean Securities Exchange and the US Stock Exchange. The Company is exposed to equities price risk because of investments held and classified on the statement of financial position as available-for-sale. To manage this price risk arising from investments in equity securities, the Company diversifies its portfolio.

#### 8.3.2 Foreign exchange risk

The Company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Substantially all of the Company's transactions and assets and liabilities are denominated in Eastern Caribbean dollars or United States dollars. Therefore, the Company's exposure to currency risk is considered minimal.

The exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.7 = US$1.00 since 1974..

Because all significant assets and liabilities are denominated either in United States dollars or in Eastern Caribbean dollars, which is pegged to the US dollar, there would have been no impact on equity, if at October 31, 2019, the Eastern Caribbean Dollar had weakened against other currencies.

### 8.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for development and implementation of controls to address operational risk is assigned to management within the Company. This responsibility is supported by the development of overall standards for the management of operational risk that establish requirements for:

- appropriate segregation of duties, including the independent authorization of transactions;
- the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;

*(Expressed in Eastern Caribbean dollars)*

**8. Financial instrument risk (continued)**

**8.4 Operational risk (continued)**

- documentation of controls and procedures;
- the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with the Company's standards is supported by a programme of periodic reviews undertaken by the Supervisory Committee. The results of the Supervisory Committee reviews are discussed with management, with summaries provided to the Board of Directors.

**9. Financial instruments measured at fair value**

**Fair value hierarchy**

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

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

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

*(Expressed in Eastern Caribbean dollars)*

## 9. Financial instruments measured at fair value (continued)

**Assets measured at fair value**

**October 31, 2019**

| | | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **Fair value through profit or loss** | | | | | |
| Debt securities | $ | 272,492 | - | - | 272,492 |
| Equity securities | | 9,924,627 | - | 1,092,833 | 11,017,460 |
| | $ | 10,197,119 | - | 1,092,833 | 11,289,952 |

**October 31, 2018**

| | | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **Fair value through profit or loss** | | | | | |
| Equity securities | $ | 2,703,743 | - | - | 2,703,743 |

## 10. Capital management

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

- To comply with the capital requirements set by its regulator - the Eastern Caribbean Central Bank;
- To safeguard the Company'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 quarterly by the Company's management, employing techniques based on the guidelines developed by the Basel Committee and as implemented by the Company's management for supervisory purposes. The required information is filed with the Eastern Caribbean Central Bank (ECCB) quarterly.

The regulatory capital requirements are strictly observed when managing economic capital. The Company's regulatory capital is managed by senior management and comprises two tiers:

- Tier 1 capital: share capital (net of any book values of treasury shares), general reserves, statutory reserve, non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill (if applicable) is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

Investments in associates (of which there are none) are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

During the period, the Company was in compliance with all externally imposed capital requirements.

*(Expressed in Eastern Caribbean dollars)*

## 11. Comparatives

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

## 12. Cash and Cash Equivalents

| | | 2019 | 2018 |
|---|---|---|---|
| Cash on hand | $ | 303,840 | 357,332 |
| Cash held with Fund Manager | | 4,421,917 | 10,840,000 |
| CIBC First Caribbean International Bank | | 26,968,749 | 10,709,610 |
| Bank of Nova Scotia | | 14,354,064 | 336,952 |
| | $ | 46,048,570 | 22,243,894 |

## 13. Investment Securities

| | | 2019 | 2018 |
|---|---|---|---|
| **Term deposits measured at amortised cost** | | | |
| Certificates of deposit | $ | 4,976,795 | - |
| Interest receivable | | 78,743 | - |
| Less: allowance for impairment | | (920) | - |
| **Total term deposits** | $ | 5,054,618 | - |

| | | 2019 | 2018 |
|---|---|---|---|
| **Other securities measured at amortised cost** | | | |
| Debt securities at amortised cost | | | |
| – Unlisted | $ | - | - |
| – Listed | | 34,785,658 | - |
| Interest receivable | | 186,710 | - |
| Less: allowance for impairment | | (649,039) | - |
| | | 34,323,329 | - |
| **Total investments measured at amortised cost** | $ | 39,377,947 | - |
| **Securities measured at fair value through P&L** | | | |
| Debt securities – listed | $ | 272,492 | |
| Equity securities | | | |
| – Unlisted | | 1,092,833 | - |
| – Listed | | 9,924,627 | - |
| **Total securities measured at fair value through P&L** | $ | 11,289,952 | - |
| **Total investments** | $ | 50,667,899 | - |

*(Expressed in Eastern Caribbean dollars)*

## 13. Investment Securities (continued)

All debt securities have fixed interest rates.

| | | 2019 | 2018 |
|---|---|---|---|
| **Held-to-maturity** | | | |
| Debt securities (listed) | $ | - | 20,057,591 |
| Term deposits | | - | 18,460,272 |
| Interest receivable | | - | 116,135 |
| **Total held-to-maturity** | $ | - | 38,633,998 |
| **Available-for-sale - unquoted** | | | |
| Equity securities | $ | - | 1,147,493 |
| **Fair value through profit or loss - quoted** | | | |
| Equity securities | $ | - | 2,703,743 |
| **Total investment securities** | $ | - | 42,485,234 |

Movement of the Company's financial assets are summarized as follows:

| | Fair value through P&L | Amortised cost | Available for sale | Held-to-maturity |
|---|---|---|---|---|
| **As at October 31, 2017** | - | - | 1,189,320 | 28,273,634 |
| Additions | $ 2,682,953 | - | - | 14,611,892 |
| IAS 39 reclassification | 41,827 | - | (41,827) | - |
| Movement in accrued interest | - | - | - | 81,804 |
| Disposals (sales, redemptions and principal repayments) | - | - | - | (4,333,332) |
| Decrease in fair value | (21,037) | - | - | - |
| Reclassification | - | - | - | - |
| **As at October 31, 2018** | 2,703,743 | - | 1,147,493 | 38,633,998 |
| Impact of adopting IFRS 9 - reclassification | 1,147,493 | 38,633,998 | (1,147,493) | (38,633,998) |
| Fair value adjustment | (79,124) | - | - | - |
| Impact of adopting IFRS 9 - ECL remeasurement | - | (346,694) | - | - |
| **As at November 1, 2018** | 3,772,112 | 38,287,304 | - | - |
| Additions | 6,687,327 | 19,000,000 | - | - |
| Disposals (sales, redemptions and principal repayments) | - | (17,755,410) | - | - |
| Movement in accrued interest | - | 149,318 | - | - |
| Change in fair value | 830,513 | - | - | - |
| Allowance for expected credit losses | - | (303,265) | - | - |
| **As at October 31, 2019** | $ 11,289,952 | 39,377,947 | - | - |

*(Expressed in Eastern Caribbean dollars)*

## 13. Investment Securities (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Company's credit rating system and year end stage classification for investments.

| | | Stage 1 12 Month ECL | Stage 2 Lifetime ECL | Stage 3 Credit Impaired Financial Assets Lifetime ECL | Total |
|---|---|---|---|---|---|
| **October 31, 2019** | | | | | |
| Gross exposure | $ | 40,027,906 | - | - | 40,027,906 |
| ECL | | (649,959) | - | - | (649,959) |
| **Net exposure** | | 39,377,947 | - | - | 39,377,947 |
| **November 1, 2018** | | | | | |
| Gross exposure | | 38,633,998 | - | - | 38,633,998 |
| ECL | | (346,694) | - | - | (346,694) |
| **Net exposure** | $ | 38,287,304 | - | - | 38,287,304 |
| **ECL allowance as at November 1, 2018 under IFRS 9** | $ | 346,694 | - | - | 346,694 |
| ECL on new instruments issued during the year | | 367,070 | - | - | 367,070 |
| Change in ECL on prior instruments not matured | | (59,303) | - | - | (59,303) |
| ECL reversed on matured instruments | | (4,502) | - | - | (4,502) |
| **As at October 31, 2019** | $ | 649,959 | - | - | 649,959 |

## 14. Statutory Deposit

| | | 2019 | 2018 |
|---|---|---|---|
| Accountant General | $ | 718,474 | 718,474 |

Under the previous Banking Act No 14 of 2005 of Antigua and Barbuda, the Company was required to maintain with the Accountant General, a reserve amount equivalent to 5.0% of its total deposit liabilities to the public. The above amount of $718,474 at the year-end represents total funds paid over to the Accountant General, over the years.

*(Expressed in Eastern Caribbean dollars)*

## 15. Loans and Advances, net

| | | 2019 | 2018 |
|---|---|---|---|
| Government loans | $ | 39,164,225 | 41,996,240 |
| Consumer loans | | 28,413,773 | 36,630,447 |
| Other loans and advances | | 77,954,463 | 81,255,468 |
| | | 145,532,461 | 159,882,155 |
| Allowance for credit losses | | (19,787,521) | (20,430,823) |
| | $ | 125,744,940 | 139,451,332 |

The movement in allowance for credit losses is as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Balance, beginning of year | $ | 20,430,823 | 16,593,457 |
| IFRS 9 ECL impact | | (2,468,513) | - |
| Restated opening balance under IFRS 9 at November 1, 2018 | | 17,962,310 | 16,593,457 |
| Current provision | | 3,370,153 | 5,582,283 |
| Amounts written-off | | (1,544,942) | (1,744,917) |
| | $ | 19,787,521 | 20,430,823 |

Consumer loans are shown net of unearned income of $6,218,285 (2018: $8,670,416).

In prior years, the Company had set aside additional amounts totaling $6,647,190 as an appropriation within a separate reserve account in equity in respect of the difference between the provision requirements under International Financial Reporting Standards and the ECCB Prudential Guidelines. The Company has made a decision to maintain this reserve though it is no longer required.

*(Expressed in Eastern Caribbean dollars)*

## 15. Loans and Advances, net (continued)

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

| | | Total |
|---|---|---|
| **Balance at October 31, 2019** | | |
| **Gross loans before provisions** | $ | 145,532,461 |
| Stage 1: 12-month ECL | | (22,612) |
| Stage 2: Lifetime ECL | | (1,966,852) |
| Stage 3: Credit Impaired | | (17,798,057) |
| **At October 31, 2019** | $ | 125,744,940 |

| | | Total |
|---|---|---|
| **Balance at November 1, 2018** | | |
| **Gross loans before provisions** | $ | 159,882,155 |
| Stage 1: 12-month ECL | | (40,388) |
| Stage 2: Lifetime ECL | | (2,079,122) |
| Stage 3: Credit Impaired | | (15,842,800) |
| **At November 1, 2018** | $ | 141,919,845 |

| | | Total |
|---|---|---|
| **Stage 1: 12-Month ECL** | | |
| ECL allowance as at: | | |
| November 1, 2018 under IFRS 9 | $ | 40,388 |
| ECL decrease due to IFRS 9 reassessment | | (17,776) |
| **As at October 31, 2019** | $ | 22,612 |

*(Expressed in Eastern Caribbean dollars)*

## 15. Loans and Advances, net (continued)

| | | Total |
|---|---|---|
| **Stage 2: Lifetime ECL** | | |
| ECL allowance as at: | | |
| November 1, 2018 under IFRS 9 | $ | 2,079,122 |
| ECL decrease due to IFRS 9 reassessment | | (112,270) |
| **As at October 31, 2019** | $ | 1,966,852 |

| | | Total |
|---|---|---|
| **Stage 3: Lifetime ECL (Credit Impaired)** | | |
| ECL allowance as at: | | |
| November 1, 2018 under IFRS 9 | $ | 15,842,800 |
| ECL decrease due to IFRS 9 reassessment | | (513,255) |
| Credit loss expense | | 4,013,454 |
| Charge-offs and write-offs | | (1,544,942) |
| **As at October 31, 2019** | | 17,798,057 |
| **Total** | $ | 19,787,521 |

## 16. Repossessed Stock, net

| | | 2019 | 2018 |
|---|---|---|---|
| Inventories on hand | $ | 1,282,914 | 1,264,078 |

Repossessed stock are vehicles repossessed by the Company as a result of the customer defaulting on the loan. Repossessed stock also includes vehicles traded in and returned by customers.

*(Expressed in Eastern Caribbean dollars)*

## 17. Property and Equipment

Property and equipment comprise the following:

| | | Motor Vehicles | Office Equipment | Computer Equipment | Security System | Storage Facility | Total |
|---|---|---|---|---|---|---|---|
| **Year ended October 31, 2019** | | | | | | | |
| Opening net book value | $ | 85,788 | 122,353 | 174,704 | 71,043 | 26,603 | 480,491 |
| Additions | | 122,850 | 695 | 256,077 | 1,010 | - | 380,632 |
| Disposal | | (30,000) | - | - | - | - | (30,000) |
| Depreciation charge | | (31,516) | (18,434) | (68,104) | (7,106) | (1,330) | (126,490) |
| **Closing net book value** | $ | **147,122** | **104,614** | **362,677** | **64,947** | **25,273** | **704,633** |
| **At October 31, 2019** | | | | | | | |
| Cost | $ | 427,235 | 487,834 | 874,675 | 101,745 | 44,803 | 1,936,292 |
| Accumulated depreciation | | (280,113) | (383,220) | (511,998) | (36,798) | (19,530) | (1,231,659) |
| **Net book value** | $ | **147,122** | **104,614** | **362,677** | **64,947** | **25,273** | **704,633** |
| **Year ended October 31, 2018** | | | | | | | |
| Opening net book value | $ | 111,614 | 121,726 | 123,774 | 78,937 | 28,003 | 464,054 |
| Additions | | 30,000 | 16,395 | 90,050 | - | - | 136,445 |
| Depreciation charge | | (55,826) | (15,768) | (39,120) | (7,894) | (1,400) | (120,008) |
| **Closing net book value** | $ | **85,788** | **122,353** | **174,704** | **71,043** | **26,603** | **480,491** |
| **At October 31, 2018** | | | | | | | |
| Cost | $ | 334,385 | 487,139 | 618,598 | 100,735 | 44,803 | 1,585,660 |
| Accumulated depreciation | | (248,597) | (364,786) | (443,894) | (29,692) | (18,200) | (1,105,169) |
| **Net book value** | $ | **85,788** | **122,353** | **174,704** | **71,043** | **26,603** | **480,491** |

*(Expressed in Eastern Caribbean dollars)*

## 18. Intangible Assets

| | | 2019 | 2018 |
|---|---|---|---|
| **Software** | | | |
| Cost at the beginning of the year | $ | - | - |
| Additions | | 763,282 | - |
| Cost at the end of the year | $ | 763,282 | - |
| Accumulated amortisation – beginning of the year | $ | - | - |
| Charge for the year | | 76,328 | - |
| Accumulated amortisation – end of the year | | 76,328 | - |
| Net book value | $ | 686,954 | - |

## 19. Customer Deposits

| | | Payable in less than 1 year | Payable between 1 to 3 years | Total 2019 | Total 2018 |
|---|---|---|---|---|---|
| Personal | $ | 166,395,426 | - | 166,395,426 | 150,457,599 |
| Corporate | | 50,797,972 | - | 50,797,972 | 47,844,458 |
| Total | $ | 217,193,398 | - | 217,193,398 | 198,302,057 |

Deposits attract interest at rates varying from 2.0% to 6.5% (2018: 2.0% to 6.5%). The overall weighted average effective interest rate on deposits was 3.92% (2018: 5.71%). Included in the total customer deposits is accrued interest payable of $4,151,152 (2018: $4,185,445).

## 20. Accounts Payable and Accruals

| | | 2019 | 2018 |
|---|---|---|---|
| Accounts payable | $ | 240,095 | 401,605 |
| Accruals | | 605,586 | 368,310 |
| | $ | 845,681 | 769,915 |
| Current | $ | 845,681 | 669,915 |
| Non-current | | - | 100,000 |
| | $ | 845,681 | 769,915 |

*(Expressed in Eastern Caribbean dollars)*

## 21. Income Taxes

In accordance with the laws of Antigua and Barbuda, the Company currently pays tax at a rate of 25% (2018: 25%).

*Tax concessions:*

The Company benefits from tax concessions on interest earned from bonds issued by the Government of Antigua and Barbuda and on loans to Antigua and Barbuda statutory bodies.

| **Income tax payable** | | 2019 | 2018 |
|---|---|---|---|
| Balance, beginning of year | $ | 4,000 | 4,000 |
| Tax penalties | | - | - |
| Balance, end of year | $ | 4,000 | 4,000 |

A reconciliation of the income tax attributable to the operations for the period using the statutory rate of 25% is as follows:

| **Income tax expense** | | | |
|---|---|---|---|
| Loss for the year before taxation | $ | (2,351,236) | (3,431,973) |
| IRD non-deductible assessment | | 1,104,000 | - |
| Exempt interest earned on Government bonds and loans | | (6,803,130) | (6,790,697) |
| Adjusted loss | $ | (8,050,366) | (10,222,670) |
| Income tax charge calculated at effective rate | $ | (2,012,592) | (2,555,668) |
| Permanent differences | | 2,012,592 | 2,555,668 |
| Tax exemption | | - | - |
| Tax penalties | | - | - |
| Income tax expense | $ | - | - |

The Company has not recognised any deferred tax assets in these financial statements, as there is no certainty that future tax profits will be available against which the Company can utilize the benefit therefrom.

A matter related to the Company's previous tax filings has been raised by the Inland Revenue Department of Antigua and Barbuda (IRD) and the Company is currently in discussions with IRD on the matter.

*(Expressed in Eastern Caribbean dollars)*

## 22. Stated Capital

| Authorised, issued and fully paid: | | 2019 | 2018 |
|---|---|---|---|
| 17,500,000 common shares of no par value | $ | 17,500,000 | 17,500,000 |

## 23. Statutory Reserve

| | | 2019 | 2018 |
|---|---|---|---|
| Balance, beginning of year | $ | 7,274,115 | 7,274,115 |
| Transfer of profit after taxation | | - | - |
| Balance, end of year | $ | 7,274,115 | 7,274,115 |

Pursuant to Section 45 of the Banking Act No. 10 of 2015, the Company shall, out of its net profits of each year, transfer to a reserve “not less than 20% of the annual net earnings of the Company to a reserve fund whenever the fund is less than one hundred percent of the issued and paid-up capital of the Company”. At the reporting date, the Company’s reserve was less than the issued and paid-up capital. However, on the basis that the Company incurred a loss for the year ended October 31, 2019 no transfer was made to statutory reserve.

## 24. Interest Income

| | | 2019 | 2018 |
|---|---|---|---|
| **Loans** | | | |
| Loans and advances from customers | $ | 11,818,554 | 11,422,445 |
| Government loans | | 2,153,192 | 4,042,907 |
| | $ | 13,971,746 | 15,465,352 |
| **Deposits with other financial institutions and investments** | | | |
| Government bonds | $ | 2,018,267 | 1,631,252 |
| Deposits and dividends | | 531,660 | 269,868 |
| Unrealised gain/(loss) on fair value changes | | 830,513 | (48,191) |
| Realised loss | | - | (207) |
| | | 3,380,440 | 1,852,722 |
| Total | $ | 17,352,186 | 17,318,074 |

## 25. Other Operating Income

| | | 2019 | 2018 |
|---|---|---|---|
| Late fee charges | $ | 382,822 | 1,176,406 |
| Sundry income | | 391,716 | 277,479 |
| Investment portfolio income | | 227,548 | - |
| Recoveries | | 43,358 | 75,091 |
| | $ | 1,045,444 | 1,528,976 |

*(Expressed in Eastern Caribbean dollars)*

### 26. Salaries and related costs

| | | 2019 | 2018 |
|---|---|---|---|
| Salaries, wages and allowances | $ | 2,000,478 | 1,770,700 |
| Statutory deductions | | 149,168 | 145,788 |
| Staff benefit | | 147,000 | 144,500 |
| Training | | 72,235 | 30,316 |
| Uniforms | | 37,704 | 10,583 |
| Other costs | | 37,307 | 22,500 |
| Medical insurance | | 27,669 | 28,575 |
| | $ | 2,471,561 | 2,152,962 |
| Average number of employees | | 32 | 31 |

### 27. General and Administrative Expenses

| | Note | | 2019 | 2018 |
|---|---|---|---|---|
| Salaries and related costs | 26 | $ | 2,471,561 | 2,152,962 |
| Rent | | | 516,000 | 516,000 |
| Other expenses | | | 331,715 | 348,257 |
| Repossessed stock expenses | | | 221,333 | 936,511 |
| Professional and legal fees | | | 177,015 | 52,489 |
| Investment fees and expenses | | | 155,403 | - |
| Utilities | | | 154,829 | 154,040 |
| Security | | | 153,269 | 152,814 |
| Vehicle expenses | | | 149,406 | 118,018 |
| Audit fees | | | 139,074 | 75,000 |
| Subscriptions and donations | | | 97,457 | 124,588 |
| Licence fees | | | 80,000 | 84,279 |
| Repairs and maintenance | | | 64,765 | 154,418 |
| Telephone | | | 30,563 | 26,248 |
| Advertising and promotion | | | 26,052 | 14,569 |
| Credit card expenses | | | 21,603 | 15,931 |
| Travel | | | 18,200 | 19,800 |
| Insurance | | | 13,164 | 32,754 |
| Bank charges | | | 12,728 | 13,615 |
| Commission | | | 5,100 | 5,000 |
| Cash shorts/(overs) | | | 669 | 355 |
| Penalties and fees | | | 500 | - |
| | | $ | 4,840,406 | 4,997,648 |

*(Expressed in Eastern Caribbean dollars)*

**28. Related Party Balances and**

**Transactions Related party definition**

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

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

(i) has control or joint control of the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or of the parent of the Company.

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

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

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

(iii) Both entities are joint ventures of the same third party.

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

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

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

A number of transactions were entered into with related parties in the normal course of business. These include loans, deposits and other transactions.

*(Expressed in Eastern Caribbean dollars)*

**28. Related Party Balances and Transactions (continued)**

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

(i) Outstanding balances – presented in loans and advances on statement of financial position

| | | 2019 | 2018 |
|---|---|---|---|
| *Loans and other assets* | | | |
| Other related entities | $ | 15,381,600 | 17,501,077 |
| Directors | | 660,864 | 272,050 |
| Key management personnel | | 624,369 | - |
| | $ | 16,666,833 | 17,773,127 |

(ii) Outstanding balances – other balances due from related parties

| | | 2019 | 2018 |
|---|---|---|---|
| Advances made to shareholders | $ | 7,733,922 | 9,634,189 |
| Receivables from other related entities | | 3,855,000 | 2,507,048 |
| | $ | 11,588,922 | 12,141,237 |

Related party loans and other balances due from related parties attract interest at rates varying from 0% to 7.5% (2018: 0% to 7.5%) . No specific provisions have been recognised in respect of loans or other balances due from related parties (2018: nil).

| | | 2019 | 2018 |
|---|---|---|---|
| *Deposits and other liabilities* | | | |
| Directors | $ | 110,289,559 | 100,806,328 |
| Other related entities | | 17,755,494 | 47,092,737 |
| | $ | 128,045,053 | 147,899,065 |

Related party deposits attract interest at rates varying from 2.5% to 6.5% (2018: 2.5% to 6.5%).

(iii) Transactions

| | | 2019 | 2018 |
|---|---|---|---|
| *Interest income on loans* | | | |
| Other related entities | $ | 1,082,138 | 1,227,292 |
| Key management personnel | | 57,240 | 2,262 |
| | $ | 1,139,378 | 1,229,554 |

| | | 2019 | 2018 |
|---|---|---|---|
| *Interest expense on deposits* | | | |
| Directors | $ | 6,528,394 | 2,355,005 |
| Other related entities | | 596,536 | 1,047,457 |
| | $ | 7,124,930 | 3,402,462 |

*(Expressed in Eastern Caribbean dollars)*

### 28. Related Party Balances and Transactions (continued)

| | | 2019 | 2018 |
|---|---|---|---|
| *Other expenses* | | | |
| Directors' fees | $ | 785,047 | 643,600 |
| Key management compensation | | 587,700 | 430,800 |
| Rental and utilities expense | | 516,000 | 480,000 |
| Director medical expenses | | 4,703 | 1,986 |
| | $ | 1,893,450 | 1,556,386 |

### 29. Contingencies and Commitments

**Credit related commitments**

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

| **As of October 31, 2019** | | **Up to 1 year** | **Total** |
|---|---|---|---|
| Loan commitments (undrawn) | $ | 106,240 | 106,240 |
| **As of October 31, 2018** | | | |
| Loan commitments (undrawn) | $ | 106,240 | 106,240 |

**Operating lease commitments**

The Company operates from premises purpose-built for it by a related company, Hadeed Motors Limited. On April 28, 2017, the Company signed a rental agreement effective May 1, 2017 to pay a monthly rent of $20,000 plus ABST of $3,000. The Company also pays a fee of $20,000 to cover utilities and maintenance.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| No later than 1 year | $ | 480,000 | 480,000 |
| Later than 1 year and no later than 5 years | $ | 1,920,000 | 1,920,000 |

*(Expressed in Eastern Caribbean dollars)*

### 30. Transition to IFRS 9 Reconciliation

**of IAS 39 to IFRS 9**

The table below provides the impact from the transition to IFRS 9 on the Statement of Financial Position at the transition date of November 1, 2018. The impact consists primarily of reclassifications and re-measurements:

| | IAS 39 Category | IAS 39 measurement at 31.10.18 $ | Reclassification $ | Remeasurement ECL/Fair Value $ | IFRS 9 carrying amount at 1.11.2018 $ | IFRS 9 Category |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | Amortised cost | 22,243,894 | - | - | 22,243,894 | Amortised cost |
| Investment securities – AFS | AFS | 1,147,493 | (1,147,493) | - | - | FVTPL |
| Investment securities – FVTPL | FVTPL | 2,703,743 | 1,147,493 | (79,124) | 3,772,112 | FVTPL |
| Term deposits | HTM | 18,576,407 | - | (5,393) | 18,571,014 | Amortised cost |
| Investment securities – debt | HTM | 20,057,591 | - | (341,301) | 19,716,290 | Amortised cost |
| Statutory deposits | Amortised cost | 718,474 | - | - | 718,474 | Amortised cost |
| Loans and advances, net | Amortised cost | 139,451,332 | - | 2,468,513 | 141,919,845 | Amortised cost |
| Due from related parties, net | Amortised cost | 12,141,237 | - | - | 12,141,237 | Amortised cost |
| **Total Financial Assets** | | 217,040,171 | - | 2,042,695 | 219,082,866 | |
| **Non-financial assets** | | | | | | |
| Repossessed stock, net | | 1,264,078 | - | - | 1,264,078 | |
| Property and equipment | | 480,491 | - | - | 480,491 | |
| **Total Non-Financial Assets** | | 1,744,569 | - | - | 1,744,569 | |
| **Total Assets** | | 218,784,740 | - | 2,042,695 | 220,827,435 | |

*(Expressed in Eastern Caribbean dollars)*

**30. Transition to IFRS 9 (continued)**

| | IAS 39 Category | IAS 39 measurement at 31.10.18 $ | Reclassification $ | Remeasurement ECL/Fair Value $ | IFRS 9 carrying amount at 1.11.2018 $ | IFRS 9 Category |
|---|---|---|---|---|---|---|
| **Financial and other liabilities** | | | | | | |
| Customer deposits | Amortised cost | 198,302,057 | - | - | 198,302,057 | Amortised cost |
| Accounts payable and accruals | Amortised cost | 769,915 | - | - | 769,915 | Amortised cost |
| Income tax payable | | 4,000 | - | - | 4,000 | |
| **Total Liabilities** | | 199,075,972 | - | - | 199,075,972 | |
| **Shareholders' Equity** | | | | | | |
| Stated capital | | 17,500,000 | - | - | 17,500,000 | |
| Statutory reserve | | 7,274,115 | - | - | 7,274,115 | |
| General reserve | | 6,647,190 | - | - | 6,647,190 | |
| Accumulated deficit | | (11,712,537) | - | 2,042,695 | (9,669,842) | |
| **Total Shareholders' Equity** | | 19,708,768 | - | 2,042,695 | 21,751,463 | |
| **Total Liabilities and Shareholders' Equity** | | 218,784,740 | - | 2,042,695 | 220,827,435 | |

*(Expressed in Eastern Caribbean dollars)*

**30. Transition to IFRS 9 (continued)**

(i) As of November 1, 2018, the Company classified all its previously held-to-maturity debt instruments totaling $38,633,998 at amortised cost based on its business model and because their cash flows were solely related to the payment of principal and interest (SPPI). Given that the measurement basis remained the same, there was no remeasurement adjustment on transition.

(ii) The Company opted to classify all its previously held available for sale (AFS) equity portfolio amounting to $1,147,493 at fair value through profit or loss (FVTPL). These instruments, which comprise of unquoted holdings, are strategic investments in a number of local and regional institutions. The Company however did not use the FVOCI election. Given the requirements of IFRS 9, the Company obtained a fair value for these unquoted securities at the transition date using available data. This led to a remeasurement decrease of $79,124 which decreased the carrying value of the unquoted equity portfolio with a corresponding decrease in opening retained earnings.

(iii) IAS 39 categories included Loans and Receivables, Available-for-Sale (AFS), Held-to-Maturity (HTM) and Fair Value through Profit or Loss (FVTPL). IFRS 9 categories include Amortised Cost (AC) and Fair Value through Profit or Loss (FVTPL).

(iv) Due to the new expected credit loss (ECL) requirements for measuring impairment on the Company's financial assets, at the transition date of November 1, 2018, there was a net decrease in ECL of $2,121,819 and a corresponding increase in opening retained earnings.

The impact of transition to IFRS 9 on retained earnings is as follows:

| | | Retained Earnings |
|---|---|---|
| **Closing balance under IAS 39 (October 31, 2018)** | $ | (11,712,537) |
| Initial recognition of IFRS 9 ECLs | | 2,121,819 |
| Fair value adjustment of FVTPL equities | | (79,124) |
| **Net impact** | | 2,042,695 |
| **Opening balance under IFRS 9 (November 1, 2018)** | $ | (9,669,842) |

*(Expressed in Eastern Caribbean dollars)*

## 31. Subsequent event

The World Health Organization declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and in Antigua & Barbuda, cases of the virus were first reported in March 2020. The pandemic and the measures to control its human impact have resulted in disruptions to economic activity, business operations and asset prices. This could have significant negative financial effects on the Company, depending on factors such as (i) the duration and spread of the outbreak, (ii) the restrictions and advisories from Government, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are highly uncertain and cannot be estimated reliably.

The extent of the impact of the novel Coronavirus on our operational and financial performance will also depend on the impact on our customers. The Company has to date granted loan repayment moratoriums for up to a period of six (6) months to affected customers to alleviate the impact. This initiative has the full support of the Eastern Caribbean Central Bank, the Company's regulator.

The Company has also been focused on protecting the safety and well being of all staff and ensuring the continuity of its business operations even while working remotely as needed.

If the financial markets and/or the overall economy are impacted for an extended period, the Company's future results may be materially adversely affected. The Company continues to monitor this situation closely but currently does not anticipate any impacts on its ability to continue as a going concern.