

FINANCE AND DEVELOPMENT COMPANY LIMITED

Financial Statements

October 31, 2021

(Expressed in Eastern Caribbean Dollars)



FINANCE AND DEVELOPMENT COMPANY LIMITED

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
FINANCE AND DEVELOPMENT COMPANY LIMITED

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, 2021, the statements of profit or loss and other comprehensive income, changes in shareholders' 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, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

INDEPENDENT AUDITORS' REPORT *(cont'd)*

To the Shareholders of
FINANCE AND DEVELOPMENT COMPANY LIMITED

Auditors' Responsibilities for the Audit of the Financial Statements *(cont'd)*

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.
- 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.



Chartered Accountants
February 2, 2022

Antigua and Barbuda

FINANCE AND DEVELOPMENT COMPANY LIMITED

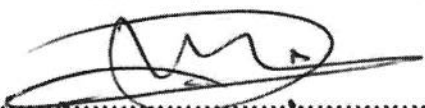
Statement of Financial Position


October 31, 2021

(Expressed in Eastern Caribbean Dollars)

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Assets			
Cash and cash equivalents	11	\$ 26,130,808	32,013,714
Investment securities	12	131,303,948	95,077,971
Statutory deposit	13	718,474	718,474
Loans and advances, net	14	90,839,608	112,369,301
Due from related parties, net	27	2,500,000	3,200,000
Reposessed stock, net	15	272,100	465,376
Right-of-use assets	29	2,923,139	3,294,781
Property and equipment	16	623,148	637,236
Intangible assets	17	447,675	549,563
Income tax receivable	20	108,471	-
Total Assets		\$ 255,867,371	248,326,416
Liabilities			
Customers' deposits	18	\$ 225,147,241	225,238,862
Accounts payable and accruals	19	5,301,054	1,386,171
Lease liabilities	29	3,111,266	3,397,907
Income tax payable	20	-	92,910
Total Liabilities		233,559,561	230,115,850
Shareholders' Equity			
Stated capital	21	17,500,000	17,500,000
Statutory reserve	22	8,093,563	7,274,115
General reserve		6,647,190	6,647,190
Accumulated deficit		(9,932,943)	(13,210,739)
Total Shareholders' Equity		22,307,810	18,210,566
Total Liabilities and Shareholders' Equity		\$ 255,867,371	248,326,416

Approved for issue by the Board of Directors on February 2, 2022 and signed on its behalf by:


.....
Chairman


.....
Director

The notes on pages 7 to 54 are an integral part of these financial statements.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income

Year ended October 31, 2021

(Expressed in Eastern Caribbean Dollars)

	Notes	2021	2020
Income			
Interest income from loans and advances	23	\$ 8,223,699	10,216,080
Income from deposits with other banks and investments, net	23	10,706,610	6,127,610
		18,930,309	16,343,690
Interest expense		(8,236,810)	(7,483,485)
Net interest income		10,693,499	8,860,205
Other operating income	24	1,022,686	593,018
Total income		11,716,185	9,453,223
Operating expenses			
General and administrative expenses	26	4,137,189	4,134,141
Provision for credit losses, net	12,14	1,387,183	7,177
Directors' fees and expenses	27	1,231,605	5,516,132
Depreciation and amortisation	16,17,29	633,605	649,040
Finance costs-interest on lease liability	29	229,359	247,484
		7,618,941	10,553,974
Profit/(loss) before taxation		4,097,244	(1,100,751)
Taxation	20	-	(88,910)
Profit/(loss) for the year, being total comprehensive profit/(loss) for the year		\$ 4,097,244	(1,189,661)

The notes on pages 7 to 54 are an integral part of these financial statements.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Statement of Changes in Shareholders' Equity

Year ended October 31, 2021

(Expressed in Eastern Caribbean Dollars)

	<u>Stated Capital</u>	<u>Statutory Reserve</u>	<u>General Reserve</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Restated Balance as 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 as at October 31, 2019	17,500,000	7,274,115	6,647,190	(12,021,078)	19,400,227
Loss for the year	-	-	-	(1,189,661)	(1,189,661)
Balance as at October 31, 2020	17,500,000	7,274,115	6,647,190	(13,210,739)	18,210,566
Profit for the year	-	-	-	4,097,244	4,907,244
Transfer to statutory reserve	-	819,448	-	(819,448)	-
Balance as at October 31, 2021	<u>\$ 17,500,000</u>	<u>8,093,563</u>	<u>6,647,190</u>	<u>(9,932,943)</u>	<u>22,307,810</u>

The notes on pages 7 to 54 are an integral part of these financial statements.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Statement of Cash Flows

Year ended October 31, 2021

(Expressed in Eastern Caribbean Dollars)

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Cash flows from operating activities			
Profit/(loss) before taxation	\$	4,097,244	(1,100,751)
Adjustments for:			
Depreciation and amortization	16,17,29	633,605	649,040
Impairment on financial assets	12,14	1,387,183	7,177
Finance lease-interest on lease liability	29	229,359	247,484
Impairment of related party receivables	27	-	4,133,456
Fair value gains on investments		(6,012,355)	(3,017,007)
Loss on disposal of property and equipment		-	-
Interest income		(18,930,309)	(16,343,690)
Interest expense		8,236,810	7,483,485
Operating loss before changes in working capital		(10,358,463)	(7,940,806)
Change in customers' deposits		(91,621)	8,045,464
Change in accounts payable and accruals		3,914,883	540,490
Change in loans and advances and repossessed stock		21,529,694	13,375,638
Change in income tax payable		(201,381)	-
Change in due from related parties, (net)		700,000	8,388,923
Cash generated from operating activities		15,493,112	22,409,709
Interest paid		(8,236,810)	(7,483,485)
Interest received		12,917,955	16,420,624
Net cash provided by operating activities		20,174,257	31,346,848
Cash flows from investing activities			
Purchase of property and equipment		(137,914)	(72,609)
Proceeds from disposal of property and equipment		-	-
Purchase of intangible assets		(8,073)	-
Net purchase of investment securities		(25,911,176)	(45,309,095)
Net cash used in investing activities		(26,057,163)	(45,381,704)
Decrease in cash and cash equivalents		(5,882,906)	(14,034,856)
Cash and cash equivalents, beginning of year		32,013,714	46,048,570
Cash and cash equivalents, end of year	11	\$ 26,130,808	32,013,714

The notes on pages 7 to 54 are an integral part of these financial statements.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

1. Reporting entity:

Finance and Development Company Limited ("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 February 2, 2022.

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 realised a net profit of \$4,097,244 for the year ended October 31, 2021 compared to a net loss of \$1,189,661 at October 31, 2020 and as at October 31, 2021 had an accumulated deficit of \$9,932,943 (2020: \$13,210,739). The Company is in the process of revising its credit risk policies aimed at reducing the expected credit losses on loans. The Company also plans to review 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.

Effect of Covid-19

The outbreak of the Coronavirus (Covid-19) pandemic has significantly impacted Antigua and Barbuda's economy and its financial services sector. In response, the Company participated in a loan moratorium program targeting customers who suffered economic disruption due to the Covid-19 pandemic, which took the form of an interest only payment or full blended payment deferral up to nine (9) months on a case-by-case basis. During the fiscal year, the Company granted fourteen (14) deferrals with a net outstanding amount of \$1,117,029. At the financial year end, the Company had eight (8) active customers with loan moratoriums with a net outstanding balance of \$790,343.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

2. Basis of accounting preparation: (*cont'd*)

Effect of Covid-19 (*cont'd*)

Interest income from loans decreased by \$1,992,381 or twenty (20%) percent compared with the prior year which was mainly due to the decline in the Company's loan's portfolio. The impact of the deferrals on the 2021 fiscal year was significantly less than the prior year as most of the accounts which were deferred in 2020 under the moratorium program are now regularized.

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.

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 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 October 31, 2021 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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

4. Use of judgements and estimates: (*cont'd*)

b) Assumptions and estimation uncertainties (*cont'd*)

- (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.

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

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.

(b) 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 asset are SPPI on the principal amount outstanding.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

4. Use of judgements and estimates: (*cont'd*)

Significant management judgement in applying accounting policies and estimation uncertainty (*cont'd*)

(c) Impairment of non-financial assets

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.

(d) Fair value of financial instruments

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.

(e) Current and deferred taxes

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:

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

(a) *New standards, amendments, and interpretations mandatory for the first time for the financial year*

A few new standards, amendments to standards and interpretations are effective for annual reporting periods beginning on or after January 1, 2020 and have been applied in preparing these financial statements.

Except as noted below, the Company has consistently applied the accounting policies as set out in note 6 to all periods presented in these financial statements.

- *Amendment to IFRS3, Business Combination, Definition of a business, effective January 1, 2020.* This new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stages companies that have not yet generated outputs). To be a business without outputs, there will now need to be an organised workforce. The definition of 'outputs' is narrowed to focus on goods and services provided to customer generating income.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

5. Changes in accounting policies: (*cont'd*)

Adoption of new or revised standards, amendments to standards and interpretations (*cont'd*)

(a) *New standards, amendments, and interpretations mandatory for the first time for the financial year (cont'd)*

- This change to definition of a business will likely result in more acquisition being accounted for as assets acquisition across all industries, particularly real estate, pharmaceuticals and oil and gas. Difference in accounting between business combinations and asset acquisition include, among other things, the recognition of good will, recognition and measurement of contingent consideration, accounting for transaction costs and deferred tax accounting.
- *Amendment to IAS1, Presentation of Financial Statements and IAS 8, Accounting policies, changes in accounting estimates and errors effective January 1, 2020.* These amendments result in a consistent definition of materiality throughout IFRSs and the conceptual framework for Financial reporting and clarify the explanation of the definition of material. This amendment also incorporates some of the guidance in IAS1 about immaterial information. In particular, the amendment clarifies:
 - That the reference to obscuring information addresses situation in which the effect is similar to omitting or misstating that information and that an entity assesses materiality in the context of the financial statements as a whole, and
 - The meaning of primary users of financial statements to whom those financial statements are directed, by defining them as existing and potential investors, lenders and other creditors that must rely on the general purpose financial statements for much if the financial information they need.

(b) *New Standards and interpretations of amendments to existing standards issued but not yet effective during the year:*

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to adopt early.

The following amendment is effective for the period beginning 1 June 2020:

COVID-19-Related Rent Concessions (Amendments to IFRS 16) Effective 1 June 2020

IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

5. Changes in accounting policies (*cont'd*)

Adoption of new or revised standards, amendments to standards and interpretations (*cont'd*)

The following amendment is effective for the period beginning 1 January 2021:

Interest Rate Benchmark Reform - IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

IBOR reform Phase 2 IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41);
- References to Conceptual Framework (Amendments to IFRS 3).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

The Company is currently assessing the impact of the standards and interpretations to determine the impact they will have on the company's accounting policies disclosures.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the Company's financial statements. The new and amended standards and interpretations are effective for annual periods beginning on or after January 1, 2020, unless otherwise stated.

6. Summary of significant accounting policies:

(a) Overall considerations:

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

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: (*cont'd*)

(b) 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.

(c) 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.

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

Classification and subsequent measurement of financial assets

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.

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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: (*cont'd*)

(c) Financial instruments (*cont'd*)

Classification and subsequent measurement of financial assets (*cont'd*)

- 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.

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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: (cont'd)

(c) Financial instruments (cont'd)

Classification and subsequent measurement of financial assets (cont'd)

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.

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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

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(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: (cont'd)

(c) Financial instruments (cont'd)

Classification and subsequent measurement of financial assets (cont'd)

Classification and Measurement under IFRS 9 - Applicability to the Company (cont'd)

Debt instruments measured at amortised cost (cont'd)

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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements *(cont'd)*

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: *(cont'd)*

(c) Financial instruments *(cont'd)*

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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements *(cont'd)*

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: *(cont'd)*

(c) *Financial instruments (cont'd)*

Impairment of financial assets

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.

Twelve (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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: (cont'd)

(c) Financial instruments (cont'd)

Impairment of financial assets (cont'd)

Credit impaired financial assets (cont'd)

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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: (cont'd)

(c) Financial instruments (cont'd)

Impairment of financial assets (cont'd)

Significant increase in credit risk (cont'd)

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).

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements *(cont'd)*

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: *(cont'd)*

(c) Financial instruments *(cont'd)*

Impairment of financial assets *(cont'd)*

Measurement of ECL *(cont'd)*

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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: (cont'd)

(c) Financial instruments (cont'd)

Impairment of financial assets (cont'd)

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.

(d) 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 comprehensive income.

(e) 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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: (*cont'd*)

(f) Provisions, contingent assets and contingent liabilities

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 bank 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.

(g) 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:

Motor vehicles	20%
Office equipment	15%
Computers	20%
Security system	10%-20%
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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements *(cont'd)*

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: *(cont'd)*

(g) Property and equipment and depreciation *(cont'd)*

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.

(h) 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.

(i) 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.

(j) 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 comprehensive 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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

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(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: (*cont'd*)

(j) Interest income and expense and revenue recognition (*cont'd*)

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.

(k) 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.

(l) 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.

(m) Leases

The Company has implemented the IFRS 16 which replaces the dual accounting model for lessees. As such the Company has accounted for leases which substantial in nature and are for a period greater than twelve (12) months in duration by recording the leases as right to use assets with the corresponding liability also recognized on the statement of financial position. For other leases where future operations are doubtful or have a duration of less than twelve (12) months the Company has elected to continue to expense these lease payments.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

6. Summary of significant accounting policies: (*cont'd*)

(n) 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.

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.

(o) 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.

(p) Operating expenses

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

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

7. 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.

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.

7.1 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.

7.1.1 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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

7. Financial instrument risk: (*cont'd*)

7.1 Credit risk (*cont'd*)

7.1.1 Credit risk management

- a) *Loans and advances and other assets (cont'd)*
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.

7.1.2 Risk limit control and mitigation policies

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 advance are:

- I. Bills of sales
- II. Charges over real properties

The Company's credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty.

FINANCE AND DEVELOPMENT COMPANY LIMITEDNotes to Financial Statements (*cont'd*)

October 31, 2021

*(Expressed in Eastern Caribbean Dollars)***7. Financial instrument risk (*cont'd*)****7.1 Credit risk (*cont'd*)****7.1.2 Risk limit control and mitigation policies (*cont'd*)****(a) Collateral (*cont'd*)**

Valuations are updated periodically depending upon the nature of the collateral. Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears.

(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.

7.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets	Maximum Exposure	
	2021	2020
Cash and cash equivalents	\$ 26,130,808	32,013,714
<i>Loans and advances</i>		
Consumer loans	9,502,049	19,556,819
Loans and advances to government entities	34,688,446	35,116,215
Loans and advances - other	64,207,501	76,262,139
Due from related parties	2,500,000	3,200,000
<i>Investment securities</i>	91,165,477	66,548,734
Credit risk exposures relating to off-balance sheet assets		
Loan commitments and other credit related obligations	-	-
At October 31	\$ 228,194,281	232,697,621

The above table represents a worst-case scenario of credit risk exposure to the Company at October 31, 2021 and 2020, 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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

7. Financial instrument risk (*cont'd*)

7.2 Liquidity risk (*cont'd*)

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.

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

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

7. Financial instrument risk (cont'd)

7.2 Liquidity risk (cont'd)

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

	<u>Carrying amount</u>	<u>Up to 1 month</u>	<u>1-3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Total</u>
As at October 31, 2021						
Liabilities						
Customer deposits	\$ 225,147,241	21,449,017	26,898,449	176,799,775	-	225,147,241
Other liabilities	8,412,320	2,601,054	-	2,700,000	3,111,266	8,412,320
	<u>\$ 233,559,561</u>	<u>24,050,071</u>	<u>26,898,449</u>	<u>179,499,775</u>	<u>3,111,266</u>	<u>233,559,561</u>
As at October 31, 2020						
Liabilities						
Customer deposits	\$ 225,238,862	23,432,470	10,205,103	191,379,893	221,396	225,238,862
Other liabilities	4,784,078	1,386,171	-	-	3,397,907	4,784,078
	<u>\$ 230,022,940</u>	<u>24,818,641</u>	<u>10,205,103</u>	<u>191,379,893</u>	<u>3,619,303</u>	<u>230,022,940</u>

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

7 Financial instrument risk (*cont'd*)

7.3 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 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:

	2021	2020
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%	6.50%-7.50%
Other securities	2.25%-3.80%	2.25%-3.80%
Deposits due to customers	2020	2020
Personal deposits	2.00%-4%	2.00%-4%
Corporate deposits	2.75%-4%	2.75%-4%

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

7. Financial instrument risk (cont'd)

7.3 Market risk (cont'd)

(iii) Interest rate risk (cont'd)

	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, 2021								
Assets								
Cash and cash equivalents	0.01%-0.80%	\$ -	-	25,791,396	-	-	339,412	26,130,808
Investments	2.25%-6.50%	-	-	8,199,440	-	123,104,508	-	131,303,948
Loans and advances	0.00%-12%	12,155,487	730,926	5,368,471	37,293,220	52,658,399	191,493	108,397,996
Total financial assets		<u>12,155,487</u>	<u>730,926</u>	<u>39,359,307</u>	<u>37,293,220</u>	<u>175,762,907</u>	<u>530,905</u>	<u>265,832,752</u>
Liabilities								
Customer deposits	2.00%-4.00%	21,449,017	26,898,449	176,799,775	-	-	-	225,147,241
Lease Liability	6.75%	-	-	-	-	3,111,266	-	3,111,266
Other liabilities		-	-	-	-	-	5,301,054	5,301,054
Total financial liabilities		<u>\$ 21,449,017</u>	<u>26,898,449</u>	<u>176,799,775</u>	<u>-</u>	<u>3,111,266</u>	<u>5,301,054</u>	<u>233,559,561</u>
Total interest sensitivity gap		<u>\$ (9,293,530)</u>	<u>(26,167,523)</u>	<u>(137,440,468)</u>	<u>37,293,220</u>	<u>172,651,641</u>	<u>(4,770,149)</u>	<u>32,273,191</u>

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

7. Financial instrument risk (cont'd)

7.3 Market risk (cont'd)

(iii) Interest rate risk (cont'd)

	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, 2020								
Assets								
Cash and cash equivalents	0.01%-0.80%	\$ -	-	31,670,086	-	-	343,628	32,013,714
Investments	2.25%-7.50%	-	-	5,082,953	-	89,995,018	-	95,077,971
Loans and advances	0.00%- 5.45%	12,227,971	1,279,460	4,858,226	52,900,321	59,669,194	-	130,935,172
Total financial assets		<u>12,227,971</u>	<u>1,279,460</u>	<u>41,611,265</u>	<u>52,900,321</u>	<u>149,664,212</u>	<u>343,628</u>	<u>258,026,857</u>
Liabilities								
Customer deposits	2.00%-6.50%	23,432,470	10,205,103	191,379,893	221,396	-	-	225,238,862
Lease liabilities	6.75%	-	-	-	-	3,397,907	-	3,397,907
Other liabilities		-	-	-	-	-	845,681	845,681
Total financial liabilities		<u>\$ 23,432,470</u>	<u>10,205,103</u>	<u>191,379,893</u>	<u>221,396</u>	<u>3,397,907</u>	<u>845,681</u>	<u>229,482,450</u>
Total interest sensitivity gap		<u>\$ (11,204,499)</u>	<u>(8,925,643)</u>	<u>(149,768,628)</u>	<u>52,678,925</u>	<u>146,266,305</u>	<u>(502,053)</u>	<u>28,544,407</u>

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

7. Financial instrument risk (*cont'd*)

7.3 Market risk (*cont'd*)

7.3.1 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 at fair value through profit or loss. To manage this price risk arising from investments in equity securities, the Company diversifies its portfolio.

7.3.2 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, 2021, the Eastern Caribbean Dollar had weakened against other currencies.

7.4 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;

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

7. Financial instrument risk (*cont'd*)

7.4 Operational risk (*cont'd*)

- 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.

8. 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.

FINANCE AND DEVELOPMENT COMPANY LIMITEDNotes to Financial Statements *(cont'd)*

October 31, 2021

*(Expressed in Eastern Caribbean Dollars)***8. Financial instruments measured at fair value: *(cont'd)*****Assets measured at fair value****October 31, 2021**

	Level 1	Level 2	Level 3	Total
Fair value through profit or loss				
Debt securities	\$ -	-	-	-
Equity securities	38,999,010	-	1,139,461	40,138,471
	<u>\$ 38,999,010</u>	<u>-</u>	<u>1,139,461</u>	<u>40,138,471</u>

October 31, 2020

	Level 1	Level 2	Level 3	Total
Fair value through profit or loss				
Debt securities	\$ -	-	-	-
Equity securities	27,413,667	-	1,115,570	28,529,237
	<u>\$ 27,413,667</u>	<u>-</u>	<u>1,115,570</u>	<u>28,529,237</u>

9. 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 at FVTOCI.

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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

10. Comparatives:

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

11. Cash and Cash Equivalents:

	2021	2020
Cash on hand	\$ 345,412	343,628
Cash held with Fund Manager	3,159,406	3,321,847
CIBC First Caribbean International Bank	21,831,295	27,673,319
Bank of Nova Scotia	794,695	674,920
	<u>\$ 26,130,808</u>	<u>32,013,714</u>

12. Investment Securities:

	2021	2020
Term deposits measured at amortised cost		
Certificates of deposit	\$ 8,108,853	5,035,628
Interest receivable	92,613	52,373
Less: allowance for impairment	(2,026)	(5,048)
Total term deposits	<u>\$ 8,199,440</u>	<u>5,082,953</u>
Other securities measured at amortised cost		
Debt securities at amortised cost		
Listed	\$ 82,843,883	61,545,875
Interest receivable	579,387	238,068
Less: allowance for impairment	(457,233)	(318,162)
	<u>\$ 82,966,037</u>	<u>61,465,781</u>
Total investments measured at amortised cost	<u>91,165,477</u>	<u>66,548,734</u>
Securities measured at fair value through P&L		
Equity securities		
Unlisted	1,139,461	1,115,570
Listed	38,999,010	27,413,667
Total securities measured at fair value through P&L	<u>40,138,471</u>	<u>28,529,237</u>
Total investments	<u>\$ 131,303,948</u>	<u>95,077,971</u>

FINANCE AND DEVELOPMENT COMPANY LIMITEDNotes to Financial Statements *(cont'd)*

October 31, 2021

*(Expressed in Eastern Caribbean Dollars)***12. Investment Securities *(cont'd)***

All debt securities have fixed interest rates.

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

	Fair value through P&L	Amortised cost
As at October 31, 2019	\$ 11,289,952	39,377,947
Additions	13,500,000	30,000,000
Reclassified to cash	1,100,070	-
Disposals (sales, redemptions and principal repayments)	(355,056)	(3,211,448)
Movement in accrued interest	-	51,358
Change in fair value	2,994,271	-
Allowance for expected credit losses	-	330,877
As at October 31, 2020	28,529,237	66,548,734
Additions	5,400,000	28,000,000
Reclassified to cash	162,441	-
Disposals (sales, redemptions and principal repayments)	(231,218)	(3,628,767)
Movement in accrued interest	-	381,559
Change in fair value	6,278,011	-
Allowance for expected credit losses	-	(136,049)
As at October 31, 2021	\$ 40,138,471	91,165,477

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

12. Investment Securities (cont'd)

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, 2021				
Gross exposure	\$ 8,201,466	83,423,270	-	91,624,736
ECL	(2,026)	(457,233)	-	(459,259)
Net exposure	\$ 8,199,440	82,966,037	-	91,165,477
October 31, 2020				
Gross exposure	\$ 1,381,035	65,490,909	-	66,871,944
ECL	(214)	(322,996)	-	(323,210)
Net exposure	\$ 1,380,821	65,167,913	-	66,548,734
ECL allowance as at October 31, 2020	\$ 5,048	318,162	-	323,210
ECL on new instruments issued during the year	-	-	-	-
Change in ECL on prior instruments not matured	(3,022)	139,071	-	136,049
ECL reversed on matured instruments	-	-	-	-
As at October 31, 2021	\$ 2,026	457,233	-	459,259
ECL allowance as at October 31, 2019	\$ 649,959	-	-	649,959
ECL on new instruments issued during the year	-	-	-	-
Change in ECL on prior instruments not matured	(326,749)	-	-	(326,749)
ECL reversed on matured instruments	-	-	-	-
As at October 31, 2020	\$ 323,210	-	-	323,210

FINANCE AND DEVELOPMENT COMPANY LIMITEDNotes to Financial Statements *(cont'd)*

October 31, 2021

*(Expressed in Eastern Caribbean Dollars)***13. Statutory Deposit**

	2021	2020
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.

14. Loans and Advances, net

	2021	2020
Government loans	\$ 34,688,446	35,116,215
Consumer loans	9,502,049	19,556,819
Other loans and advances	64,207,501	76,262,138
	108,397,996	130,935,172
Allowance for credit losses	(17,558,388)	(18,565,871)
	\$ 90,839,608	112,369,301

The movement in allowance for credit losses is as follows:

	2021	2020
Balance, beginning of year	\$ 18,565,871	19,787,521
Current provision	1,251,134	333,926
Amounts written-off	(2,258,617)	(1,555,576)
	\$ 17,558,388	18,565,871

Consumer loans are shown net of unearned income of \$868,187 (2020: \$2,149,377).

In prior years, the Company had set aside additional amounts totalling \$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 at the current amount although it is \$3,560,567 in excess of what required for the 2021 financial year.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

14. Loans and Advances, net (cont'd)

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

	<u>Total</u>
Balance at October 31, 2021	
Gross loans before provisions	\$ 108,397,996
Stage 1: 12-month ECL	(48,734)
Stage 2: Lifetime ECL	(1,306,483)
Stage 3: Credit Impaired	(16,203,171)
At October 31, 2021	\$ 90,839,608

	<u>Total</u>
Balance at October 31, 2020	
Gross loans before provisions	\$ 130,935,172
Stage 1: 12-month ECL	(1,917)
Stage 2: Lifetime ECL	(1,626,698)
Stage 3: Credit Impaired	(16,937,256)
At October 31, 2020	\$ 112,369,301

	<u>Total</u>
Stage 1: 12-Month ECL	
ECL allowance as at:	
October 31, 2020	\$ 1,917
ECL increase during the year	46,817
As at October 31, 2021	\$ 48,734

	<u>Total</u>
Stage 1: 12-Month ECL	
ECL allowance as at:	
October 31, 2019	\$ 22,612
ECL decrease during the year	(20,695)
As at October 31, 2020	\$ 1,917

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements *(cont'd)*

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

14. Loans and Advances, net *(cont'd)*

Stage 2: Lifetime ECL	Total
ECL allowance as at:	
October 31, 2020	\$ 1,626,698
ECL decrease during the year	(320,215)
As at October 31, 2021	\$ 1,306,483

	Total
Stage 2: Lifetime ECL	
ECL allowance as at:	
October 31, 2019	\$ 1,966,852
ECL decrease during the year	(340,154)
As at October 31, 2020	\$ 1,626,698

Stage 3: Lifetime ECL (Credit Impaired)	Total
ECL allowance as at:	
October 31, 2020	\$ 16,937,256
ECL increase during the year	1,524,532
Credit loss expense	-
Charge-offs and write-offs	(2,258,617)
As at October 31, 2021	16,203,171
Total	\$ 17,558,388

Stage 3: Lifetime ECL (Credit Impaired)	Total
ECL allowance as at:	
October 31, 2019	\$ 17,798,057
ECL increase during the year	694,775
Credit loss expense	-
Charge-offs and write-offs	(1,555,576)
As at October 31, 2020	16,937,256
Total	\$ 18,565,871

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements *(cont'd)*

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

15. Repossessed Stock, net

	2021	2020
Inventories on hand	\$ <u>272,100</u>	<u>465,376</u>

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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

16. Property and Equipment

Property and equipment comprise the following:

	Motor Vehicles	Office Equipment	Computer Equipment	Security System	Storage Facility	Total
Year ended October 31, 2021						
Opening net book value	\$ 153,004	90,889	308,091	61,309	23,943	637,236
Additions	65,333	11,551	29,901	31,129	-	137,914
Depreciation charge	(40,793)	(19,638)	(76,294)	(13,947)	(1,330)	(152,002)
Closing net book value	\$ 177,544	82,802	261,698	78,491	22,613	623,148
At October 31, 2021						
Cost	\$ 528,568	504,615	932,256	136,573	44,803	2,146,815
Accumulated depreciation	(351,024)	(421,813)	(670,558)	(58,082)	(22,190)	(1,523,667)
Net book value	\$ 177,544	82,802	261,698	78,491	22,613	623,148
Year ended October 31, 2020						
Opening net book value	\$ 147,122	104,614	362,677	64,947	25,273	704,633
Additions	36,000	5,230	27,680	3,699	-	72,609
Depreciation charge	(30,118)	(18,955)	(82,266)	(7,337)	(1,330)	(140,006)
Closing net book value	\$ 153,004	90,889	308,091	61,309	23,943	637,236
At October 31, 2020						
Cost	\$ 463,235	493,064	902,355	105,444	44,803	2,008,901
Accumulated depreciation	(310,231)	(402,175)	(594,264)	(44,135)	(20,860)	(1,371,665)
Net book value	\$ 153,004	90,889	308,091	61,309	23,943	637,236

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

17. Intangible Assets

		2021	2020
Software			
Cost at the beginning of the year	\$	763,282	763,282
Additions		8,073	-
Cost at the end of the year	\$	771,355	763,282
Accumulated amortisation - beginning of the year	\$	213,719	76,328
Charge for the year		109,961	137,391
Accumulated amortisation - end of the year		323,680	213,719
Net book value	\$	447,675	549,563

18. Customer Deposits

		Payable in less than 1 year	Payable between 1 to 3 years	Total 2021	Total 2020
Personal	\$	170,235,451	-	170,235,451	169,526,150
Corporate		54,911,790	-	54,911,790	55,712,712
Total	\$	225,147,241	-	225,147,241	225,238,862

Deposits attract interest at rates varying from 2% to 4% (2020: 2.0% to 4.0%). The overall weighted average effective interest rate on deposits was 3.71% (2020: 3.24%). Included in the total customer deposits is accrued interest payable of \$3,259,002 (2020: \$3,290,017).

19. Accounts Payable and Accruals

		2021	2020
Escrow Account	\$	2,700,000	-
Accruals		2,568,144	1,372,119
Accounts payable		32,910	14,052
	\$	5,301,054	1,386,171
Current	\$	5,301,054	1,386,171
Non-current		-	-
	\$	5,301,054	1,386,171

FINANCE AND DEVELOPMENT COMPANY LIMITEDNotes to Financial Statements *(cont'd)*

October 31, 2021

*(Expressed in Eastern Caribbean Dollars)***20. Income Taxes**

In accordance with the laws of Antigua and Barbuda, the Company currently pays tax at a rate of 25% (2020: 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 (recoverable)/payable

	2021	2020
Balance, beginning of year	\$ 92,910	4,000
2019 Income tax expense	-	88,910
Income tax paid	(201,381)	-
Balance, end of year	\$ (108,471)	92,910

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

	2021	2020
Profit/(loss) before taxation	\$ 4,097,244	(1,100,751)
Tax at twenty-five (25%) percent	1,024,311	(275,188)
Add/(Deduct):		
Tax effect on items not allowable as tax deductible items	661,946	1,332,114
Tax effect on capital and balancing allowance	(53,392)	(68,311)
Tax effect on exempt income	(3,423,816)	(2,530,208)
Tax effect on losses not utilized/(utilized)	1,790,951	1,541,593
Current tax expense	\$ -	-

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

20. Income Taxes: (cont'd)

As at October 31, 2021, the Company had a deferred tax asset of \$6,462,113 (2020: \$5,439,223) arising out of tax loss which has not been recognised in these financial statements, as there is no certainty that future taxable profits will be available against which the Company can utilize the benefit therefrom.

The Company has incurred income tax losses amounting to \$7,163,805 which may be carried forward and applied to reduce taxable income in future years by an amount not exceeding one half of the taxable income in any one year of assessment prior to the expiration of the losses. The losses are yet to be agreed by the Commissioner of Inland Revenue. The losses expire as follows:

Date of Expiration	Loss
October 31, 2022	\$ 5,470,598
October 31, 2023	7,346,882
October 31, 2026	6,166,372
October 31, 2027	7,163,805
	<u>\$ 26,147,657</u>

21. Stated Capital

	2021	2020
Authorised, issued and fully paid:		
17,500,000 common shares of no par value	\$ 17,500,000	17,500,000

22. Statutory Reserve

	2021	2020
Balance, beginning of year	\$ 7,274,115	7,274,115
Transfer of profit after taxation	819,448	-
Balance, end of year	<u>\$ 8,093,563</u>	<u>7,274,115</u>

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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

23. Income:

	2021	2020
Loans		
Interest income from loans and advances from customers	\$ 4,948,941	6,207,447
Interest income from government loans	3,274,758	4,008,633
	8,223,699	10,216,080
Deposits with other financial institutions and investments		
Unrealised gain on fair value changes	5,913,965	3,017,007
Government bonds	4,506,541	3,095,193
Deposits and dividends	187,714	120,248
Realised gains/(losses)	98,390	(104,838)
	10,706,610	6,127,610
Total	\$ 18,930,309	16,343,690

24. Other Operating Income:

	2021	2020
Investment portfolio income	\$ 560,462	218,994
Sundry income	373,785	270,244
Late fee charges	63,754	-
Repossessed stock gain	22,294	43,706
Recoveries	2,391	60,074
	\$ 1,022,686	593,018

25. Salaries and related costs:

	2021	2020
Salaries, wages and allowances	\$ 2,284,490	2,341,671
Statutory deductions	180,875	154,580
Other costs	37,668	87,240
Uniforms	37,152	5,564
Medical insurance	36,541	28,250
Training	4,537	8,066
Staff benefit	-	2,600
	\$ 2,581,263	2,627,971
Average number of employees	28	32

FINANCE AND DEVELOPMENT COMPANY LIMITEDNotes to Financial Statements *(cont'd)*

October 31, 2021

*(Expressed in Eastern Caribbean Dollars)***26. General and Administrative Expenses**

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Salaries and related costs	25	\$ 2,581,263	2,627,971
Investment fees and expenses		526,022	294,849
Repairs and maintenance		182,803	143,840
Security		149,782	149,925
Other expenses		148,624	216,409
Audit fees		109,772	165,064
License fees		66,667	80,000
Credit card expenses		64,786	26,820
Utilities		59,955	20,858
Subscriptions and donations		56,477	76,934
Repossessed stock expenses		55,380	175,671
Bank charges		34,228	11,630
Insurance		29,751	35,830
Professional and legal fees		28,756	58,472
Vehicle expenses		24,475	24,539
Advertising and promotion		9,834	17,254
Commission		5,250	2,600
Telephone		3,423	1,104
Cash overs		(59)	(932)
Travel		-	3,303
Penalties and fees		-	2,000
		<u>\$ 4,137,189</u>	<u>4,134,141</u>

27. 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.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (*cont'd*)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

27. Related Party Balances and Transactions (*cont'd*)

- 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.

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

	2021	2020
<i>Loans and other assets</i>		
Other related entities	\$ 11,330,538	13,817,863
Key management personnel	470,607	521,897
Directors	295,987	336,560
	<u>\$ 12,097,132</u>	<u>14,676,320</u>

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

27. Related Party Balances and Transactions (cont'd)

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

	2021	2020
Receivables from related entities	2,500,000	3,200,000
	<u>\$ 2,500,000</u>	<u>3,200,000</u>

Related party loans and other balances due from related parties attract interest at rates varying from 0% to 6.5% (2020: 0% to 7.5%). During the year the Company wrote-off balances due from related party of nil (2020: 4,133,456). No specific provisions have been recognised in respect of loans or other balances due from related parties (2020: nil).

	2021	2020
<i>Deposits and other liabilities</i>		
Directors	\$ 125,944,439	122,643,639
Other related entities	16,217,646	18,594,845
	<u>\$ 142,162,085</u>	<u>141,238,484</u>

Related party deposits attract interest at rates varying from 2% to 4% (2020: 2.5% to 4.0%).

(iii) Transactions

	2021	2020
<i>Interest income on loans</i>		
Other related entities	\$ 1,234,423	568,959
Key management personnel	80,329	29,173
	<u>\$ 1,314,752</u>	<u>598,132</u>

	2021	2020
<i>Interest expense on deposits</i>		
Directors	\$ 4,860,042	4,146,763
Other related entities	617,795	744,525
Key management personnel	4,988	7,018
	<u>\$ 5,482,825</u>	<u>4,898,306</u>

FINANCE AND DEVELOPMENT COMPANY LIMITEDNotes to Financial Statements *(cont'd)*

October 31, 2021

*(Expressed in Eastern Caribbean Dollars)***27. Related Party Balances and Transactions *(cont'd)*****(iii) Transactions *(cont'd)***

	2021	2020
<i>Other expenses</i>		
Directors' fees and other expenses	\$ 1,231,605	5,516,132
Key management compensation	646,800	584,800
Rental and utilities expense	516,000	516,000
	\$ 2,394,405	6,616,932

During the year, nil (2020: 4,133,456) in amounts receivable from related parties was written-off as per a resolution by the Board of Directors.

28. Non-Compliance with Laws and Regulations

The Company was cited by its regulator the Eastern Caribbean Central Bank (ECCB) in respect of three (3) breaches of the Banking Act, 2015. The breaches were in relation to:

- Section 103 (1) (b) (ii) - Removal and disqualification of director or officer
- Section 49(1) - Limit on exposures
- Section 50(4) - Restriction on exposures to related parties

The Company has communicated with the regulator, the Eastern Caribbean Central Bank (ECCB) regarding the identified breaches. The regulator has indicated its intention to enter into a memorandum of Understanding with the Company which will outline the actions and related time frames needed to remedy the breaches.

FINANCE AND DEVELOPMENT COMPANY LIMITED

Notes to Financial Statements (cont'd)

October 31, 2021

(Expressed in Eastern Caribbean Dollars)

29. Leases

The Company leases a building for its sole office operations. The lease runs for an indefinite period. Previously, the lease was classified as operating leases under IAS 17.

	Right of Use Property	
	2021	2020
a) Right-of-Use Assets		
As of November 1	3,294,781	3,716,423
Dismantling cost provision	-	(50,000)
Depreciation expense	(371,642)	(371,642)
As of October 31	2,923,139	3,294,781
b) Lease Liability		
Maturity analysis - contractual undiscounted cash flows:		
	2021	2020
Total undiscounted lease liabilities at November 1	3,397,907	3,666,423
Add. Lease interest	229,359	247,484
Less: Lease payments	(516,000)	(516,000)
Lease liabilities included in the statement of financial position on October 31	3,111,266	3,397,907
Current	305,990	573,283
Non-current	2,805,276	2,874,624
c) Amounts recognised in profit or loss		
Interest on lease liabilities	229,359	247,484
d) Amounts recognised in cash flows		
Total cash outflow for leases	516,000	516,000
(e) Extension options		

The lease has an indefinite period. The lessor and its stakeholders have not indicated that the agreement will be broken in the near future and hence the agreement is expected to exist indefinitely and no extension will be required.