National Bank of the Virgin Islands™

TRANSFORMING, TO ENHANCE YOUR PARADISE

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Clarence M. Faulkner, Jr.	Chairman
Dr. Benedicta P.T. Samuels	Vice Chair
Dr. Drexel M. Glasgow	Director
Ms. Nona Vanterpool	Director
Mr. Ivan Hudson Carr	Director
Mrs. Antoinette Skelton	Director
Mrs. Michelle L. Todman Smith	Director
Mr. Mervyn McKinley Hope	Director
Ms. Joy N. Francis	Chief Executive Officer / Ex-Officio Director

CORPORATE SECRETARY

Mrs. Wendy Lewis

REGISTERED OFFICE

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

SOLICITORS

O'Neal Webster
Simmonds Bldg.
Box 961
Road Town, Tortola, VG1110
British Virgin Islands

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

McW Todman & Co.
116 Main Street
P.O Box 3342
Road Town, Tortola, VG1110
British Virgin Islands

AUDITORS

BDO Limited
P.O. Box 34
Sea Meadow House
Tobacco Wharf
Road Town, Tortola VG1110
British Virgin Islands

KPMG (BVI) Limited (FY 2016 to FY 2018)

BANKING RELATIONSHIPS

- Banco Popular de Puerto Rico
- Bank of America
- Raymond James

INSURERS

Caribbean Insurers Limited (CIL)
Besso Limited
Coralisle Group (CG) Insurance

REGULATOR

British Virgin Islands Financial Services Commission (FSC)

ASSOCIATIONS

Caribbean Association of Banks (CAB)
Caribbean Association of Audit Committee Members Inc. (CAACM)
Caribbean Credit Card Corporation (4Cs)
British Virgin Islands Bank Association

BRANCH (HEAD OFFICE)

Wickham’s Cay 1
Road Town, Tortola VG1110
British Virgin Islands
Phone: (284) 494-3737

WEBSITE

https://nationalbank.vg

FINANCIAL HIGHLIGHTS

	2014	2015	2016	2017	2018	2019
Profit and Loss Account	($000)	($000)	($000)	($000)	($000)	($000)
Interest Income		8,314	10,353	9,096	11,817	13,662
Interest Expense		(1,611)	(1,805)	(1.957)	(2,495)	(3,656)
Net Interest Income		6,703	8,548	7,139	9,322	10,005
Total Operating Income		7,345	9,487	7,764	10,165	10,858
Other Expenses		(7,216)	(8,368)	(10,285)	(9,009)	(9,554)
Net Income (Loss) for the Year		129	1,120	(2,521)	1,156	1,303
EBIT		1,739	2,925	(564)	3,651	4,959
Balance Sheet						
Total Assets		186,634	217,410	223,739	245,278	279,965
Total Liabilities		159,505	189,162	187,132	204,753	238,198
Loans and advances to customers (Gross)	140,794	148,558	163,340	178,807	195,851	206,779
Financial Instruments	1,137	904	15,884	10,649	15,565	28,538
Average Investments		145,697	164,343	184,340	200,436	223,367
Deposits		159,028	188,654	182,312	199,314	228,761
Shareholders' Equity		13,738	13,738	24,611	24,611	24,611
Retained Earnings		13,391	14,511	11,990	15,915	17,156
Key Financial Ratios						
Operating Expenses/Total Income		98%	88%	132%	89%	88%
Net Interest Margin		5%	5%	4%	5%	4%
Return on Assets		0.07%	0.52%	-1.13%	0.47%	0.47%
Return on Equity		1%	8%	-6.9%	2.9%	3.1%
Interest Cover		108%	162%	-29%	146%	136%
Loans and advances to deposits		91%	87%	98%	98%	90%
Tier 1 Capital		27,129	28,249	35,225	39,150	40,391
Social						
# of Employees that left		10	5	5	15	10
Average # of Employees		47	49	52	55.5	70
Number of Employees		48	50	54	57	74
Employee Turnover		21%	10%	10%	27%	14%
Women as % of Total Staff		58%	62%	61%	60%	63%
Women as % of the Executive Management Team		60%	60%	60%	50%	43%
# of persons on Executive Management Team		5	5	6	6	7
Corporate Social Responsibility Projects/ Initiatives		US$49	US$58	US$44	US$51	US$56

NOTICE OF ANNUAL MEETING

Notice is hereby given that the Annual General Meeting of the National Bank of the Virgin Islands Limited will be held at Maria's By The Sea Conference Room on Tuesday, December 8, 2020, at 10:00 a.m. for the following purposes: -

1. To read and confirm the Minutes of the Meeting held on December 10, 2019;
2. To consider matters arising from the Minutes;
3. To receive the Directors' Report;
4. To receive the Auditor's Report;
5. To receive and review the financial statements for the year ended December 31, 2019;
6. To elect Directors;
7. To confirm the appointment of Auditors for years ending December 31, 2019, through 2021, and authorise the Directors to address the Auditors remuneration;
8. To declare dividends to the Preference Shareholder; and
9. To discuss any other business that may be considered at an Annual Meeting

By Order of the Board

Wendy Lewis
……………………..
Wendy Lewis
Corporate Secretary
September 30, 2020

ABOUT THIS REPORT

REPORTING APPROACH

Welcome to NBVI's 2019 Integrated Annual Report (the "Report"). This is our primary Report to shareholders and other stakeholders. This Report explains how, over time, our Bank creates value for its stakeholders. NBVI plays an important social role, not just as a provider of banking and financial services, but also as a responsible employer. This Report includes our audited financial results, performance reviews and commentary on our operations for the financial year ended December 31, 2019, as well as non-financial highlights of our strategic priorities and business line developments, along with an overview of our risk management and governance structures. Only content that is material to our value creation process has been included in this Report.

The Report is prepared in accordance with the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework and is intended to provide our stakeholders with a concise and transparent assessment of our ability to use our financial expertise to improve society and create sustainable value.

SCOPE AND BOUNDARY OF REPORTING

Reporting Period

This Integrated Annual Report covers our work and stewardship from January 1, 2019 to December 31, 2019.

Financial and Non-Financial Reporting

The Report captures the significant activities of the Bank, which extend beyond financial reporting. It is fashioned around our value creation model and describes value created for the Bank's main stakeholder groups (clients, employees, shareholders), and the community we serve. Risks to value creation described in this Report are assessed in accordance with NBVI's overall risk management approach.

Target Audience

This Report is primarily intended to address the information requirements of our regulator and providers of our capital. However, the information presented is relevant to how we create value for other key stakeholders and society. As an environmentally conscious organisation, the Bank has opted to place

the Report online for public review. A copy of this Report is accessible at www.nationalbank.vg.

STRATEGIC AND FOCUSED REBUILDING

This report discusses the deliberate steps we are taking towards:

1. Making our customers' lives easier.
2. Improving accessibility to the Bank through its main branch and digital platforms, including internet banking, mobile apps, and point-of-sale terminals.
3. Simplifying our business processes to serve the public with improved efficiency.
4. Unleashing the dynamism of our committed workforce - enabled by technology, information, and passion for delivering value.
5. Attracting, developing, and retaining skilled employees as a key pillar of the Bank's growth.

KEY CONCEPTS

Materiality and Material Matters

We continue to apply the principle of materiality in assessing the information to be included in our Report. As a result, this Report focuses mainly on those issues, opportunities and challenges that materially impact NBVI and its ability to be a sustainable entity, that consistently delivers value to shareholders and other key stakeholders. Material matters, as described on ***page 48***, inform the Bank's strategy and the content of this Report.

How We Define Value

Our mission and vision dictate our value creation process. Value creation is the outcome of how we use and leverage our capital to deliver financial performance and value for our stakeholders. We will continue to focus on providing real solutions to the needs of the Virgin Islands community.

FINANCIAL STATEMENTS

Our audited financial statements for the year ended December 31, 2019 form part of this Report. They have been prepared in accordance with International Financial Reporting Standards (IFRS), Interpretations issued by the International Accounting Standards Board (IASB), and regulatory requirements. A copy of the External Auditor's statement is included on ***page 89*** of this Report.

BOARD RESPONSIBILITY AND APPROVAL

Collectively, as NBVI's Board, we take responsibility for the content, accuracy, and integrity of this Integrated Report. We have overseen both its preparation and presentation. In our opinion, this Report gives a fair and balanced impression of the Bank's performance, strategy, and management, as well as its ability to create value for stakeholders. We also confirm that this Report has been prepared in accordance with the International Integrated Reporting (IR) Framework.

We view this Report as an opportunity to provide stakeholders with material information and commentary thereon, so that they may make an informed assessment of our performance for the year under review. We have specifically focused on improving the readability of our Report and providing adequate information in support of assertions made by the Board and Management. This approach is intended to help readers understand how NBVI defines and measures value creation while executing its primary purpose – to empower our customers as they work for the betterment of these Virgin Islands. Notwithstanding, if after reading this Report, you feel there are areas in which the Bank can better live up to this commitment, please email info@nationalbank.vg.

This Report was approved by the Bank's Board of Directors on January 22, 2021.

Clarence Faulkner, Jr *Chairman*	Benedicta P.T. Samuels *Vice-Chair*	Drexel M. Glasgow
Ivan Hudson Carr	Antoinette Skelton	Michelle L. Todman Smith
Merwyn McKinley Hope	Joy N. Francis	

INTRODUCTION

ABOUT NATIONAL BANK

WHO WE ARE

A proud Virgin Islands ("VI") indigenous financial institution, committed to "Transforming, To Enhance Your Paradise".

We trace our roots back to the 1980s, when as the Development Bank of the Virgin Islands, we played a crucial role in funding micro enterprises and the educational ambitions of our people.

Effective February 28, 2007, the Bank changed its name from Development Bank of the Virgin Islands to National Bank of the Virgin Islands Limited, to reflect the Bank's shift in focus from development banking to commercial banking. Today, we are proud of what we have accomplished thus far and excited about the future. By reimagining, transforming, and working tirelessly, we believe we can build a simpler, faster, and safer NBVI for all. As the Territory continues to grow, so will we. Our Bank is committed to enabling all who deal with us to enhance their PARADISE.

VISION

To become the financial services provider of choice, with global access originating from the Virgin Islands.

MISSION

To financially enable our customers and stakeholders by providing excellence through innovative products and services, and value in the communities we serve, in an ethical, disciplined, and secure environment, while recognizing and rewarding the contributions of our employees.

PURPOSE

Born as a development bank with a vision to help grow these Virgin Islands, our singular mission has been to empower our customers as they work for the betterment of the community we serve.

CORE VALUES

Our values underpin our purpose, hold us to account and guide our steps to becoming the best possible bank. These values are the foundation of our corporate culture and serve as the source of NBVI's distinctiveness. As such, our core values will never be compromised for economic or self-gain. The Laws of the Virgin Islands and the Bank's core values constitute a reference point and commitment by our Board, Management, and Staff to "do what is right, even when it is not easy", to treat our stakeholders fairly, and to apply a conduct lens to our corporate and philanthropic activities. This Report promotes and celebrates these core values.

P
PROFESSIONALISM
WE ACT WITH COURTESY AT ALL TIMES, UPHOLDING HIGH STANDARDS.

A
ACCOUNTABILITY
WE ACCEPT OUR INDIVIDUAL AND TEAM RESPONSIBILITIES, MEET OUR COMMITMENTS, AND TAKE RESPONSIBILITY FOR OUR PERFORMANCE DECISIONS AND ACTIONS.

R
RESPECT
WE HONOUR THE RIGHTS AND BELIEFS OF OUR TEAM MEMBERS, CUSTOMERS, SHAREHOLDERS, SERVICE PROVIDERS AND COMMUNITY. WE TREAT OTHERS WITH THE HIGHEST DEGREE OF DIGNITY AND FAIRNESS.

A
ATTITUDE
WE ALWAYS MAINTAIN A POSITIVE ATTITUDE WHEN INTERACTING WITH OUR TEAM MEMBERS, CUSTOMERS, SHAREHOLDERS, SERVICE PROVIDERS AND COMMUNITY.

D
DEDICATION
WE ARE KEEN TO DO WHAT IT TAKES TO ACHIEVE OUR GOALS.

I
INTEGRITY
WE UPHOLD THE HIGHEST ETHICAL STANDARDS, DEMONSTRATING HONESTY, AND FAIRNESS IN ALL OUR BUSINESS PRACTICES.

S
SOCIAL RESPONSIBILITY
WE ARE COMMITTED TO SEEKING WAYS TO CONTRIBUTE TO THE ADVANCEMENT OF OUR COMMUNITY.

E
EXCELLENCE
WE CONSISTENTLY STRIVE FOR EXCELLENCE AND QUALITY IN ALL THAT WE DO.

CUSTOMER CHARTER

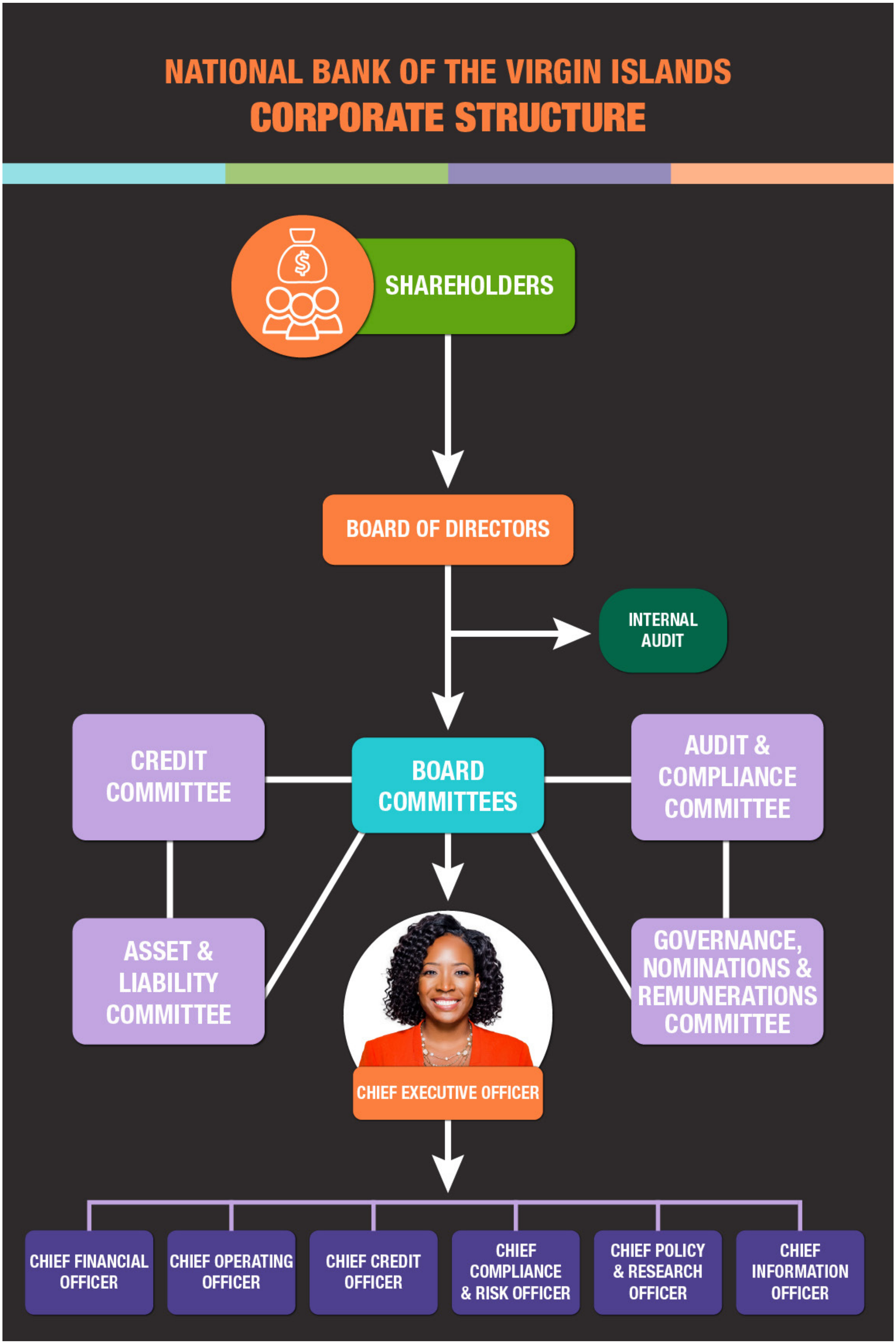
- To define the Bank's standards of good practice and service;
- To promote disclosure of information deemed relevant and useful to customers;
- To outline the Bank's service standards and commitments to customers;
- To promote integrity and transparency in dealing with our customers; and
- To explain the procedures for resolving disputes between the Bank and its customers that may arise in the course of business.

OUR KEY STAKEHOLDERS

At NBVI, we believe that understanding who our business affects and who affects our business is paramount to value creation. We recognise that different stakeholders have distinctive views on what constitutes good performance - depositors want higher interest rates for their money, while borrowers want to pay lower interest rates on loans; shareholders want a return on their investment, while employees want increased remuneration for their services. NBVI is committed to uncovering reasonable avenues to success for everyone. The principles expressed by our commitment to upholding this model originates from our belief that doing business with our Bank should be a winning engagement for everyone involved.

We continue to communicate through multiple channels, including formal correspondence, corporate website, annual reports, meetings, consultations, and surveys. Because each group of stakeholders is important to us, we actively seek engagement through various mechanisms to apprise them of our work and understand how we can better create value. In response to the rapidly changing environment and our stakeholders' needs and expectations, our strategy is to invest in technology and increase our focus on digitalization.

STAKEHOLDER	CHANNELS OF COMMUNICATION
CUSTOMERS	• Branch • Website • Bank Statements • Customer Surveys • Interviews • Emails • Phone Calls
SHAREHOLDERS AND ANALYSTS	• Annual General Meetings • Board Meetings • Annual Report • Website • Letters • Emails • Phone Calls
REGULATOR AND AUDITORS	• Meetings • Regulatory Reports • Emails • Phone Calls • Letters • Interviews
BOARD OF DIRECTORS	• Meetings • Reports • Emails • Phone Calls
EMPLOYEES	• Satisfaction Surveys • Staff Celebrations • Staff Training and Meetings • Evaluation Systems • Staff Recognition • Phone Calls • Emails • Corporate Events
SUPPLIERS	• Meetings • Business Documents • Letters • Emails • Phone Calls
MEDIA	• Website • Press Conferences • Press Releases • Emails
GENERAL PUBLIC	• Website • Social Media (Facebook, Instagram, Twitter, LinkedIn) • Press Releases • Sponsorship Initiatives


NATIONAL BANK OF THE VIRGIN ISLANDS
CORPORATE STRUCTURE
SHAREHOLDERS
BOARD OF DIRECTORS
INTERNAL AUDIT
CREDIT COMMITTEE
BOARD COMMITTEES
AUDIT & COMPLIANCE COMMITTEE
ASSET & LIABILITY COMMITTEE
GOVERNANCE, NOMINATIONS & REMUNERATIONS COMMITTEE
CHIEF EXECUTIVE OFFICER
CHIEF FINANCIAL OFFICER
CHIEF OPERATING OFFICER
CHIEF CREDIT OFFICER
CHIEF COMPLIANCE & RISK OFFICER
CHIEF POLICY & RESEARCH OFFICER
CHIEF INFORMATION OFFICER

CLARENCE FAULKNER, JR.
(CHAIRMAN)

DREXEL GLASGOW

NONA VANTERPOOL

HUDSON CARR

BENEDICTA P.T. SAMUELS
(VICE CHAIR)

ANTOINETTE SKELTON

JOY N. FRANCIS

MERVYN HOPE

MICHELLE L TODMAN SMITH

DIRECTORS REPORT

Director's Report

The Board of Directors is pleased to report on its stewardship for the financial year ended December 31, 2019.

The theme for this year's annual report is ***Transforming, To Enhance Your Paradise***. National Bank of the Virgin Islands Limited is committed to our customers, shareholder, and other stakeholders. We remain cognizant that your support is vital for the Bank's continued operation and profitability. The Bank also recognizes that its customers are demanding varied products and multiple delivery channels. Hence, the Bank has undertaken a transformation process towards greater digitalization, beginning with our core banking platform. The Board of Directors wishes to express its sincere gratitude to all stakeholders for your continued support and trust in the Bank. We are evolving into a more technology-driven institution to serve you better.

DIRECTORS

As at the reporting date, the Bank is at its maximum directorship of nine (9) members, based on its Articles of Association. There were no retirements or resignations in the financial year.

BOARD COMMITTEES

In keeping with its oversight function and fiduciary duties, the Board of Directors executes its mandate through four (4) committees: Credit; Asset and Liability; Audit and Compliance; and Governance, Nominations and Remunerations. These committees work closely with management to address challenges facing the financial services industry and the Bank. Details of the mandates, membership, and meetings of these committees can be found on ***page 72*** of this Report.

INTEGRITY OF OUR FINANCIAL REPORTING

The integrity of financial reporting to Shareholders is protected through the following elements:

- Board oversight and responsibility
- Oversight from the Audit and Compliance Committee
- External Audit

BOARD MEETING ATTENDANCE

Board meetings serve as the primary forum through which Directors share information and deliberate on the Bank's strategy, performance, plans and policies. Ten (10) meetings were convened in 2019 (2018:15).

Director	Number of Meetings	Percentage of Attendance
Clarence M. Faulkner (Chair)	10/10	100%
Benedicta P. T. Samuels	7/10	70%
Drexel M. Glasgow	10/10	100%
Nona Vanterpool	8/10	80%
Ivan Hudson Carr	10/10	100%
Antoinette Skelton	7/10	70%
Michelle L. Todman Smith	7/10	70%
Joy N. Francis	10/10	100%
Mervyn McKinley Hope	10/10	100%

BOARD TRAINING AND DEVELOPMENT

As part of the Bank's commitment to keep its Directors up to date with changing developments within the banking industry, during the financial year, Directors participated in the following conferences, seminar, and training, covering various topics:

- Institute of Chartered Secretaries and Administrators (ICSA) BVI Seminar 2019: The Future of Governance;
- Compliance Aid Conference: Anti-Money Laundering & Financial Crimes Conference 2019;
- NBVI Anti-Money Laundering and Identity Theft Training; and
- Caribbean Association of Audit Committee Members (CAACM) 13th Annual Conference: Riding the Wave of Disruption: Practical Aids for the Impending Challenges.

BOARD TIME ALLOCATION

The Board's standard and regular agenda items include:

- Reports from each Board committee;
- Governance and policy matters;
- Review of the Bank's Strategic Plan; and
- Review of Executive Reports

TRANSFORMATION

The Bank is laser-focused on increasing shareholders' value, increasing accessibility via new digital channels with many new products and services, and satisfying all our customers' needs as a full-fledged commercial bank. Hence, we are making significant investments in new technology to help us deliver our transformation strategy.

CHALLENGES

We continue to be affected by the ongoing correspondent banking issue that has hindered NBVI from offering wire transfer services to our customers. Although a permanent solution to this problem has not yet been finalized, we have made good progress in our negotiations. We believe that ongoing efforts will result in a breakthrough in due course.

CORPORATE SOCIAL RESPONSIBILITY

During the 2019 financial year, we remained committed to our mission to create value in the communities we serve. In undertaking this mission, we relied on our team of seventy-one (71) talented and well-trained employees to create a better future for our customers, the Bank and society. We know that we are only as good as our people. Hence, our Bank strives to empower and equip every member of our team for personal and professional success. As a corporate social partner, we continue to do our part to improve the lives of people through our contributions to several initiatives in the areas of culture, education, sports, and health and well-being.

FINANCIAL RESULTS

The Directors report a net profit of $1.3M for the year ended December 31, 2019. The Bank's overall performance is discussed in greater detail by CEO Joy Francis in her letter, while CFO Stephanie George-Brodie summarises the Bank's financial performance and position.

DIVIDENDS

As stipulated in the Bank's Articles of Association, the Directors declared a dividend of 4.5% to preference shareholders for the financial year ended December 31, 2019. This declaration, as approved by the Annual General Meeting, resulted in a total dividend of $247,642.75 paid for the 2019 financial year.

ACKNOWLEDGEMENTS

The Board expresses its appreciation to the Bank's staff who continue to work tirelessly to ensure the viability of the institution. The Directors also thank former employees who have decided to pursue other endeavours but have contributed significantly to the success of the National Bank of the Virgin Islands Limited.

Finally, the Directors thank all our valued customers and shareholders for your patronage and look forward to your continued support as we seek to ensure the Bank's continued success.

OUTLOOK - STRONGER AND MORE PROFITABLE BANK

Our Directors remain optimistic about the Bank's growth and performance in the years ahead, as NBVI expands its suite of products and services. We are confidently moving closer towards achieving our vision of becoming the financial services provider of choice, with global access originating from the Virgin Islands. In the coming year, we will take stock of what we have accomplished as we execute our three-year strategic plan. This will help us determine what we need to do in the remainder of the plan and lay the foundation for the next planning cycle.

By Order of the Board of Directors

Wendy Lewis

Wendy Lewis
Corporate Secretary
September 30, 2020

Q & A WITH OUR CHAIRMAN

Q&A With Our Chairman

Mr. Chairman, what was the year 2019 like - how would you summarize the Bank's performance?

In one word: "Resilience". Having gone through the initial recovery stages in 2018 in the aftermath of the natural disasters which affected the Territory, this year we wanted to see people working again, smiling again, conducting commerce again and moving to higher heights. As they embarked on that journey, we asked the question: "How can we assist those persons/businesses to achieve their respective goals?" We wanted to be that partner of choice.

"Transforming to Enhance Your Paradise" is the theme chosen for this year's Integrated Annual Report. What is the significance of this theme?

Many persons and businesses in the Territory lost a lot in 2017, be it jobs, business ventures, or homes, to name a few. However, the people of the Virgin Islands remained resilient and vibrant - restoration and rebuilding those dreams remained at the forefront of their desires. The storms of 2017 taught us many lessons along the way. In rebuilding, consideration had to be given to how the Bank could assist in the restoration process, through building more resilient homes, while seeking viable business opportunities. How could the Bank assist with such a transformation? Hence the theme.

What sets the National Bank of the Virgin Islands apart from its competitors?

It is a Family! NBVI has embraced a culture of inclusiveness. It starts with the Board of Directors, which consists of professionals who share one common goal and purpose. We have gone through great lengths to attract a talented group of Executives, led by our CEO, along with an amazing group of dedicated team members. It starts and ends with them. Matters such as timeliness of execution, services standards and, of course, products are all very important; however, getting the team right is very much at the heart of what makes us unique.

What significant achievements are you particularly proud of?

Despite many obstacles since the storms, we did absolutely everything possible to secure our team, while still servicing our customers. Despite the difficult economic recovery, we provided solutions. Despite it all we remained resilient - we were there and are still here for the people of the Virgin Islands. For example, we extended a moratorium and created opportunities for persons to speak to their respective bank representative to see how best we can help. Further, we never stopped lending to our customers. It is very important to us that both our Staff and our customers know that we will explore all avenues to be there for them, despite the challenges.

Are there any areas of the Bank's operation that could have gone better in 2019?

Clearly, as Chairman I am never satisfied and will always push for more; better execution and enhanced products and services. However, I am mindful and very much aware, that things do *not just happen because you decide, "let's do this". Navigating the logistics of a new system, negotiating merchant services agreements and of course, the matter of a US correspondent banking relationship; these for me could have gone better. Success in these areas will increase the presence and market share of the Bank.*

What do you consider the most challenging issue(s) faced by the Bank in 2019?

Sourcing a US Correspondent bank. It remains a significant challenge throughout the entire Caribbean Region. We must find a solution that provides the conduit to enhance services, economic activities, and facilitate trade.

Non-Performing Loans (NPLs) have been a big problem in the entire industry – how is the Bank managing its portfolio?

By managing its relationships with its customers. For a variety of reasons, customers may experience financial difficulty that could result in their failure to adequately service their loans. We try to communicate smarter, earlier and look for solutions that enable both parties to assess and determine how best to move forward, together. It is a partnership, so we will continue to engage. Both sides have a part to play.

This is the first full year following the implementation of IFRS 9, how has it impact the performance and operations of the Bank?

It is all relative, isn't it? As someone exposed to the global financial markets and corporate governance, it is very much expected that there will be some new pieces of legislation and new reporting standards that we must all adhere to. For us, as a Bank with loans and leases, IFRS 9 impacted the financials in terms of reporting and disclosing the institution's overall obligations. Many will not like the new requirement as it requires you to record the impact of a long-term commitment beyond the reporting year. I just see it as another requirement while doing business in the modern world of financial reporting.

What is most important for increasing NBVI's corporate value?

Again, the NBVI family. A highly trained and professional team is what continues to drive our corporate value. The Team, along with enhanced technology, products and services which promote efficiencies to the satisfaction of our clients.

The financial industry is becoming more digitalized every day. What can customers expect from NBVI in terms of establishing and/or expanding the Bank's digital footprint?

As you have indicated, the industry is transitioning, and so too is the Bank, as we endeavour to keep pace with our customers' needs. We launched our online banking platform to service those customers who wish to utilize such services, and we will continue enhancing our online presence *to serve a broader customer base. However, we cannot overlook those who wish to maintain the traditional banking services. We must continue to be innovative, yet flexible, to service all customers and assist them in accomplishing their respective goals.*

What is the Bank doing to support the community?

We take great pride in our contributions to our community, as the only indigenous Bank in the Territory. We continue to support matters of national importance that reach the wider community, and it is something we will continue to do. I know our CEO is very passionate about this area and can provide more details about many of the specific community initiatives we continue to support, such as education, health and wellness, national treasures, and so on.

What level of support are you receiving from your fellow Directors and the Bank's Management team?

Unwavering – Being able to assemble a group of professionals who share the same vision and recognize the important role the Bank plays in this community, is amazing. Without hesitation, each Director championed a specific cause based on his/her skill set and has worked with the respective Executive to ensure the best advice and outcome for the Bank. Our in-depth deliberation, assessments and availability speak to our ability to move from strength to strength. We have entrusted the Executives to lead and manage based on their respective skill sets, with the assurance that there is always support and another voice available at the Board. I am very fortunate to have the Team that I have. The relationships and respect for each other is a testament to our ability to execute.

What is your take on the role of NBVI in entrenching environmental sustainability in businesses?

We must continue to protect the environment as it remains the core of our very existence. Here in the Territory, absolutely everything we do involves the environment, such as work, leisure, economic drivers, food, and health. Everyone has a part to play.

What does NBVI want to achieve in the years ahead – where do you want to lead the Bank?

Our aim is to become the number one Bank in these islands. We want to ensure that the people of this Territory have access to a full range of commercial and retail banking services to conduct commerce and their personal affairs.

LETTER FROM OUR CEO

Dear Fellow Stakeholders

I am pleased to report that NBVI is in a very different place, having made steady progress since the hurricanes of 2017. With the implementation of cost containment strategies that have not compromised our service delivery and productivity, we can look forward to enhancing shareholder returns. Notwithstanding the prolonged sluggish domestic economy and intense competition, our Bank has reported a profit as well as improvement in customer satisfaction. NBVI is positioned for success and is on a path to deliver healthy and sustainable returns.

ACHIEVEMENTS

We have made slow but steady progress, particularly in the last two years. Amongst many noteworthy accomplishments, we have:

- enhanced the Policy and Research Division to strengthen the review and development of the Bank's policies and operational procedures, and provide research assistance, relative to industry trends;
- introduced personal and commercial checking accounts;
- established a fast-pass system to enable efficient service to our loyal customers from the sister islands;
- developed and assessed responses to a comprehensive "Request for Proposal", in conjunction with key industry partners, towards the goal of replacing the Bank's dated core system; and
- recorded net profits for two consecutive years, following a year marked by Hurricane Irma and its callous demise.

SETBACKS

Despite our best efforts, and for reasons beyond our control, we were not able to secure a new correspondent banking relationship this year. We continue to grapple with the implications of the de-risking issue that has affected the Bank's ability to offer services such as wire transfers and letters of credit. Our inability to provide these services limits our capacity to compete and win the entire business portfolio of some major corporate clients who rely heavily on these services. This is obviously a major concern, as the inability to facilitate wire transfers gives a distinct advantage to our competitors who provide that service. Nevertheless, negotiations are ongoing, and I remain optimistic that we will offer more services to our valued customers in due course.

Another major challenge is the delayed launch of our ATMs and Card Services. We have had many setbacks on these projects, but we have stayed the course and I am confident that these projects will come to fruition.

DIGITALIZATION AND CYBERSECURITY

While digitalization has radically changed how customers access their banks and has brought many benefits, unfortunately, it has also created opportunities for cybercrime. Not only are criminals after information, but they are also after money and will steal it whenever they can. They are exploiting this new digital reality, in which they can reach across the globe, anonymously, and virtually risk-free. Cybercriminals are smart, highly innovative, and persistent. The rewards are enormous and the risks to the perpetrators are seemingly low. This issue is a real and present danger, not only to NBVI, but also to society.

At NBVI, we have made defending against cybercrime one of our most important and urgent priorities. Accordingly, we continue to be vigilant, while investing to protect our customers, our institution, and society. This is a worthwhile investment, which is non-negotiable in our determination to secure the Bank's long-term future.

FINANCIAL PERFORMANCE

In general, NBVI has shown progress and improved performance. Net profit was $1.3m, up 12.7% on the prior year, yielding a return on equity (ROE) of 3.1%, up 6.9% on the prior year (2018), and just shy of our target. The improvement in this ratio derived from a significant reduction in impairment achieved through prudent management of credit risk, supported by improved macroeconomic conditions during the year. Our loan portfolio grew from $195.8m to $206.7m or 5.6% over its 2018 performance year.

GIVING BACK TO THE COMMUNITY

As the only indigenous Bank in the Territory, we see ourselves as a vital thread in the fabric of our society and recognize the need to continue upholding our corporate social responsibility. Despite the challenges, we continue to lend a helping hand to our community, primarily through the deployment of human, technical, and financial resources to various cultural, educational, sporting, health, and wellness initiatives. I find this aspect of our core values very rewarding and I am pleased to confirm that in 2019, our financial contributions to various philanthropic causes amounted to $54k.

EMPLOYER OF CHOICE

We continue to invest in the development of our staff as we align our training programmes to our strategic plan. Creating an environment that inspires employees to grow and develop is a driver of sustainable growth and a strong testament for the Bank. To provide the best service to our clients and support the communities in which we operate, we must continue to attract and retain the best talent.

Being a great place to work includes our ongoing commitment to developing and managing talent, employee engagement, and fulfilment of our core values.

OUTLOOK

We will continue to work hard, with commitment and deliberate focus on becoming the financial services provider of choice in this Territory. Although the economic environment remains uncertain and issues will emerge, we are optimistic that we will be able to deal with these matters as they arise. Our capacity to serve the public and our suite of products and services will continue to improve. Our team is getting stronger every day, as we continue to invest in them heavily to promote a positive and healthy working environment.

Reflecting on the period since the storms of 2017, it has indeed been a tough year for the Bank, with unique and unforeseen challenges heading into 2020. What we have achieved could not have been possible without strong leadership and the unwavering efforts of our staff. Therefore, I would like to thank the Board, Management, and all Members of Staff for their dedication and support, as the NBVI Family strives to make a better, stronger Bank for us all.

Joy N. Francis

Joy N. Francis
Chief Executive Officer
October 30, 2020

OUR EXECUTIVE TEAM

The Executive Management Team is responsible for the execution of the Bank's strategy and day-to-day management, guided by relevant frameworks, policies, and standards, such as the Enterprise Risk Management Framework, and our Code of Conduct.

JOY N. FRANCIS

(CHIEF EXECUTIVE OFFICER)

STEPHANIE GEORGE-BRODIE

(CHIEF FINANCIAL OFFICER)

WADE RICHARDSON

(CHIEF OPERATING OFFICER)

IRVIN MEADE
(CHIEF CREDIT OFFICER)

ANNETTE BRAITHWAITE
(CHIEF COMPLIANCE AND RISK OFFICER)

ETIENNE CHARLES
(CHIEF INFORMATION OFFICER)

BRIAN JAMES
(CHIEF POLICY AND RESEARCH OFFICER)

CFO'S FINANCIAL SUMMARY

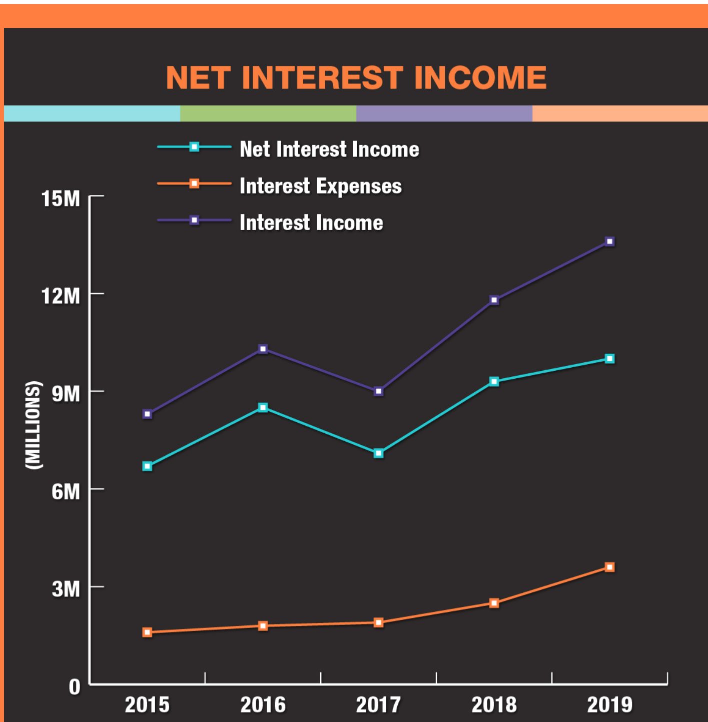
CFO'S Financial Summary

NBVI's strategic decision to maintain a controlled lending appetite, with greater focus on the management of our existing performing and non-performing loan ("NPL") portfolios in 2019, is already bearing fruits. Indeed, we are pleased to report a net profit of $1.3m, representing growth of 12.7% over the prior year. This enhanced result was driven by the commitment of the Board, management, and staff to improve the Bank's performance by containing NPLs and prudently managing the Bank's cost of funds.

Implementation of International Financial Reporting Standard (IFRS) 16 - Leases

During the year, the Bank implemented International Financial Reporting Standard (IFRS) 16 – Leases, which became effective January 1, 2019 and replaced International Accounting Standard (IAS) 17. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The implementation of the above standard had a significant impact on the Bank's net earnings due to increased costs detailed below. Under IFRS 16 - Leases, the Bank's existing leases for its offices and business continuity sites, were converted to Right-of-Use (ROU) Assets and Lease Liabilities each totalling $4.0m. The increase in capital assets of $4m, resulted in an increase in depreciation expense of $0.5m. However, the conversion to lease liability resulted in a decrease of approximately $0.4m in monthly rental costs. The decrease is due to the split of rental costs between interest expense at an incremental borrowing rate of 4.5% and the monthly amortization of the lease liability. The net effect of the above activity is a decrease of approximately $0.1m in the Bank's net earnings.   Going forward, the Bank will review its lease contracts on an annual basis and update its records to reflect any new lease contracts signed and/or changes in existing contract terms as required under IFRS 16 – Leases.



Net Interest Income

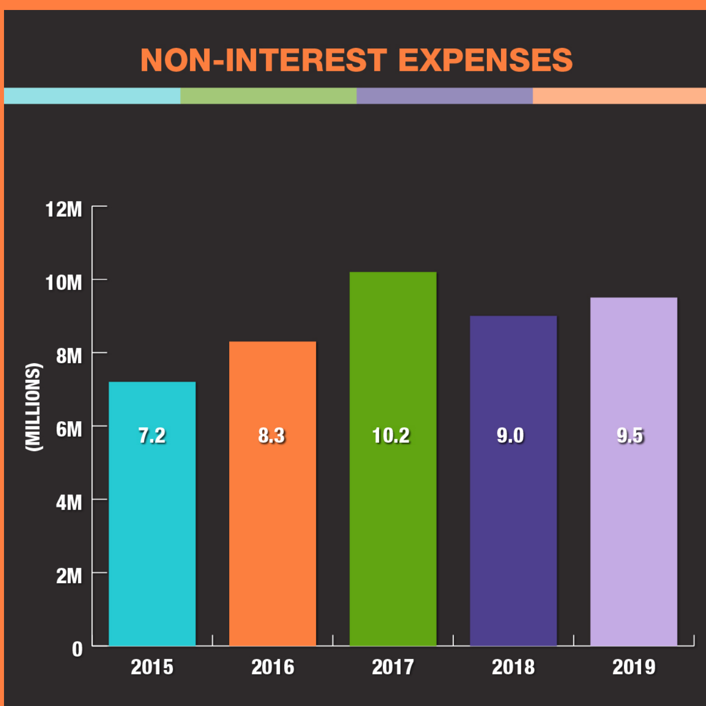
The Bank experienced a $0.7m or 7.3% increase in net interest income (NII), which stood at $10.0m for 2019 compared to $9.3m in 2018. Interest income from loans grew by $1.3m or 12.1% over 2018 due to an increase of 5.6% in the total loan portfolio. Income from investments also increased by $0.5m or 56.7%. The Bank's total interest income experienced growth of 15.6% ($11.8m in 2018 to $13.6m in 2019), driven mainly by steady growth in the loan and investment portfolios. Other income, which comprised fees and commissions, and other operating income, increased by 1.1% or $9k. The limited increase was due to a decline in commissions earned, in line with reduced loan activity for programs administered, and delay in the introduction of new products and services.

Total operating income (inclusive of net interest income and other operating income) for 2019 was $10.8m, an increase of $0.6m or 6.8% above 2018. After operating expenses of $9.5m, the Bank reported a net profit of $1.3m for 2019, an increase of $0.1m or 12.7% compared to the previous year.

Interest Expense

Interest expense reflected an increase of 46.5% or $1.2m, bringing the total cost to $3.6m in 2019. This increase is in line with an overall increase of 14.8% or $29.4m in total deposits compared to 2018. Despite declining market rates in 2019, the Bank's cost of funds did not decrease, due to higher rates on longer term contracts that would renew in subsequent years. Deposits on regular savings accounts which attract lower interest rates reported zero-growth, while current accounts, which are non-interest bearing, increased by 80.0%. This growth outperformed the higher rate certificates of deposit (CDs) component of the overall deposit portfolio, which increased by 21.1%.

A slight increase in interest expense of $0.2m was also recorded due to the implementation of IFRS 16 – Leases.



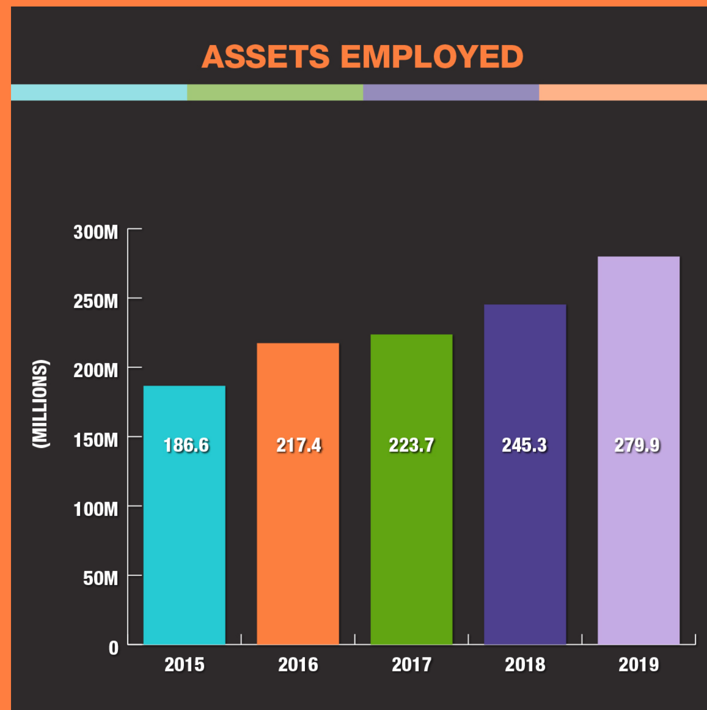
Non-Interest Expenses

Non-Interest Expenses totalled $9.5m, representing an increase of $0.5m or 6.0% above 2018. This increase was primarily due to increased depreciation expense due to the implementation of IFRS 16 – Leases and increased staff costs. Despite the overall increase, the Bank was able to reduce credit loss expenses by $1.2m due to ongoing remediation of bad loans. This is good news, as the Bank continues to grapple with the challenges posed by Non-Performing Loans.

Staff costs remain the largest single, consistent contributor (51.8%) to non-interest expenses and increased in line with the addition of new hires to support the implementation of additional products and services. This expense allocation is typical of institutions like NBVI, which is currently in the expansion phase.

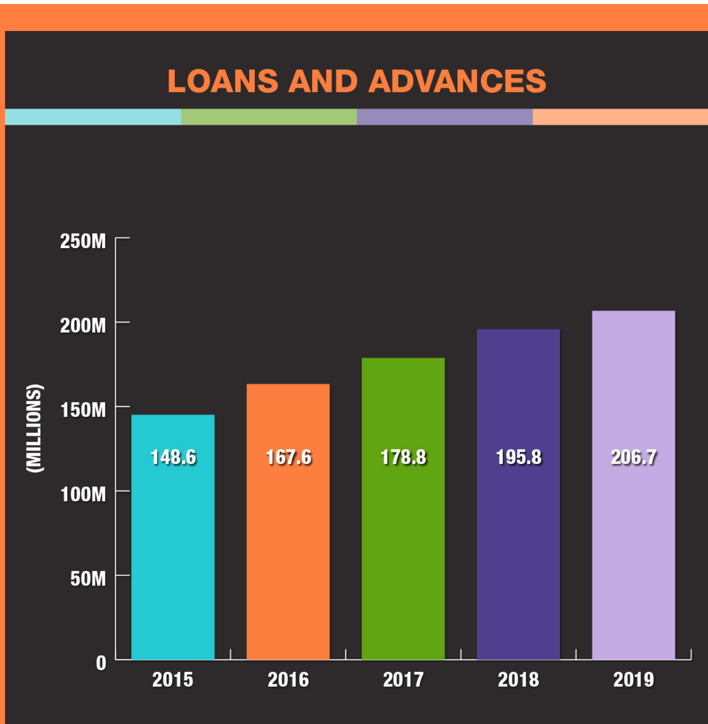
Assets Employed

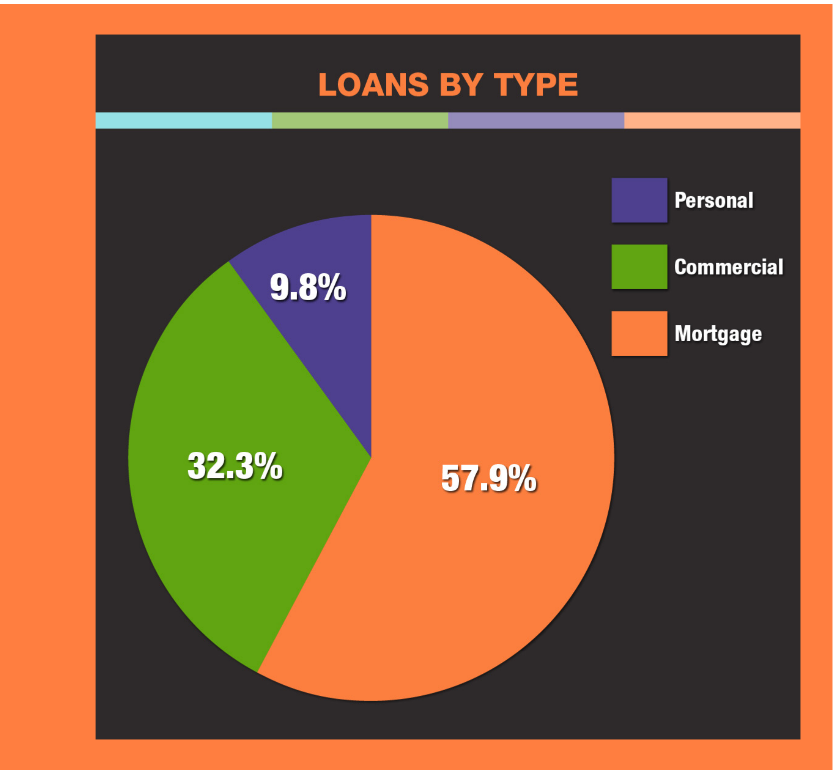
The balance sheet also recorded healthy growth of 14.1% to close the year at $279.9m. This increase was primarily driven by growth in loans and advances, cash and bank balances, and financial investments. This increase in assets is an optimistic indicator and evidence of the Bank's growth potential as it surpassed the 9.6% growth achieved in 2018.



Loans and Advances

Despite the competitive credit environment and the Bank's strategic focus on recoveries coupled with conservative growth of the loan portfolio, NBVI was able to increase its overall loan portfolio to $206.7m or 5.6% over its 2018 performance. This modest growth was concentrated in retail mortgages.





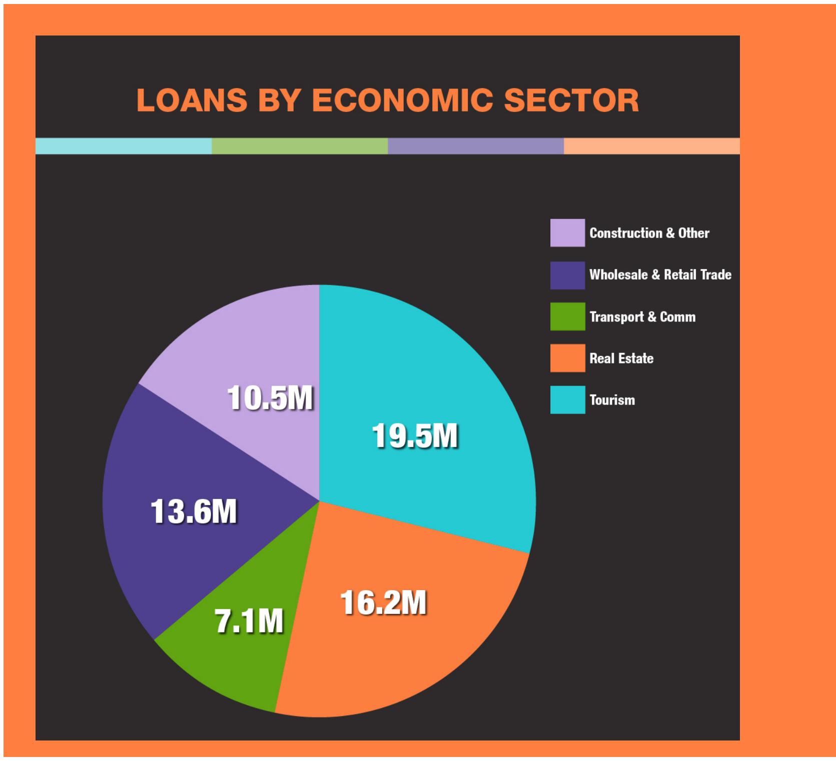
Loans by Type

As at the 2019 year-end, the Bank's loan portfolio comprised of Mortgage Loans at 57.9%, Commercial loans at 32.3%, and Other Personal Loans at 9.8% respectively. Mortgage loans reported the highest percentage increase in value at 6.3%, followed by Commercial Loans at 5.3% and Other Personal Loans at 2.2%.

Loans by Economic Sector

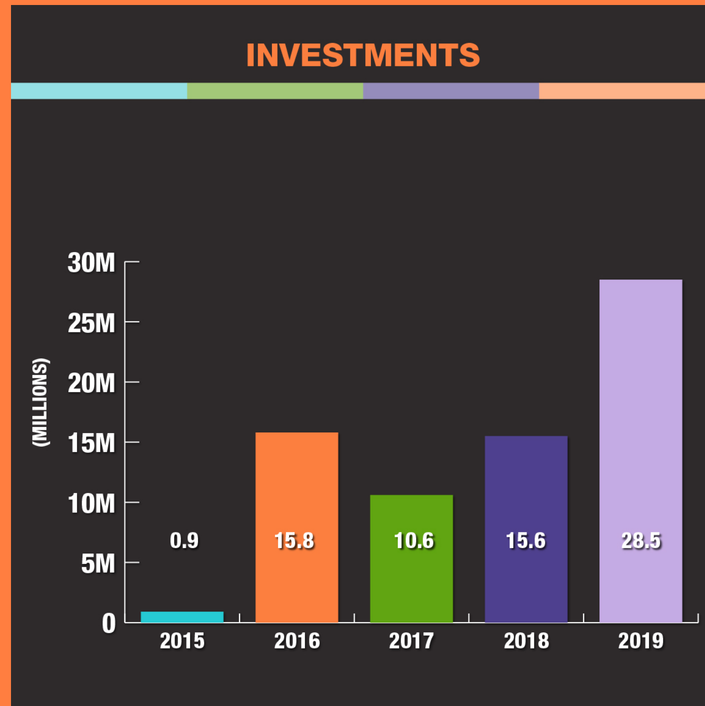
Growth in commercial loans was somewhat restricted but further analysis of the portfolio by economic sector, revealed some movement in the composition relative to the prior year, 2018. Noteworthy increases were recorded in some sectors. Wholesale and Retail Trade increased by 122% to $13.6m, Construction grew by 9.4% to $7.1m and Tourism increased by 2.9% to $19.5m.

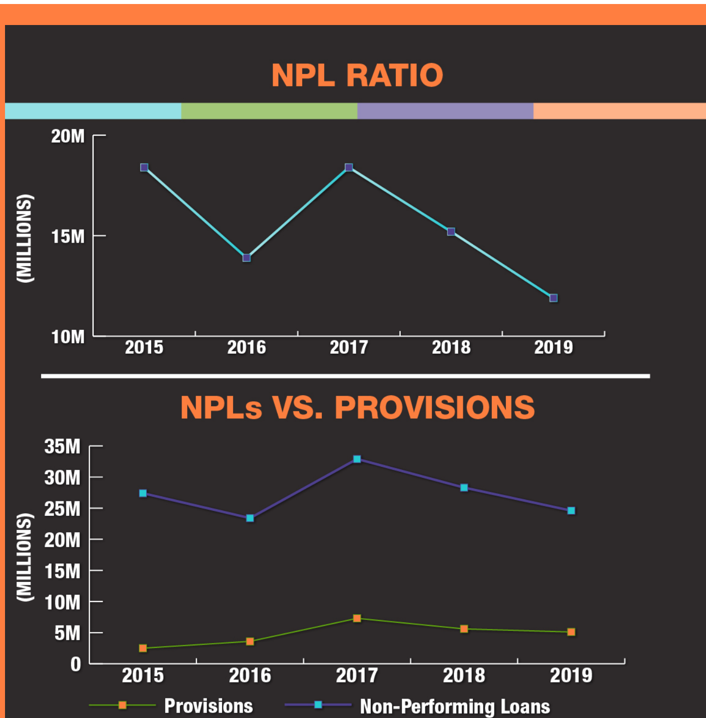
On the downside, the largest declines by sector were in Real Estate, which decreased by 22.4% to $16.2m, followed by Utilities, which fell by 100% or $0.6m, and Transportation and Communication, which declined by 5.9% to $7.0m.



Investments

The investment portfolio increased by $12.9m to $28.5m compared to 2018, due to the addition of long-term corporate bonds totalling $12.0m, which represent 42.4% of the investment portfolio as at the reporting date. The remaining investments in the portfolio include a Government Note – 35.3%, short-term bonds – 14.3%, treasury bills – 7.0% and asset-backed securities – 1.0%. The movement in the portfolio is in line with NBVI's strategy to channel excess liquidity towards income-generating assets, having regard for the Bank's risk appetite.





Non-performing Loans (NPLs) and Provisions

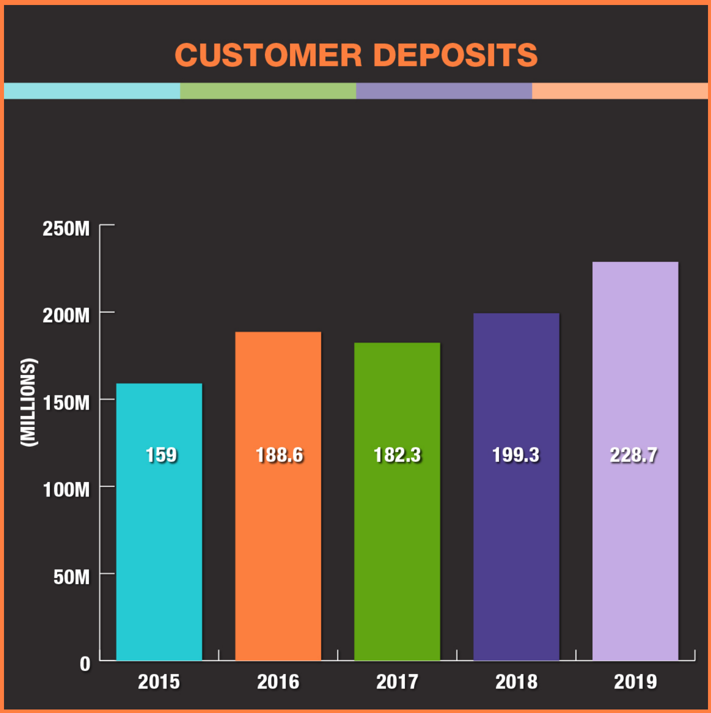
The non-performing loans ratio stood at 11.9% at the close of 2019, which was higher than the Bank's budgeted ratio of 9.3%. Despite missing the budgeted target, it is noteworthy to mention that the NPL portfolio decreased by 12.9% or $3.6m when compared to the previous year.

With a goal of bringing the ratio within single digits, the Bank continues to be prudent in its underwriting practices with a purposeful pursuit of new lending. Measures remain in place to focus resources on increasing recoveries, limiting the migration of loans to non-performing status, rehabilitating non-performing loans, and actively foreclosing on collateral for non-performing loans.

Total estimated credit losses were $5.1m in 2019 compared to $5.6 in 2018. This modest reduction is reflective of the overall improvement in asset quality and the above-mentioned focused recoveries strategy. Additionally, the Bank recovered $0.2m from amounts previously written-off, an increase of $0.1m compared to the previous financial year.

Customer Deposits

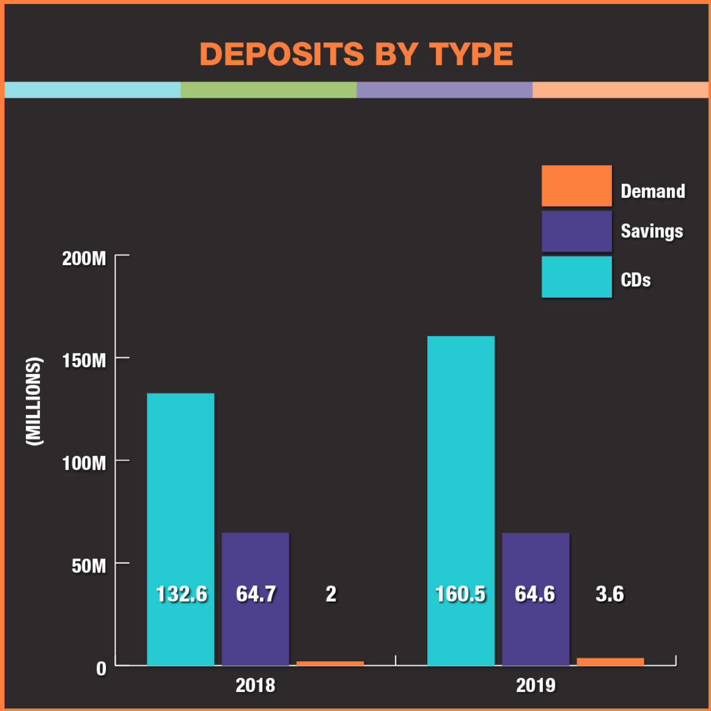
Customer Deposits ($228.7m) accounted for 96.0% of the Bank's total liabilities and increased by $29.4m or 14.8% in 2019, compared to $199.3m in 2018.



Deposits by Type

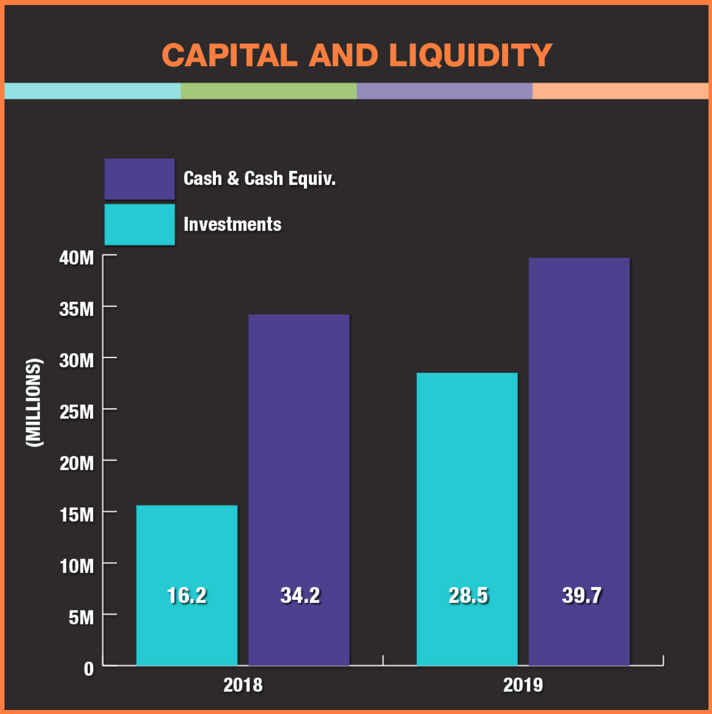
Undoubtedly, the continued increase in deposits recorded in 2019 is a vote of confidence in the current leadership of the Bank and will bode well for continued organic growth.

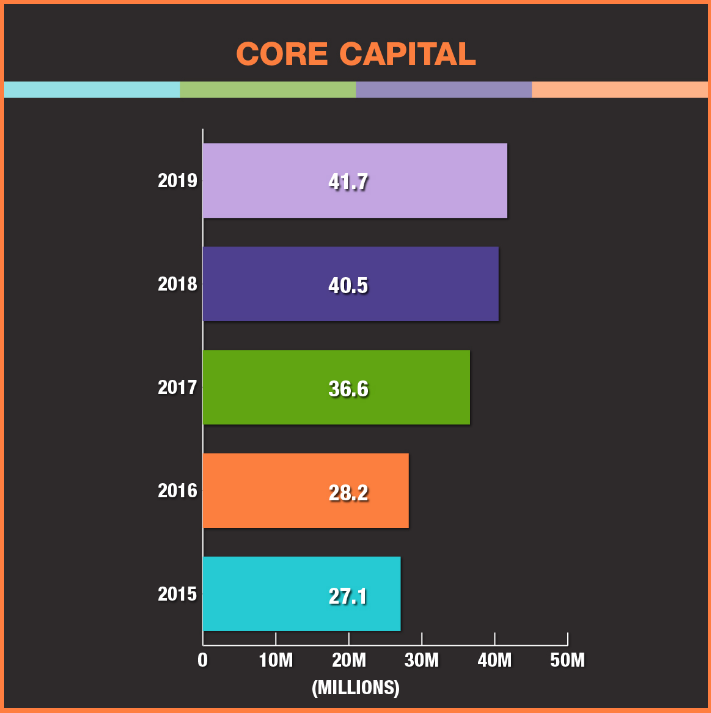
CDs increased by 21.1% or $27.9m to $160.5m and remained the largest component of the deposit portfolio. Savings deposits, which totalled $64.7m in 2018 reported zero-growth in 2019. Demand deposits grew by 80.0% over 2018, which represented an increase of $1.6m, taking the total demand deposit portfolio to $3.6m at the end of 2019.



Capital and Liquidity

Overall, the Bank's capital and liquidity remained stable despite the challenging operating environment due to continued deposit growth, as noted above. The Bank's overall liquidity increased in 2019 because of additional investments: Cash and cash equivalents and amounts due from banks increased by $5.5m or 16.1% to $39.7m, compared to $34.2m in 2018. The Loans to Deposits ratio decreased to 90% compared to 2018, reflecting that growth in deposits exceeded growth in the loan portfolio in 2019. Return on equity increased to 3.1% in 2019 from 2.9% in 2018 and Return on Assets remained flat at 0.5% in 2019. In 2020, the Bank will recommit to growing the deposit base to allow the Loans to Deposits ratio to continue trending towards the Bank's benchmark of 75% to 85%.





Capital Adequacy Ratio

NBVI's core capital increased by $1.2m from $40.5m in 2018 to $41.7 in 2019. The Bank's capital remains strong, albeit uncertainties lie ahead with the imminent introduction of the Basel II/III accord within the BVI's regulatory system.

The Capital Adequacy Ratio (CAR) decreased to 24.8% from 26.5% in 2018, due to continued growth in the asset base. This ratio is well above the regulatory guidelines of 12%. The Bank remains compliant with capital adequacy requirements of the BVI Regulatory Code, 2009 (as amended).

Outlook

Looking forward into 2020 and beyond, the Bank is poised to leverage its indigenous roots as a home-grown, trusted, and caring financial partner to our loyal customers. We continue to effectively manage our costs, expand our suite of products and services, and increase our delivery channels to serve you better and achieve sustainable growth. We are optimistic that NBVI, the ***"official bank of paradise"***, will take its rightful place as the leading financial institution in the Territory and that tangible benefits will accrue to our shareholders and other stakeholders in the years to come.

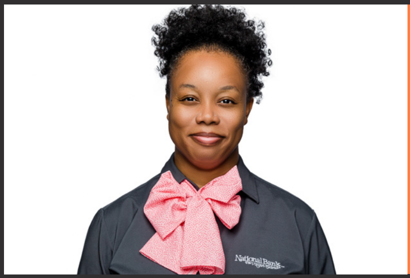
........Stephanie George-Brodie...........

Stephanie George-Brodie
Chief Financial Officer
October 30, 2020


QQL $119.49
INVEST
RESPONSIBL
7.30
0.55

OUR SENIOR MANAGEMENT TEAM

We have a diverse and experienced senior management team which is responsible for maximising the Bank's efficiency, productivity and performance through established guidelines, and objectives. They are also responsible for protecting and enhancing the Bank's reputation.



OCTAVIA ALEXANDER
Senior Compliance Officer

SOPHIA BERKELEY
Human Resources Manager

IVOR DAWSON
Collections Manager

MARVIN HAZELL
Information Technology Manager

CURTIS MENDEZ
Operations Manager

IAN NATHANIEL
Internal Auditor

MARICEL PICKERING
Senior Accounts Officer

MICHAEL A. VANTERPOOL
Senior Credit Officer (Retail)

MARSHA WOODLEY
Senior Credit Officer (Commercial)

BUSINESS MODEL AND VALUE CHAIN

NBVI is committed to the highest standards of governance, ethics, and integrity. We embrace world-class banking practices and robust institutional frameworks, such as risk management policies and procedures, to ensure our banking services are secure and in line with industry best practice. We constantly review these practices to ensure that we operate in the best interests of our stakeholders. Our business model is fuelled by our purpose to empower our customers as they work for the betterment of the community. As a financial services provider, we understand our crucial role in the economic life of individuals, businesses, and these Virgin Islands – helping to stabilise, rebuild and forge partnerships in economic development. Our business model enables us to respond to the dynamic environment of competing stakeholder expectations, market forces and regulatory obligations.

NATIONAL BANK OF THE VIRGIN ISLANDS
BUSINESS MODEL AND VALUE CHAIN

CAPITAL INPUTS

FINANCIAL
Our shareholders' equity and funding from clients that are used to support our business operations and activities, including lending.

HUMAN
Our experienced Directors, skilled Management and competent employees, motivated by mission, supported by training and development activities, blended with our "One Team" culture to create an enabling environment to discover innovative and competitive solutions for our clients.

INTELLECTUAL
Our brand, effective information and technology infrastructures, institutional knowledge, innovative capacity, reputation and strategic partnerships.

MANUFACTURED
Our business structure and operational processes, including our physical and digital infrastructure, our products, as well as our information technology that provides the frameworks, mechanisms and channels through which we do business and create value for stakeholders.

NATURAL
Our impact on natural resources through our operations and business activity – reduction of carbon emissions (improving air quality), water and waste management.

SOCIAL AND RELATIONSHIP
Our citizenship and collaborative relationships with a wide range of stakeholders, including regulators, suppliers and the communities in which we operate, as we embrace our role in fostering socio-economic development, societal wellbeing, and reconstructing a stronger, thriving BVI.

OUR BUSINESS ACTIVITIES & OUTPUTS

ETHICS
KNOWLEDGE
INNOVATION
INCLUSION
PLUGGED-IN

LEND MONEY TO CLIENTS

SOURCE FUNDING FROM CLIENT DEPOSITS AND CAPITAL PROVIDERS

PROVIDE TRANSACTIONAL BANKING FACILITIES AND KNOWLEDGE-BASED SERVICES TO CLIENTS

REVENUE FROM OTHER SOURCES LINKED TO CORE BUSINESS

FUNDAMENTAL PILLARS OF VALUE CREATION

CUSTOMER FIRST | GOVERNANCE | RISK MANAGEMENT | PEOPLE DEVELOPMENT

OUTCOMES

FOR CUSTOMERS
- *Innovative, efficient, cost-effective banking solutions that meet customers' needs.*
- *Improved access to financial products and services, including access to information and advice.*
- *A safe and trustworthy financial services provider.*

FOR EMPLOYEES
- *A workplace that fosters productivity and enables employees to achieve their potential.*
- *Performance underpins the rationale for recognition and reward.*
- *Self-led development and an opportunity for career progression.*

FOR SOCIETY
- *Ethical behaviour.*
- *Support for economic growth.*
- *Increased access to, and funding for, education opportunities.*
- *Decreased negative environmental impact.*

FOR REGULATORS
- *Fair and ethical engagement when dealing with the Bank.*
- *A stable financial services sector.*
- *An inclusive and transformed sector.*

FOR INVESTORS
- *Growing, sustainable return on their investment through attractive dividends and growth in the share price.*
- *Return on debt-based investments delivered.*

FOR THE PUBLIC
- *A strong home-grown institution that understands the need to build back better*
- *A business partner to entrepreneurs*
- *Quick decisions on loan applications and interest rates*
- *Economic growth for the BVI.*

OUR MARKETS

Our primary market is the Territory of the Virgin Islands. NBVI continues to be a customer-centric organization. We are determined to grow our top-line income, increase market share, and maintain long term relationships for continued growth and sustainability. From inception, NBVI's existence was built on deepening and developing long-term relationships with our stakeholders and we continue to rely on that winning formula to this day. We want to remain attuned to the needs of our stakeholders, even as we embrace the opportunities brought about by digitalisation to adopt innovative ways to conduct our business. We will expand our suite of products and services and introduce new delivery channels to propel our growth ambition. We will also pursue strategic alliances and forge new partnerships to explore different avenues of growth to expand the Bank's footprint.

As of 31st December 2019, our five (5) significant competitors remain unchanged:

- Banco Popular de Puerto Rico;
- Scotiabank (British Virgin Islands) Limited
- CIBC FirstCaribbean International Bank;
- First Bank of the Virgin Islands; and
- VP Bank (BVI) Limited.

The major commercial banks provide a similar suite of products and services across all the major business lines. At the end of 2019, NBVI provided six (6) of the ten (10) traditional banking products and services. However, as mentioned earlier, we are in the process of upgrading our systems and will soon be able to offer an enhanced suite of products and services, in line with our competitors. In the interim, we continue to focus our efforts on providing the best customer experience to the public.

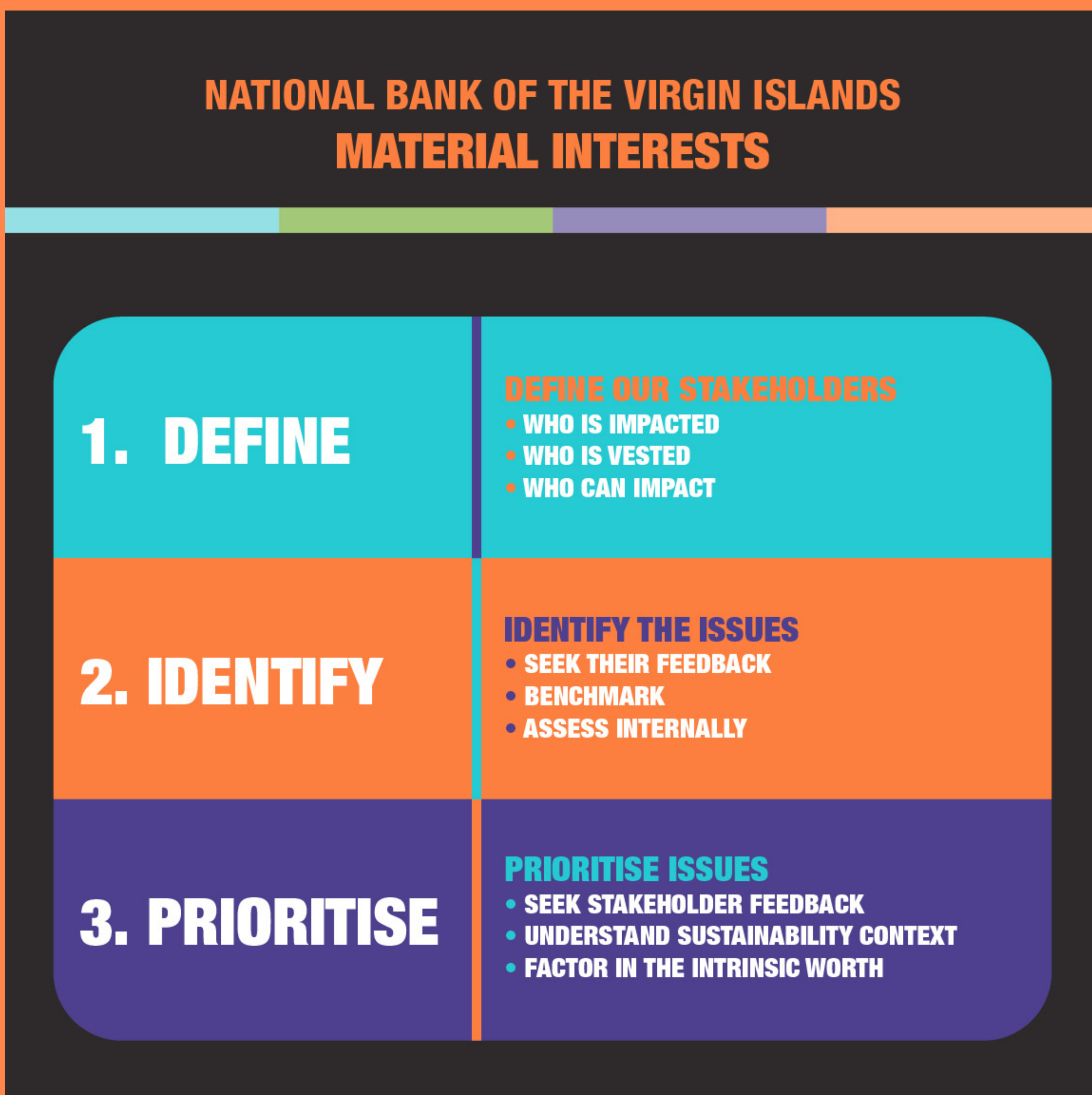
We will continue to pursue financial inclusion by developing customer-centred, unconventional products and services, consistent review of our policies and procedures, and pricing strategies. With increased investment in technology, we will build a more digital, agile, and competitive Bank.

	SCOTIABANK	CIBC FIRST CARIBBEAN	FIRST BANK	BANCO POPULAR	VP BANK	NBVI
Credit Cards	•	•	•	•		
Loans	•	•	•	•	•	•
Internet Banking	•	•	•	•	•	•
ATM Facilities	•	•	•	•		
Investment products (including investment advice and asset management)	•	•	•	•	•	
Business Services *(cash management, merchant services)*	•	•	•	•		•
Savings Accounts	•	•	•	•		•
Certificates of Deposit	•	•	•	•	•	•
Current Accounts	•	•	•	•		•
Wire Payments	•	•	•	•	•	

MATERIAL MATTERS

With this Integrated Annual Report, we aim to provide a coherent story of our activities. However, as stated earlier, information is included in our Report based on the principle of materiality. Material matters have influenced or could influence, our ability to create sustained value as we pursue our ambition to have a positive impact on society, remain a viable business, and deliver reasonable returns to shareholders. We determine material issues mainly through stakeholder engagements. We want to make sure that we are always operating in line with our stakeholders' needs and address identified material issues as early as possible.

Since 2017, we embarked on a journey to develop a more structured and focused stakeholder engagement mechanism to adequately define our stakeholder groups and identify their respective legitimate needs and material interests. Although this process is still not yet fully entrenched in our operations and remains a material matter, we have seen encouraging indicators of progress. An overview of the framework for identifying our stakeholders' material interests is presented below.



Even though our material matters have remained fundamentally the same as in 2017, other themes continue to unfold, such as:

- ## IFRS 16 (LEASES) IMPLEMENTATION

IMPACT

The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Since the Bank does not own any of its operating premises, bringing these properties onto the books increased our capital assets by $4m.

RESPONSE

NBVI has implemented the new standard.

- ## ADVERSE WEATHER CONDITIONS, CLIMATE CHANGE AND OTHER ENVIRONMENTAL MATTERS

IMPACT

Stronger hurricanes and prolonged dry season

RESPONSE

The Bank has an adequate Business Continuity Plan, which includes equipment and an alternative operating location.

- ## EPIDEMIC OR PANDEMIC OUTBREAK

IMPACT

Uncertainty surrounding the outbreak of a coronavirus in December 2019.

RESPONSE

The Bank shall update its Business Continuity Plan to include arrangements to address an epidemic or pandemic.

- ## DATA MANAGEMENT FAILURES AND CYBER SECURITY

IMPACT

Weak IT infrastructure, cyber security systems and fraud detection systems make organizations easy targets for cyber criminals.

RESPONSE

As we seek to bring more products and services to our customers via digital channels, we are careful to work with best-in-class providers and are investing more in sophisticated cyber-security software to ensure the Bank and our customers are always protected.

- ## EVOLVING CUSTOMER EXPECTATIONS

IMPACT

Customers are seeking banking services and solutions that are simpler, faster and cater to needs.

RESPONSE

We are updating our core banking software which will enable us to expand our suite of products and services and improve operational efficiency.

- ## FINANCIAL PERFORMANCE

IMPACT

Our shareholders understand that we are putting the necessary structures in place to build a strong, resilient, and competitive Bank. They have been with us from the start and are involved in our decision-making. We are thankful for their enduring support. We are optimistic that the foundations we are laying now will be the catalyst for sustainable financial and non-financial returns to our investors.

RESPONSE

In 2019, NBVI performed well against strategy and reported a net profit of $1.3m. Our strategic priorities are constantly under review and they remain relevant, albeit there is room for improvement. We are making significant strides to digitise some areas of the Bank's operations and expand our suite of products and services.

STRATEGIC INSIGHT

In 2019, NBVI continued to focus on executing our overarching corporate strategy, despite rebalancing our strategic priorities. We moved forward with our new core banking system and digitalisation initiatives, which will enable us to design and offer innovative products and services, aimed at enhancing the banking experience of our valued customers. We have had some setbacks as stated earlier, but we are confident that we will complete the core banking project in 2020. Additionally, we will continue to modernize and simplify the Bank's operations, ICT systems, and cost management activities to benefit the business and stakeholders. Our aim is to embed excellent service delivery across the entire organisation, which is why we not only invest in technology but also in recruiting the best minds and training our people.

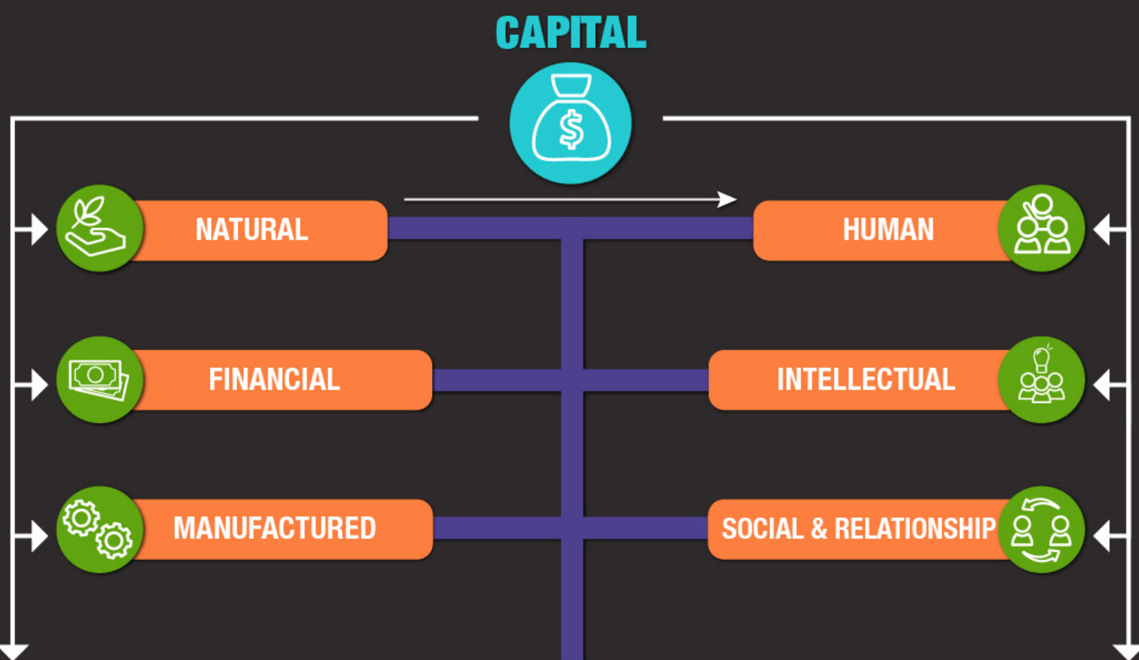
Innovative, new technology continues to change the competitive dynamics and ecosystem of commercial banking. Our Bank must continue to invest in these technologies to create new markets and take advantage of opportunities for growth. In our operating space, customers can quickly compare their banking experience across all financial institutions. These comparisons lead customers to expect greater accessibility, availability, and flexibility in our systems to serve them better. They demand improved access to banking services, at any time, through various channels, in addition to high-quality interaction with the Bank, irrespective of where they are in the world. Although we remain grounded in the purpose, vision and values of our founders, our Bank must continue transforming to enhance your paradise. We must build a more agile organisation to survive today and prepare for the future.

The Bank's strategic direction is driven by our commitment to developing the community by partnering with like-minded stakeholders. Hence, we continue to serve as administrator for the Virgin Islands Housing Recovery Programme, a key government initiative implemented after territory-wide devastation caused by Hurricane Irma in September 2017. We appreciate that "paradise" means different things to different people, but we remain committed to helping everyone achieve their unique PARADISE. Our work is centred on development and provision of the resources and opportunities needed to survive the journey.

We embrace our corporate social responsibility to make a positive impact in the communities we serve, as this contributes to a sustainable financial system. Our values and focus areas dictate our allocation of resources and synchronisation with our strategy – a strategy centred around four (4) strategic pillars:

- Regulatory Compliance
- Financial Viability
- Human Resources
- Service Delivery Excellence

NATIONAL BANK OF THE VIRGIN ISLANDS
TRANSFORMATION FOR GROWTH



4 STRATEGIC PILLARS

BEST IN CLASS REGULATORY COMPLIANCE

1. IMPLEMENTING A NEW CORPORATE GOVERNANCE FRAMEWORK
2. MONITORING AND EVALUATING INTERNATIONAL REGULATORY STANDARDS
3. ONGOING TRAINING AND ASSESSMENT OF BOARD, MANAGEMENT AND STAFF

HUMAN RESOURCES

1. A COMPREHENSIVE REVIEW OF OUR HR POLICIES AND PROCEDURES
2. IMPROVING PERFORMANCE MANAGEMENT SYSTEM
3. DEVELOPMENT OF A TRAINING PROGRAM ALIGNED WITH CURRENT AND FUTURE TALENT NEEDS OF THE BANK

FINANCIAL VIABILITY

1. DEVELOPING NEW PRODUCTS AND SERVICES
2. STRENGTHENING RISK MANAGEMENT FRAMEWORK
3. GREATER USE OF KEY PERFORMANCE INDICATORS TO DRIVE PERFORMANCE AND ACCOUNTABILITY

SERVICE DELIVERY EXCELLENCE

1. IMPROVING EFFICIENCY AND CUSTOMER FOCUS
2. EXPANDING OUR SUITE OF PRODUCTS AND SERVICES
3. DIGITALISATION AND PROCESS RE-ENGINEERING

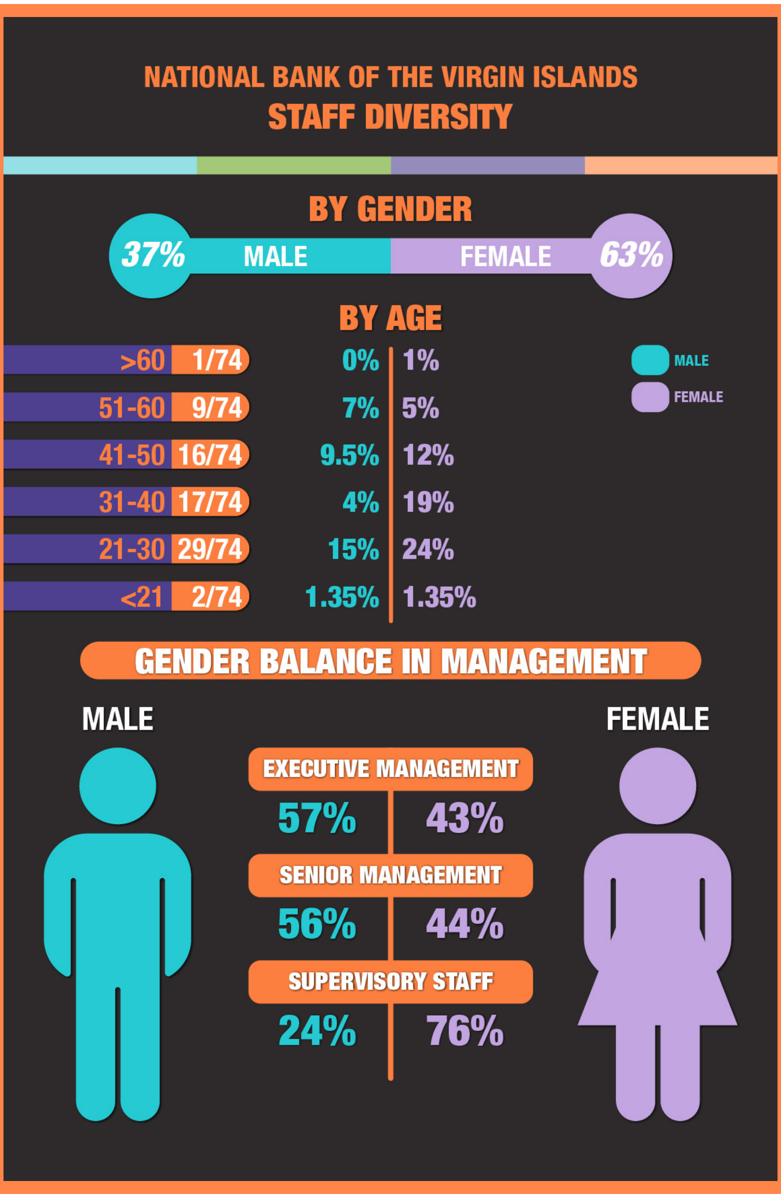
FOCUS ON OUR HUMAN CAPITAL

Focus On Our Human Capital

STAFF DIVERSITY AND EQUAL OPPORTUNITY

We are committed to being a great place to work and we believe that diversity gives us power and strength to endure. Hence, we will continue to promote diversity and inclusivity in our workforce, recognize and reward outstanding performance, attract and develop our staff, and support their physical, emotional, and financial wellness. We will continue to listen to team members as their opinions and suggestions helps us identify, and work to close gaps between their expectations and their experiences at the Bank. Working in an inclusive environment provides employees with the opportunity to fulfil their career ambitions as well as drive performance and innovations in the Bank. Going forward, we will continue to report on these items and our progress towards making NBVI the best bank for our employees to work.

Our staff complement by age group, and gender remained stable in 2019. Forty-nine percent (49%) were between the ages of 30 to 50 and sixty-three percent (63%) were female. In addition, forty-three percent (43%) of our Executive Management positions were held by women.



HR STRATEGY

The development of our employees' capabilities and competencies is a central element of the Bank's Strategic Plan. The Human Resources Department (HRD) strives to satisfy the HR needs of the Bank. The Department's overarching strategy is designed to create a safe and healthy working environment that empowers and engages staff. At the same time, its objectives are geared towards aligning critical skills with NBVI's mission and vision. The Department provides avenues for:

- Training and development;
- Staff recognition for exceptional performance; and
- Appreciation for regular staff contribution.

The Department, through this strategy, hopes to build a culture of excellence and teamwork that:

- Embraces change;
- Promotes discipline and ethical behaviour;
- Allows for seamless succession planning;
- Aligns the compensation and reward system with business goals; and
- Encourages fairness, accountability, and confidentiality.

HR CORE VALUES

The Department continues to cater to the organisation, and staff's ever-changing HR needs by working through the lens of its Core Values:

- Continuous development;
- Appreciation;
- Transparency (Honesty, Integrity, Trust, Ethics) and Fairness;
- Engagement; and
- Reliable and Confidential Change Agents.

MAJOR ACCOMPLISHMENTS

Major accomplishments this year:

- Finalisation and implementation of an Incremental Salary Scale;
- Implementation of the revised Human Resources Policies and Procedures Manual; and
- Introduction of a formal Onboarding and Induction process.

DELIVERING VALUE TO OUR STAFF IN 2019

At NBVI, we seek to foster an environment that inspires employees to grow and develop. We want our people to be "in the know" and be responsive and innovative in serving our customers and other stakeholders. We know we are only as good as our people. Hence, we are working assiduously to embed a robust customer-centric corporate culture – a culture that is indispensable for building a strong Bank. Throughout 2019, we continued to use a combination of media for advertising our vacant positions, including internal bulletins, local and regional online sites, and local print media.

A key point of focus for us is the alignment of remuneration and performance, to ensure that we continue to attract and retain employees that are critical to achieving our strategy. By offering a competitive reward package and a comfortable working environment, NBVI seeks to attract, recognise, and retain the right talent. As a small employer, we paid approximately $4.9m in remuneration and benefits, to our 74 employees. Additionally, we continue to invest in the development of our staff as we align our training programmes to our strategic plan. A new performance management approach and system, which is better aligned with the Bank's strategy of becoming more responsive to our customers' needs, more competitive and more technology driven, is being developed.

Also, in 2019, the HRD continued to spearhead several engagements and initiatives to empower employees and foster camaraderie, such as:

- First Friday – a social forum held on the first Friday of each month to build engagement and team spirit, as well as recognise birthday celebrants;

- Annual Mid-Year Family Fun Day and End-of-Year Party;
- Study Grants and Educational Scholarships;
- Bank-sponsored specialised training and development for supervisors and managers in their area of responsibility; and
- Annual Compliance training for all our staff.

TRAINING AND DEVELOPMENT

Equally critical as technology, our Human Resources remain a pivotal element of growth at NBVI. During the year, we made significant investments in our people, focusing on training and development to ensure team members are well equipped to meet the needs of our various stakeholders. Employees have undertaken several formal training courses in 2019, including:

- Banker's Academy online training courses
- Anti-Money Laundering & Terrorist Financing
- Identity Theft
- How to Identify Suspicious Activities
- Source of Funds Training for Tellers
- RiskScreen Core Training for Frontline Staff
- First Aid and CPR for Floor Wardens
- Branding; and
- Performance Management Training for Supervisors, Managers and Executives

In that regard, the NBVI family congratulates our colleague, Mr. Marvin Hazell, on completion of his Bachelor of Science (BSc) in Information Technology with a concentration in Applied Technology. Marvin currently holds the position of IT Manager. Additionally, the NBVI family also congratulates Ms. Jassy Palmer who attained the International Advanced Certificate in Compliance (ICA). Jassy currently holds the position of Internal Control Officer in the Compliance Department. Both officers received their qualifications through the Bank's scholarship programme.

Additionally, managers attended various conferences and seminars to ensure they remain current in their areas of expertise. The Human Resources Officer participated in the annual Society for Human Resource Management (SHRM) conference held in Las Vegas, Nevada, United States. SHRM presents networking opportunities and offers over 300 concurrent refresher training sessions geared at equipping HR practitioners with a broad range of skills and knowledge, reflecting best practices and current global trends. These sessions provided the Human Resources Officer with practical skills which can enhance the department's performance.

Beyond delivering exceptional employee experiences, the Bank will continue to seek and finance appropriate training courses to prepare our workforce for future roles and opportunities.

PERFORMANCE MANAGEMENT

Effective performance management underpins our core values and culture. To ensure the Bank's success, employees' objectives must remain in alignment with the Bank's mission, strategy, and team goals. Hence, behavioural expectations are set in the context of our values - the framework that guides 'how' employees will achieve their objectives. We have an iterative system of performance conversations throughout the year to minimize conflicts and we will continue to recognize employees whose achievements demonstrate NBVI's core values.

HEALTH, SAFETY AND WELFARE

Our Bank remains committed to ensuring the health, safety, and welfare of all employees as we believe that effective management of these elements will positively impact the delivery of banking services. A good working environment will help our employees to better serve you, our valuable customers, which will create value for all our stakeholders and the communities that we serve.

NBVI is a member of the Multi-Employer Pension Plan established by the BVI Chamber of Commerce and

Hotel Association. The plan is a defined contribution plan, with contributions from pensionable earnings at a rate of 8% by the Bank and voluntary contributions of at least 4% by employees.

The Bank also contributes to employees' supplemental health insurance, accidental death, and dismemberment (AD&D) insurance and MASA Air Ambulance, as part of its package of benefits.

In 2019, NBVI's contributions to these employee welfare schemes was 8.9% of other operating expenses.

HIRES

We hire based on merit, competencies, and organisational cultural fit, without prejudice to any attributes such as gender, race, or religion. The way that we hire, train, develop and retain our staff are intrinsic to embedding our culture and delivering world-class services to our customers, right here from the Virgin Islands.

In the year under review, 22 positions were filled compared to 21 positions filled in 2018. We maintained a healthy internal hire ratio while simultaneously seeking the best external talent and investing in technology. Our focus on talent development continues to pay dividends. In 2019, we achieved an internal mobility rate of 24.3%, which provided current employees with growth and career progression opportunities. Our employee turnover rate was 14% (2018: 27.5%) with voluntary attrition of 5.74% (2018: 21.6%).

TERMINATIONS/RESIGNATIONS

There were two (2) resignations, two (2) retirements and five (5) terminations in 2019.

LOOKING AHEAD TO 2020

Our new distribution channels and operating model will undoubtedly influence how work is organised and how we deliver on our strategic focus areas. Notwithstanding, our Human Resources team will continue working towards actively promoting our "employer of choice" brand for existing and potential employees as we seek to create the best possible work environment.

In keeping with our overarching HR strategy, and by extension, the Bank's mission, the HR Department aspires to accomplish the following in 2020:

- Train supervisors and managers in more effective leadership skills;
- Formalise a staff recognition programme;
- Update the HR Policies and Procedures Manual; and
- Finalise and implement an Employee Handbook.

OUR REGULATOR

THE BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Our Bank is regulated by the British Virgin Islands Financial Services Commission (FSC), a supervisory body established in 2001. The FSC is an independent regulatory body for all financial institutions operating within the jurisdiction. It supervises the industry, issues licences, and conducts regulatory inspections and assessments of all financial services providers in the BVI. Despite a plethora of regulatory changes affecting the way financial institutions do business in the Territory and wider Caribbean over the past decade, NBVI has complied with these changes and remains committed to adopting best practices in risk management and compliance that help to maintain the integrity of the banking industry in the BVI.

During the year, key regulatory and reporting issues surrounding the banking industry included:

- Financial crime
- Cyber security
- Credit risk management
- Implementation of IFRS (9)
- Implementation of IFRS (16)

SYSTEMS AND CONTROLS IN PLACE AT NBVI TO MEET THESE REQUIREMENTS

Even as we transform our operations to grow the organisation, we understand that a competent Executive Management Team and strong leadership are paramount to delivering value for our customers and maintaining the confidence of our regulator. We have strengthened our internal controls framework to promote compliance with all regulatory requirements, particularly those related to Anti-Money Laundering (“AML”), Combatting the Financing of Terrorism (“CFT”) and sanctions enforcement. This framework is explained and outlined in the Bank’s AML Policy and supported by its Know Your Customer (“KYC”) Standard and Training Guidelines. The AML Policy is designed to help protect the safety, soundness, and reputation of the Bank, by meeting or exceeding regulatory requirements within the Virgin Islands. Process and system improvements have been made to areas concerning customer due diligence and transaction surveillance to ensure we prioritise our high-risk areas. The Board and the Bank’s Compliance and Risk Department continuously monitor and update, as necessary, our internal control systems to ensure our standards reflect the requirements of the Law and regulator.

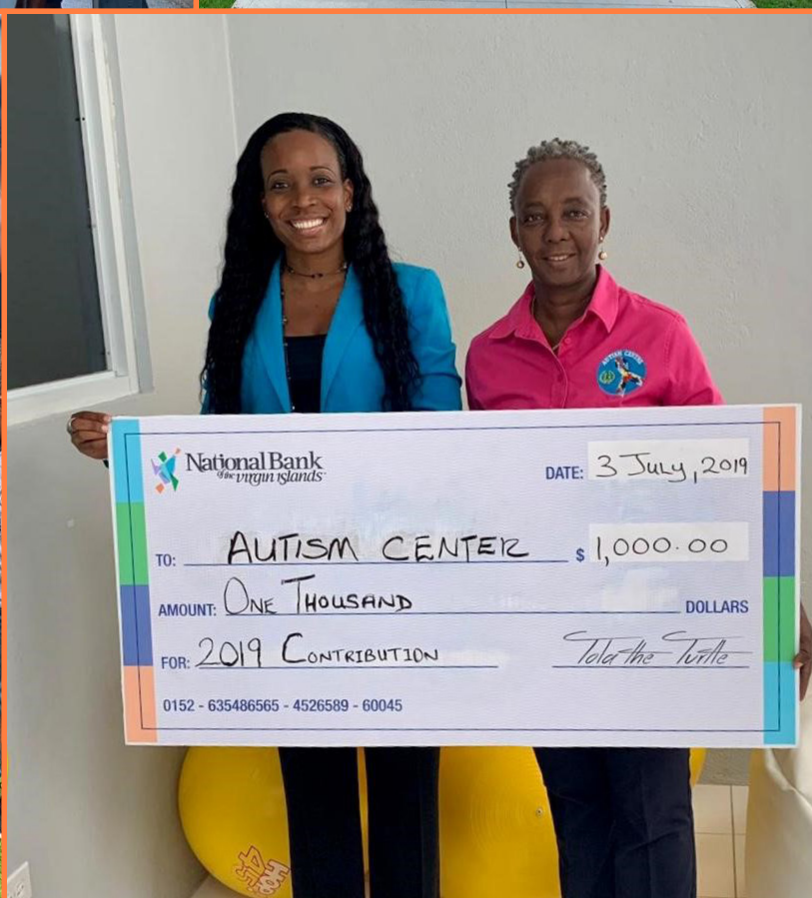
NATIONAL BANK’S AML/CFT FRAMEWORK COMPRISES SEVEN (7) PRINCIPAL ELEMENTS
• CLIENT INFORMATION (CUSTOMER DUE DILIGENCE);
• CLIENT RISK ASSESSMENT;
• ENHANCED DUE DILIGENCE (HIGH RISK CUSTOMERS);
• EXCEPTIONS;
• CAUTION LIST;
• TRANSACTION MONITORING & REPORTING; AND
• PROHIBITED CUSTOMERS

CORPORATE SOCIAL RESPONSIBILITY


National Bank
of the virgin islands


British Virgin Islands
CANCER SOCIETY
National Bank
DATE: October 11, 2019
TO: BVI Cancer Society $ 1,000.00
AMOUNT: One Thousand
DOLLARS
FOR: Annual Donation


LOVE
YOUR BRAIN


National Bank
of the virgin islands
DATE: 3 July, 2019
TO: AUTISM CENTER
$ 1,000.00
AMOUNT: ONE THOUSAND
DOLLARS
FOR: 2019 CONTRIBUTION
Tola the Turtle
0152 - 635486565 - 4526589 - 60045

CULTURE

WE WILL CONTRIBUTE TO THE DEVELOPMENT OF GOOD CITIZENS AND CHAMPION THE SOCIETAL NORMS, PRACTICES AND BELIEFS THAT ENGENDER THE VALUES OF COMMUNITY STRENGTH IN DIVERSITY AND PRACTICE FOR OUR PEOPLE.

EDUCATION

WE WILL IMPROVE ACCESS TO AND FACILITATE OPPORTUNITIES FOR LIFE LONG LEARNING AND EDUCATION TO HELP CREATE NEW OPPORTUNITIES.

YOUTH & SPORTS

WE WILL HELP TO CREATE CHAMPIONS BY NURTURING THE SEEDS OF TOMORROW PROVIDING OUR YOUTHS WITH OPPORTUNITIES TO LEARN, PRACTICE AND DEVELOP THEIR PASSIONS.

HEALTH & WELL-BEING

WE WILL TAKE CARE OF OUR COMMUNITY MEMBERS THROUGH THE PROVISION OF INCREASED ACCESS TO HEALTH-RELATED INFORMATION AND AMENITIES AND THE PROMOTION OF LIFESTYLE CHOICES THAT FOSTER GREATER WELL-BEING.

Corporate Social Responsibility

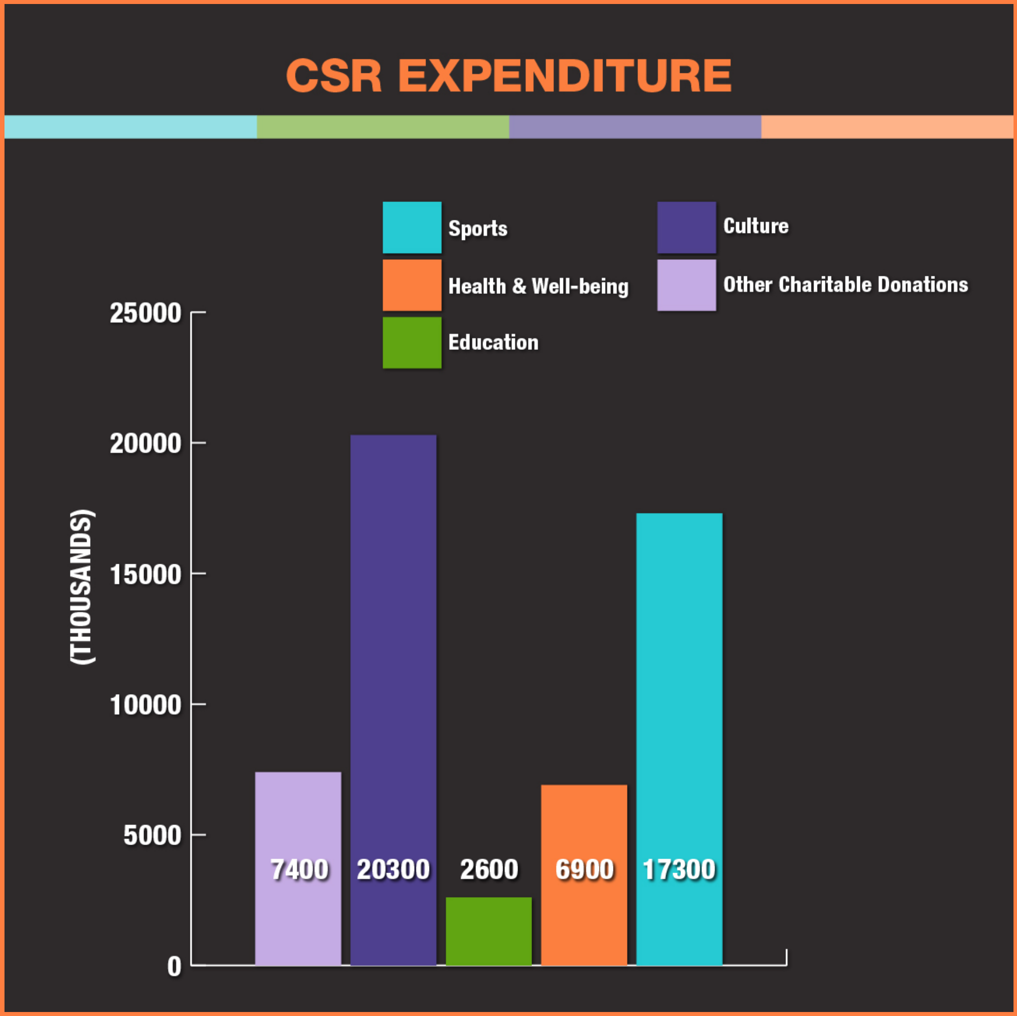
As the only indigenous Bank in the Territory, we remain laser-focused on the needs of our community and society. We are steadfast in our commitment to be an outstanding corporate citizen, as well as a champion of environmental sustainability. Our purpose is simple and clear - we are the community Bank, and we are committed to making lives better in the Virgin Islands.

TARGETED ASSISTANCE IN 2019

CSR Expenditure

In 2019, we reaffirmed our pledge to assist our community by deploying capital to address local financial needs. We continue to engage on issues that matter most to our stakeholders. To that end, this year we have provided human, technical, and financial resources to over sixty (60) cultural, educational, sporting and health and well-being initiatives, throughout the multi-island Territory.

While we do support other activities, in 2019 we continued to focus on four (4) areas (culture, education, youth and sports, and health and well-being), as these areas are the foundation of our Corporate Social Responsibility (CSR) programme and philanthropic initiatives. A total of $54,500.00, broken out as shown in the chart below, was invested into these community-based activities as part of NBVI's corporate social responsibility programme reflecting our deep commitment to national development.



NBVI IMPACT

SUPPORTING OUR COMMUNITY

We are delighted to share our 2019 Corporate Social Responsibility achievements with you, which highlight examples of our continued support to the community. We aim to make the Virgin Islands a better place by positively impacting the community in which we do business.

At NBVI, we are conscious of the needs of our most vulnerable and understand that as good corporate citizens, we need to support as well as remain close to our communities. Our CSR strategy continues to target areas that require financial and volunteer support.

During the year, we outlined the strategic focus of the Bank's CSR and documented the various efforts of our commitment to making our community a better place. We can now look back on our achievements and recognise the incredible work undertaken while looking at new ways to create change.

In 2019, we dedicated our resources to:

- improving the lives of the young through investment in after-school programs and sports;
- raising awareness for Autism, Alzheimer's disease, and Down Syndrome by participating in recognition drives, as well as making donations; and
- protecting the planet by planting trees.

We take great pride in our collaboration with independent non-profit organisations and our support for public information and education initiatives. As we position ourselves to make our Bank a more accessible place to do business, we believe that we have a social and moral responsibility to positively impact economic growth. We are confident that our efforts can only result in a sustained industry reputation and continued partnership with like-minded organisations.

Looking ahead, we intend to introduce a 'CSR Day' where we can help to further our philanthropic efforts and continue to fuel our employees' passion and commitment to volunteerism. We recognise that our people can achieve their own personal development goals by participating in CSR experiences.

With every new challenge, there is a chance to re-evaluate how we do business and contribute to our communities. We envision that the National Bank spirit will inspire us to give back to those in need and that CSR will become so ingrained that it will lose its obligatory role. Instead, CSR will be the professional testament that helps bind us together as we seek opportunities to make an indelible mark in our society.

FEATURE STORY

NBVI SEEDS OF LOVE DAY 2019

The benefit of trees to our everyday lives is immeasurable. Trees filter clean air, provide fresh drinking water, help curb climate change, and create homes for thousands of species of plants and animals. Following the catastrophic hurricanes of 2017, the urgent need to replant the islands' indigenous trees and vegetation and protect the entire ecosystem became clear.

On October 12th, 2019, we partnered with the 'Seeds of Love' organization to plant buttonwood trees in Road Town. As part of NBVI's commitment to our community and contributing to a healthy environment, several of our team members across the Bank, led by CEO Joy Francis, participated in this much-needed initiative.

NBVI IMPACT

REPLANTING THE COAST

NBVI assisted with planting coconut palms trees at Long Bay Beach, Beef Island, VI

Spotlight on our CSR pillars

NBVI IMPACT

EDUCATION

Improving access and facilitating opportunities for lifelong learning form the basis of this crucial pillar. We cannot help but over-emphasize the importance of access to education. Knowledge is the foundation of successes in life. An eagerness for learning not only supports personal advancement; it fosters a hunger for education which extends into adulthood. Therefore, it is essential to ensure that the youth have adequate resources to realize their full potential.

In 2019, the National Bank of the Virgin Islands' CSR team sought to support several education-focused initiatives in our community. Some of the activities included:

- Reading is Fun Week;
- Hire BVI Career Exposition; and
- Elmore Stoutt High School Rams Radio Station.

"Knowledge is the foundation of life success and personal advancement"

YOUTH AND SPORTS

Supporting children's access to opportunities is among NBVI's top causes. Today's children are our Virgin Islands champions of tomorrow, and we must invest in them and make provisions for their success.

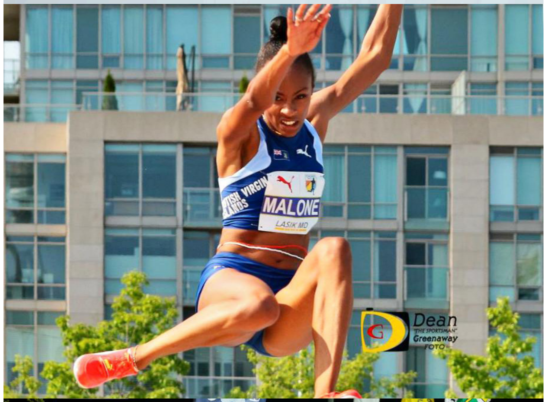
In 2019, NBVI's CSR team aimed to improve the lives of the Territory's young people through investment in after-school programs and sports.

We have made a direct impact in this area by sponsoring or partnering with the following:

- K&J Basketball Camp
- Youth Empowerment Project
- Pan American Games Coverage
- BVI Culinary Team

> ***"Today's children are the champions of tomorrow."***

NBVI IMPACT



NBVI IMPACT

HEALTH AND WELLBEING

Caring for the most vulnerable in our community through the provision of increased access to health-related information and amenities, coupled with the promotion of healthy lifestyle choices will inevitably foster greater well-being. In 2019, NBVI focused on raising awareness for Autism, Alzheimer's disease, and Down Syndrome by participating in recognition drives and providing financial assistance. In recent years, mental health awareness and developmental disabilities have been areas which have garnered growing attention. NBVI is grateful to play a part in community activities which shed light on these areas of concern.

As fervent champions of health and wellness, NBVI also donated funds to several individuals who faced challenges with disabilities and cancer. As the old saying goes, he who has health has hope, and he who has hope has everything.

"Mental health awareness and developmental disabilities has been an area which has garnered growing attention."

CULTURE

As the ‘official bank of paradise’, celebrating the rich history of who we are and where we have been as a Territory, remain one of our main priorities. We conscientiously reinforce our cultural alignment with our citizens.

Annual sponsorship of BVI Festival, celebratory events during Virgin Islands Culture Week and the “Taste of the BVI” culinary events are a few of the activities we supported in 2019.

“Our history and culture make us who we are.”

ENVIRONMENTAL STEWARDSHIP

In 2019, we made great strides in implementing new greener practices and building on our relationships with our partners to create “Green Spaces”. We believe that taking due account of our environmental footprint is the right thing to do. This is the reason we took a hands-on approach in partnering with the “Seeds of Love” organisation to plant trees and beautify DeCastro Street in the process. We also continued to reduce the use of paper, plastic, and styrofoam in our offices and strengthened our partnerships with like-minded local non-profit organizations to preserve our environment.

LOOKING AHEAD

In 2020 and the foreseeable future, in addition to our philanthropic efforts, we aim to further support our employees’ passion and commitment to volunteerism, as part of the Bank’s comprehensive approach to community development and responsible growth.

NBVI IMPACT

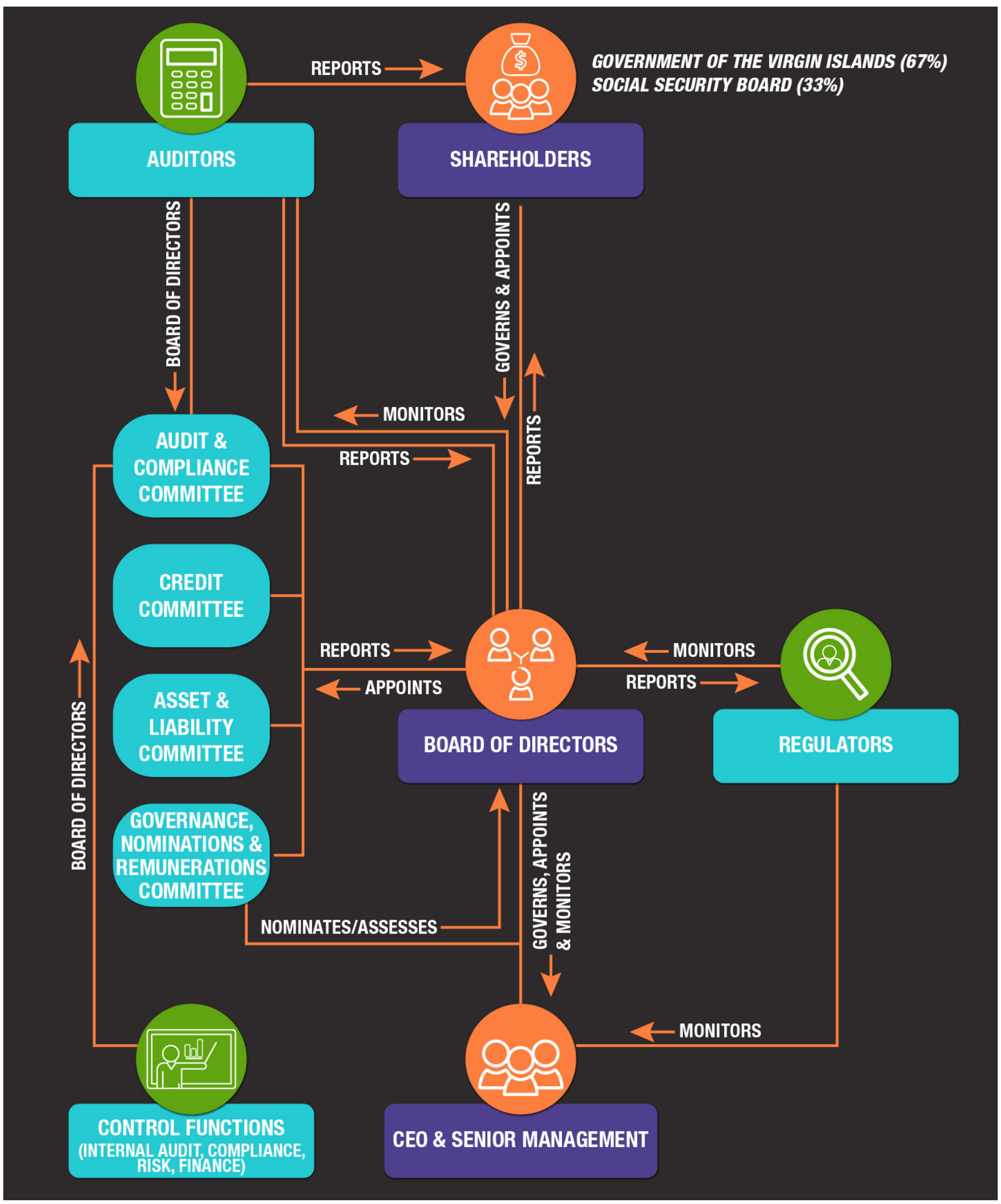
CORPORATE GOVERNANCE

GOVERNANCE STRUCTURE

NBVI's Board of Directors is responsible for establishing a governance framework, that is fashioned to the Bank's circumstances. Such a framework must promote high standards of professional conduct and allow for prudent and diligent discharge of duties and compliance with local legislation, industry regulations, guidelines, and best practice.

The Board's over-arching tenet is that corporate governance principles are embedded in the Bank's corporate culture, which is anchored in:

- Competent leadership;
- A "customer first" philosophy;
- Risk management; and
- People development



Our corporate governance framework enables the Board to oversee strategy, financial and non-financial goals, resource allocation and risk appetite, and to hold Executive Management accountable for strategy execution. The Board also ensures that it sets the tone for good governance.

Our Board plays a key role in setting our governance standards to meet our stakeholders' expectations, while our leadership model ensures that there is an appropriate balance of power, accountability, and independence in decision-making. Further, our approach to governance extends beyond compliance. The Board believes that good governance creates shared value by underpinning accountability and protects the Bank by ensuring responsible behaviour, effective leadership, and robust risk management.

INDUCTION

The Board conducts an orientation programme in which all new Directors are required to participate. The programme clearly articulates the Bank's expectations of its Directors, the resources available for Directors' continuous development, and the time and commitment required to adequately serve the Bank's interests. The programme also covers the duties and obligations of NBVI's Directors, as well as the responsibilities of, and work carried out by the Board's committees. The orientation is designed to introduce and familiarise new Directors with the Bank's mandate, work, strategy, operations, policies, and procedures.

All Directors are expected to possess and maintain the skills required to carry out their obligations. The resources available for continuous development ensure that the Board is kept abreast of changes and trends in the financial services industry, both locally and globally. The Board's constant development activities include sessions with local and overseas experts in corporate governance and other areas deemed relevant to the Bank's operations.

KEY FEATURES OF OUR BOARD

We have nine (9) Board members with a broad range of experience and deep industry expertise. The composition of our Board reflects diversity of gender (five (5) female Directors), nationality, skills, and knowledge. We believe that having Directors with an independent mindset is important for a Board to be effective. Except for the CEO, all other Directors are Non-Executive.

We also believe that the design of remuneration packages can significantly influence performance and results. That is why the remuneration offered to Non-Executive Directors (including the Chairman), does not include a variable component.

ROLE OF THE BOARD

- Directs NBVI in the conduct of its affairs – Ensures that corporate responsibility and ethical standards underpin the conduct of NBVI's business.
- Provides sound leadership to CEO and management – Sets the strategic vision, direction, and long-term goals of NBVI and ensures that adequate resources are available to meet these objectives.
- Bears ultimate responsibility for NBVI's:
    - *Governance*
    - *Strategy*

- *Risk management*
- *Fiscal prudence and financial performance*
- *Sustainability*
- *Strengthening shareholder and other stakeholder relations*

OUR BOARD CHARTER

Our Board Charter continues to anchor our governance principles and practices. The charter:

- outlines our Board committees' mandates and specifies which matters are reserved for the full Board;
- defines separate roles for the Bank's Chairman and Chief Executive Officer;
- outlines the Board's expectations of the Directors and chairpersons of our Board committees; and
- sets out how corporate governance provisions will be implemented.

BOARD'S KEY AREAS OF FOCUS

The Board is regularly updated on the performance and prospects of NBVI. In addition to scheduled Board meetings, Board approvals for matters in the ordinary course of business are facilitated via the circulation of written resolutions, ad-hoc in-person meetings and teleconferencing. All Directors have direct access to the Corporate Secretary and Senior Management to obtain information required to make informed and timely decisions.

In 2019, the Board focused on the following areas:

- Review NBVI's strategic plan;
- Monitor the responsibilities delegated to the Board and committees to ensure proper and effective oversight and control of NBVI's activities;
- Review Management's performance; and
- Consider sustainability issues (including environmental and social factors) as part of NBVI's strategy.

SEPARATION OF CHAIR AND CEO ROLES

The Bank fully subscribes to international best practice guidance which recommends separation of the roles of Chairman and Chief Executive Officer ("CEO"). This is articulated in both the Bank's Articles of Association and its Corporate Governance Charter. Notwithstanding, our Chairman and CEO have an excellent working relationship.

The Chairman of the Board of Directors is appointed by the majority shareholder, and is an independent, Non-Executive Director. The functions of the Chairman and CEO are segregated to ensure an appropriate balance of responsibilities and decision-making authority.

DELEGATION BY THE BOARD TO ITS COMMITTEES

The Board has delegated authority to various Board committees to oversee certain specific responsibilities based on their charters. The Board committees are constituted in accordance with Banking Regulations. The Board committees' charters also set out guidance for meetings, including quorum, voting requirements and qualifications for Board committee membership. Any change to the charter of any Board committee requires Board approval.

BOARD COMMITTEES

Credit Committee (CC)

IVAN HUDSON CARR

Committee Composition	Number of Meetings	Percentage of Attendance
Ivan Hudson Carr (Chair)	15/15	100%
Drexel M. Glasgow	14/15	93%
Antoinette Skelton	14/15	93%
Michelle L. Todman Smith	13/15	87%
Joy N. Francis	14/15	93%

The purpose of the Credit Committee is to maintain oversight of the credit risk management function of the Bank. Among other matters related to credit, this committee reviews, recommends and monitors the application and effectiveness of credit policies, as set out in the Committee's Charter.

The Committee is accountable to the Board and in performing its duties, among other matters, it reviews and oversees the development and application of loan loss provisioning policy, receives and reviews Management Reports. The Committee also ensures that appropriate disclosures are made to the relevant authorities, as required by law or regulation.

Asset and Liability Committee (ALCO)

MERVIN MCKINLEY HOPE

Committee Composition	Number of Meetings	Percentage of Attendance
Mervyn McKinley Hope (Chair)	4/4	100%
Antoinette Skelton	1/4	25%
Nona Vanterpool	4/4	100%
Joy N. Francis	4/4	100%

The ALCO maintains oversight of the asset and liability management function of NBVI. The ALCO is responsible for, among other matters, providing key oversight of the strategic asset and liability management issues of the Bank, as set out in the Committee's Charter and the Asset and Liability Management Manual.

The Committee is accountable to the Board. The ALCO, also reviews and recommends policies to mitigate asset and liability management risks associated with the Bank's operations, in addition to monitoring the application and effectiveness of such policies.

Audit and Compliance Committee (ACC)

MICHELLE L. TODMAN SMITH

Committee Composition	Number of Meetings	Percentage of Attendance
Michelle L. Todman Smith (Chair)	4/4	100%
Benedicta P.T. Samuels	2/4	50%
Ivan Hudson Carr	4/4	100%
Mervyn McKinley Hope	4/4	100%

The Audit and Compliance Committee (ACC) of the Board was constituted to maintain oversight of the audit and compliance management functions of the Bank. The ACC is responsible for, among other matters, overseeing the regulatory, financial reporting and compliance processes to ensure the transparency, accuracy and integrity of the reporting systems as set out in the Committee's Charter.

The Committee is accountable to the Board and in performing its duties, the ACC reviews the effectiveness of the Bank's internal control and risk management system, the internal and external audit function and process, and the Bank's compliance with applicable laws, regulations, internal standards (including the Code of Conduct) and policies, and expectations of key stakeholders.

Governance, Nominations and Remunerations Committee (GNRC)

CLARENCE FAULKNER

Committee Composition	Number of Meetings	Percentage of Attendance
Clarence Faulkner (Chair)	2/2	100%
Benedicta P. T. Samuels	1/2	50%
Drexel Glasgow	2/2	100%
Nona Vanterpool	1/2	50%
Michelle L. Todman Smith	2/2	100%

Among other matters, the Governance, Nominations and Remunerations Committee addresses issues related to the corporate governance function of the Bank, as set out in its Terms of Reference. The GNRC is responsible for overseeing the Board's operations and effectiveness, as well as the Bank's compliance with all relevant legal and regulatory requirements and internal policies and values, as set out in the Committee's Charter.

The Committee is accountable to the Board and in performing its duties, the GNRC takes a leadership role in shaping and monitoring the corporate governance and ethical practices of the Bank. It also promotes a culture of responsibility, accountability, and ethical behaviour to safeguard the Bank's reputation and optimise performance.

DIRECTORS' EXPERTISE

The current skills and industry experience represented on the Board are as follows:

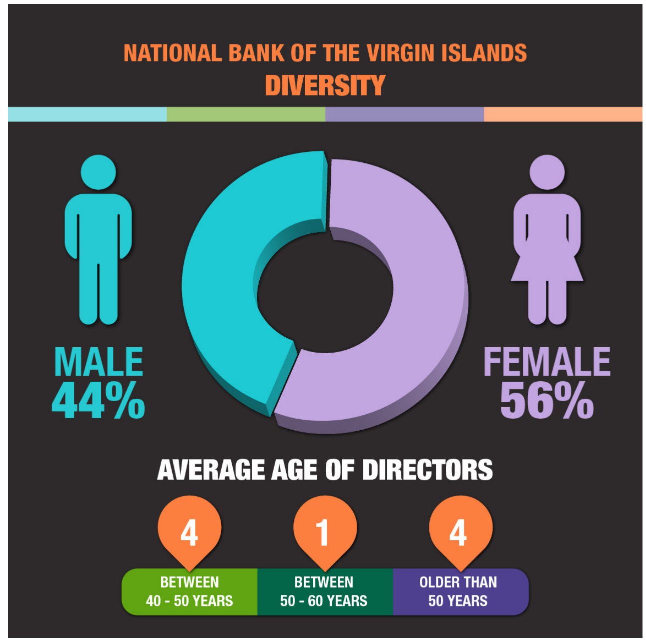
BOARD PERFORMANCE AND EFFECTIVENESS

In 2019, the Board's effectiveness and the performance of its committees were evaluated, consistent with the BVI's regulatory standards and international best practice. The evaluation was performed with the assistance of an external consultant, in the form of questionnaires which were completed by all members individually and discussed in plenary sessions thereafter. Topics covered in the review included strategic thinking, Board composition, overall contribution, assignment of Directors to committees, policy and foresight, Management monitoring and accountability.

Overall, the review concluded that the Board and its committees had a very strong overall performance. The Board is of high quality and well-functioning, comprising members of stature and experience. There is considerable support for both the Chairman and CEO. The Board's culture is seen to be healthy and robust, with a strong level of trust between the Board and Management. The Board is satisfied that the evaluation process contributes to its performance and effectiveness by highlighting what it is doing well and areas that need improvement. Moreover, the results of Board and committee evaluations are used to drive performance improvement and inform the content of induction and training programmes.

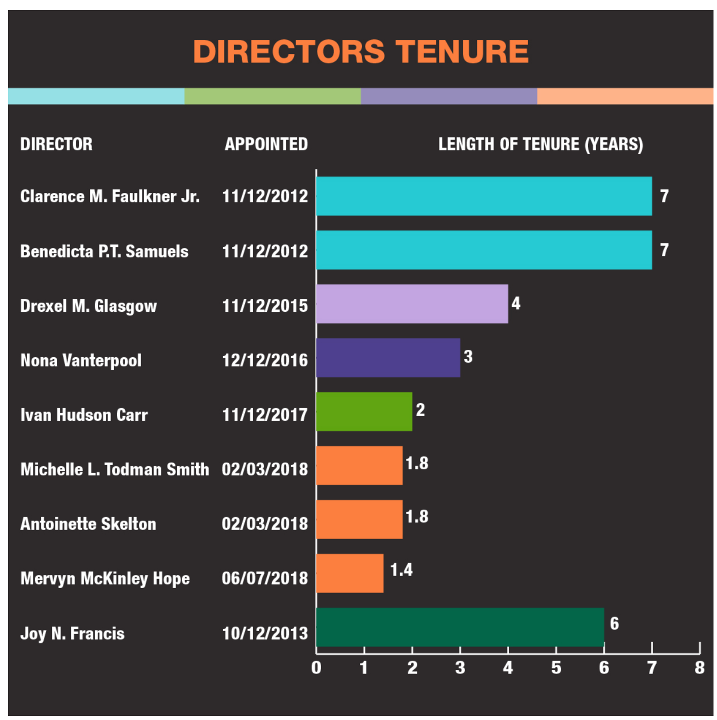
DIVERSITY

The Board's composition is qualitatively and quantitatively balanced in terms of skills, demographics, gender, experience, and tenure. Our aim is to ensure each Director can demonstrate sound business acumen, a strategic view, integrity, and preparedness to question, advise and constructively critique management. We believe that diversity of experiences, knowledge and approaches that Directors bring are all necessary to drive performance and serve as an incubator for innovation.



TENURE / TERM LIMITS

Pursuant to the Bank's Articles of Association, each director holds office for the term, if any, fixed by the Resolution of Shareholders or the Resolution of Directors appointing him, or until his earlier death, resignation, or removal. If no term is fixed at the time a director is appointed, that director serves indefinitely until the earlier of his/her death, resignation, or removal.



CORPORATE SECRETARY

The Corporate Secretary, Mrs Wendy Lewis, attends all Board meetings and generally assists Directors in the discharge of their duties. Among other duties, she facilitates communication between the Board, its committees and management; assists with the induction of new Directors; and records the critical decisions and context of the Board's deliberations.

The Board evaluated the qualifications, competence, and performance of the Corporate Secretary, and remains satisfied that she is qualified for the role, having confirmed her independence and arm's length relationship with the Board and its members.

COMPENSATION PHILOSOPHY FOR BOARD AND MANAGEMENT

The Bank's Compensation Policy for the Board and Management is in keeping with international best practice for remunerating senior officers. Accordingly, the Chairman, the Vice Chair and other Board members are remunerated as prescribed by the Articles of Association and the Governance, Nominations and Remunerations Committee Charter.

RELATED PARTY TRANSACTIONS

We are always cognizant that legal business is not always ethical business. In the ordinary course of business, the Bank may enter transactions with related parties. The Board is guided by the Bank's policies and corporate governance framework, which determines how the Bank defines related party transactions and the process for engaging in such transactions. These documents help to ensure that related party transactions are at arm's length, the rights of stakeholders are protected, and that transactions are in the best interest of NBVI.

At all times, it is the responsibility of the Board to ensure that all interests are considered when approving related party transactions to ensure fairness and probity. The nature, extent and other information concerning transactions are disclosed, if such disclosure is necessary to provide greater insight about the transaction. For the financial year ended December 31, 2019, there were no material transactions requiring disclosure.

INDEPENDENCE

Independence is an essential element in creating and implementing a proper system of checks and balances. Our Board composition emphasises Directors' independence and sets the tone for independent judgement and acceptance of diverse opinions. All Directors are expected to exercise independent judgement on matters brought before the Board. The Board is expected to have a sufficiently independent voice, in no way beholden to the CEO, and be consistently ready to constructively engage and challenge the management team. This means that, in decision-making, individual members must act with independence, competence, diligence and courage, and demand the necessary insights and information to help them decide what is in the best interest of the National Bank of the Virgin Islands.

CONFLICTS OF INTEREST

Directors have a responsibility to avoid situations that put, or may be perceived to place, their personal interests in conflict with their duties to the Bank. The Bank has a formal Conflict of Interest Policy which outlines the process for identifying, assessing, and managing perceived or actual conflicts of interests. All Directors and employees of the Bank are provided with a copy of this policy, which defines conflicts of interest and guidance on the process for disclosing such interests to the Bank within the appropriate timeframe. Additionally, NBVI's Articles of Association require Directors to declare any actual or potential conflict of interest as soon as they become aware of such a situation. Where actual or potential conflicts are declared, affected Directors are required to recuse themselves from discussions on matters presenting the declared conflict and abstain from participating in any related Board decision thereon.

There were no conflicts of interest reported or identified by any Director in 2019.

ETHICS AND BUSINESS CONDUCT

The financial services industry relies on trust, and we understand that it is crucially important for our employees to display the highest standards of ethical behaviour. That is why we engage in continuous training across the Bank to emphasise the behaviours we reward and the behaviours we discourage. Additionally, our Customer Charter governs our interactions with customers as we work to become the BVI's leading financial institution. The Charter covers a non-exhaustive range of ethical principles, by which all Board members, agents, employees, suppliers, and other key stakeholders must abide.

The principles covered in the Bank's Code of Conduct include professional integrity, confidentiality, conflicts of interest, fair dealings with customers, and whistleblowing. We boast of an ethical business built on a trusting relationship with our stakeholders. We institutionalise and subscribe to the highest standards of ethical decision-making, governance, and integrity to ensure value creation, with the full awareness that legal business is not always ethical business. At NBVI, we believe that adequate safeguards against unethical business practices must out-strip both banking regulation and the law. Hence, our Bank maintains a zero-tolerance stance towards all forms of corruption, bribery, and unethical business practices.

The Bank's Chief Compliance and Risk Officer is responsible for monitoring compliance with our Code of Conduct and our day-to-day business practices. The Board also undertakes periodic independent reviews, usually as part of the risk-based Internal Audit Plan, to review the monitoring process and effectiveness of the overall program.

CULTURE

In addition to the wide range of ethical principles included in our Code of Conduct, we actively promote other unwritten safeguards to strengthen and embed our risk and governance culture in our day-to-day operations. These safeguards include:

- Ethical leadership at the highest level of the Bank;
- Careful alignment of the Bank's strategy with Board and employee incentive packages;
- Unhindered and well-integrated control functions;
- Recognition and rewards for desired behaviours while taking swift corrective actions to address unwelcomed ones; and
- A Whistle-blower policy.

WHISTLE-BLOWER POLICY

NBVI has a formal whistle-blower policy which all members of the Board, management, staff, and other stakeholders can utilise to disclose any real issues they think are contrary to the Bank's policies, values, culture, or legislative and regulatory commitments.

The Board is responsible for ensuring that this policy remains appropriate and that mechanisms are established regarding the protection of whistle-blowers, as well as disciplinary measures for baseless allegations.

SUCCESSION PLANNING

The Board uses a formal board renewal process, led by the Governance, Nominations and Remunerations Committee ("GNRC"), to continuously test that its size and composition are such that the values, knowledge, skills, and experience of the individual Directors are consistent with the nature, size, structure, complexity, and diversity of the Bank's operations.

The Board is obligated to actively monitor the nature of its current and future work and maintain the competencies and skills required for effective Board performance. Oversight of this process is also delegated to the Governance, Nominations and Remunerations Committee. This Committee is responsible for, among other things, the development of a Board Profile which identifies the range of skills, knowledge, experience, and background required for the Board to perform most effectively. This profile is used to focus the assessment efforts for potential new Directors. Further to the outcome of the assessment, the GNRC is responsible for presenting its recommendations to the Board.

The Board is also accountable for ensuring that the Bank has a full complement of Executives to effectively manage the affairs of the Bank. In this regard, the Board is responsible for overseeing the selection and management of the senior management team through the CEO, including:

- ensuring that members of the Executive and Senior Management teams are held accountable for their actions and that they are aware of the possible consequences (including dismissal) if their actions are not aligned with agreed-upon performance expectations;
- monitoring the Executive and Senior Management's actions to ensure that they are consistent with the strategy and policies approved by the Board, including the Bank's values, risk appetite and risk culture, under all circumstances;
- meeting regularly with Executive and Senior Management;
- critically questioning and reviewing explanations and information provided by Executive and Senior Management;
- setting appropriate performance and remuneration standards for Executive and Senior Management, consistent with the long-term strategic objectives and the financial soundness of the Bank;
- assessing whether senior management's collective knowledge and expertise remain appropriate, given the nature of the business and the Bank's risk profile; and
- actively engaging in succession plans for the CEO and ensuring that appropriate succession plans are in place and managed by the CEO for senior management positions.

DISCLOSURE OF INFORMATION TO THE AUDITORS

The Directors confirm that, so far as they are aware, there is no relevant information of which the Bank's internal and external auditors are unaware, and that each Director has taken all the steps that he/she ought to have taken as a Director to obtain any relevant audit information.

INTERNAL AUDIT

The Internal Audit Department is responsible for the independent and objective review of NBVI's risk management and internal controls. The Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Compliance Committee (ACC). The ACC has the ultimate responsibility for the internal audit function and oversees its performance. The ACC also addresses measures taken by Management to remediate deficiencies identified by the Internal Audit Department, External Auditor, and Regulator. The Internal Audit Department adopts a risk-based approach to its audit planning, guided by the goals and strategies of the Bank, and priorities determined by the Board and the Audit and Compliance Committee. In addition to the full support of the Board and unencumbered access to the ACC, the Department has unfettered access to the Bank's staff, records, and documents to enable it to carry out its mandate.

AUDIT FRAMEWORK

The Internal Audit Framework details the purpose, objectives and deliverables of Internal Audit and explains the methodology and standards used to achieve independent assurance outcomes. In building and maintaining a feasible, sustainable, and robust audit framework, the Bank's internal audit function continues to model the Institute of Internal Auditors' (IIA) standards and guidelines. These international standards are considered the cornerstone of an audit framework. The audit function developed an internal audit plan that considered several aspects, such as the goal, scope and objectives of the audit program, the audit risk assessment program, and the processes to sustain the efficiency of an audit program.

STRUCTURE AND MANDATE OF THE INTERNAL AUDIT FUNCTION

BOARD OVERSIGHT

AUDIT AND COMPLIANCE COMMITTEE

INTERNAL AUDIT FUNCTION

MANDATE

- Reviews the activities, resources and organisational structure of the internal audit function to ensure there are no unjustified restrictions or limitations;
- Reviews the performance of the Internal Auditor and makes recommendations to the Board for the appointment, re-appointment or termination of the Internal Auditor;
- Discusses with the External Auditor the standard of work of internal audit staff;
- Reviews the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' "standards for the professional practice of internal auditing";
- Meets separately with the Internal Auditor to discuss matters that the Audit and Compliance Committee or Internal Auditor believes should be discussed privately;
- Ensures that significant findings and recommendations made by the Internal Auditor and Management's proposed responses are received, discussed and implemented, as appropriate; and
- Reviews the proposed internal audit plan for the coming year and ensures that it addresses key areas of risk, being appropriately coordinated with the external audit schedule.

TOTAL ASSURANCE

PROFESSIONAL STANDARDS ↔ INDEPENDENCE ↔ OBJECTIVITY ↔ GOVERNANCE

EXTERNAL AUDIT

External Audit

The integrity of our financial reporting to our Shareholders is protected through the following elements:

- Board oversight and responsibility
- Oversight from the Audit and Compliance Committee
- External Auditor

Through its Audit and Compliance Committee, the Board is responsible for managing the relationship with the Bank's external auditor. Specifically, the Board is charged with reviewing the performance of the external auditor and making recommendations for the appointment, re-appointment, or termination of the external auditor, on an annual basis.

Whereas NBVI's Directors are responsible for ensuring the preparation and presentation of financial statements which show a true and fair view of the Bank's financial position, the External Auditor is charged with the responsibility of examining these statements and providing an opinion on the reasonableness of the financial statements.

Following a tendering process in 2018, BDO Limited ("BDO") was appointed as NBVI's External Auditor for the 2019 – 2021 financial years. The Board is satisfied that BDO has performed its duties effectively and free from any influence or duress. The External Auditor has not engaged in any non-audit work for the Bank during the 2019 fiscal year.

RISK ASSESSMENT

Risk Assessment

RISK APPETITE

Risk management is embedded at all levels of our operations. The Bank has no appetite for breaches in laws and regulations. Recognizing that while incidents are unwanted, they cannot be entirely avoided, the Bank strives to reduce these instances to an absolute minimum. The Board ensures that adequate risk management procedures are in place to identify, assess and monitor risk activities and to provide the desired balance between risk acceptance and returns. NBVI's Risk Appetite is set by the Board and outlined in our Risk Appetite Statement – a key part of our risk culture. Our Risk Appetite represents the delicate balance between opportunities and the threats associated with innovation, our operating environment and the Bank's capacity to accept certain risks to pursue rewards for our stakeholders. The Bank's risk appetite also defines the targets and boundaries within which Management is expected to operate.

HOW WE DEFINE RISK

Risk	Any potential event or happening, which could prevent the achievement of an objective. Risk can be considered in three (3) distinct senses - as threats, uncertainties or lost opportunities.
Threats or Hazards	The risk of loss or negative things happening. Typical examples include system failure, fraud, financial loss or a lawsuit.
Uncertainty	The distribution of all possible outcomes, both positive and negative. In this context, risk management seeks to reduce the variance between anticipated outcomes and actual results.

ENTERPRISE RISK MANAGEMENT FRAMEWORK

Risk management is a fundamental part of NBVI's strategy and the business of banking. This year, NBVI implemented a robust Enterprise Risk Management Framework (ERMF) to ensure that all relevant existing and emerging risks are identified, assessed, measured, monitored, reported, and mitigated, where possible. This framework is supported by the Bank's business and ethical guidelines for its Board and staff, as outlined in its Customer Charter and other policies.

The ERMF sets out:

- the principal risks faced by NBVI;
- the Bank's risk appetite;
- employees' roles and responsibilities for risk management; and
- the Bank's risk management structure.

The ERMF is supported by policies and procedures formulated for assessing, measuring, monitoring, and reporting risks. NBVI remains cognizant that effective risk management is based on sound risk culture, characterised by a high level of awareness of risks affecting, or that can affect the Bank. The Board and entire management team play significant roles in ensuring the implementation and adherence to the ERMF and its suite of supporting policies and procedures, which aim to embed effective risk management and a strong risk management culture.

STRESS TESTING

Results of testing under low and medium stress scenarios indicate a moderate impact on the Bank's credit portfolio, capital, and liquidity positions. The intent of stress testing is to develop a comprehensive understanding of the potential impacts of on- and off-balance sheet risks at NBVI and how they impact financial resilience, which in turn provides confidence to Management, our regulator, and our shareholders. We will continue to develop our risk reporting during the next financial year.

RISK MANAGEMENT POLICY AND GUIDELINES

At NBVI, we favour long-term sustainability and growth over short-term solutions and profits. Hence, our policy is that any threat to the achievement of the Bank's Strategic Plan will be identified, analysed, evaluated, and addressed, to reduce the probability of loss and lost opportunities.

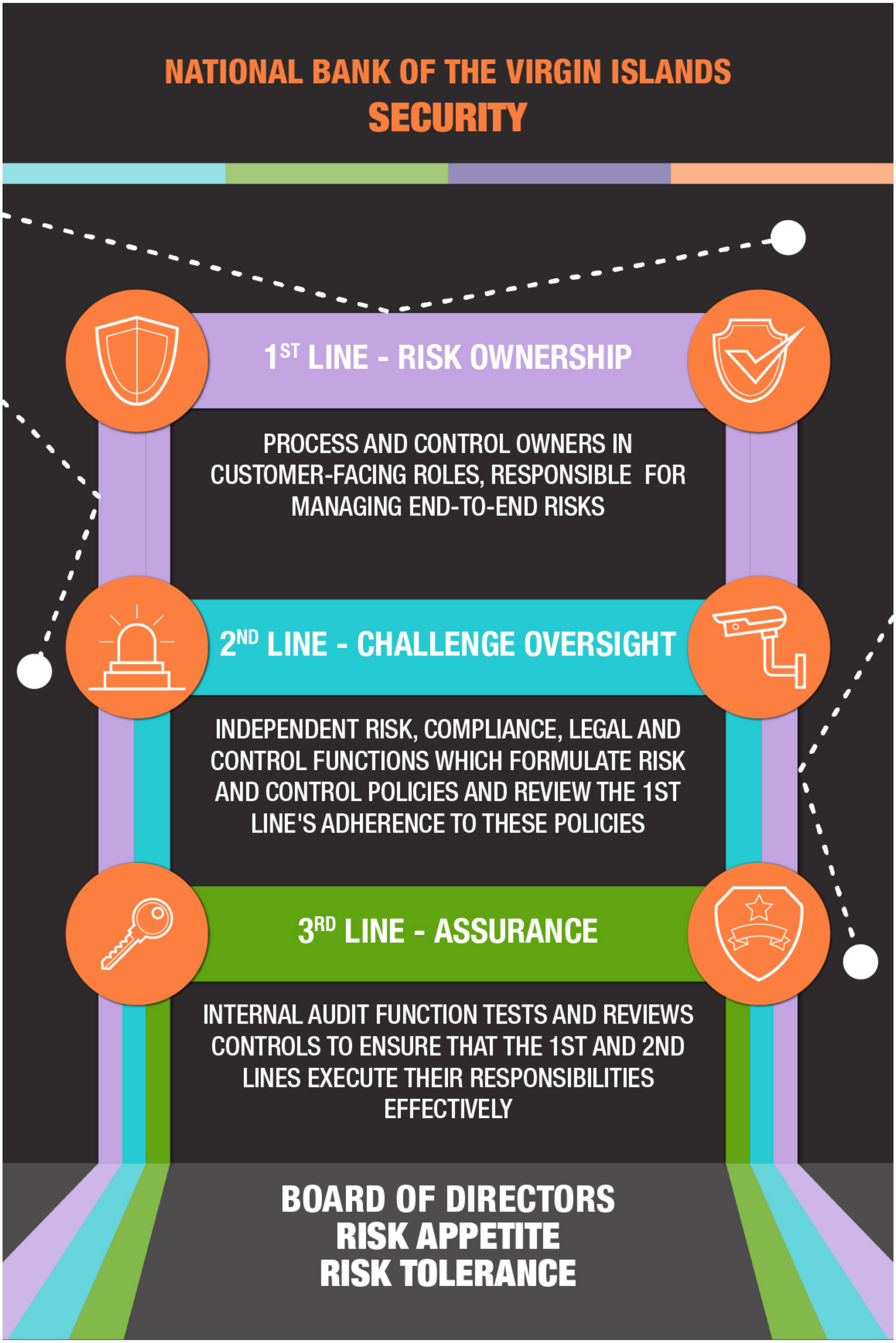
It is also the Bank's policy to manage its obligations and pursue opportunities that involve an acceptable degree of risk, to achieve its commercial and operating objectives and to fulfil the expectations of its stakeholders. The Bank will actively consider the balance of risk and commercial implications, as necessary to support the achievement of stakeholder expectations.

Our Risk Management Guidelines have been designed in accordance with international standards of best practice and reflect the nature, size and complexity of the Bank and its business. It provides explicit guidance about the risk management policy, the risk assessment process, standards, steps for reporting, and lines of accountability for risk management at the Bank. Further, our risk management framework is hinged to the following principles:

- Risk is taken within the Board-approved risk appetite;
- Risk taken requires approval within the ERMF;
- Risk taken needs to be adequately justified through business cases; and
- Risk must be continuously monitored and managed.

Our robust risk and governance model, shaped by our commitment to follow best practices, helps us to reframe most of our business challenges to serve our purpose and seize opportunities. We ensure effective risk governance and mitigation through a system of checks and balances, with autonomous controls (first line), monitoring (second line) and assurance (third line). This is in accordance with the three (3) lines of defence methodology outlined in the Corporate Governance Principles for Banks, released by the Basel Committee on Banking Supervision.

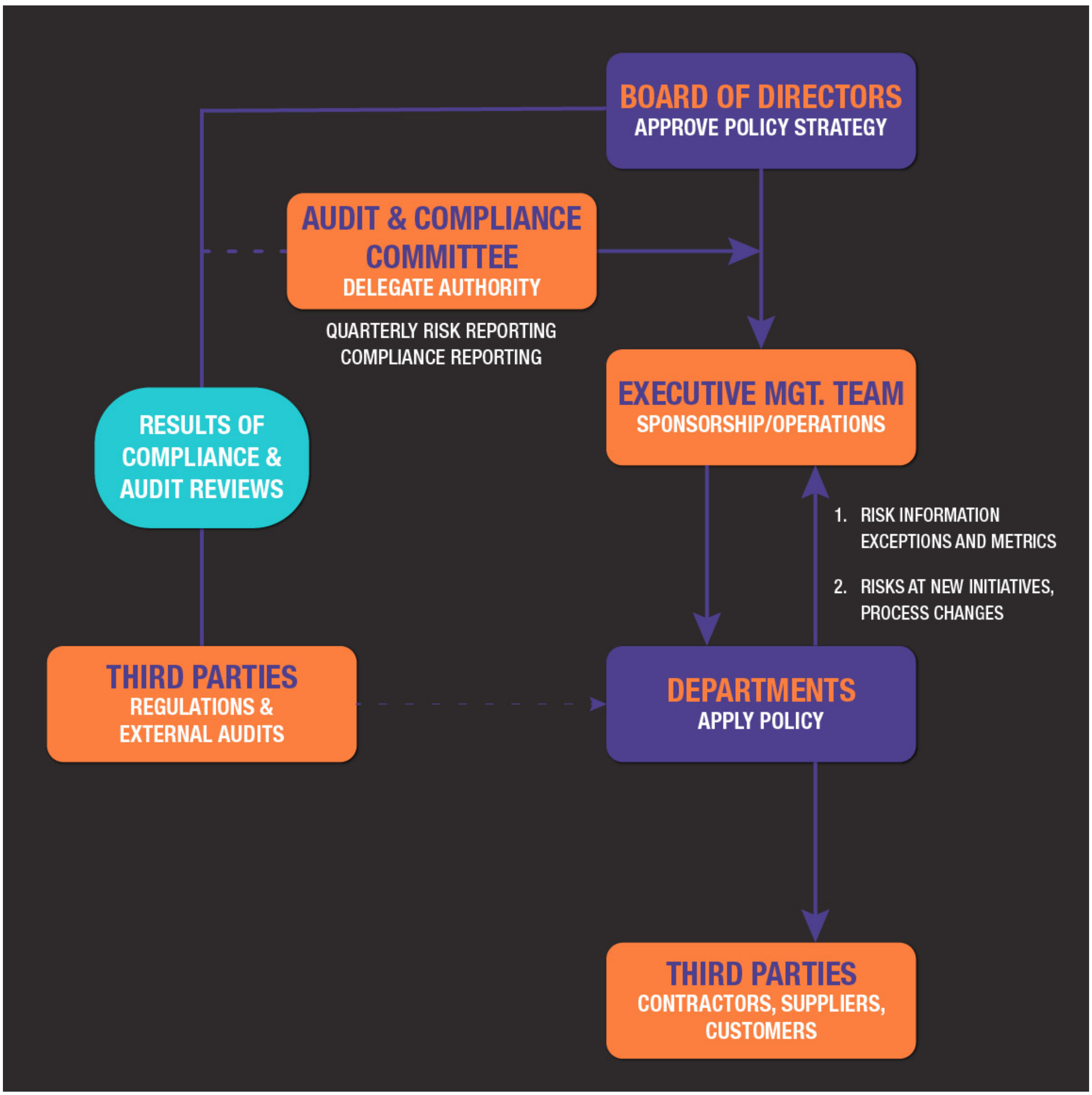
THREE (3) LINES OF DEFENCE



RISK ASSESSMENT STRUCTURE

The Bank's organization and governance structure provides oversight of all risk monitoring and reporting. The Board remains accountable for ensuring that NBVI has an adequate risk management framework in place, which clearly defines the Bank's risk appetite. Through delegated responsibility to Executive Management, they implement the ERMF that assesses and appropriately manages various risk exposures of the Bank. The Chief Compliance and Risk Officer is responsible for the centralised risk management function. Senior management also has a critical role to play in this process to ensure the implementation of the framework. The Audit and Compliance Committee is responsible for monitoring and evaluating the framework's application and effectiveness.

The framework and underlying risk policies and procedures are reviewed annually by the Audit and Compliance Committee to ensure continued application and relevance.



RISK ASSESSMENT PROCESS

Identify risks	Identify all significant risks.
Analyse risks	Evaluate these risks (determine likelihood, impact, existing controls, range of consequences).
Treat risks	Accept risks or develop appropriate risk mitigation processes.
Monitor risks	Monitor risks and ongoing performance of strategies to treat risks.
Report risks	Facilitate communication and consultation between stakeholders.

KEY RISKS IDENTIFIED

Credit risk remained the most significant risk that adversely affected NBVI's operations in 2019. As detailed in last year's Report, the Bank extended payment moratoriums to its customers after the 2017 storms. Due to the negative impact the hurricanes had on businesses' operations, and ultimately on our customers, we have experienced some impairments as a result of damage to property held as loan collateral. Nevertheless, we continue to remain vigilant against existing and emerging risks that may impact the Bank.

Despite the repetition of some risks identified in 2018, in this year's Report, we ensured that the top risks received the attention and resources needed for adequate mitigation as we seek to expand our range of products and services. Through a combination of risk assessment, monitoring of controls and compliance assurance activities, the Chief Compliance and Risk Officer seeks to ensure that all policies are operating as expected to mitigate the risks that they cover.

RISK ASSESSMENT

KEY RISKS	RISK CATEGORIZATION	LEVEL	MITIGATING FACTORS
DATA PHISHING, DATA FRAUD, DATA PRIVACY BREACHES	Information Risk	**MEDIUM**	*IT security policy, IT operations and monitoring, firewalls, strong business continuity plan, stringent information protection processes and policies.*
NBVI'S FAILURE TO EFFECTIVELY MANAGE ANY OR ALL OF THE OTHER RISK TYPES. E.G. NEGATIVE PUBLICITY	Reputational Risk	**MEDIUM**	*Strong risk management and ethics culture.* *Monitoring of print, electronic and social media, instant global communications and resolution of issues.* *Senior management oversight.*
NON-PERFORMING LOANS	Credit Risk	**HIGH**	*Monitoring and reporting of the loan book.* *Setting of appetite limits and sector concentration limits.* *More stringent underwriting practices.*
FAILURE TO ADHERE TO NEW OR EXISTING LEGISLATION, REGULATIONS, PRUDENTIAL GUIDELINES, AS WELL AS KEY INTERNAL COMPLIANCE POLICIES. E.G. MANAGING MONEY SERVICES BUSINESS (MSB) RELATIONSHIPS	Compliance Risk Regulatory Risk	**HIGH**	*Identification of changes to the regulatory compliance universe, gap and enhancement of the internal policy environment.* *Identification and analysis of compliance gaps.* *Continuous compliance training for staff.* *Engaging MSBs through site visits and quarterly reviews of account transactions.*
NATURAL DISASTERS	Environmental Risk Financial Risk	**HIGH**	*Revision of Business Continuity Plan.*
MONEY LAUNDERING AND TERRORIST FINANCING	Money Laundering Risk (inherent in banking and present in ALL financial institutions) Regulatory Risk Reputational Risk Financial Risk	**MEDIUM**	*Various AML Policies, hiring and training staff, audits and embedding the "3 Lines of Defence" risk management culture and methodology.*

EXTERNAL AUDITOR'S STATEMENT

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Audited Financial Statements

For the Year Ended December 31, 2019

BDO

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Audited Financial Statements

For The Year Ended December 31, 2019

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

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NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Bank Directory

Board of Directors

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

Registered Office

Harneys Corporate Services Limited
Craigmuir Chambers
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British Virgin Islands

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

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

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Other Matter

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Independent Auditor's Report (Continued)

Report on the Audit of the Financial Statements (Continued)

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

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

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

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

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

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

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

BDO Limited

Tortola, British Virgin Islands
October 13, 2020

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

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

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

APPROVED BY THE BOARD

______________________Director
Clarence Faulkner, *Chairman*

October 13, 2020______________Date approved

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

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Comprehensive Income
For The Year Ended December 31, 2019
Expressed in United States Dollars

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

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

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Changes in Equity
For The Year Ended December 31, 2019
Expressed in United States Dollars

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

	2018			
	Share Capital	Additional Paid-in Capital	Retained Earnings	Total
Balance at the beginning of the year	1,375,793	23,234,928	11,990,026	36,600,747
IFRS 9 adjustment due to ECL Allowance	-	-	2,830,790	2,830,790
Net profit for the year	-	-	1,155,820	1,155,820
Preference share dividend	-	-	(61,911)	(61,911)
BALANCE AT THE END OF THE YEAR	**$1,375,793**	**$23,234,928**	**$15,914,725**	**$40,525,446**

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

NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

Statement of Cash Flows
For The Year Ended December 31, 2019
Expressed in United States Dollars

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

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

1. ORGANISATION AND ACTIVITIES

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

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

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

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

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

  IFRS 16 is addressed in Changes in accounting policies (Refer to Note 2.5). None of the other new standards, interpretations and amendments, which are effective for periods beginning after January 1, 2019, had any effect on the Bank's financial statements.

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

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

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

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

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.4 Comparative figures

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

2.5 Changes in accounting policies

IFRS 16 Leases

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

Transition Method and Practical Expedients Utilised

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

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

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

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

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

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

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.5 Changes in accounting policies (continued)

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

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

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

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

2.6 Significant accounting judgments and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. ACCOUNTING POLICIES (Continued)

2.6 Significant accounting judgments and estimates (continued)

Going concern

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

Impairment losses on loans and advances

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

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

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

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

2.7 Foreign currency translation

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

2.8 Financial assets and financial liabilities

Date of recognition

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

2. ACCOUNTING POLICIES (Continued)

2.8 Financial assets and financial liabilities (continued)

Initial recognition of financial instruments

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

Classification of financial assets and financial liabilities

Financial assets

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

1. Amortised cost — a financial asset is measured at amortised cost if both of the following conditions are met:
   - the asset is held within a business model which has an objective to hold assets in order to collect contractual cash flows; and
   - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

2. Fair value through other comprehensive income ("FVOCI") — financial assets are classified and measured at fair value through other comprehensive income if both of the following conditions are met:
   - they are held in a business model where the objective is achieved by collecting contractual cash flows and selling financial assets; and
   - the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

3. Fair value through profit or loss ("FVTPL") — any financial assets that are not held in one of the two business models mentioned above are measured at FVTPL.

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

Business model assessment

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

The information considered includes:

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

2. ACCOUNTING POLICIES (Continued)

2.8 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

Business model assessment (continued)

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing its financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows and/or held for future sale of the financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodic reset of interest rates).

Financial liabilities

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

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

Fair value option

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

2. ACCOUNTING POLICIES (Continued)

2.9 Derecognition of financial assets and financial liabilities

Financial assets

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

Financial liabilities

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

2.10 Impairment of financial assets

Loans and advances to customers

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

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

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

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

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

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

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

Measurement of ECL

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

Profile Segmentation:

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

2. ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (continued)

Measurement of ECL (continued)

Staging:

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

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

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

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

Credit risk at initial recognition:

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

Credit risk at subsequent measurement:

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

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

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

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

2. ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (continued)

Measurement of ECL (continued)

Credit risk at subsequent measurement (continued):

Migration Analysis:

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

Estimated Credit Loss Calculation:

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

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

Historical Credit Losses:

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

Estimated Future Write-offs:

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

Uninsured Collateral:

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

2. ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (continued)

Measurement of ECL (continued)

Other Macro-Economic Factors:

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

Presentation of allowance for ECL in the Statement of Financial Position

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

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

Write-off

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

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

2.11 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if, and only if, there is a current enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.12 Fair value measurements

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

2. ACCOUNTING POLICIES (Continued)

2.12 Fair value measurements (continued)

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

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

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

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

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

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

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

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

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.13 Administrative services

The Bank provides administrative services that result in the holding of assets on behalf of Government agencies. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank. The value of such assets as at December 31, 2019 is $856,288 (2018: $937,256).

2.14 Recognition of revenue

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

Interest and similar income

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

Fee and commission income

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

2.15 Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, deposits held at call, cash held with brokers and short-term, highly liquid investments with maturities of three months or less from the date of acquisition. Bank deposits with maturities of more than three months from date of acquisition are classified as due from banks.

2.16 Pension plan

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

2.17 Taxation

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

2.18 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Computer equipment	2-5 years
Motor vehicles	5 years
Furniture and fixtures	3-10 years
Leasehold improvements	3-10 years
Right-of-use assets	2-15 years

2. ACCOUNTING POLICIES (Continued)

2.18 Property and equipment (continued)

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

2.19 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the Statement of Comprehensive Income whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is estimated as the greater of an asset's net selling price and value in use. If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the Statement of Comprehensive Income. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.20 Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, but primarily as cash or real estate. The fair value of collateral is generally assessed, at a minimum, at inception and periodically updated based on the Bank's policies and type of collateral.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties, such as independent appraisers and quantity surveyors.

2.21 Leases

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

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

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

Initial recognition

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

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

Subsequent measurement

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

2. ACCOUNTING POLICIES (Continued)

2.21 Leases (continued)

Subsequent measurement (continued)

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

Renegotiation of contractual terms

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

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

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

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

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

Nature of leasing activities (in the capacity as lessee)

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

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

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

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.21 Leases (continued)

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

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

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

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

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

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

2.22 Related Parties

For the purposes of these financial statements, a party is considered to be related to the Bank if:

- the party has the ability, directly or indirectly through one or more intermediaries, to control the Bank or exercise significant influence over the Bank in making financial and operating policy decisions, or has joint control over the Bank;
- the Bank and the party are subject to common control;
- the party is an associate of the Bank;
- the party is a member of key management personnel of the Bank, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or
- the party is a close family member of a party referred to in the first point or is an entity under the control, joint control or significant influence of such individuals.

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

Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.23 Provisions

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

3. DUE FROM BANKS

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

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

4. LOANS AND ADVANCES TO CUSTOMERS

The Bank lends funds for commercial and development purposes for periods primarily between 5 and 30 years. These funds are largely secured by commercial real estate, business assets and residential property.

The Bank analyses its loan portfolio by category as follows:

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

Expressed in United States Dollars

4. LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

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

Interest accruals on non-performing loans

The interest receivable includes interest on non-performing loans totaling $2,498,240 (2018: $2,557,395) and the same has been fully provided. The corresponding provision is included within interest provision on restructured and non-performing loans.

Renegotiated loans

As at December 31, 2019, loans and advances to customers includes $795,383 (2018: $1,095,921) of interest which was outstanding at the date of restructuring. This interest is included as part of the restructured loans and advances as principal or converted into new loans. A corresponding provision has been recorded, which offsets the interest capitalised. As payments on these restructured loans are received, this provision is reduced in proportion to the restructured balance and a corresponding amount of interest is recognised as income.

Expressed in United States Dollars

5. ECL ALLOWANCE

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

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

As a result of this moratorium, the Bank therefore waived its right to interest income of $Nil (2018: $440,982) from loans participating in the 3-month moratorium.

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

Collateral repossessed

During the year, the Bank exercised its power of sale over real estate collateral with a market value of $281,100 (2018: $300,000).

6. OTHER CUSTOMER RECEIVABLES

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

Expressed in United States Dollars

7. FINANCIAL INVESTMENTS

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

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

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

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

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

The government note is issued by the Government of St. Lucia and the balance of $10,000,000 was renewed for a term of 1 year. The government note matures on October 8, 2020 and carries an interest rate of 4.0% (2018: 5.0%).

Expressed in United States Dollars

8. FAIR VALUE INFORMATION

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each measurement is categorised:

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

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

Expressed in United States Dollars

9. PROPERTY AND EQUIPMENT

	Motor Vehicles	Furniture & Fixtures	Computer Equipment	Leasehold Improvements	Land	Work in Progress	Right-of-use Assets	Total
Cost								
January 1, 2019	103,985	1,104,962	1,712,112	3,874,242	1,210,000	587,206	4,087,421	12,679,928
Additions	35,150	8,950	123,404	66,056	-	1,438,194	-	1,671,754
Disposals	(35,990)	-	-	-	-	-	-	(35,990)
Transfers	-	57,798	2,871	9,096	-	(69,765)	-	-
Write-downs	(4,000)	-	-	-	-	(205,311)	-	(209,311)
December 31, 2019	99,145	1,171,710	1,838,387	3,949,394	1,210,000	1,750,324	4,087,421	14,106,381
Accumulated Depreciation								
January 1, 2019	23,950	718,019	1,510,983	2,138,890	-	-	-	4,391,842
Charge	15,347	107,564	127,779	436,121	-	-	480,245	1,167,056
Disposals	(13,796)	-	-	-	-	-	-	(13,796)
December 31, 2019	25,501	825,583	1,638,762	2,575,011	-	-	480,245	5,545,102
Net Book Value								
December 31, 2018	$80,035	$386,943	$201,129	$1,735,352	$1,210,000	$587,206	$ -	$4,200,665
December 31, 2019	$73,644	$346,127	$199,625	$1,374,383	$1,210,000	$1,750,324	$3,607,176	$8,561,279

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

Expressed in United States Dollars

10. REGULATORY DEPOSIT

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

11. CAPITAL AND RESERVES

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

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

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

(d) Share rights

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

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

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

Expressed in United States Dollars

11. CAPITAL AND RESERVES (Continued)

(e) Preference shares

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

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

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

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

12. AMOUNTS OWED TO SAVINGS DEPOSITORS

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

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

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

13. AMOUNTS OWED TO CERTIFICATE OF DEPOSIT HOLDERS

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

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

Expressed in United States Dollars

14. LEASE LIABILITIES

The following table presents movement in lease liabilities.

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

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

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

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

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

15. TRADE AND OTHER PAYABLES

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

16. INTEREST AND SIMILAR INCOME

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

Expressed in United States Dollars

16. INTEREST AND SIMILAR INCOME (continued)

As detailed in note 5, the Bank granted an automatic 3-month principal and interest moratorium (that is, a temporary suspension) on all personal loans and a voluntary 3-month moratorium on all residential mortgages and commercial loans. As a result of this moratorium, the Bank waived $Nil (2018: $440,982) of interest that would otherwise have been accrued on these loans and recorded as interest income, had the moratorium not been granted.

17. INTEREST EXPENSE

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

18. FEES AND COMMISSIONS

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

19. OTHER OPERATING EXPENSES

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

Expressed in United States Dollars

19. OTHER OPERATING EXPENSES (Continued)

Analysis of staff costs:

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

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

Pension

The Virgin Islands Labour Code, 2010, stipulates that the employer should make a provision for retirement benefits to be paid to its permanent employees by means of a pension plan, an annuity, provident fund or other form of retirement plan which may be contributory.

Effective January 1, 2015, the Bank became a member of the Multi-Employer Pension Plan (the "Plan") established by the BVI Chamber of Commerce and Hotel Association. The Plan is a defined contribution plan, with contributions from pensionable earnings at a rate of 8% by the Bank and voluntary contributions of at least 4% by employees.

For the year ended December 31, 2019, pension expenses of $266,621 (2018: $207,934) were incurred.

20. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

21. COMMITMENTS

Undrawn loan commitments

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

22. FINANCIAL RISK MANAGEMENT

22.1 Introduction

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

Risk Management Structure

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

Board of Directors

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

Assets and Liabilities Committee

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

Audit and Compliance Committee

The Audit and Compliance Committee is responsible for evaluating whether management is setting the appropriate 'control culture' by communicating the importance of internal control and management of risk. The Audit and Compliance Committee should monitor the controls and processes which ensure that the financial statements derived from the underlying financial systems comply with relevant standards and requirements, and are subject to appropriate management review. In summary, the Audit and Compliance Committee is responsible for the evaluation of the overall effectiveness of the internal control and risk management frameworks. Currently, the Bank's Audit and Compliance Committee depends primarily on the reviews of its Internal Audit and Compliance Departments to determine any operational deficiencies, and thereafter, ensures implementation of requisite corrective measures.

22. FINANCIAL RISK MANAGEMENT (Continued)

22.1 Introduction (continued)

Credit Committee

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

Risk measurement and reporting systems

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

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

Excessive risk concentration

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

22.2 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations to the Bank. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, and by monitoring exposures in relation to such limits.

Maximum exposure to credit risk without taking account of collateral and other credit enhancements

The maximum exposure to credit risk before any credit enhancement at December 31, 2019 is the carrying amount of the financial assets in the statement of financial position.

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

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

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

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

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

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.2 Credit risk (continued)

Collateral and other credit enhancements

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

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

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

Credit risk exposure for each internal risk rating

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

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

The Bank's past due loans and advances to customers which are not considered impaired by management are noted below, excluding non-performing loans totaling $24,664,020 (2018: $28,300,739).

As at December 31, 2019

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

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

As at December 31, 2018

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

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.2 Credit risk (continued)

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

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

2018	CariBBB Rated	A3 Rated	Not Rated	Total
Government note securities	10,125,000	-	-	10,125,000
Corporate Bonds	-	5,000,000	-	5,000,000
Asset-backed securities	-	439,658	-	439,658
	$10,125,000	$5,439,658	$ -	$15,564,658

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

22.3 Liquidity risk and funding management

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

The Bank maintains liquid assets that can be drawn upon as needed, in the event of unforeseen interruption of cash flows. Liquid assets consist of cash and cash equivalents and short-term bank deposits. The Board of Directors has determined that liquid assets held as the Bank's cash reserve, must be at least twenty percent (20%) of the Bank's short-term (less than 90 days) deposit liabilities. As at December 31, 2019, the ratio of liquid assets over short-term deposit liabilities was recorded at 39% (2018: 31%).

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

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

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.3 Liquidity risk and funding management (continued)

Concentration risk

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

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, based on its deposit retention history, the Bank does not expect that many customers will request repayment at the contractual maturity date.

2019

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

2018

	Within 3 months	Over 3 months, but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Financial liabilities					
Amounts owed to demand deposit holders	2,015,872	-	-	-	2,015,872
Amounts owed to savings depositors	64,785,843	-	-	-	64,785,843
Amounts owed to certificate of deposit holders	43,154,797	76,476,056	14,564,195	-	134,195,048
Trade and other payables	1,311,315	-	-	-	1,311,315
Total	$111,267,827	$76,476,056	$14,564,195	-	$202,308,078

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.3 Liquidity risk and funding management (continued)

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

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

2018	Within 3 months	Over 3 months, but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Commitments:					
Loans and advances	2,187,772	1,753,124	-	-	3,940,896
Lease commitments	134,888	404,665	1,983,495	1,832,912	4,355,960
	$2,322,660	$2,157,789	$1,983,495	$1,832,912	$8,296,856

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

22.4 Market risk

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

Interest rate risk

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

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

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.4 Market risk (continued)

Interest rate risk (continued)

As at December 31, 2019, if market interest rates increased by 25 basis points (0.25%) (2018: 25 basis points), with all other variables held constant, the Bank's loss would have increased and total assets would have decreased by $405,768 (2018: $348,437). A decrease in market interest rates of 25 basis points (2018: 25 basis points), with all other variables held constant, would have an equal but opposite effect on the profit or loss and total assets of the Bank. A 25 basis point shift in market interest rates represents management's assumption for the reasonably possible change in interest rates.

The following table details the Bank's exposure to interest rate risk. It includes the Bank's interest-bearing financial assets and liabilities, stated at their carrying value, gross of any allowance for credit losses, categorised by the earlier of their contractual re-pricing or maturity date.

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

Expressed in United States Dollars

22. FINANCIAL RISK MANAGEMENT (Continued)

22.4 Market risk (Continued)

2018	Within 3 months	Over 3 months, but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Financial Assets					
Cash and cash equivalents	19,835,475	-	-	-	19,835,475
Due from banks	11,049,392	3,354,672	-	-	14,404,064
Gross loans and advances to customers	19,577,463	17,004,041	17,569,510	141,699,576	195,850,590
Regulatory deposit	-	-	-	500,000	500,000
Financial investments held-to-maturity	-	10,125,000	5,000,000	439,658	15,564,658
Total	50,462,330	30,483,713	22,569,510	142,639,234	246,154,787
Financial Liabilities					
Amounts owed to savings depositors	64,709,688	-	-	-	64,709,688
Amounts owed to certificate of deposit holders	43,014,236	75,733,615	13,840,551	-	132,588,402
Total	107,723,924	75,733,615	13,840,551	-	197,298,090
Total interest re-pricing gap	$(57,261,594)	$(45,249,902)	$8,728,959	$142,639,234	$48,856,697

Prepayment risk

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

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

22.5 Operational risk management

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

23. CAPITAL ADEQUACY REQUIREMENTS

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

Expressed in United States Dollars

23. CAPITAL ADEQUACY REQUIREMENTS (Continued)

To meet minimum adequately capitalised regulatory requirements, an institution that holds a general banking licence must maintain a Tier 1 capital amount equal to or greater than $2,000,000 and a minimum risk weighted capital adequacy ratio of 12%. The Bank has adopted the regulatory requirements as its minimum standards. In addition, the Bank has further supplemented the risk-based capital adequacy guidelines by adopting a leverage ratio, defined as Tier 1 capital divided by average assets. The leverage ratio guidelines establish a minimum of 10% of the average assets.

The following presents the actual capital ratios and amounts for the Bank as at December 31, 2019:

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

24. CONTINGENCIES

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

25. SUBSEQUENT EVENTS

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

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

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