National Bank of the virgin islands

# ANNUAL REPORT

## NAVIGATING UNCERTAINTY IN PARADISE

2020


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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

| | |
|---|---|
| Mr Clarence Faulkner, Jr (Resigned, January 22, 2021) | Chairman |
| Dr Benedicta Samuels | Chairperson, Ag. |
| Dr Drexel Glasgow | Director |
| Ms Nona Vanterpool (Resigned, January 3, 2020) | Director |
| Mr Ivan Hudson Carr | Director |
| Mrs Antoinette Skelton (Resigned, February 24, 2021) | Director |
| Mrs Michelle Todman Smith (Resigned, September 30, 2021) | Director |
| Mr Mervyn Hope | Director |
| Mrs Joy Penn | Chief Executive Officer / Ex-Officio Director |

## CORPORATE SECRETARY

Mrs Wendy Lewis

## REGISTERED OFFICE

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

## SOLICITORS

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

Harneys
Craigmuir Chambers
PO Box 71
Road Town, Tortola VG1110
British Virgin Islands

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

## AUDITORS

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

## 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

| Profit and Loss Account | 2016 ($000) | 2017 ($000) | 2018 ($000) | 2019 ($000) | 2020 ($000) |
|---|---|---|---|---|---|
| Interest Income | 10,353 | 9,096 | 11,817 | 13,662 | 11,643 |
| Interest Expense | (1,805) | (1.957) | (2,495) | (3,656) | (3,715) |
| Net Interest Income | 8,548 | 7,139 | 9,322 | 10,005 | 7,928 |
| Total Operating Income | 9,487 | 7,764 | 10,165 | 10,858 | 8,740 |
| Other Expenses | (8,368) | (10,285) | (9,009) | (9,554) | (9,327) |
| Net Income (Loss) for the Year | 1,120 | (2,521) | 1,156 | 1,303 | (588) |
| EBIT | 2,925 | (564) | 3,651 | 4,959 | 3,127 |
| | | | | | |
| **BALANCE SHEET** | | | | | |
| Total Assets | 217,410 | 223,739 | 245,278 | 279,965 | 282,337 |
| Total Liabilities | 189,162 | 187,132 | 204,753 | 238,198 | 241,221 |
| Loans and advances to customers (Gross) | 163,340 | 178,807 | 195,851 | 206,779 | 218,108 |
| Financial Instruments | 15,884 | 10,649 | 15,565 | 28,538 | 35,628 |
| Average Investments | 164,343 | 184,340 | 200,436 | 223,367 | 244,527 |
| Deposits | 188,654 | 182,312 | 199,314 | 228,761 | 232,006 |
| Shareholders' Capital | 13,738 | 24,611 | 24,611 | 24,611 | 24,611 |
| Retained Earnings | 14,511 | 11,990 | 15,915 | 17,156 | 16,506 |
| | | | | | |
| **KEY FINANCIAL RATIOS** | | | | | |
| Operating Expenses/Total Income | 88% | 132% | 89% | 88% | 107% |
| Net Interest Margin | 5% | 4% | 5% | 4% | 3% |
| Return on Assets | 0.52% | -1.13% | 0.47% | 0.47% | -0.2% |
| Return on Equity | 8% | -6.9% | 2.9% | 3.1% | -1.4% |
| Interest Cover | 162% | -29% | 146% | 136% | 84% |
| Loans and advances to deposits | 87% | 98% | 98% | 90% | 94% |
| | | | | | |
| Tier 1 Capital | 28,249 | 35,225 | 39,150 | 40,391 | 39,741 |
| | | | | | |
| **SOCIAL** | | | | | |
| # of Employees that left | 5 | 5 | 15 | 10 | 3 |
| Average # of Employees | 49 | 52 | 56 | 70 | 75 |
| Number of Employees | 50 | 54 | 57 | 71 | 75 |
| Employee Turnover | 10% | 10% | 27% | 14% | 2.7% |
| Women as % of Total Staff | 62% | 61% | 60% | 63% | 70% |
| Women as % of the Executive Management Team | 60% | 60% | 50% | 43% | 43% |
| # of persons on Executive Management Team | 5 | 6 | 6 | 7 | 7 |
| Corporate Social Responsibility Projects/ Initiatives | US$58 | US$44 | US$51 | US$56 | US$26 |

# NOTICE OF ANNUAL MEETING

Notice is hereby given that the Annual General Meeting of the National Bank of the Virgin Islands Limited (NBVI) will be held at The Moorings Conference Room on Thursday, December 9, 2021, at 12:00 p.m. for the following purposes: -

1. To read and confirm the Minutes of the Meeting held on December 8, 2020;
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, 2020;
6. To elect Directors;
7. To reconfirm the appointment of Auditors for years ending December 31, 2019, through 2021;
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, 2021


BUSINESS INFOGRAPHICS
Growth Infographic
Profit infographics
BUSINESS REVIEW
FINANCIAL AUDIT

# ABOUT THIS REPORT

## REPORTING

*Welcome to NBVI's 2020 Integrated Annual Report (the "Report"). This is our primary Report to shareholders and other stakeholders. This Report is intended to give a holistic assessment of the financial and nonfinancial performance of the Bank, as well as convey its forward-looking strategy. Additionally, the Report explains how, over time, NBVI creates value for its stakeholders as part of our continuous efforts to enhance disclosure and keep our stakeholders well informed.*

While providing an overview of the basis of NBVI's total value creation, its strategy and long-term sustainability, the Report also includes the Bank's audited financial results and commentary on its operations for the financial year ended December 31, 2020, as well as a thorough account of its annual activities and approach to corporate governance and risk management.

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. The Bank's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The content of the Report is determined in line with the material issues which affected or can affect the Bank's value creation process.

## SCOPE AND BOUNDARY OF REPORTING

### Reporting Period

This Annual Report encompasses the activities of NBVI and our work and stewardship from January 1, 2020, to December 31, 2020.

### Financial and Non-Financial Reporting

Our Report includes information regarding stakeholder relationships, material matters, risks and opportunities and our forward-looking strategy. It captures the significant activities of the Bank, which extend beyond financial reporting and describes the value created for the Bank's main stakeholder groups (shareholders, customers, employees), and the community we serve.

### Target Audience

This is our primary report to our shareholders, but it contains information relevant to other stakeholders. The information presented also addresses the requirements of our regulator and is relevant to the way we create value for other key stakeholders, including our staff, customers, and community. A copy of this Report is accessible at ***www.nationalbank.vg***.

## STRATEGIC AND CUSTOMER-FOCUSED

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, a network of ATMs and digital platforms, including internet banking, mobile banking, and point-of-sale.
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

Our ability to create value may be impacted by many factors, including the operating environment, our responses to the risks and opportunities and our chosen strategy. Through this Report, we provide the context for what we have deemed our material matters - those matters which have influenced, or could influence, our ability to create value over the short, medium, and long term - and how we are responding. Material matters, as described on *page 47*, 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, 2020, are an integral 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 93-94 of this report***.

## BOARD RESPONSIBILITY AND APPROVALS

As NBVI's Board, we are responsible 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. Our aim is to provide stakeholders with a succinct yet sufficiently informed view of the organisation, our stakeholder relationships, the challenges, and opportunities we face, and our approach to creating value. However, if after reading this Report, you feel there are areas in which the Bank can better live up to this commitment, please email ***corporatesecretary@nationalbank.vg***.

We confirm that this Report has been prepared in accordance with the International Integrated Reporting Framework.

This Report was approved by the Bank's Board of Directors on March 29, 2022.

| | | |
|---|---|---|
| Benedicta Samuels<br>Chairperson (Ag.) | Jeanette Scatliffe-Boynes<br>*(Appointed, May 15, 2021)* | Drexel Glasgow |
| Ivan Hudson Carr | Icis Malone<br>*(Appointed, September 1, 2021)* | Merwyn Hope |
| Everette Frazer<br>*(Appointed, October 1, 2021)* | Joy Penn | |

# ABOUT NATIONAL BANK

## WHO WE ARE

*A proud Virgin Islands ("VI") indigenous financial institution, helping our customers and the wider Virgin Islands to navigate the uncertainties of the COVID-19 crisis.*

We trace our humble beginnings back to the 1980s when, as the Development Bank of the Virgin Islands, we funded micro enterprises and supported the aspirations 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 offer financial services to individuals, businesses, institutional customers, and the Government of the Virgin Islands.

In the last two (2) years, the Board has focused particular attention on the Bank's digital transformation and technology investments, including cybersecurity, to improve our ability to meet the evolving needs of our customers. We will soon reap the benefits of these major investments as we increase our products and services and improve accessibility to the Bank.

We are proud of our journey thus far and we are excited about the road ahead.

## 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.

## CORE VALUES

Our values are the foundation of our corporate culture and serve as the source of the Bank's distinctiveness. These values define what NBVI stands for and are expected to shape the behaviours of all Directors and employees in every engagement they have with customers, colleagues, communities, shareholders, regulators, and all other stakeholders. Our values underpin our purpose, hold us to account and guide our steps to becoming the best possible bank.

# P A R A D I S E

| P | A | R | A | D | I | S | E |
|---|---|---|---|---|---|---|---|
| PROFESSIONALISM | ACCOUNTABILITY | RESPECT | ATTITUDE | DEDICATION | INTEGRITY | SOCIAL RESPONSIBILITY | EXCELLENCE |

## PROFESSIONALISM

*We act with courtesy at all times, upholding high standards.*

## ACCOUNTABILITY

*We accept our individual and team responsibilities, meet our commitments, and take responsibility for our performance decisions and actions.*

## 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.*

## ATTITUDE

*We always maintain a positive attitude when interacting with our team members, customers, shareholders, service providers and community.*

## DEDICATION

*We are keen to do what it takes to achieve our goals.*

## INTEGRITY

*We uphold the highest ethical standards, demonstrating honesty, and fairness in all our business practices.*

## SOCIAL RESPONSIBILITY

*We are committed to seeking ways to contribute to the advancement of our community.*

## 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

We have approached the challenges posed by the pandemic with stakeholders foremost in our minds. At NBVI we believe that greater awareness of the issues that matter to our stakeholders will enable us to make more informed decisions, better manage risks and opportunities, and develop comprehensive strategies to create value. Remote working and Territory-wide lockdowns due to the COVID-19 outbreak have increased our customers' needs and preferences to do business digitally. In response to the changing environment and to satisfy the needs and expectations of our stakeholders, our strategy is to accelerate our investment in technology to broaden our suite of products and services and place greater focus on digitalization to improve access to the Bank.

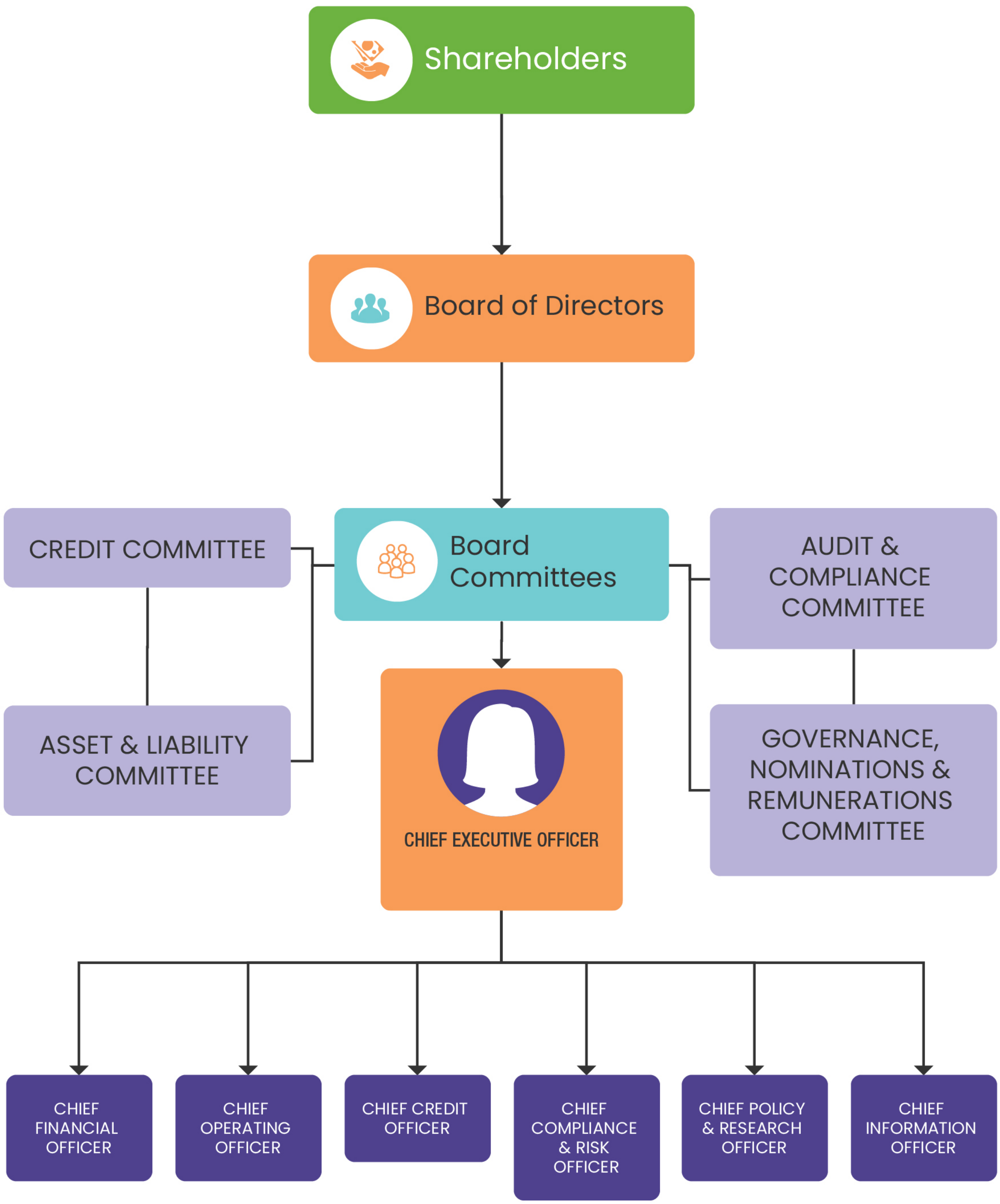
We are committed to maintaining strategic, constructive, and proactive dialogue with all our stakeholders. Given the great importance we attach to them, regular communication with our stakeholders and hearing their opinions give us the opportunity to build a better bank for all.

### Communication with Stakeholders

| Customers | Shareholders and Analysts | Regulators and Auditors | Board of Directors | Employees | Suppliers | Media | General Public |
|---|---|---|---|---|---|---|---|
| Branch | AGM | Meetings | Meetings | Satisfaction Surveys | Meetings | Website | Website |
| Website | Board | Regulatory Reports | Reports | Staff Celebrations | Training | Press Conferences | Press Releases |
| Bank Statements | Meetings | Emails | Emails | Staff Meetings | Business Documents | Press Releases | Philanthropy |
| Customer Surveys | Annual Reports | Website | Phone Calls | Evaluation Systems | Letters | Emails | Social Media |
| Interviews | Website | Phone Calls | | Website | Emails | | |
| Instant Feedback | Letters | Letters | | Corporate Events | Phone Calls | | |
| Outreach Seminars | Emails | Interviews | | | Request for Proposal | | |
| | Phone Calls | Annual Reports | | | | | |

# CORPORATE STRUCTURE

## National Bank of the Virgin Islands



**CLARENCE FAULKNER JR**
*(CHAIRMAN)*
*(Resigned, January 22, 2021)*

**BENEDICTA SAMUELS**
*(CHAIRPERSON AG.)*

**DREXEL GLASGOW**

**IVAN HUDSON CARR**

**ANTOINETTE SKELTON**
*(Resigned, February 24, 2021)*

**MICHELLE TODMAN SMITH**
*(Resigned, September 30, 2021)*

**MERVYN HOPE**

**JOY PENN**

*Defining and overseeing NBVI's strategic direction is one of the Board's major responsibilities. To achieve this, the Board of Directors is comprised of a team of men and women with the best combination of knowledge and skills and adheres to the highest standards of governance. Their complementary areas of expertise cover all the Bank's activities and the associated risks and opportunities. The Directors are pleased to report on their stewardship of the Bank, together with its audited financial statements for the year ended December 31, 2020.*

In the opinion of the Directors:

a. the financial statements of the Bank, together with the notes thereon as set out on ***pages 89*** to ***133***, are drawn up to give a true and fair view of the financial position, financial and non-financial performance, and changes in equity and cash flows of the Bank for the year ended December 31, 2020; and

b. as at the date of this Report, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

This year's theme ***"Navigating Uncertainty in Paradise"*** is a testament of our commitment to be there for our customers and employees during and after COVID-19. As the pandemic continues to wreak havoc on the Territory's economy and takes an incalculable toll on human life and livelihoods, NBVI continues to stand with our customers, employees, and the community to lend a hand, ease the burden, and navigate the uncertainty. These are indeed challenging times, but we have seen determination, hope and purpose on display from every stratum of our society – a testament to the strength of our people and a reminder that we are much ***Stronger Together***. Our Bank remains committed to our customers, employees, shareholders, and other stakeholders. We are cognizant that your support is vital for the Bank's continued operation and survival.

Undoubtedly, the ongoing digitalization of the Bank will help us ride these challenging times and emerge as a stronger bank, offering a greater variety of products and services, and multiple delivery channels. The Board of Directors wishes to express its sincere gratitude to all stakeholders for your continued support and confidence in the Bank as we evolve into a more technology-driven institution to serve you better.

## DIRECTORS

Clause 9.4 of the Bank's Articles of Association states:

> "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 on the appointment of a director, the director serves indefinitely until his earlier death, resignation or removal."

One (1) Director resigned in 2020 and three (3) Directors resigned in 2021. Three (3) new members were appointed, reducing the Board complement from nine (9) members to (8) eight members. As a result of these changes, this Report was reviewed and approved by a mix of old and new Directors.

## THE ROLE OF OUR BOARD

The Board of Directors has three (3) primary roles:

- Setting the strategic agenda for the Bank;
- Providing oversight; and
- Ensuring that risks and rewards are appropriately balanced.

The Board reserves the right to make certain decisions at meetings of the full Board and delegates other decisions to its committees and Management. In fulfilling their responsibilities, Directors are expected to exercise independent judgment which they believe to be in the best interests of the Bank. The Board is ultimately accountable for the performance of the Bank.

## BOARD COMMITTEES

In keeping with its oversight function and fiduciary responsibility, the Board of Directors executes its mandate through relevant committees. The current standing committees of the Board are:

- Asset and Liability Committee (ALCO) – Mervyn Hope (Chair)

- Audit and Compliance Committee (ACC) - Michelle Todman Smith (Chair)
- Credit Committee (CC) - Ivan Hudson Carr (Chair)
- Governance, Nominations and Remunerations Committee (GNRC) - Clarence Faulkner Jr. (Chair)

Each committee reports directly to the Board and is guided by its Charter, which details the duties and responsibilities of the committee as well as procedures for committee member appointments, committee structure and operations and reporting. 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 ***pages 72-74*** of this Report.

## INTEGRITY OF OUR FINANCIAL REPORTING

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

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

## BOARD MEETING ATTENDANCE

Board meetings serve as the main forum through which Directors share information and deliberate on the Bank's performance, plans and policies. Meeting attendance is an important factor in the Board's ability to discharge its duties and responsibilities, and care is taken in preparing the Board calendar to enable attendance. If a Director is unable to attend a meeting, an apology is recorded and, if possible, he/she makes written or oral contributions ahead of the meeting.

We continue to use technology to enhance the Board's work. To ensure timely access to information and documents prior to each Board and Board Sub-Committee meeting, the Bank utilizes a secure Board Portal. During the period, January 1, 2020, to December 30, 2020, thirteen (13) meetings were convened (2019:10), most of which were held remotely due to the pandemic. Director attendance ranged from 85% to 100%. The table below sets out the attendance record of each Director.

| Director | Number of Meetings | | Percentage of Attendance |
|---|---|---|---|
| | Required | Actual | |
| Clarence Faulkner Jr. (Chair) | 13 | 13 | 100% |
| Benedicta Samuels | 13 | 12 | 92% |
| Drexel Glasgow | 12 | 11 | 92% |
| Nona Vanterpool | 1 | 1 | 100% |
| Ivan Hudson Carr | 8 | 8 | 100% |
| Antoinette Skelton | 13 | 11 | 85% |
| Michelle Todman Smith | 13 | 12 | 92% |
| Joy Penn | 13 | 13 | 100% |
| Mervyn Hope | 13 | 12 | 92% |

## BOARD TIME ALLOCATION

The Board's standard and regular agenda items include:

- Reviewing reports from each Board committee;
- Dealing with governance and policy matters;
- Monitoring of the Bank's Strategic Plan; and
- Reviewing executive reports.

## STRATEGIC PLANNING

To ensure that the Bank's vision and goals remain relevant, clearly defined and communicated throughout the organisation, the Board of Directors and the Executive Management Team engaged in its Annual Strategic Planning Retreat. The output was a revised Strategic Plan for the period 2021 – 2023.

## TRANSFORMATION

The Bank remains on the path of digital transformation. As changes in customer behaviour accelerate, particularly the shift to online services and communications, we must continue to provide online alternatives for most of the services traditionally provided in person. NBVI is laser-focused on responding to customer needs, cyber security threats, reducing costs, and improving efficiency.

## SUPPORTING OUR EMPLOYEES DURING THE COVID-19 PANDEMIC

The health and safety of our employees remain a priority as the COVID-19 pandemic rages on. NBVI has adopted the Government's health protocols to ensure employees are protected on the job. Besides physical health, the Bank recognises that access to mental health support is crucial in these times. In 2020, people's daily lives and routines were impacted by new stressors and demands. Hence, the Bank reminded employees of the independent, confidential counselling services available to them. Our management team was also encouraged to use their one-and-one conversations with employees to discuss specific requirements or tailored support. We also ensured no financial impact on employees during the lockdown periods and allowed selected individuals, based on their duties, to take essential (mobile) equipment home in order to maximise productivity and ensure the continuation of service to our customers.

Our response to the pandemic is ongoing as we adapt our approach based on Government's advice. We understand the emotional toll this extraordinary situation is having on employees and the entire Territory. Hence, our management team and Human Resources Department continue to closely monitor the situation to ensure adequate support is provided to employees.

## RECOGNITION AND REWARD

Transformation requires courage and 2020 has been a year in which our staff have shown extraordinary commitment. At NBVI, we recognise and celebrate our outstanding employees who have supported our customers, even from their homes, throughout the lockdowns. Focusing on our core values (***PARADISE***), in 2020, awards were presented to seven (7) employees to thank them for their dedication to the Bank and to boost morale and engagement. We continue to collect and compile customer testimonials about the quality of service they have received and to discover how we have been, and are still, facing these unprecedented times.

## A HELPING HAND TO OUR CUSTOMERS

The Bank continues to be cognizant of the challenges faced by the Territory due to the COVID-19 pandemic. In this regard, we have implemented the following measures to ease the burden on our customers:

1. Waived late charges for all loan payments due from April 1, 2020, through March 31, 2021;
2. Deferred foreclosure activities relative to selling assets which serve as collateral for non-performing loans;
3. Extended moratoriums to customers based on request; and
4. Continued lending to support the working capital needs of our commercial customers.

## CORPORATE SOCIAL RESPONSIBILITY

Despite the pandemic, during 2020, NBVI remained committed to its philanthropic mission to create value and give back to the communities we serve. Our focus on our purpose and values, combined with strong governance and leadership, has enabled us to support impactful social programs in the areas of culture, education, sports, and health & well-being. As a good corporate citizen, NBVI seeks to build more meaningful and sustainable relationships with all stakeholders. A total of $25,870.00, was invested in community-based activities in 2020. The distribution of this amount and other related matters are expounded on in the ***Corporate Social Responsibility*** section of this Report.

## CHALLENGES

We continue to be affected by the ongoing correspondent banking issue that has hindered NBVI from offering wire transfer services to our customers. However, we have made good progress in our negotiations and remain hopeful that ongoing efforts will bring us success in due course.

## FINANCIAL RESULTS

At the start of 2020, NBVI anticipated a year of stable growth, building on the results of 2019. However, due to the unexpected conditions posed by the pandemic, the Directors report a net loss of $0.6m for the year ended December 31, 2020. Although reporting negative results this year, our performance was satisfactory when viewed against the difficult operating environment and our institutional limitations. The Bank's performance is discussed in greater detail by CFO Stephanie George-Brodie in her analysis of the Bank's financial performance and position.

## DIVIDENDS

As stipulated in the Bank's Articles of Association, the Directors recommend a dividend of 4.5% to the preference shareholder for the financial year ended December 31, 2020. This recommendation, if approved by the Annual General Meeting, will result in a total dividend of $247,642.75 to be paid for the 2020 financial year.

## ACKNOWLEDGEMENTS

We would like to express our gratitude to outgoing Chairman, Clarence Faulkner Jr and Directors, Nona Vanterpool, Antoinette Skelton and Michelle Todman Smith, for their efforts and invaluable contributions over the years. We wish them every success in their future endeavours.

The Board also records its gratitude to our valued customers, employees and shareholders for their unrelenting support, dedication, and confidence in NBVI and looks forward to enhancing that partnership in 2021, as we seek to ensure the continued success of the Territory's only indigenous Bank.

## OUTLOOK - STRONGER AND MORE ACCESSIBLE BANK

Clearly, 2020 was an exceptional year with COVID-19 as a major inflection point. The pandemic has dramatically accelerated the demand for digital services and forced institutions to implement new systems and technology, lest they shut their doors. An urgent focus for NBVI is addressing the customer service challenges presented by inadequate access to the Bank and cash during the lockdown periods. Our customers have been very patient and loyal to the Bank, but they deserve better, and we are working tirelessly to correct the areas where we fell short of their expectations.

On the income side, we expect to grow over time by growing fee-based banking activities. Additionally, we intend to grow our balance sheet modestly by maintaining a stable loan to deposit ratio. The Bank will continue to leverage technology to accelerate the digital and remote banking transformation.

We expect conditions to remain challenging for much of 2021, but successful global COVID-19 vaccine programmes could bring a strong economic rebound to small open economies like ours in 2022. In the short term, we expect that our customers will face economic challenges as pandemic-related measures continue to put pressure on governments and businesses. However, in the medium and long term, we believe our customers and the Bank will be well positioned to be part of the more sustainable economic recovery that is expected to emerge. As a Board, we remain optimistic about the Bank's growth and performance in the years ahead and have full confidence in the Executive Management Team, which has demonstrated its ability to adapt to the unpredictable and unnerving events of the past year. We will adjust our strategy and model to achieve the best outcomes, but our top priorities in 2021 are to navigate the Bank and our customers through the COVID-19 pandemic, increase access to the Bank and expand our suite of products and services.

By Order of the Board of Directors

.......Wendy Lewis.........

Wendy Lewis

Corporate Secretary

September 30, 2021

*"Nevertheless, the Bank forged ahead, epitomising who we are as people of these Virgin Islands: resilient, determined and purpose driven. In the coming years, as the world gets a grasp on the pandemic, we will get through yet another challenge and grow from strength to strength."*

*To say 2020 was a challenging year would be an understatement in every sense. In 2019, the Board utilized all its resources and talents to ensure NBVI's continued transformation, to better serve the people of this Territory for years to come. Having made great strides coming out of the effects of the disasters of 2017, and having dealt with the associated financial setbacks, the Bank set out on an aggressive approach in 2020 to regain its footing to becoming the bank of choice and continue strengthening its balance sheet.*

Enter COVID-19 in February of 2020. The pandemic led to global economies coming to a halt, and the Virgin Islands were not spared. As a Board, it was a matter of re-living yet another major catastrophe within a short space of time. Management exhibited clear leadership during these uncertain times, prioritizing staff safety while ensuring that our customers' needs were met in a safe environment as prescribed by the health authorities. The fluidity of the situation resulted in an "all hands on deck" approach, constant tracking of international developments, daily updating and adhering to changing local health guidelines. It was overwhelming. However, all this pushed the Board and Management to develop policies on how we will operate, protect our vital resources, and provide solutions and relief to those who needed us most.

The pandemic interrupted most of the Bank's plans for 2020 and disrupted our ability to effectively capitalize on the strides made in 2019. Less economic activity, initiatives to offer payment moratoriums, lowered transactional business resulting from customers' concerns about sustainability of the economy, and the inability to get key service providers on the ground to execute certain tasks that would enable the Bank's ability to launch new services, were some of the challenges encountered during this period.

Nevertheless, the Bank forged ahead, epitomising who we are as people of these Virgin Islands: resilient, determined and purpose driven. In the coming years, as the world gets a grasp on the pandemic, we will get through yet another challenge and grow from strength to strength. The Virgin Islands' economy must regain its footing and within these efforts, the Bank remains confident that it can serve those in need of financial assistance as they rebuild their paradise.

On behalf of the Board of Directors, I would like to thank the team at NBVI for their hard work and commitment in 2020 as we navigated the uncertainty and challenges of the pandemic. We would also like to extend our appreciation to the Bank's shareholders for their continued support.

Clarence Faulkner

.........................................

Clarence Faulkner, Jr.

Chairman of the Board

*"We were able to launch our new Core Banking platform in September 2020. I would like to commend our staff who have worked tirelessly, despite the pandemic, to bring this project to fruition."*

### How did the Bank fare with the onset of COVID-19 in regard to Human Resources, Operations and Financial performance?

***Human Resources*** *– Circumstances grew exceedingly difficult, given the closure of schools and day-care centres. As a female leader, I never want to have women feel as if they must choose between being a mother and an employee of the Bank. Therefore, I tried my best to ensure employees had the time needed to arrange to care for their families.*

***Operations*** *– Our team adjusted very well to the required changes, be it the branch layout to ensure adherence to social distancing requirements, flexible operating hours to ensure we meet our customers' needs, and implementation of an appointment system for our customers and other business affiliates. We have kept and will continue to tweak some of the new ways of doing business as they have proven to be more convenient for our customers and cost effective for us.*

*The economic impact of the pandemic is being felt at every level and our Bank is also coping with the fallout as customers struggle, and in some cases are unable to meet their loan commitments. There have been some business closures, and regrettably, some persons have left the Territory and abandoned their debt. Additionally, as people leave the Territory, rental income which some landlords rely on to service loans also dried up and fuelled delinquencies, which affected the Bank's bottom-line in 2020.*

### How would you characterize 2020?

*A year of unforeseen and difficult adjustments. We have had to deviate from our strategic plan, given the unexpected and aggressive developments surrounding COVID-19. Nonetheless, these adjustments tested our agility, the robustness of our Business Continuity Plan, and strengthened our Bank as a result of lessons learned and greater customer engagement.*

### What significant achievements in 2020 are you particularly proud of?

*We were able to launch our new Core Banking platform in September 2020. I would like to commend our staff who have worked tirelessly, despite the pandemic, to bring this project to fruition. There is still some work to be done before we can reap the full benefits of the system, but it is a critical investment to propel the growth and expansion of the Bank.*

### Are there any areas of the Bank's operation that could have gone better in 2020?

*We were not able to launch certain anticipated services in 2020 but we have made significant progress. Nevertheless, delays are not denials and we do not take our customers for granted. We continue to thank our customers for their patience and understanding as we strive to improve and increase the services offered.*

### How have the Government initiatives related to COVID-19 affected the Bank's overall performance?

*Like the Government, we are also concerned about the well-being of the Territory's residents. We implemented measures such as remote working, rostering and shortened office hours to ensure that both the Bank and employees adhere to the law and all COVID-19 protocols.*

*Despite these operational adjustments, there were also business opportunities. For example, the Bank was able to piggy-back on the Government's waiver of stamp duties to launch an aggressive land loan campaign, the success of which far exceeded our expectations. As the only indigenous bank in the Territory, it is important to us that we help our local people to own a piece of PARADISE.*

### How would you summarise the Bank's performance in 2020 and how optimistic are you about the upcoming financial year?

*Overall, the Bank performed well in terms of cost containment and other performance measures, but we are reporting negative results this year* *due to the impact of the pandemic on our customers. I have seen some improvement in 2021, but I believe the situation will stabilise in 2022. Financial institutions and other businesses will begin to see a positive uptick in performance and results as global vaccination rates increase, and restrictions are lifted or reduced.*

**What would you consider as the most challenging issues faced by the Bank in 2020?**

*The impact of the pandemic on our human resources. I had to ensure that there was a workable balance between caring for the needs of our employees and the operational stability of the Bank to meet our customers' needs. Besides being employees of the Bank, we must remember that we are all human beings, with real feelings and emotions. Some employees, including myself, have experienced COVID-related deaths in our families and friend circles. Additionally, the inability to travel to be with other bereaved family members and to say a final goodbye is not a situation that we are accustomed to. Without the closure of a funeral, some people continue to struggle to come to terms with their loss, and that can affect their overall health and performance on the job. To help employees cope with these stressors, the Bank has made professional, independent counselling services freely available to all.*

**Switching to Corporate Social Responsibility, what support has the Bank provided to the BVI community?**

*Despite the current economic challenges, the Bank continues to give and has maintained its strong presence in the communities we serve.*

**With regard to climate change, do you see a role for NBVI in tackling this topical and serious problem?**

*There is a role for all organisations in combating climate change. Locally, we are seeing greater emphasis on environmental issues. NBVI will place greater focus on reducing our environmental footprint as well as guide our customers along that path through various initiatives.*

..........Joy Penn..........

Joy Penn

Chief Executive Officer

October 30, 2021


4 QUALITY EDUCATION
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
7 AFFORDABLE AND CLEAN ENERGY
15 LIFE ON LAND
2 ZERO HUNGER
10 REDUCED INEQUALITIES
5 GENDER EQUALITY
14 LIFE BELOW WATER
17 PARTNERSHIPS FOR THE GOALS
3 GOOD HEALTH AND WELL-BEING
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
13 CLIMATE ACTION
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
8 DECENT WORK AND ECONOMIC GROWTH
6 CLEAN WATER AND SANITATION
11 SUSTAINABLE CITIES AND COMMUNITIES

# OUR EXECUTIVE MANAGEMENT TEAM

*The Executive Management Team handles the day-to-day operations of the Bank and the implementation of strategy. Together, they ensure the success of NBVI by adding their individual expertise to strengthen the pool of collective knowledge.*

**JOY PENN**

*(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)*

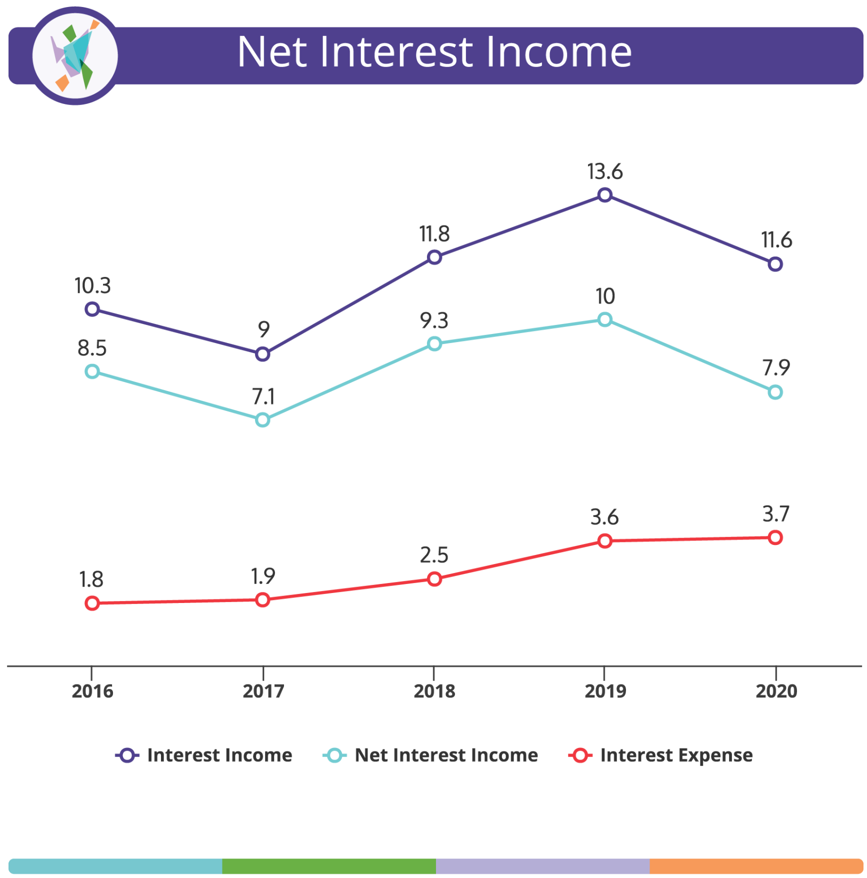
## BRIAN JAMES

*(CHIEF POLICY AND RESEARCH OFFICER)*

*“Notwithstanding the circumstances faced in 2020, the Board, management, and staff of NBVI remain confident that the Bank can weather the hard times and will emerge stronger than before.”*

*NBVI's strategic decision for 2020 involved continued focus on reducing the non-performing loan ("NPL") portfolio to increase and stabilize net earnings, while implementing the infrastructure needed to introduce new products and services. Due to the onset of the global pandemic, management was unable to fully implement the above strategy as focus was shifted to developing and implementing relief programs to assist its customer base. Despite prudent management of the Bank's operational costs and implementation of customer relief programs, a decrease in interest income relating to non-performing loans was still noted, resulting in a modest loss of $0.6m in 2020. Notwithstanding the circumstances faced in 2020, the Board, management, and staff of NBVI remain confident that the Bank can weather the hard times and will emerge stronger than before.*

## NET INTEREST INCOME




The Bank experienced a $2.1m or 21.0% decrease in net interest income, which stood at $7.9m for 2020 compared to $10.0m in 2019. Interest income from loans decreased by $1.6m or 13.6% over 2019 due to an increase in loans classified as non-performing. Income from investments also decreased by $0.4m or 25% due to reduced market rates as pandemic related restrictions continued to affect economies across the world. The Bank's total interest income declined by $2.0m or 14.7%, mainly due to suspended interest for loans classified as non-performing coupled with declining market interest rates on investments. Other income, which comprised fees and commissions, and other operating income, also decreased slightly by 4.7% ($0.04m) as Government-mandated lockdowns limited customer activity.

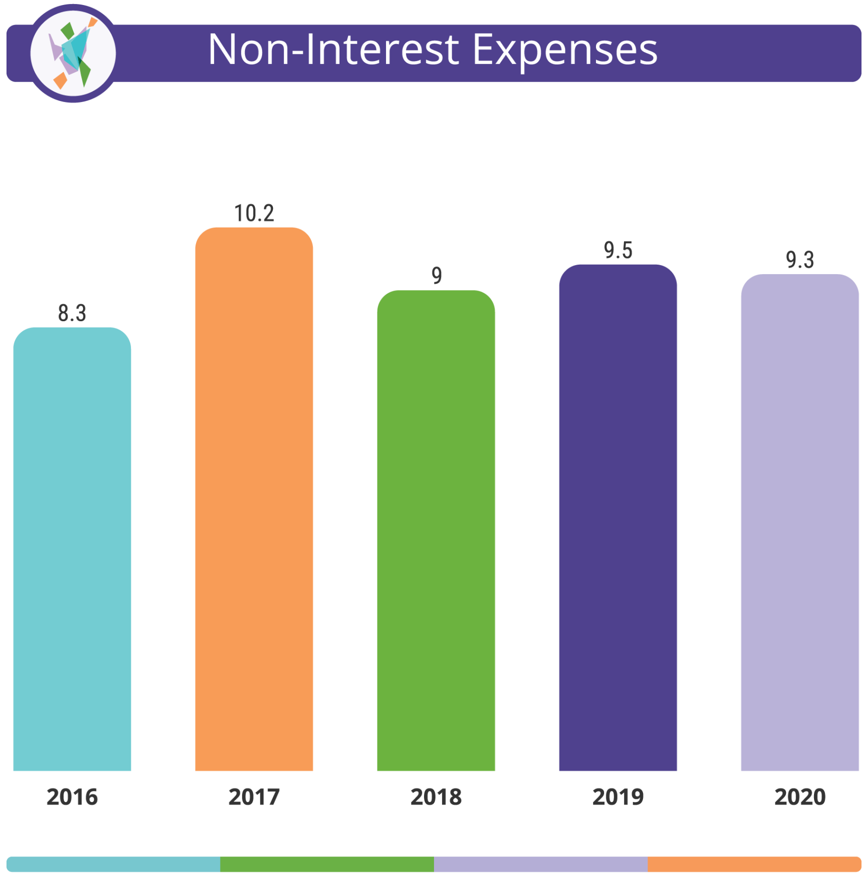
## INTEREST EXPENSES

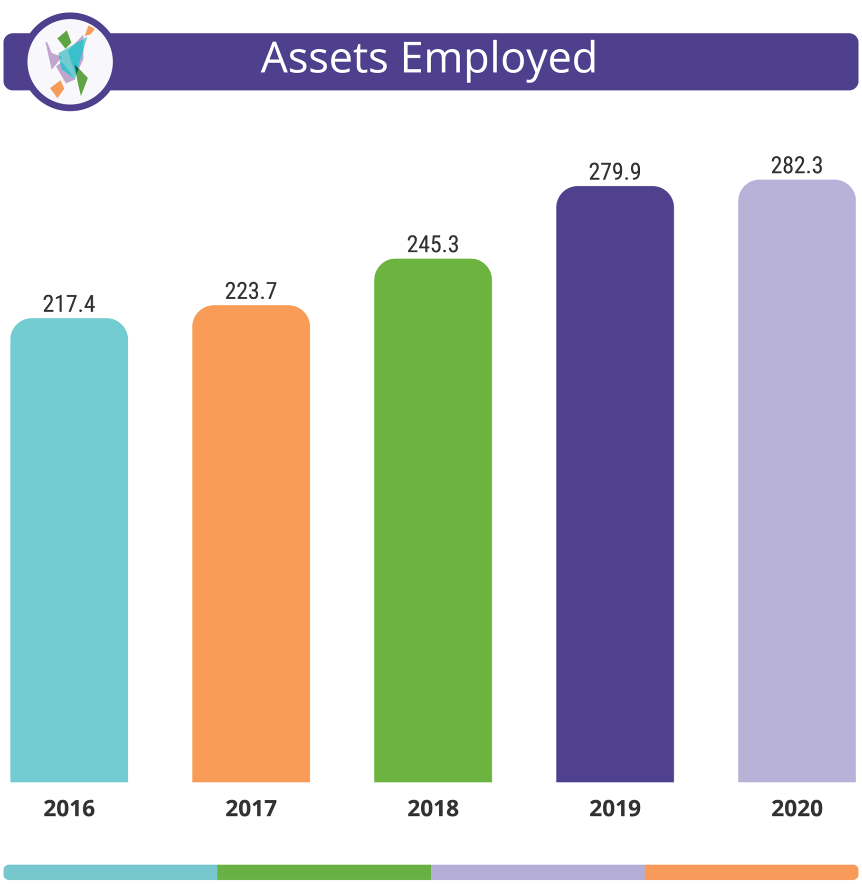
Interest expense reflected a modest increase of 1.6% to $3.7m in 2020, in line with an overall 1.4% increase in total deposits compared to 2019. Despite a further decline in market rates in 2020, the Bank's cost of funds did not decrease, due to higher rates on longer term contracts that would renew in subsequent years. Deposits on regular savings accounts which attract lower interest rates, increased by 9.4%, while current accounts, which are non-interest bearing, increased by 35.3%. This growth outperformed the higher rate certificates of deposit (CDs) component of the deposits portfolio, which decreased by 2.5%.

## NON-INTEREST EXPENSES

Non-Interest Expenses totalled \$9.3m, representing a decrease of \$0.2m or 2.4% below 2019. This reduction was primarily due to the deferral of some marketing initiatives and use of online platforms to attend training courses and/or conferences, as border restrictions to combat the spread of COVID-19 limited staff's ability to travel.

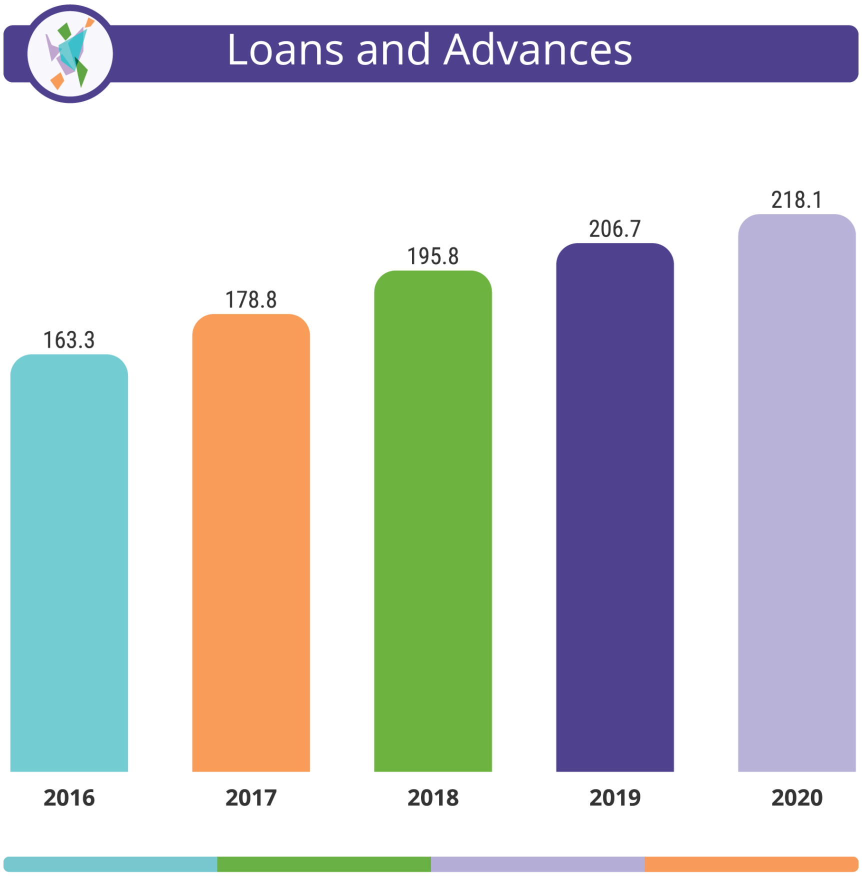
Staff costs remain the largest single, consistent contributor (55.4%) to non-interest expenses and increased in line with the cost of new hires to support the implementation of additional products and services. This expense allocation is typical of institutions like NBVI, which is currently in the expansion phase.




## ASSETS EMPLOYED

The balance sheet also recorded marginal growth of 0.8% to close the year at \$282.3m. This increase was primarily driven by growth in loans and advances, and financial investments. However, growth was limited as cash and cash equivalents and placements were used to fund growth in loans and advances and capital assets.

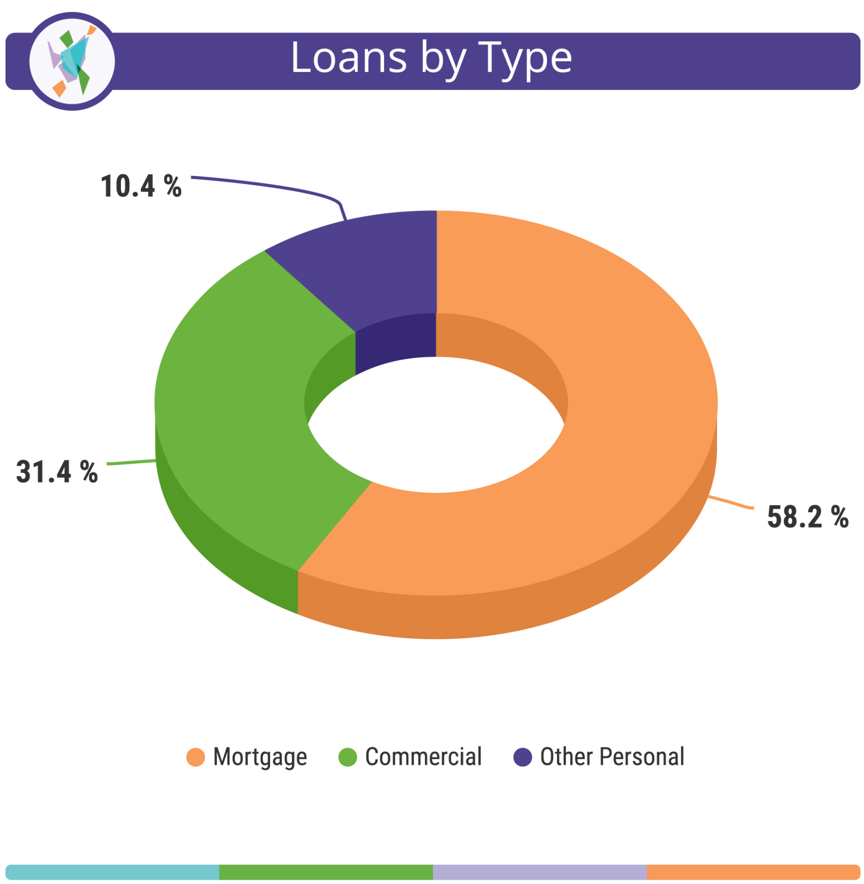



## LOANS AND ADVANCES

Despite the competitive credit environment and reduced economic activity due to the pandemic, NBVI was able to increase its overall loan portfolio to $218.1m or 5.5% over its 2019 performance. This modest growth was concentrated in the area of retail mortgages, which increased by $7.2m.

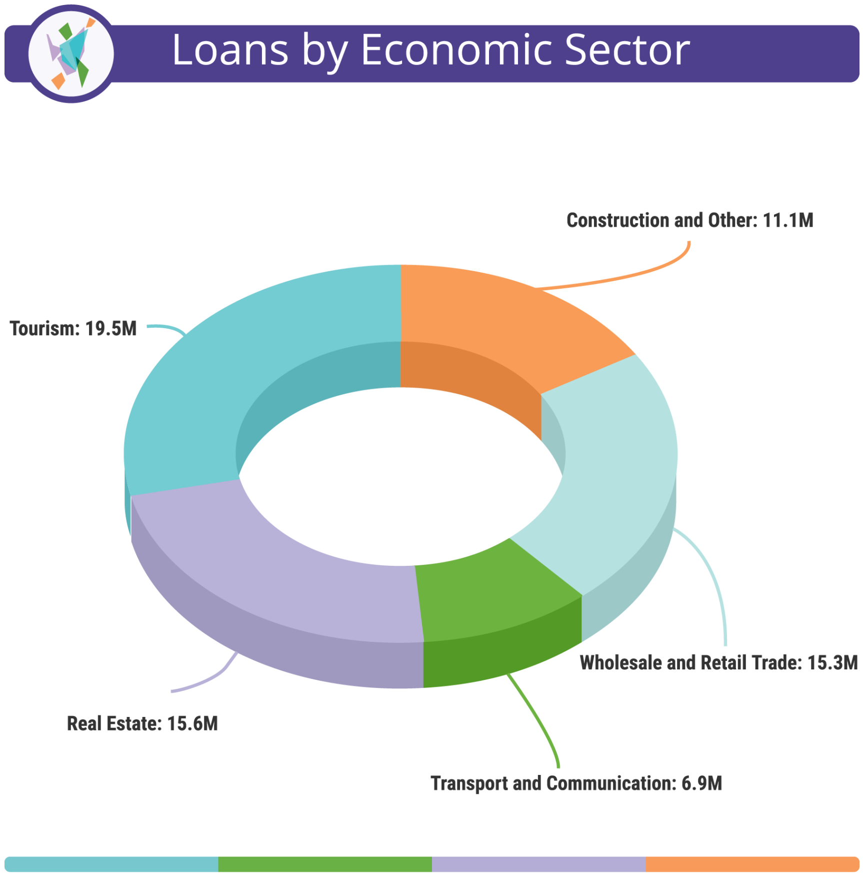
## LOANS BY TYPE

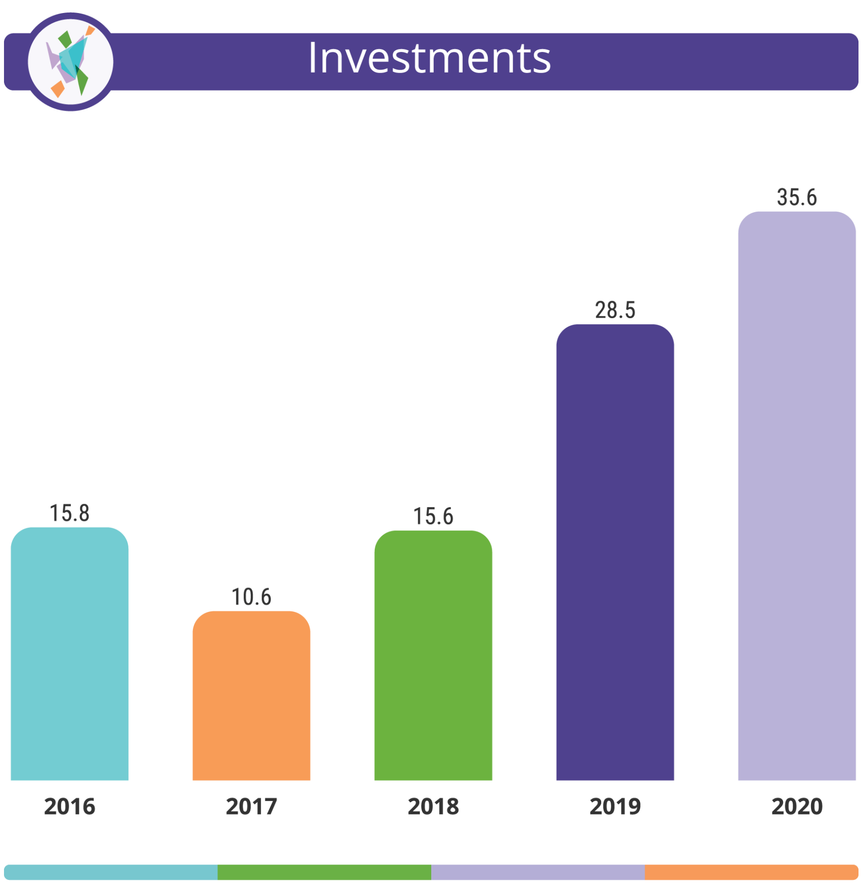
As at the 2020 year-end, the Bank's loan portfolio comprised Mortgage Loans at 58.2%, Commercial Loans at 31.4%, and Other Personal Loans at 10.4% respectively. Other Personal Loans reported the highest percentage increase in value at 12.9%, followed by Mortgage Loans at 6.0% and Commercial Loans at 2.3%.



## LOANS BY ECONOMIC SECTOR

Growth in commercial loans was restricted and further analysis of the portfolio by economic sector revealed some movement in the composition relative to the prior year, 2019. Wholesale and Retail Trade was the only sector that reported noteworthy growth of $1.8m or 12.9% despite a downturn in the local economy. This was offset by decreases in Real Estate and Transportation and Communication, which declined by $0.5m or 3.2% and $0.2m or 2.8%, respectively.

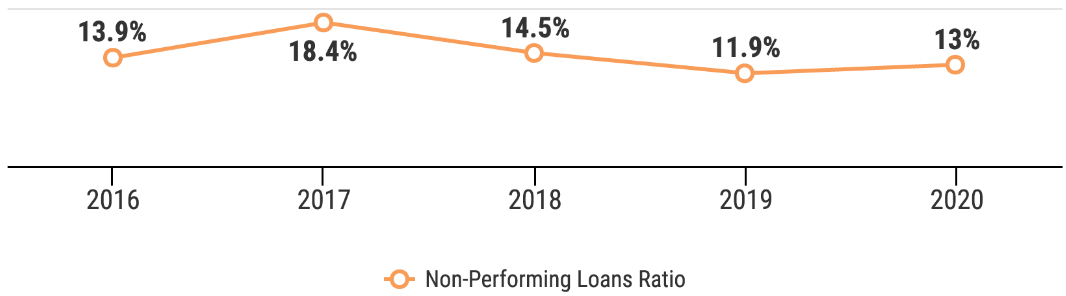


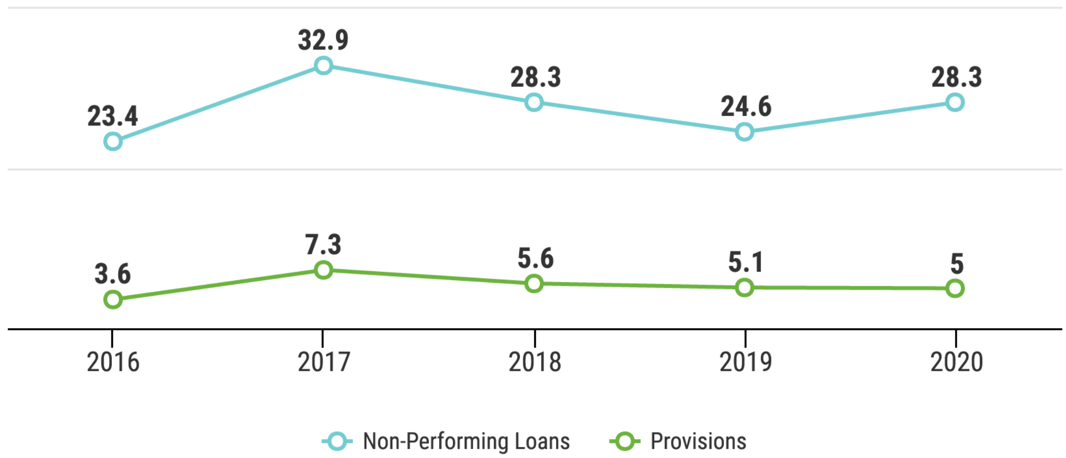




## INVESTMENTS

The investment portfolio increased by $7.1m to $35.6m compared to 2019. The net increase was due to the maturity of Corporate Bonds and Treasury Bills at $3.8m and $2.0m, respectively, and the purchase of an ultra-short bond at $12.9m which represents 36.2% of the investment portfolio as at the reporting date. The remaining 35.7% and 28.1% represent Corporate Bonds and a Government Note, respectively. 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




## NON-PERFORMING LOANS (NPLs) AND PROVISIONS

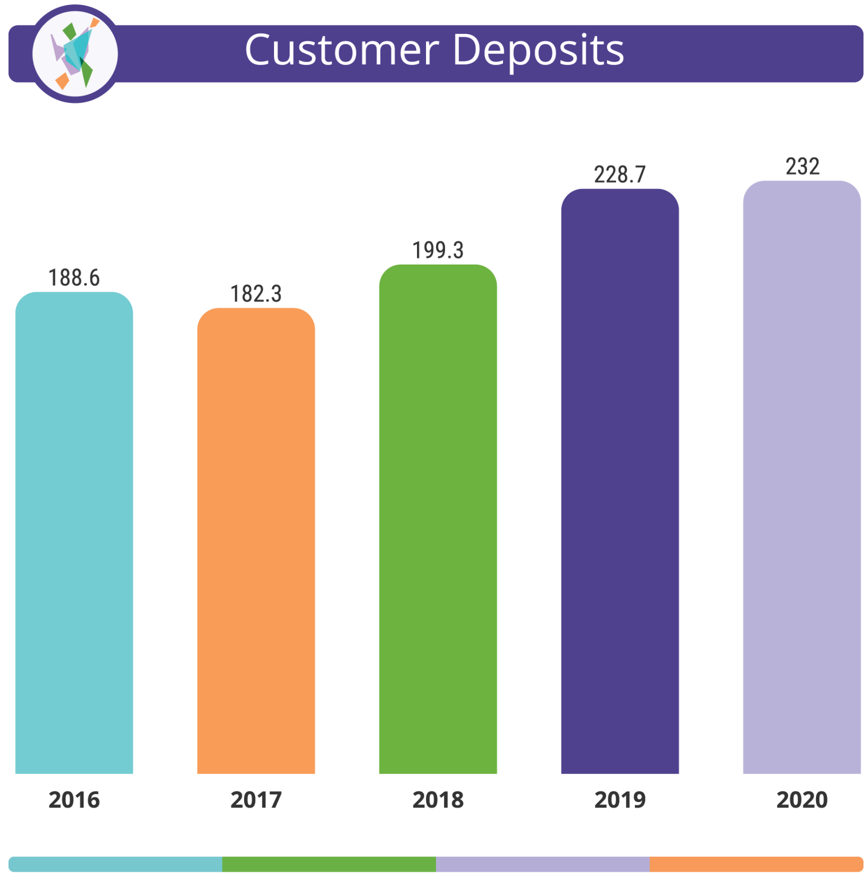
The non-performing loans ratio stood at 13.0% at the close of 2020, which was higher than the Bank's budgeted ratio of 9.5%. This increase is a result of pandemic-driven lockdowns which resulted in a significant decrease in income earned as several businesses remained closed, and staff were laid-off or required to work reduced hours. Active foreclosures were also suspended, which halted the removal of chronic non-performing loans.

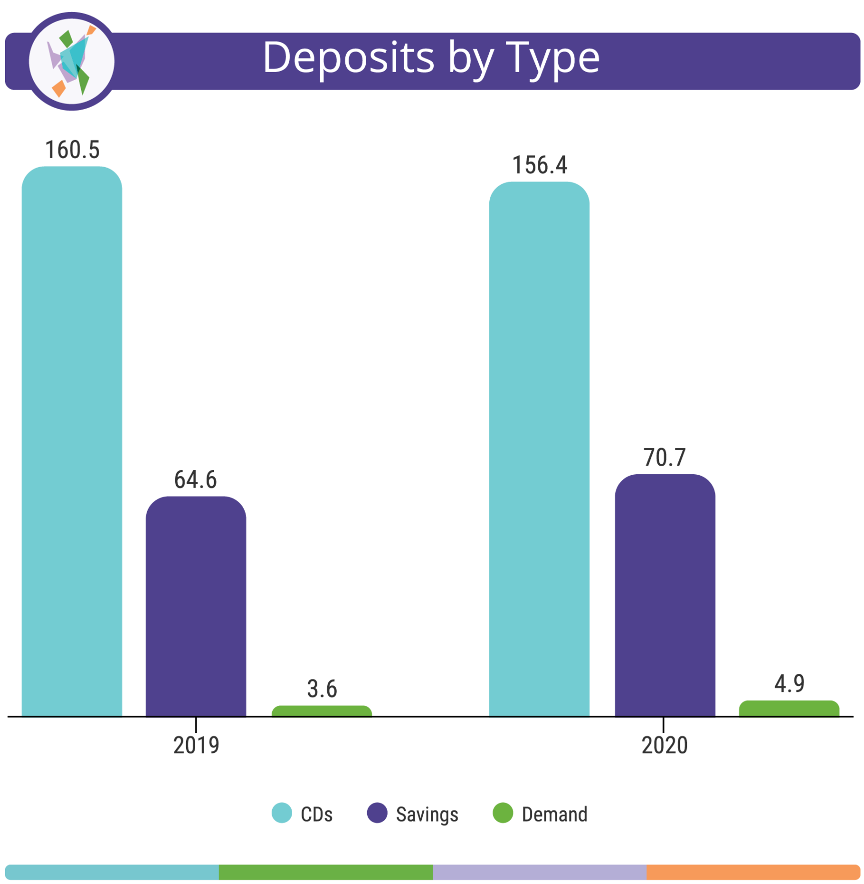
To assist our customers in light of circumstances noted above, the Bank provided customer relief programs such as loan moratoriums to allow time needed to revisit business strategies or seek out new income opportunities. As there is currently no forecasted end to the pandemic, the Bank will continue to assist customers where possible and exercise prudence in its underwriting practices.

Total estimated credit losses were \$5.0m in 2020 compared to \$5.1m in 2019. This modest reduction is reflective of loan assets having adequate collateral despite moving to non-performing status. Additionally, the Bank recovered \$0.28m from amounts previously written-off, an increase of \$0.08m when compared to the previous financial year.

## CUSTOMERS' DEPOSITS

Customers' Deposits ($232.0m) accounted for 96.2% of the Bank's total liabilities and increased by $3.3m or 1.4% in 2020, compared to $228.7m in 2019.



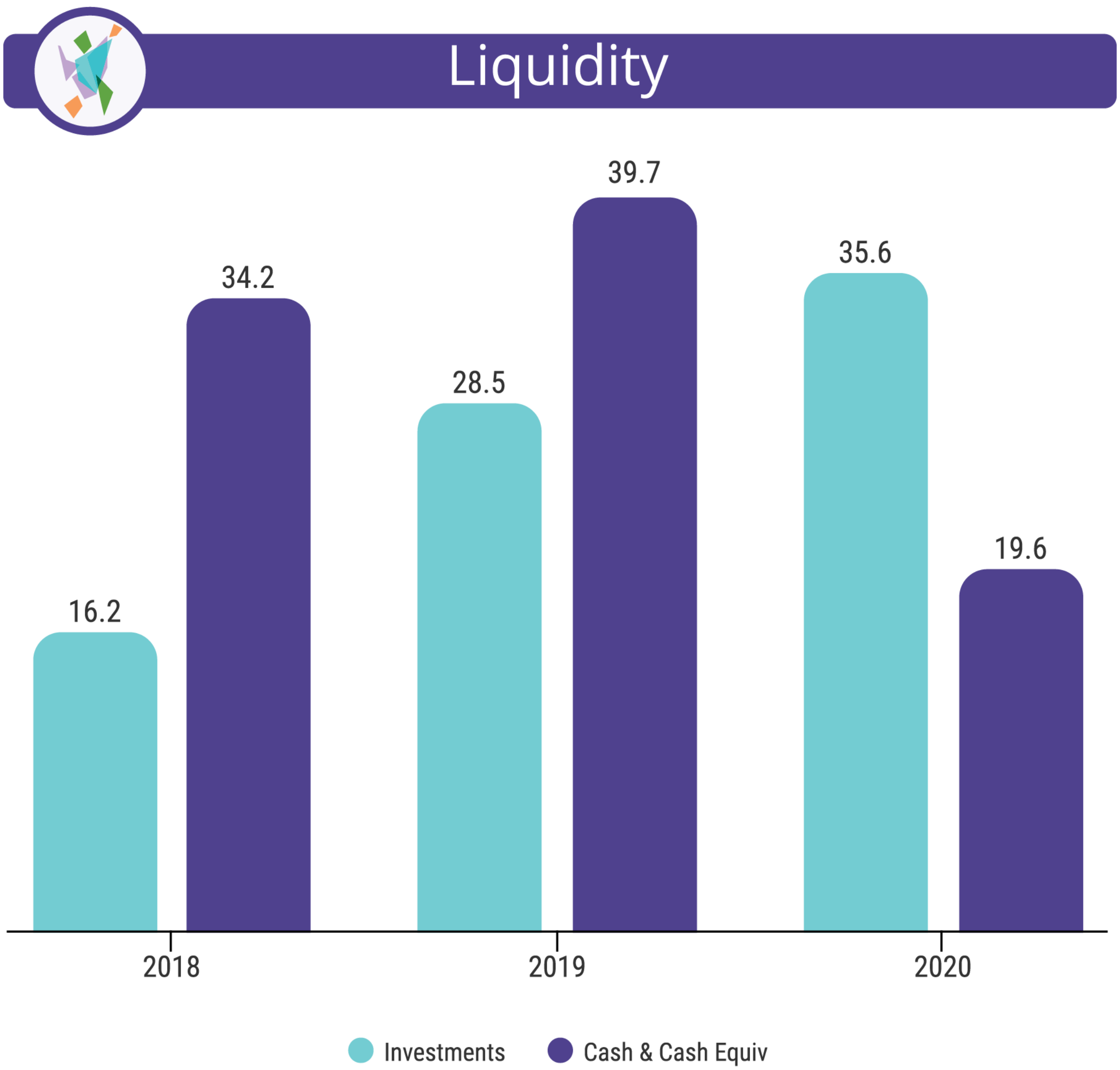




## DEPOSITS BY TYPE

The modest increase in deposits recorded in 2020 is a reflection of the common phrase "saving for a rainy day". In 2020, customers, in many cases, had to utilize savings to meet financial obligations as the pandemic eliminated or reduced previous income sources.

Despite reporting an overall increase for the deposit portfolio – CDs decreased by 2.5% or $4.1m to $156.4m but remained the largest component of the deposit portfolio. Savings deposits, which totalled $64.6m in 2019 increased by 9.4% to $70.7m in 2020. Demand deposits grew by 35.3% over 2019, which represented an increase of $1.3m, taking the total demand deposit portfolio to $4.9m at the end of 2020.

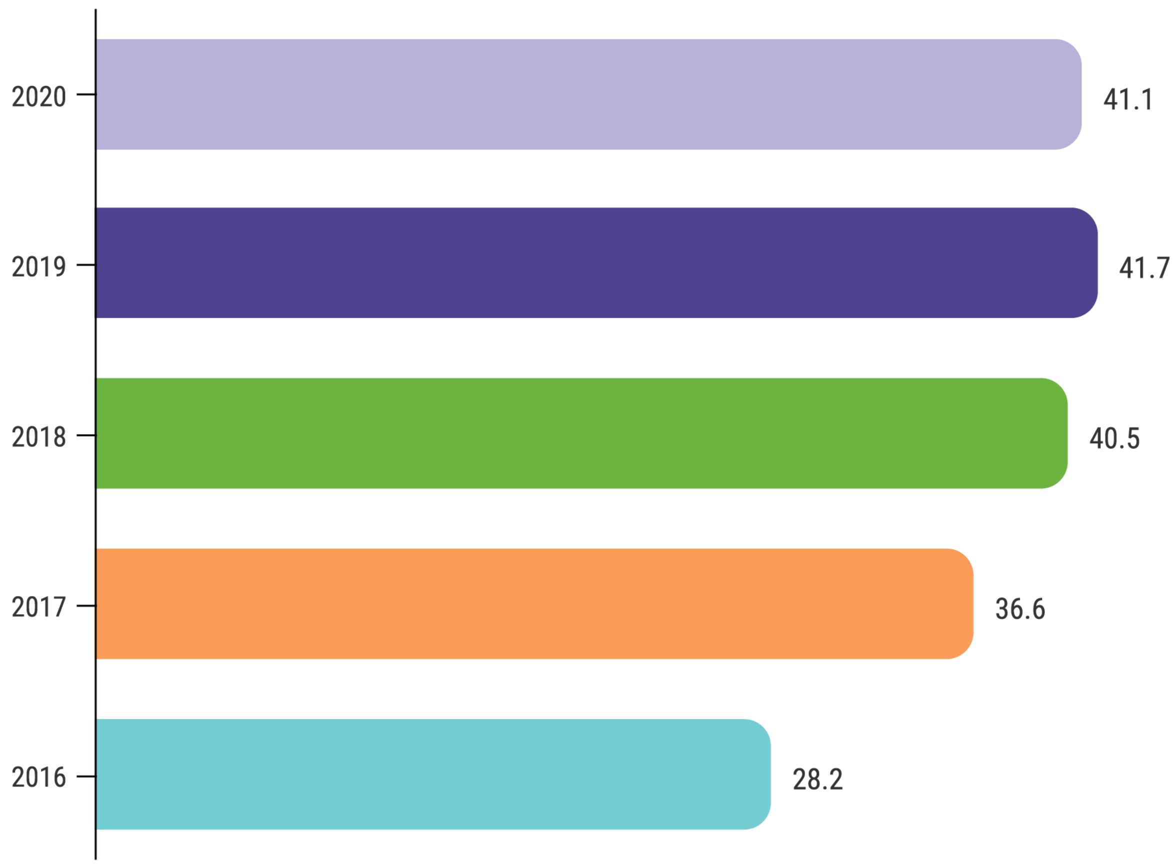
The Loans-to-Deposits ratio increased by 4% to 94% in 2020, reflecting growth in the loan portfolio exceeding the deposit portfolio. This ratio remains above the target range of 75% - 85%; with this in mind, both loan and deposit growth will continue to be closely managed.




## LIQUIDITY

The Bank's liquidity decreased in 2020 due to issuance of loans with limited deposit growth, purchase of additional investments and capital assets. The net increase in loans accounted for the largest use of liquid assets at $12.1m, followed by purchase of additional investments and capital assets at $7.0m and $2.2m, respectively. Cash and cash equivalents and amounts due from banks decreased overall by $20.1m or 50.6% to $19.6m as compared to $39.7m in 2019.

# Core Capital




## CORE CAPITAL

NBVI's core capital decreased by $0.6m from $41.7m in 2019 to $41.1m in 2020 due to the loss incurred as pandemic restrictions resulted in an increase in non-performing loans and related suspension of interest income. Return on equity and return on assets decreased to -1.4% and -0.2% from 3.1% and 0.47%, respectively in 2019.

Despite a slight setback in 2020, the Bank's capital base 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 23.2% from 24.8% in 2019, due to realized growth in the asset base. The Bank remains compliant with the 12% minimum CAR as included in the capital adequacy requirements of the BVI Regulatory Code, 2009 (as amended).

## OUTLOOK

Looking forward to 2021 and beyond, the Bank will continue to build on its foundation as a home-grown, trusted, and caring financial partner to our loyal customers. We continue to invest in the infrastructure needed to achieve sustainable growth, expand our suite of products and services, and increase our delivery channels to serve you better. We are optimistic that ***the official bank of paradise*** will become your institution of choice in the Territory and that tangible benefits will accrue to our shareholders and other stakeholders in the years to come.

## OUR SENIOR MANAGEMENT TEAM

*We have a dedicated and experienced Senior Management Team who go above and beyond to ensure that the Bank operates efficiently, and our customers get the best service. 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 HAZEL
*INFORMATION TECHNOLOGY MANAGER*

### TRECHIA LAROCQUE
*BRANCH MANAGER*

## CURTIS MENDEZ
*OPERATIONS MANAGER*

## IAN NATHANIEL
*INTERNAL AUDITOR*

## MARICEL PICKERING
*SENIOR ACCOUNTS OFFICER*

## MICHAEL VANTERPOOL
*SENIOR CREDIT OFFICER (RETAIL)*

## MARSHA WOODLEY
*SENIOR CREDIT OFFICER (COMMERCIAL)*


## BUSINESS MODEL AND VALUE CREATION

*NBVI's founding principle is based on Virgin Islanders having a real and credible alternative to the foreign-owned commercial banks, and that remains at the heart of who we are and why we exist. Our value creation model outlines how we create value for our stakeholders through our business activities and identifies the inputs or value-drivers that we rely on to enable us to deliver that value and meet our strategic objectives. We have institutionalised world-class banking practices and robust risk-management frameworks to ensure our banking services are secure and in line with industry best practice. These practices are constantly reviewed to ensure that we continue to 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.*

# NATIONAL BANK OF THE VIRGIN ISLANDS
# TRANSFORMATION FOR GROWTH

## CAPITAL INPUTS

### FINANCIAL
Our shareholders' equity and funding from customers 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 customers.

### 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 CUSTOMERS**

**SOURCE FUNDING FROM CUSTOMERS DEPOSITS AND CAPITAL PROVIDERS**

**PROVIDE TRANSACTIONAL BANKING FACILITIES AND KNOWLEDGE-BASED SERVICES TO CUSTOMERS**

**REVENUE FROM OTHER SOURCES LINKED TO CORE BUSINESS**

## 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.*

### 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.*

# FUNDAMENTAL PILLARS OF VALUE CREATION

**CUSTOMER FIRST**

**GOVERNANCE**

**RISK MANAGEMENT**

**PEOPLE DEVELOPMENT**

# OUR MARKETS

***NBVI continues to be a customer-centric organization with valuable, long-standing relationships with our customers. As an indigenous bank, it is important that we build a meaningful presence here at home in the Virgin Islands. The Territory – our primary market – has been significantly affected by the decline in tourism-related business and pandemic-driven lockdowns. Moreover, COVID-19 has generated significant instability although the full impact of the consequential effects is not yet known.***

The longer-term effect on market forces and customer behaviours could significantly impact NBVI's business model and strategy. Notwithstanding, as part of our current strategy, we are focusing on improving the customer experience, expanding our suite of products and services, and introducing new delivery channels to make NBVI the first-choice bank in the Virgin Islands. 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. Based on our knowledge of our customers, we believe that we can add real value through continued personal interaction, especially at decisive moments in their lives when they need us most. We also believe that growing our suite of products and services will help us grow market share among affluent customers, the Government, and entrepreneurs in the Virgin Islands. We will also continue to develop strategic alliances and forge new partnerships to explore different avenues of growth and expand the Bank's footprint.

As at December 31st, 2020, our five (5) significant competitors were:

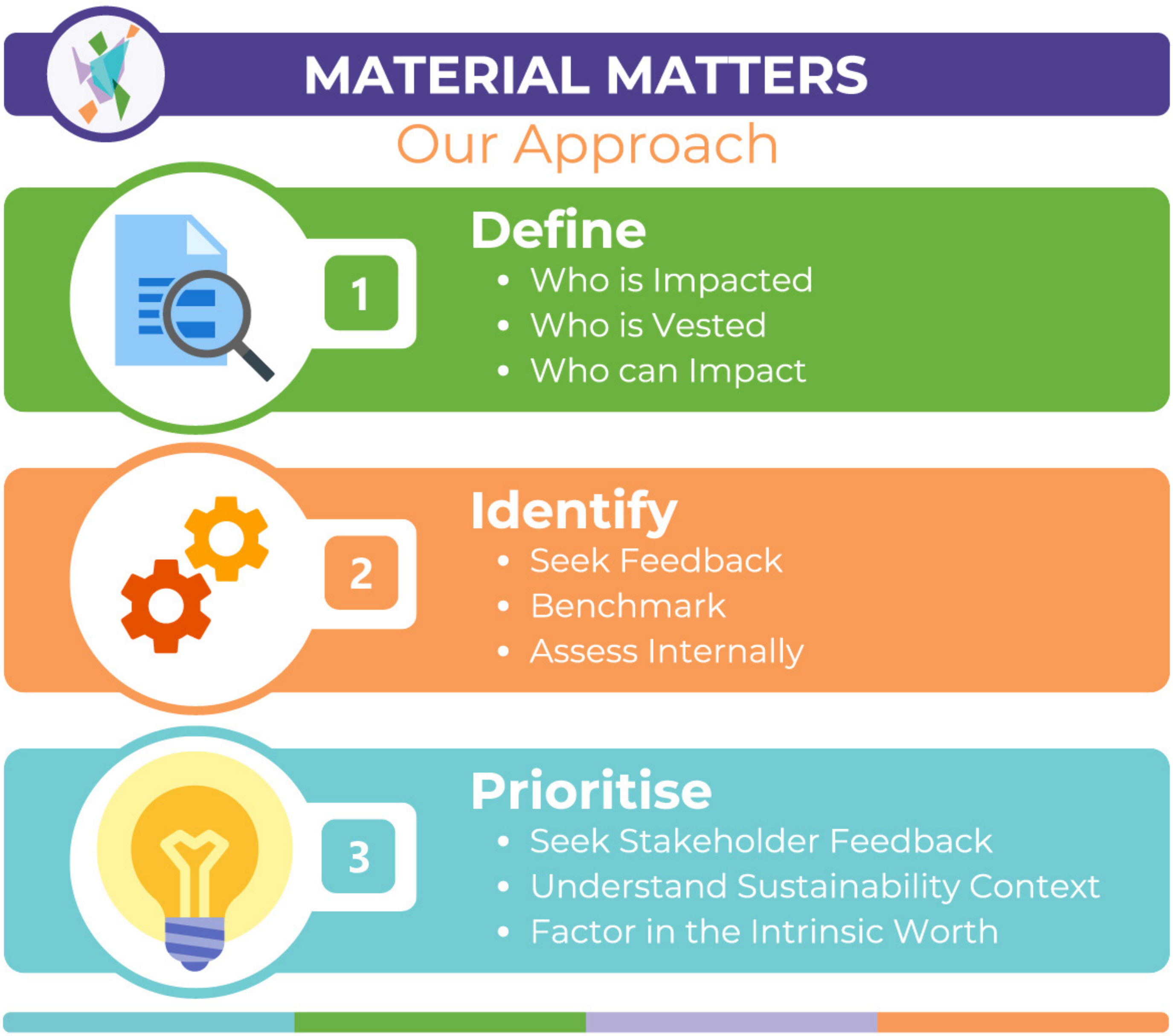
- Banco Popular de Puerto Rico;
- Republic Bank (BVI) Limited;
- CIBC FirstCaribbean International Bank;
- First Bank of the Virgin Islands; and
- VP Bank (BVI) Limited.

The major commercial banks provide a similar suite of products and services across all the major business lines. At the end of 2020, 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 increasing accessibility and providing the best customer experience to the public as we build a more digital, agile, and competitive National Bank.

| REPUBLIC BANK | CIBC FIRST CARIBBEAN | FIRST BANK | BANCO POPULAR | VP BANK | NBVI |
|---|---|---|---|---|---|
| CREDIT CARDS | CREDIT CARDS | CREDIT CARDS | CREDIT CARDS | | |
| LOANS | LOANS | LOANS | LOANS | LOANS | LOANS |
| INTERNET BANKING | INTERNET BANKING | INTERNET BANKING | INTERNET BANKING | INTERNET BANKING | INTERNET BANKING |
| ATM FACILITIES | ATM FACILITIES | ATM FACILITIES | ATM FACILITIES | | |
| INVESTMENT PRODUCTS *(including investment advice and asset management)* | INVESTMENT PRODUCTS *(including investment advice and asset management)* | INVESTMENT PRODUCTS *(including investment advice and asset management)* | INVESTMENT PRODUCTS *(including investment advice and asset management)* | INVESTMENT PRODUCTS *(including investment advice and asset management)* | |
| BUSINESS SERVICES *(cash management, merchant services)* | BUSINESS SERVICES *(cash management, merchant services)* | BUSINESS SERVICES *(cash management, merchant services)* | BUSINESS SERVICES *(cash management, merchant services)* | | BUSINESS SERVICES *(merchant services)* |
| SAVINGS ACCOUNTS | SAVINGS ACCOUNTS | SAVINGS ACCOUNTS | SAVINGS ACCOUNTS | | SAVINGS ACCOUNTS |
| CERTIFICATES OF DEPOSIT | CERTIFICATES OF DEPOSIT | CERTIFICATES OF DEPOSIT | CERTIFICATES OF DEPOSIT | CERTIFICATES OF DEPOSIT | CERTIFICATES OF DEPOSIT |
| CURRENT ACCOUNTS | CURRENT ACCOUNTS | CURRENT ACCOUNTS | CURRENT ACCOUNTS | | CURRENT ACCOUNTS |
| WIRE PAYMENTS | WIRE PAYMENTS | WIRE PAYMENTS | WIRE PAYMENTS | WIRE PAYMENTS | |

# MATERIAL MATTERS

*Material matters are those which 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 our shareholders. These matters influence how the Board and Executive Management Team steer the bank. Although this Integrated Annual Report provides an accurate and complete account of the Bank's activities and the stewardship of its leaders, information included is based on the principle of materiality. Material issues are determined mainly through stakeholder engagements as we want to make sure that we are always operating in line with our stakeholders' needs, while at the same time, remaining nimble enough to address identified material issues as early as possible. An overview of our framework for identifying stakeholders' material interests is presented below.*



Based on our analysis, the material topics in 2020 remained essentially unchanged. However, the impact of COVID-19 continues to unfold.

# NBVI MATERIAL MATTERS 2020

| FOCUS | RISKS | OUR RESPONSE |
|---|---|---|
| Pandemic | Pandemic-led lockdowns and social distancing requirements have adversely impacted businesses and asset quality. | We offered moratoriums to customers upon request, implemented remote working arrangements that enabled many employees to work productively from home, accounted for expected credit losses and remained agile and adaptable to directions issued by the public health authority. |
| Adverse weather conditions, climate change and other environmental matters | Stronger hurricanes, more frequent bush fires and prolonged dry season. | We have an adequate Business Continuity Plan which includes equipment and an alternative operating location. |
| Data management failures and Cyber Security | Greater reliance on digital banking services, changed working arrangements, weak cyber security systems and fraud detection systems may make financial institutions more vulnerable to cyber attacks. | We are careful to work with best-in-class providers and continue to invest in more sophisticated cyber-security software and staff training to ensure the Bank and our customers are always protected. |
| Digital Transformation | Technology and mobility are increasingly shaping customers' behaviour. NBVI risks losing relevance if we cannot respond to our customers' need for simpler, faster banking services and solutions. | We have updated our core banking and online banking systems which will enable us to expand our suite of products and services and improve our services to our customers. |
| Preventing Financial Crime | Financial crime is an ever-increasing threat. It has evolved with the rapid advancement of digital technology. | In the last two (2) years, we heightened our risk surveillance at various levels, upgraded our technology, shared required information with our regulator and law enforcement agencies and trained our employees to mitigate financial crime risk. |

# STRATEGIC INSIGHTS

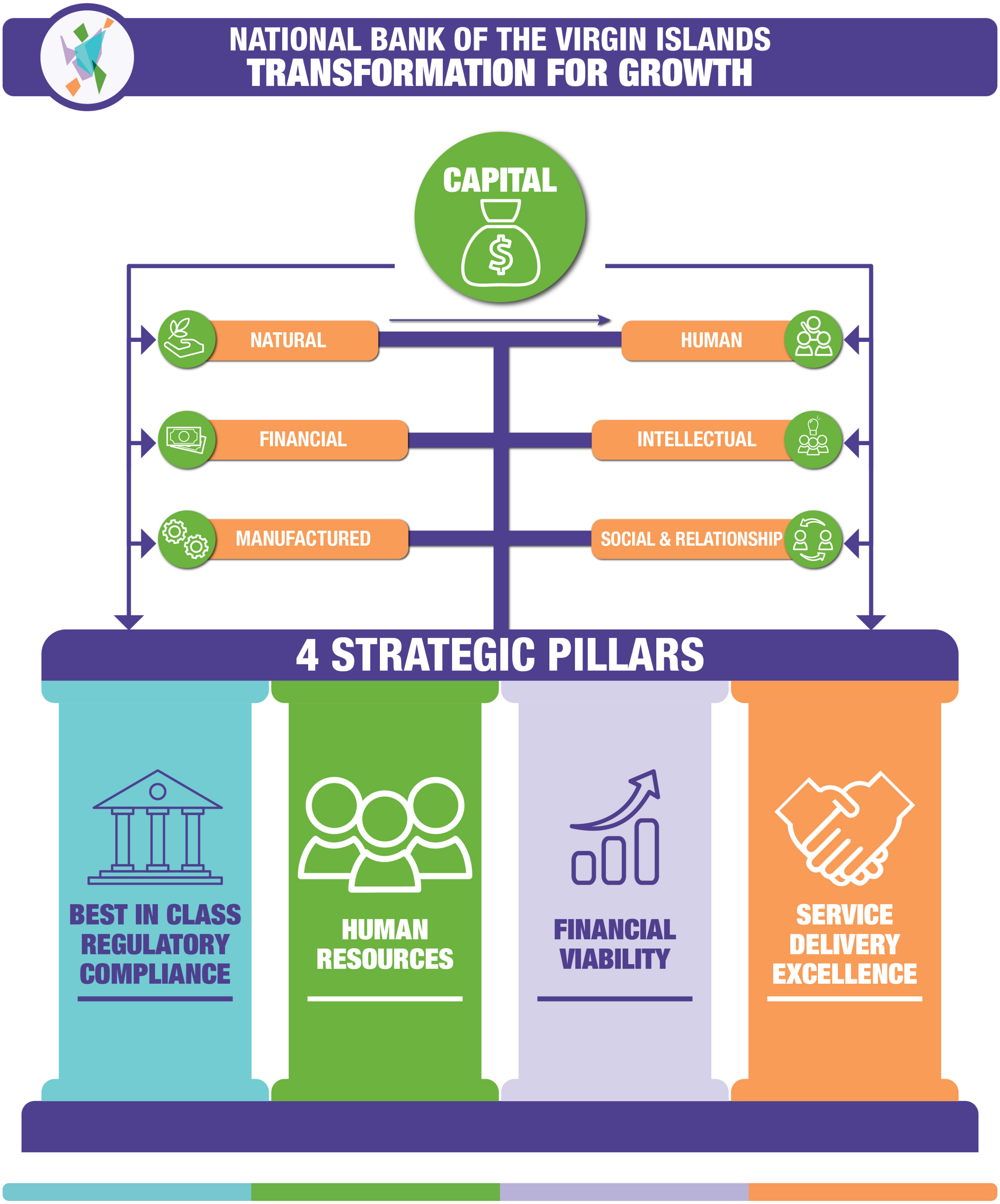
***The Bank's "Transformation for Growth" strategy – introduced in 2019, is underpinned by four (4) pillars:***

- ***Regulatory Compliance;***
- ***Financial Viability;***
- ***Human Resources; and***
- ***Customer Service.***

***In 2020, we made significant progress in many areas, despite the COVID-19 pandemic. We launched our new Core Banking System to modernize and streamline the way we do business; we grew our loans book and recruited more staff. We will continue to develop and tweak the Core Banking System during the 2021 fiscal year to ensure operational efficiencies are realized. With a significant number of non-branch staff working remotely for part of the year during COVID-19 surges, we had to implement digital solutions for some aspects of our customer engagement in short order – from implementing a strict appointment system to virtual customer meetings via phone or video calls. The experience and satisfaction of our customers will be the ultimate measure of success for us and will determine what processes we keep and what we discontinue, post COVID.***

We remain committed to maintaining a moderate risk profile despite rebalancing our strategic priorities, to ensure the Bank remains centred on customer service optimisation and efficiency in our activities, while stepping up the pace of business development with the Government, statutory bodies, corporate and institutional customers. To support our strategy, we will continue to accelerate our digitalisation initiatives to enhance our customers' experience and continue to modernise and simplify the Bank's operations. We believe that having a clear vision, backed by reliable supporting technology, is essential if we are to steer the Bank through difficult operating conditions during and post COVID-19. Hence, as part of the modernisation process, in 2021 we intend to transform our IT redundancy infrastructure into a more cost-effective cloud-based environment.

Innovative, new technology continues to change the competitive dynamics and ecosystem of commercial banking. Our Bank must continue to invest in technology that will allow us to compete in these new markets and take advantage of opportunities for growth. In particular, our transformation strategy must allow us to embed ourselves in the entire customer journey so that banking with NBVI is simple and seamless. 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 traditions, purpose, vision and values of our founders, our Bank must continue transforming to remain viable. Our goal is to become a simpler, more efficient institution and the bank of first choice in the Virgin Islands as well as "Belongers" in the diaspora. Our priorities are to strengthen the lagging areas of our operations, grow strategically and sustainably, reshape NBVI for a post COVID-19 environment and prepare for a digitally enabled and highly automated future. We build value through efficient and responsible stewardship of the capitals (Natural, Financial, Manufactured, Human, Intellectual, Social and Relationship) entrusted to us. Our business model enables us to respond to competing stakeholder expectations, market forces and our regulatory obligations.




We embrace our corporate social responsibility to make a positive impact in the communities we serve, as this contributes to a sustainable financial system. NBVI's strategic direction is driven by our commitment to developing the community by partnering with like-minded stakeholders. Nonetheless, the pandemic and its impact on the local economy affected the scope of our philanthropic activities. Ultimately, our values and how well certain philanthropic activities synchronise with our strategy, will dictate our allocation of resources.


# OUR HUMAN RESOURCES

## MOBILISING OUR HUMAN RESOURCES TO MEET DEMAND

*Much of our focus this year has been on utilising our resources to support the needs of our employees and customers during the pandemic. In a time when approximately seventy-five percent (75%) of our employees were either working from home or required to remain at home – in line with guidelines from the Government health authorities, we were convinced that our capable and engaged employees, equipped with the right tools, could drive our customer service, and advance our reputation. We were right! The skeleton staff operating on the frontline had to cope with some trying circumstances, including various health and social distancing measures, but they epitomised the resilience of our Bank and the Territory of the Virgin Islands. Here is a sample of how our customers thought our staff performed:*

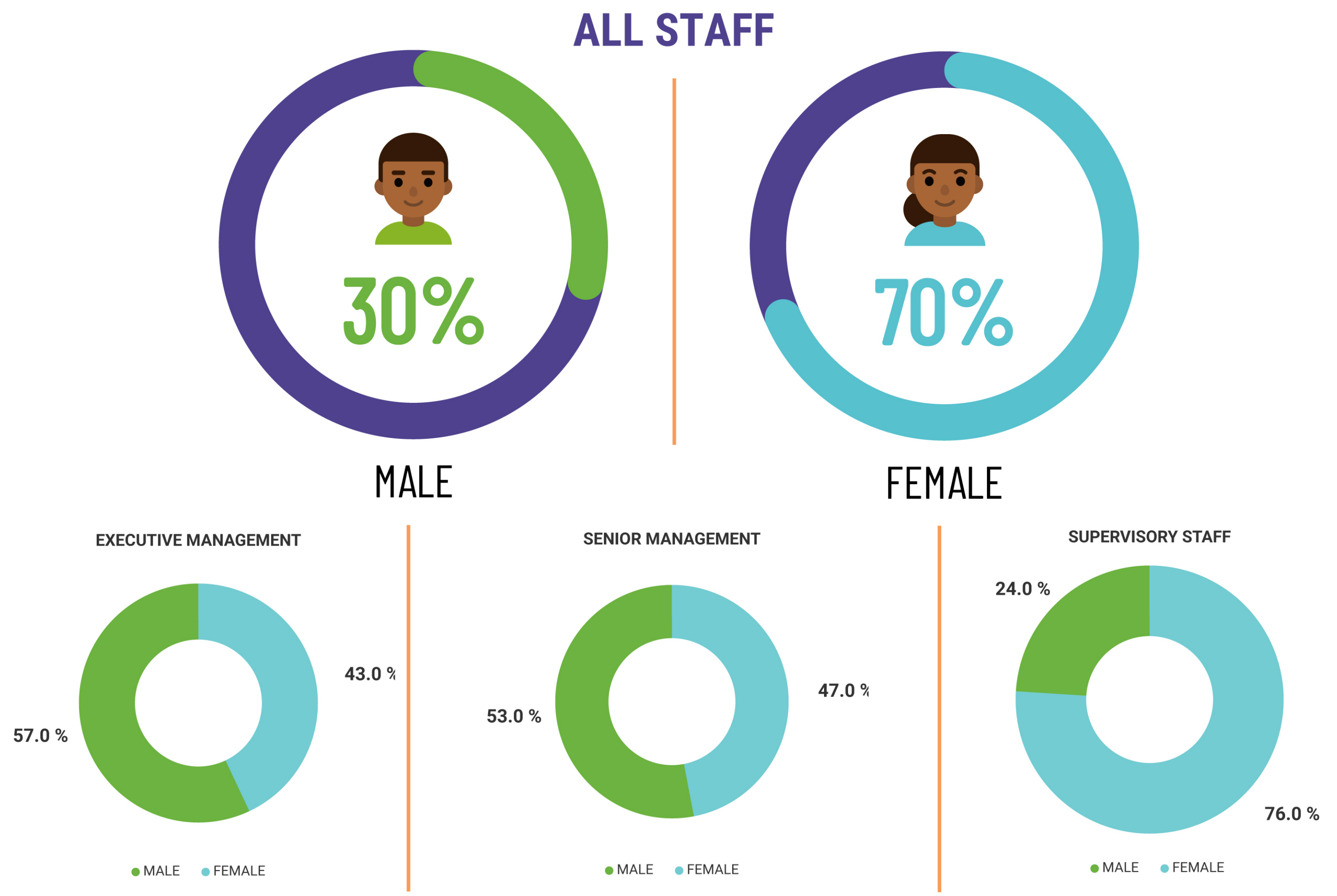
***«The level of service and professionalism I received was highly commendable as I was truly expecting a hassle. Thanks to the team effort and competence of the staff of NBVI. (They) certainly made my life so much less stressful. With employees like these, the National Bank of the Virgin Islands could only shine."***

***"I came, met a long line and was in and out in under 10 minutes. I'm impressed and satisfied. Your staff is very friendly, knowledgeable and efficient."***

***"Thank you for your awesome customer service yesterday. I was having a really bad day, but your above and beyond service helped, it should not go unnoticed. Thank you for going the extra mile."***

## ADAPTING TO CHANGE

Many of our employees have adapted to the challenges brought about by COVID-19 and, in some cases, took on new responsibilities, even carrying aspects of their jobs home, to ensure we remained operational. We are indeed grateful for their dedication and commitment to the Bank. However, we are conscious that working from home is not easy for all employees – particularly those living alone, or with young children or elderly relatives in their care. The year 2020 gave us all a firm reminder of how interconnected we are as human beings and how important it is that we take care of ourselves, our families, our customers, our communities, and each other. Our Bank is thinking about how we adapt to future trends and modes of work. Even as we reopen our branch for face-to-face business and navigate our way through the pandemic, we have developed a Work From Home (WFH) Policy to clearly communicate expectations, responsibilities, and conditions of that arrangement, whenever employees are required to work from home.




## STAFF DIVERSITY – A BALANCING ACT

We want every employee to feel welcomed, accepted, respected, and supported when they join the NBVI family. Our leaders are expected to build inclusive teams with different skills, styles, and approaches who feel empowered to contribute their best work. 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 well-being. Working in an inclusive environment provides employees with the opportunity to fulfil their career ambitions as well as drive performance and innovations. We will continue to report on these items and our progress towards making NBVI the best bank for our employees to work.

In 2020, females accounted for seventy percent (70%) of our staff complement. In addition, forty-three percent (43%) of our Executive Management and forty-seven percent (47%) of our Senior Management positions were held by women.

## HR STRATEGY

The development of our employees' capabilities and competencies is a central tenet of the Bank's Strategic Plan, as we believe that great employee experience translates to great customer experience. The Human Resources Department's overarching strategy is to empower employees by aligning key skills with NBVI's mission and vision, as we seek to provide the best workplace experience possible. We understand that this approach affects all stakeholders and translates directly to the bottom line. Through this strategy, the Department expects to cultivate a culture of excellence and teamwork that:

- Embraces and adapts to change;
- Looks after the physical and mental well-being of all employees, even while working remotely;
- Promotes discipline and ethical behaviour; and
- Encourages fairness, accountability, and confidentiality.

## HR CORE VALUES

NBVI aims to create a culture that every employee will be proud to be a part of. The Department continues to cater to the evolving needs of both the organisation and staff by working through the lens of its Core Values:

- ***C***ontinuous development;
- ***A***ppreciation;
- ***T***ransparency (Honesty, Integrity, Trust, Ethics) and Fairness;
- ***E***ngagement; and
- ***R***eliable and Confidential Change Agents.

## DELIVERING VALUE TO OUR STAFF IN 2020

We know we are only as good as our people. Hence, we continue to work assiduously to embed a robust customer-centric corporate culture at NBVI - a culture that is indispensable for building a strong bank. 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 delivering our strategy. In that regard, 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 currently under development. In the meantime, despite the economic challenges and uncertainty, the Bank maintained the salaries of all employees. We paid approximately $4.8m in remuneration and benefits, to our 75 employees and continue to invest in their development as we align our training programmes to our Strategic Plan.

## RECOGNISING OUTSTANDING PERFORMANCE AND COMMITMENT

Though scaled back due to the pandemic, NBVI held its annual end of year social and awards ceremony at The Moorings Restaurant on December 10, 2020. Employees enjoyed an afternoon of camaraderie and light refreshments, while celebrating fellow team members who received awards and recognition for years of service, academic achievements, customer service delivery and other outstanding contributions to the growth and development of the Bank. Under the umbrella of our inaugural "PARADISE STAR AWARDS," the categories and recipients were as follows:

- Most Improved Performer: Mr Angelico Smith
- Star of Service: Ms Aiesha Daniel
- Best Team Player: Mr Joshua Rathanum
- Star Innovator: Ms Jassy Palmer
- CEO's Star: Ms Joi-Ann Thomas
- Rising Star: Ms Kenisha Baird
- Star of Paradise: Mr Akim Flemming

*We also bid farewell to a stalwart, Mr Clinton Ward, on his retirement after thirty-four (34) years of service to the Bank. We sincerely thank Clinton for his contribution to NBVI and wish him an enjoyable and healthy retirement.*

**Thank you for your 34 years of dedicated service Clinton**

## TRAINING AND DEVELOPMENT

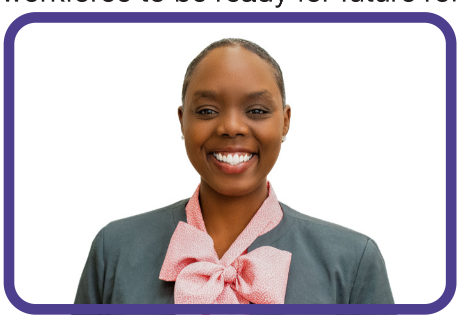
The Human Resources Department remains a pivotal element for growth at NBVI. During the year, we continued to invest in our people, as we pushed forward with our transformation agenda. We believe that our employees must be prepared for the jobs of tomorrow in the new emerging NBVI. Due to COVID-induced travel limitations and gathering restrictions, we were forced to redirect training to online sources. Nonetheless, employees undertook several formal training courses, mainly through the Banker's Academy platform.

Our Human Resources Officer II participated in the 2020 Florida HR Virtual Conference and Expo. The Florida HR Conference is an annual state-wide conference that is held in collaboration with the Society for Human Resource Management (SHRM). Additionally, our Human Resources Manager attended BambooHR's virtual one-day seminar. Both forums reflected global trends and provided sessions that were geared at equipping HR practitioners with a broad range of skills, knowledge, and best practice awareness. These sessions provided many recommendations which are applicable to NBVI.

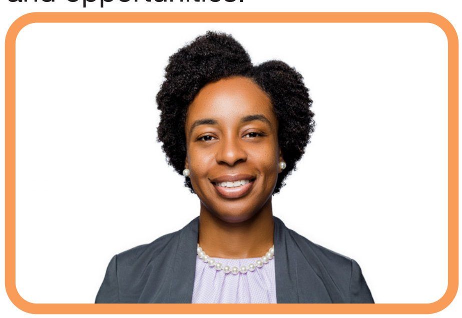
The following persons successfully attained qualifications in 2020:

- ✓ Mrs Aneika Smith, Compliance Assistant, completed an ICA International Advanced Certificate in Anti-Money Laundering.
- ✓ Mrs Sophia Berkeley, Human Resources Manager, completed "The Metrics Behind People Analytics" certification.
- ✓ Mr Nelson Ramirez, Relationship Manager, completed his Master of Business Administration (Chartered Banker).

Mrs Smith and Mrs Berkeley's certifications were sponsored by the Bank. Beyond delivering exceptional employee experiences, the Bank will continue to seek and finance appropriate training courses to prepare our workforce to be ready for future roles and opportunities.



***MRS ANEIKA SMITH***



***MRS SOPHIA BERKELEY***

***MR NELSON RAMIREZ***

The NBVI family congratulates our colleagues on their accomplishments.

## 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 have a positive impact on the delivery of banking services. We have tightened our health and safety measures to ensure our staff and customers remain safe and our operations are in alignment with the Government of the Virgin Islands' health protocols. We have also amended our Business Continuity Plan to guide our behaviour through this and other pandemics.

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 2020, NBVI's contributions to these employee welfare schemes was 0.8% of other operating expenses.

## HEADCOUNT

As of December 31, 2020, we employed a total of 75 staff members, compared to 74 as of December 31, 2019.

## HIRING AND INTERNAL CAREER MOBILITY

Our policy is to hire based on merit, competencies, and organisational cultural fit, without prejudice to any attributes such as gender, race, or religion. We firmly believe that the way that we hire, train, and develop our staff is intrinsic to embedding our culture and delivering world-class services to our customers.

Internal mobility plays a pivotal role in developing and retaining qualified, talented employees and ensuring that the Bank continues to benefit from their expertise and experience. In 2020, NBVI continued to execute its internal mobility strategy to fill vacant positions with suitable candidates from within the organization. Typically, most vacant positions are first advertised internally for at least two weeks before posting an external advertisement. Prioritizing internal candidates helps employees who are seeking mobility to find new roles within the Bank. We also foster mobility between departments, which enables employees to broaden their skills and experience. Moreover, internal mobility helps reduce the Bank's recruitment costs.

In 2020, we instituted a hiring freeze for non-critical positions, given the uncertainty surrounding COVID-19. As such, only 14 positions were filled compared to 23 positions filled in 2019, of which 10.8 % were filled internally. Our employee turnover rate was 2.7% (2019:14%) with voluntary attrition of 1.4% (2019: 5.7%).

## TERMINATIONS/RESIGNATIONS

There were two (2) terminations and one (1) retirement in 2020.

## LOOKING AHEAD TO 2021

Admittedly, before COVID-19, there were some changes in work practices in terms of flexibility, adoption, and growing reliance on technology. However, the pandemic accelerated these trends at an unprecedented rate. Even more striking, was the acceptance and embrace of our customers to these new ways of doing business. It is clear to us that our customers will not be satisfied with simply going back to our pre-pandemic operating model. Like many other businesses, we are now forced to think about our current operations as well as how we can do things differently to better serve our customers. We will use this opportunity to critically examine what activities and methodologies we should keep and which ones we should abandon. These new expectations of banks, customer service and alternative modes of work are still emerging and evolving and will be an important focal point for us in the coming year as we advance our corporate strategy. From the human resources standpoint, some of our goals for 2021 are as follows:

- Train supervisors and managers in more effective leadership skills to include oversight of remote work;
- Train the staff body in various areas, in line with the current and emerging needs of the Bank;
- Refine the staff recognition programme to ensure it is aligned with the Bank's core values and future thrust; and
- Revise the performance management system.

*"Apart from the knowledge gained from the courses, I expect my MBA to open new doors of opportunity for career advancement."*

*NBVI is proud to be an incubator for growing the next generation of leaders. We believe there is no shortage of intelligent, talented young minds in these Virgin Islands, but organisations must contribute to their training, exposure, and professional development to allow them to blossom. In this year's Integrated Report, we feature an excerpt of a fascinating conversation with our Relationship Manager, Mr. Nelson Ramirez, about his career journey thus far.*

### Tell us about your journey to become a Relationship Manager.

*"People skills, networking, and conversing have always been easy for me; I've always prided myself on being approachable and easy to talk to. This gave me an advantage in the role of Relationship Manager. Having exposure to lending has also put me a step ahead in the role, as I can relate and guide customers through their situations or provide necessary assistance."*

### What motivated you to pursue your MBA?

*"My drive for professional development has never allowed me to settle for anything. I've always pushed myself for more, and it continues to push me as I'm starting my Certified Financial Analyst (CFA) certification."*

### How does it feel to have completed your degree?

*"I am proud of my accomplishment, and I am looking forward to the doors this will open and the adventures it may take me on. However, as mentioned above, I am striving for more and have my goals set on new pursuits."*

### What benefit do you see this degree having on your banking career?

*"Apart from the knowledge gained from the courses, I expect my MBA to open new doors of opportunity for career advancement."*

### Any words of encouragement for other aspiring young professionals?

*"I would say, NEVER SETTLE! Always push yourself, never allow yourself to get stagnant or get comfortable in any position/situation, and that will continue to drive you and keep the desire in you to want to do more."*


COMPLIANCE

# 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, NBVI has complied with these changes and remains committed to adopting best practices in risk management and compliance, which helps to maintain the integrity of the banking industry in the BVI.*

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

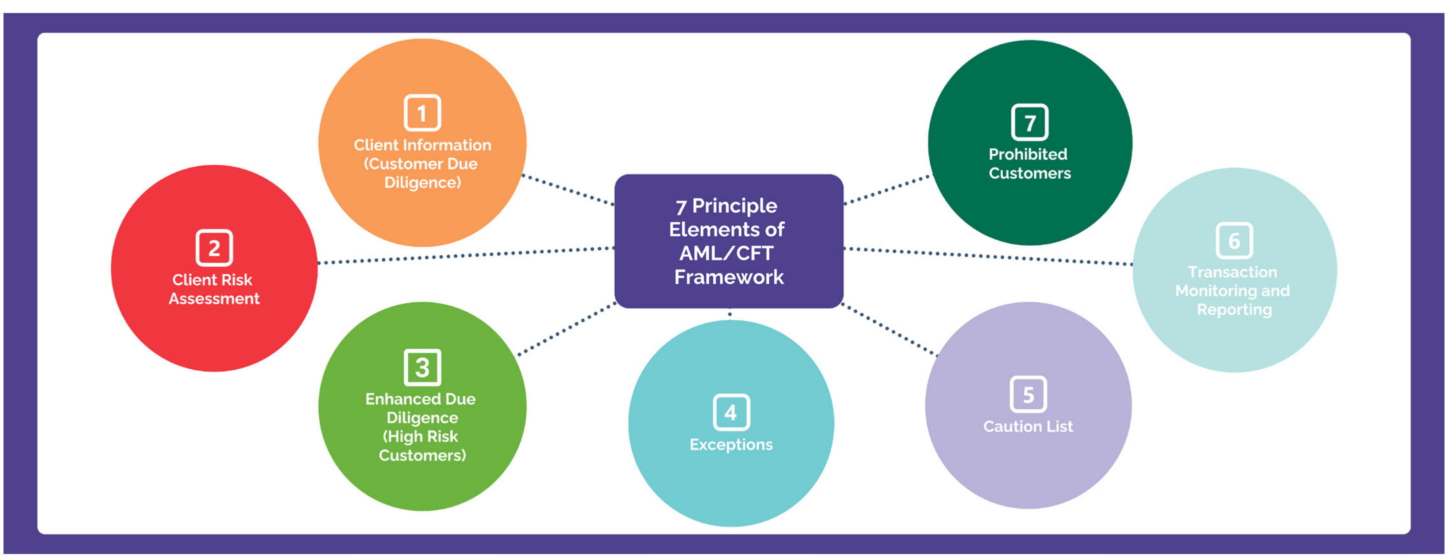
- Financial crime
- Cyber security
- Credit risk management

## SYSTEMS AND CONTROLS IN PLACE AT NBVI TO MEET THESE REQUIREMENTS

A competent Executive Management Team and strong leadership are paramount to delivering value for our customers and maintaining the confidence of our regulator, particularly in times of accelerated digitalisation and remote working. We understand the increased cybersecurity risk. As such, we have hardened our IT infrastructure and strengthened our internal controls and Enterprise Risk Management 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 is supported by our 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. We continuously monitor and update, as necessary, our internal control systems to ensure our standards reflect the requirements of the Law and regulator.

## AML/CFT FRAMEWORK

NBVI's AML/CFT Framework comprises seven (7) principal elements:



*"From our perspective, every new challenge presents an opportunity to re-evaluate how we do business and how we contribute to our communities."*

*At the start of 2020, we were keen to continue some of the initiatives which begun under our Corporate Social Responsibility (CSR) Program of 2019. However, we saw the world come to a near standstill, primarily as a result of COVID-19. Although some of our plans had to be revised, we were able to deploy capital and provide services to address the needs of our customers.*

In these challenging times, we believe that our ability to stay true to NBVI's Vision, Mission, and Core Values is paramount. Our Mission is enduring; it drives who we are and everything we do. Our Mission informs our decisions and emphasizes our passion for empowering all around us. Hence, we remained laser-focused on the needs of our customers and community and engaged on the issues that matter most to all our stakeholders. From our perspective, every new challenge presents an opportunity to re-evaluate how we do business and how we contribute to our communities.

At NBVI, we value our collaboration with other organizations to support public information, education, and philanthropic initiatives. Despite the pandemic, we worked across the public and private sectors to foster partnerships and seek solutions to issues affecting the Territory. As we pursue our Mission, we are aware of the enormous responsibility to ensure that what we do positively impacts the people of the Virgin Islands. We envision that the National Bank spirit will help us to find more opportunities to make an indelible mark on our society.

## 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.

## TARGETED ASSISTANCE IN 2020

While we do support other activities, NBVI focuses on four (4) areas (culture, education, youth and sports, and health and well-being), as these areas are the foundation of our CSR program and philanthropic initiatives. In 2020, though the dollar amount invested in some community-based activities was not as much as in previous years, due to reduced activity in light of the pandemic, we believe that the impact of our investments was comparable. Overall, we remained true to NBVI's commitment to national development and community inclusivity by building on our strong foundation and pledging to find new ways to contribute positively.

# CSR EXPENDITURE

**$25,870**

TOTAL CSR EXPENDITURE

## CSR EXPENDITURE BREAKDOWN

**$10,600**

**Health and Well-being**

**$6,800**

**Education**

**$6,470**

**Youth and Sports**

**$2,000**

**Culture**

# EDUCATION

Critical thinking, creativity, collaboration, and communication are vital skills students must master in preparation for life. An eagerness for learning supports personal advancement and fosters a hunger for education. We want to ensure that our youth can realize their full potential by assisting with the provision of required resources. In 2020, the Bank and our CSR team supported several education-focused initiatives in our community such as the H Lavity Stoutt Community College, Youth Empowerment Project, and Money Matters BVI.

# YOUTH AND SPORTS

Today's children are our Virgin Islands champions of tomorrow, and we must invest in them and make provisions for their success. Statistics have shown that access to outlets of creativity and physical activity help children to become more well-rounded adults. In that regard, NBVI sponsored or supported the following youth initiatives and sports:

- LilyLuv's Lemonade Stand
- Julian Fraser Basketball League
- Virgin Islands Softball Association
- Virgin Islands Netball Association




# HEALTH AND WELL-BEING

Our Core Values are important at any time, but even more so in times of challenge and crisis. As the pandemic rages on taking lives and livelihoods in its wake, we empathised and sympathised with our employees and community. As fervent champions of health and wellness, NBVI continued to support key wellness groups and several individuals who are faced with medical challenges. Simultaneously, we gave particular attention to the mental and physical well-being of our employees. We knew "only well employees can serve our customers well." We also recognised that we needed to demonstrate what we stood for as an organization, and so we ensured our behaviour and decisions were shaped by our Core Values.

# CULTURE

As ***the official bank of paradise***, celebrating the rich history of who we are and where we have been as a Territory, remains one of our main priorities. Hence, we actively seek ways to reinforce our cultural alignment with our community. In 2020, we supported the BVI Festival as well as other celebratory events held during Virgin Islands Culture Week.

## ENVIRONMENTAL STEWARDSHIP

The climate crisis is one of the most critical challenges facing our global society and economy. The science is irrefutable, and the world's climate scientists agree that urgent action must be taken to address the current and potential impacts of climate change. Building on the efforts of 2019, in 2020, we made in-roads in implementing new greener practices in our offices and helping to create "Green Spaces". Our employees continue to play a crucial role in reducing our environmental footprint, and we will continue empowering them to make a difference.

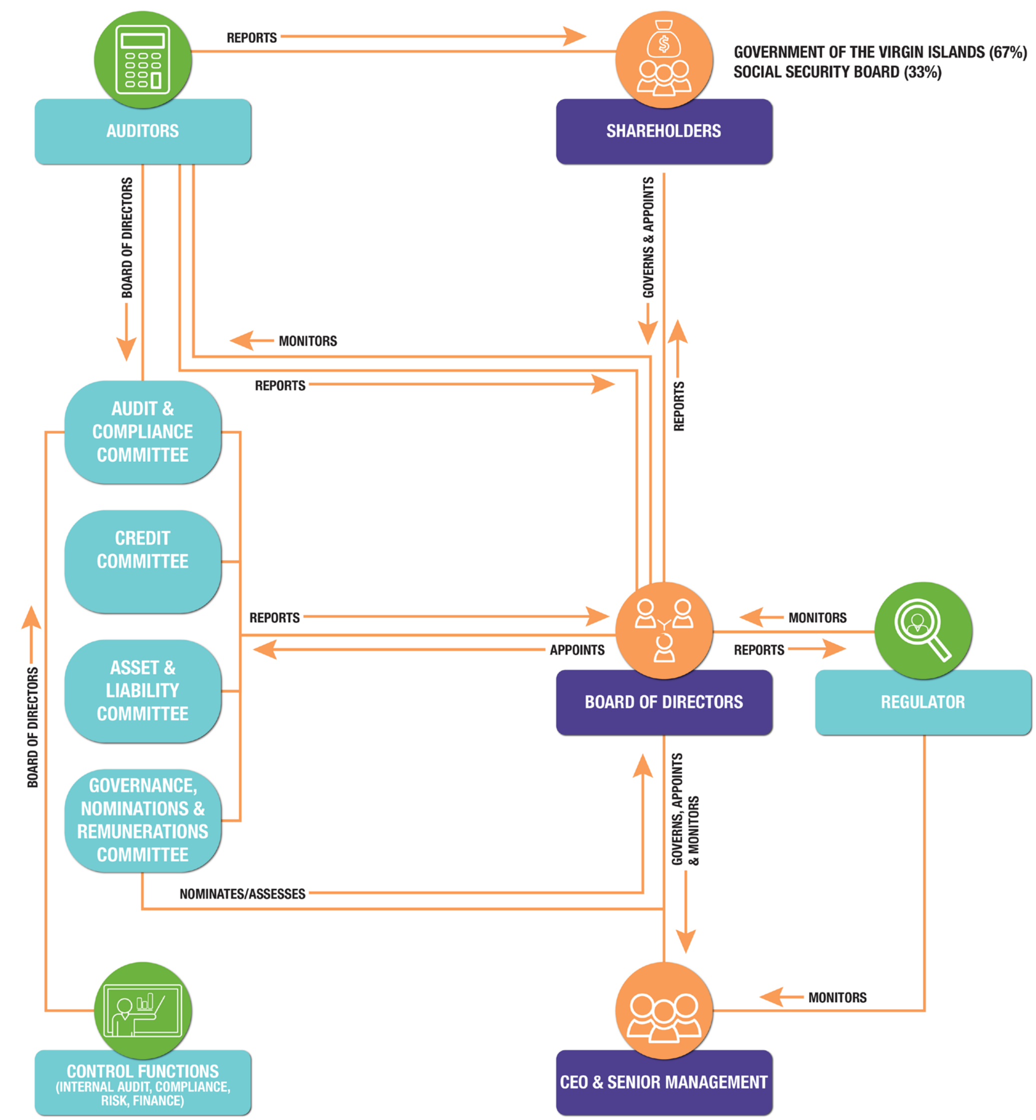
## LOOKING AHEAD

As part of NBVI's comprehensive approach to community development and responsible growth, in 2021 and the near future, in addition to our philanthropic efforts, we commit to doing our part to promote environmental sustainability through responsible financing, advocacy, and employee volunteerism.

# CORPORATE GOVERNANCE

*Good governance is critical to NBVI; it is the basis of public trust and positive relations with our stakeholders. Hence, our management structure and system of governance is clear. The Board is responsible for the oversight of the Bank and establishing a governance framework to include policies, guidelines, and controls, which is fashioned to the Bank's circumstances. This framework describes delegations of authority whereby the Board and its committees may delegate authority to Executive Management. Such delegations may entail certain decision-making and approval authority, which may be evidenced in, committee charters, job descriptions, minutes of meetings and resolutions. The framework also promotes high standards of professional conduct and allows for prudent and diligent discharge of duties and compliance with local legislation, industry regulations, guidelines, and best practice. Despite the challenging environment, the Board remained informed on relevant matters, supported the Executive Management Team, and engaged with stakeholders.*

## NBVI CORPORATE GOVERNANCE STRUCTURE



There are four (4) Board Committees – the Audit and Compliance Committee, the Credit Committee, the Governance, Nominations and Remunerations Committee, and the Asset and Liability Committee. Each Committee has its own charter setting out its roles and responsibilities.

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.

## INDUCTION

Keen focus on induction supports good information flows within the Board, its committees, and the Executive Management Team, providing a better understanding of the Bank's culture and operations. Hence, our Board conducts an orientation programme in which all new Directors are required to participate. The programme clearly outlines 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 their responsibilities, and work usually undertaken 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. Although there were constraints due to the COVID-19 outbreak, virtual meetings enabled our Directors to engage with colleagues, the Executive Management Team, and other stakeholders.

Directors are expected to possess and maintain the skills required to fulfil 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. Additionally, the Chairman and Corporate Secretary make appropriate arrangements for any additional training needs identified, to ensure Directors can properly perform their roles.

## KEY FEATURES OF OUR BOARD

The Board comprises eight (8) members with a broad range of experience and expertise, of which four (4) are female Directors. The composition of our Board reflects diversity of gender, skills, and knowledge. We believe that having Directors with an independent mindset is important for a Board to be effective. With the exception of the CEO, all other Directors are Non-Executive. The Board works closely with the Executive Management Team in a cooperative relationship of trust and verification for the benefit of the Bank.

We also believe that the design of remuneration packages can significantly influence decision-making, 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

- Direct NBVI in conduct of its affairs – Ensures that corporate responsibility and ethical standards underpin the Bank's operation.

- Appoint and provide sound leadership to the CEO and Executive Management – set the strategic vision, direction, and long-term goals of NBVI and ensure that adequate resources are available to meet these objectives.
- Approve and monitor capital and operating plans for achieving strategic objectives; and
- Bear 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 is the constitution that guides our Board and its committees in their activities and decisions, as well as in their dealings with each other, with Executive Management, and with our other stakeholders. Directors have a responsibility to avoid situations that place, or are perceived to place, their personal interests in conflict with their duties at the Bank. 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 the corporate governance provisions will be implemented.

## BOARD'S KEY AREAS OF FOCUS

The Board and its Committees engage in key strategic governance and oversight activities each year. Both scheduled and ad hoc updates on the performance and prospects of NBVI are provided to the Board. 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. Additionally, all Directors have direct access to the Corporate Secretary and Executive Management to obtain information required to make informed and timely decisions.

Although not a comprehensive list of all matters addressed by the Board, the following points illustrate some areas of focus:

- Reviewed the Bank's Strategic Plan;
- Considered the impact of the pandemic on the economy (local and international), on various industries, and NBVI's risk mitigation approach;
- Amended the Bank's Business Continuity Plan to cover pandemics and epidemics;

- Monitored the responsibilities delegated to its committees to ensure proper and effective oversight and control of NBVI's activities;

- Reviewed Management's performance; and

- Considered sustainability issues (including environmental and social factors) as part of NBVI's strategy.

## SEPARATION OF CHAIR AND CEO ROLES

As mandated by the Bank's Articles of Association and its Corporate Governance Charter, the roles of Chairman and CEO are separate. There is a clear division of responsibilities between the leadership of the Board by the Chairman, and the executive responsibility for day-to-day management of NBVI's business, which is undertaken by the CEO. The Bank fully subscribes to international best practice guidance in this regard. Notwithstanding, our Chairman and CEO have an excellent working relationship.

## DELEGATION BY THE BOARD TO ITS COMMITTEES

The Board delegates oversight of certain audit, risk, compliance, remuneration, nomination, and governance matters to its committees. Each Board committee is chaired by a non-executive Board member who has a remit to oversee specific responsibilities as outlined in the committee's charter. 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)*


| DIRECTORS | ATTENDANCE | | PERCENTAGE ATTENDANCE |
|---|---|---|---|
| | Required | Actual | |
| Ivan Hudson Carr (Chair) | 8 | 8 | 100% |
| Drexel Glasgow | 12 | 12 | 100% |
| Antoinette Skelton | 14 | 13 | 93% |
| Michelle Todman Smith | 14 | 12 | 86% |
| Joy Penn | 14 | 14 | 100% |

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 and other controls 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 and reviews the classification of loans and advances. The Committee also ensures that appropriate disclosures are made to the relevant authorities as required by law or regulation.

## *Asset and Liability Committee (ALCO)*

**Mervyn Hope**

| DIRECTORS | ATTENDANCE | | PERCENTAGE ATTENDANCE |
|---|---|---|---|
| | Required | Actual | |
| Mervyn Hope (Chair) | 4 | 4 | 100% |
| Antoinette Skelton | 4 | 2 | 50% |
| Joy Penn | 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. This entails inter alia, regular review of the composition and trajectory of the balance sheet and refining the Bank's funding strategy according to business momentum, prevailing market conditions, and available contingency options.

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 Todman Smith**

| DIRECTORS | ATTENDANCE | | PERCENTAGE ATTENDANCE |
|---|---|---|---|
| | Required | Actual | |
| Michelle Todman Smith (Chair) | 4 | 4 | 100% |
| Benedicta Samuels | 4 | 4 | 100% |
| Ivan Hudson Carr | 3 | 3 | 100% |
| Mervyn 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 Bank operates a three (3) Lines-of-Defence Model in regard to risk and compliance management that helps embed a culture of shared responsibility for risk management.

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 to handle both known and emerging risks. The Committee also reviews 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. The ACC also receives updates on significant incidents of non-compliance with laws and regulations, and reviews management's investigations of such incidents.

### *Governance, Nominations and Remunerations (GNRC)*

Clarence Faulkner, Jr.

| DIRECTORS | ATTENDANCE | | PERCENTAGE ATTENDANCE |
|---|---|---|---|
| | Required | Actual | |
| Clarence Faulkner, Jr. (Chair) | 1 | 1 | 100% |
| Benedicta Samuels | 1 | 1 | 100% |
| Drexel Glasgow | 1 | 1 | 100% |
| Michelle Todman Smith | 1 | 1 | 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.

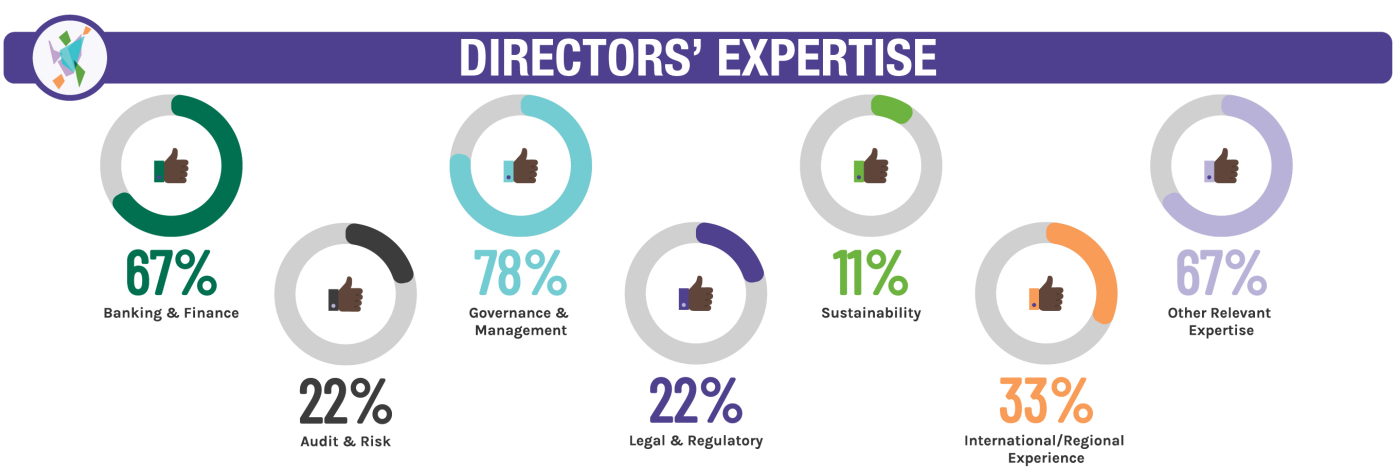
The GNRC exercises supervisory oversight of the overall principles, parameters, and governance of NBVI's remuneration policy and ensures the alignment of compensation with prudent risk taking. This involves overseeing the remuneration of the Executive Management Team and the Board, as well as Management development and succession planning, to deepen core competencies and strengthen leadership capabilities.

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' COMPETENCIES

In terms of skills and expertise, the Board must have the highest levels of integrity, deep understanding of governance, appropriate technical, financial, and non-financial knowledge, and interpersonal skills. We will continue to bolster and refresh our Directors' skills through relevant training to ensure deep understanding of the challenges faced by NBVI and the banking industry. All Directors are expected to avail themselves of appropriate training courses, where necessary and at the earliest opportunity, to fulfil their competency requirements.

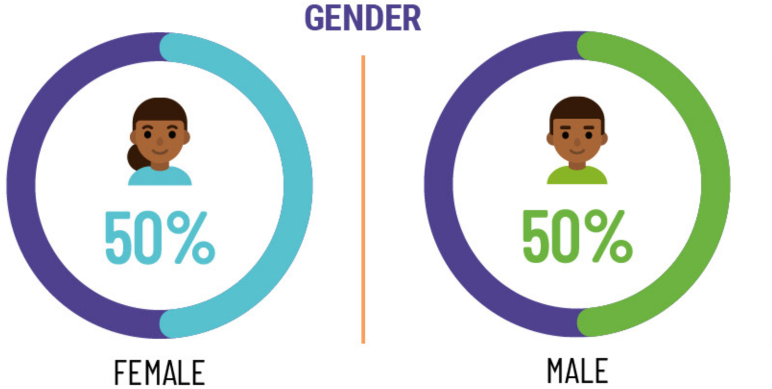
The current skills and industry experience represented on the Board are as follows:



## DIVERSITY

We have a diverse Board in terms of professional background and skills, demographics, gender, experience, and tenure. This provides an ideal environment for discussion, debate, input, challenge, and thoughtful outcomes for the Bank. 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 and growth of the Bank.

### GENDER



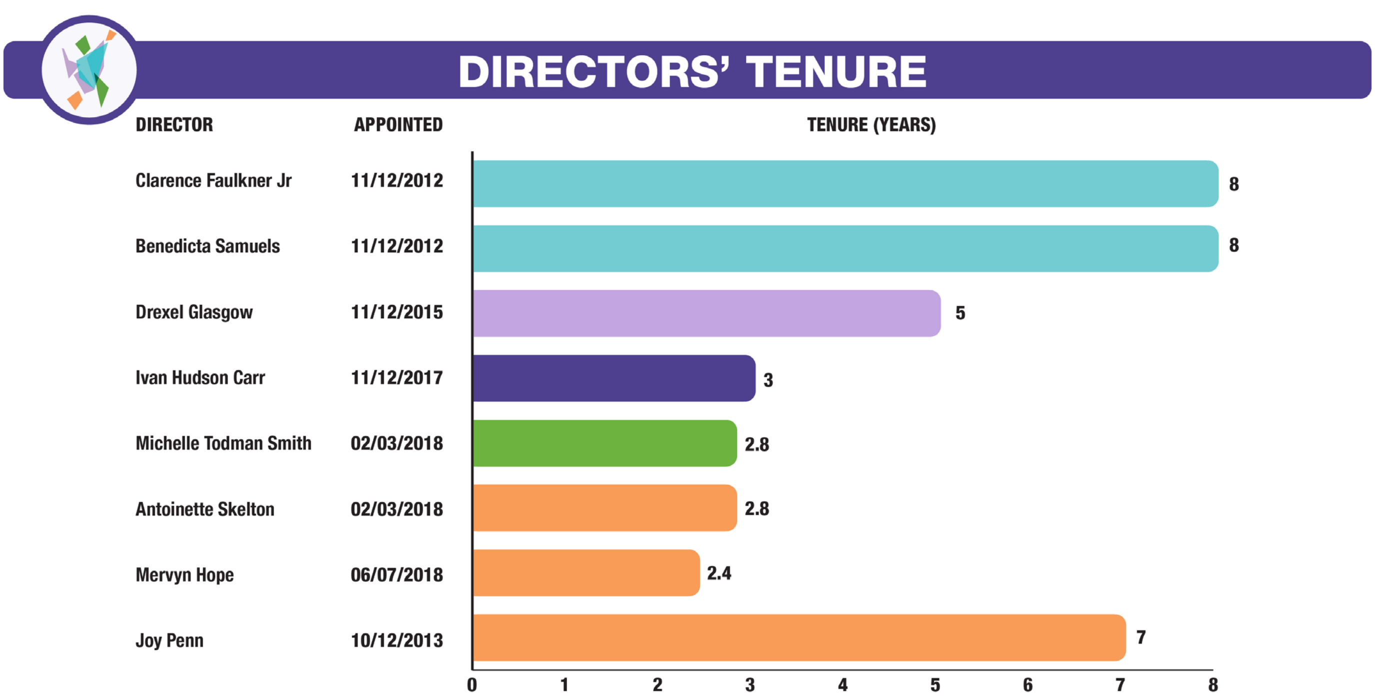

### AVERAGE AGE OF DIRECTORS

**4** Between 40-50 years

**4** Older than 50 years

## 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/her, or until his/her 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 Board evaluated the qualifications, competence, and performance of Mrs. Wendy Lewis, the Bank's Corporate Secretary, and remains satisfied that she is qualified for the role, having also confirmed her independence and arm's length relationship with the Board and its members.

Mrs. Lewis is committed to the promotion and practice of good corporate governance. She attends all Board meetings and assists Directors in the discharge of their duties. Among other responsibilities, 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. She has unfettered access to the Chairman, and her office is sufficiently resourced to perform its duties.

## 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 approved by the Governance, Nominations and Remunerations Committee. The policy also seeks to ensure that the Bank is able to attract, motivate and retain employees to deliver long-term shareholder returns taking into consideration risk management principles.

## RELATED PARTY TRANSACTIONS

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 determine 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. Related party transactions are disclosed in note 20 as set out on ***page 125***.

## INDEPENDENCE

Independence is an essential element in creating and implementing a proper system of checks and balances. Our Board 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 and is in no way beholden to the CEO. The Board must always be 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

NBVI has robust procedures to manage any potential conflicts of interest between Directors and the Bank. Notwithstanding, Directors have a responsibility to avoid situations that place, 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 members of the Bank are provided with a copy of this policy, which defines conflicts of interest and provides guidance on the process for disclosing such interests to the Bank within the stated timeframe. Additionally, NBVI's Articles of Association require Directors to declare any actual or potential conflict of interest immediately, when 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.

## ETHICS AND BUSINESS CONDUCT

The financial services industry relies on trust, and NBVI remains committed to the highest standards of integrity and ethical behaviour. We engage in continuous training across the Bank to emphasise the behaviours we reward and the behaviours we discourage. 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 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 posture towards all forms of corruption, bribery, and unethical business practices.

The Board and Executive Management are responsible for embedding ethical conduct in the organisation. However, the Chief Compliance and Risk Officer is responsible for monitoring compliance with the Code of Conduct and day-to-day business practices. As part of the risk-based Internal Audit Plan, the Board also undertakes periodic independent reviews of the monitoring process and the effectiveness of the overall program.

## CULTURE

We remain fully committed to our role as a gatekeeper of the BVI's financial system. In addition to the wide range of ethical principles included in our Code of Business Conduct, we actively promote other unwritten safeguards to strengthen and embed our risk and governance culture in our day-to-day operations. Ultimately, we want our employees to have a strong sense of accountability for their actions and an understanding of the Bank's role in society. These unwritten 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; and
- Recognition and rewards for desired behaviours while taking swift corrective actions to address unwelcomed ones.

## WHISTLE-BLOWER POLICY

NBVI has a formal whistle-blower policy which all members of the Board, management, staff, and other stakeholders can use to confidentially disclose any issues that they believe 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 evaluate 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, and complexity 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 GNRC. Among other things, this Committee is responsible for 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 must present its recommendations to the full 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 oversees the selection and management of the Executive Management Team and other Senior Management, 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 Board of Directors reviews and approves all information contained in the Integrated Report. The Board also acknowledges its responsibility for the preparation and presentation of financial information, maintenance of appropriate internal controls, compliance with legal and regulatory requirements, management and control of major risk areas, and assessment of significant and related party transactions. The Directors confirm that, as 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 all relevant audit information.

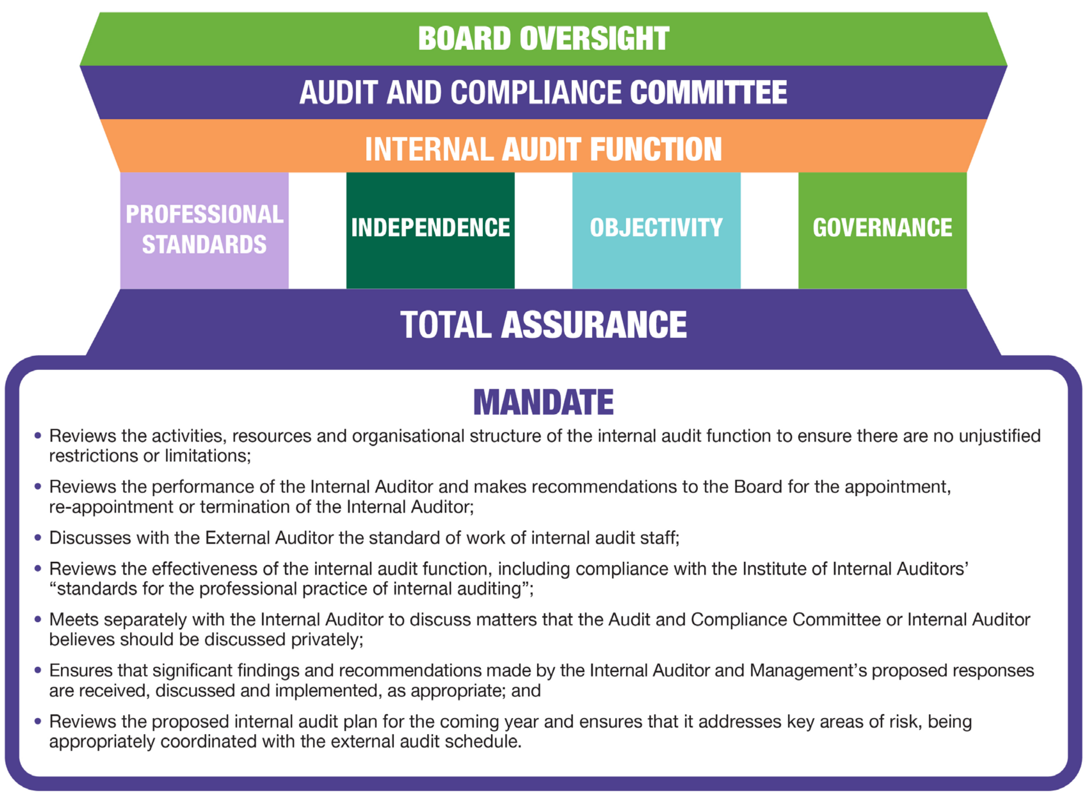

INTERNAL
AUDIT

# INTERNAL AUDIT

*The Internal Audit Department provides independent and objective assurance to the Board on the effectiveness of governance, 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. Our Internal Audit Framework covers financial, operational, compliance and risk management policies and systems. The Board, supported by the ACC, oversees the Bank's system of internal controls and risk management.



# EXTERNAL AUDIT

***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 2020 fiscal year.***

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 financial statements and providing an opinion on their reasonableness.

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

- 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.

# RISK MANAGEMENT

## RISK APPETITE

*A culture of proper risk management throughout the organization is critical to our success and is a clear expectation of our Board and Executive Management Team. That is why risk management is embedded at all levels of our operations. In that sense, every employee must function as a risk manager, understanding and taking a holistic view of the risks involved in their actions, and making the necessary changes consistent with established policies and our core values. Under our Enterprise Risk Management Framework, the Board sets NBVI's risk appetite, oversees the establishment of enterprise-wide risk management policies and processes, and sets limits to guide risk-taking. Our risk appetite informs the strategic and financial planning process. It is an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels. The Bank has no tolerance 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. 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 our strategic objectives and rewards for our stakeholders.*

## 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. We have 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 Code of Business Conduct for its Board and staff, as outlined in our 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
- The Bank's risk management structure

Our ERMF provides a structured approach to risk taking and risk management activities across the Bank, supporting our long-term revenue, earnings, and capital growth strategy. It 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.

## STRESS TESTING

Stress testing is an important risk management tool used by the Bank as part of its enterprise-wide risk management. 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. Stress testing also provides the Bank with the opportunity to spot emerging risks, uncover areas of our operations that require strengthening, and take preventive action. Results of testing under low and medium stress scenarios indicate a moderate impact on the Bank's credit portfolio, capital, and liquidity positions. Further, in anticipation of the potential future impact of COVID-19 on our customers, we have continued to stress test our portfolio to re-assess our provisioning levels as required under the expected credit loss accounting model. We will continue to develop our risk reporting as the pandemic situation unfolds.

## RISK MANAGEMENT POLICY AND GUIDELINES

Selective risk taking is inherent in banking but managing risks within the Bank's risk appetite is crucial to survival. The Risk Management function, headed by the Chief Compliance and Risk Officer (CCRO), provides oversight of enterprise-wide risk management, risk governance, and control. This includes the setting of risk strategy and policy to manage risk, in alignment with the Bank's risk appetite and business strategy. Risk Management's primary objective is to support a comprehensive and proactive approach to risk management that promotes a strong risk management culture.

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 Framework has been designed in accordance with international standards of best practice and reflects 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 justified and rationale documented; 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. Risk management is embedded at NBVI through clear accountabilities 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

### SECURITY

#### 1ST LINE - RISK OWNERSHIP

PROCESS AND CONTROL OWNERS IN CUSTOMER-FACING ROLES, RESPONSIBLE FOR MANAGING END-TO-END RISKS

#### 2ND LINE - CHALLENGE OVERSIGHT

INDEPENDENT RISK, COMPLIANCE, LEGAL AND CONTROL FUNCTIONS WHICH FORMULATE RISK AND CONTROL POLICIES AND REVIEW THE 1ST LINE'S ADHERENCE TO THESE POLICIES

#### 3RD LINE - ASSURANCE

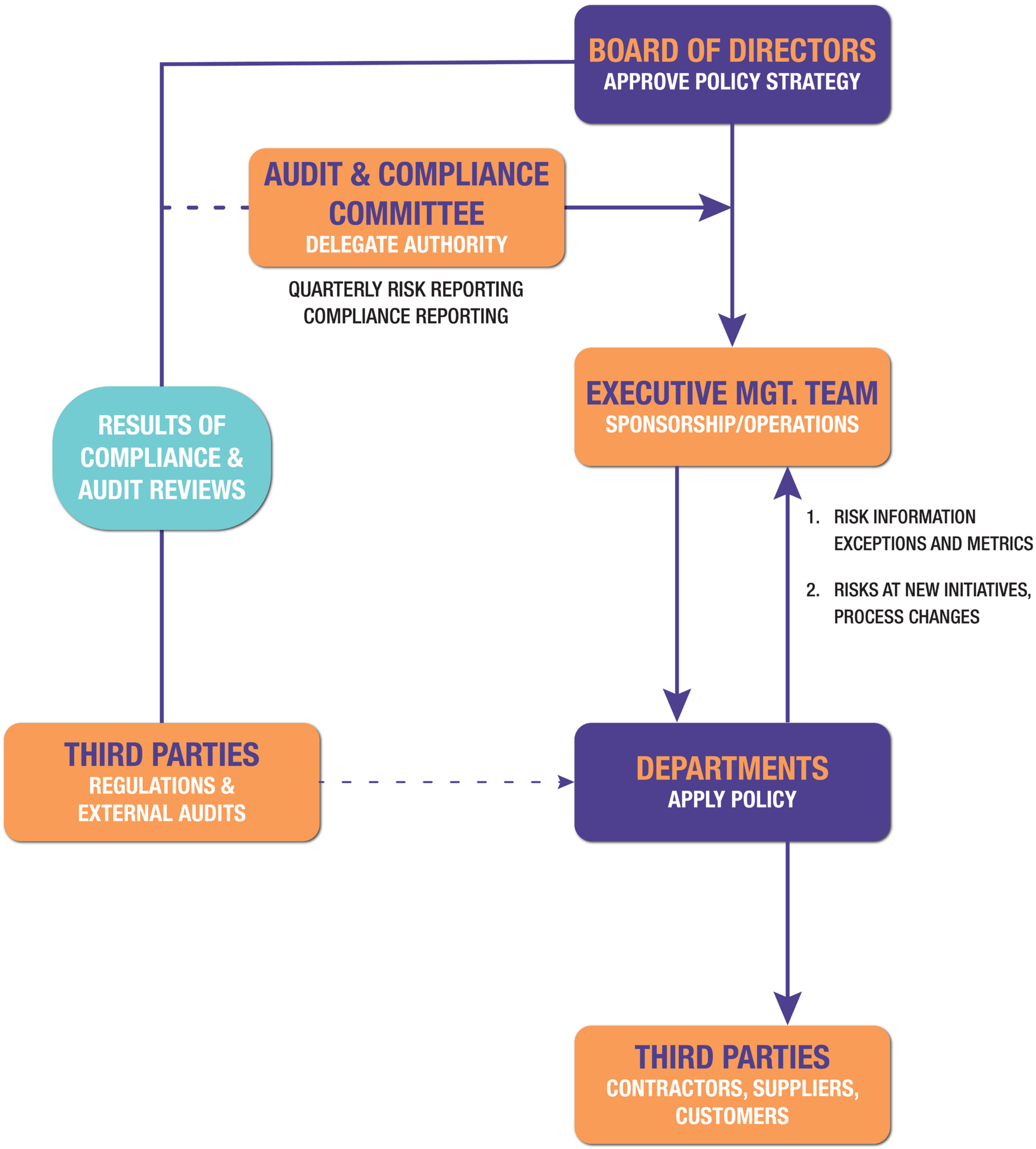
INTERNAL AUDIT FUNCTION TESTS AND REVIEWS CONTROLS TO ENSURE THAT THE 1ST AND 2ND LINES EXECUTE THEIR RESPONSIBILITIES EFFECTIVELY

## RISK ASSESSMENT STRUCTURE

NBVI's organization and governance structure provides oversight of all risk monitoring and reporting. The Board remains accountable for ensuring that the Bank has an adequate risk management framework in place, which clearly defines its risk appetite. Through delegated responsibility to the Executive Management Team, they implement the ERMF that assesses and appropriately manages various risk exposures of the Bank. The Chief Compliance and Risk Officer is the first point of contact for the ERMF, but 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 STRUCTURE



# RISK MANAGEMENT PROCESS

| ① Identify → | ② Analyse → | ③ Treat → | ④ Monitor → | ⑤ Report → |
| --- | --- | --- | --- | --- |
| Identify all significant risks. | Analyse these risks (determine likelihood, impact, existing controls, range of consequences). | Accept risks or develop appropriate risk mitigation processes. | Monitor risks and the effectiveness of mitigation strategies. | Facilitate communication and consultation between stakeholders. |

## KEY RISKS

Risk identification is focused on recognizing and understanding existing risks, risks that may arise from new or evolving business initiatives, aggregate risks, and non-traditional or emerging risks from the changing operating environment. Credit risk continues to be the most significant risk that adversely affected NBVI's operations in 2020. COVID-19 and the related economic shock has affected our loan portfolio, and as a result, asset quality has deteriorated over the past year. However, actions taken as the crisis unfolded have helped to mitigate the impact. For example, due to the negative impact of the pandemic on business operations and our customers, we extended payment moratoriums to several customers and will consider future restructures, as needed. We continue to remain vigilant and actively work with our customers to find ways to recoup some losses and minimise this risk.

Equally important, NBVI's operational response to COVID-19 has enabled the Bank to continue to operate effectively whilst keeping customers and employees safe. Customers' needs have been successfully met although some employees were working remotely, and rapid changes were required.

Despite the repetition of some risks identified in 2019, in this year's Integrated 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 and geographical footprint. 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.

| KEY RISKS | RISKS 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.<br>Ensuring all employees remain aware of cyber security issues and know how to report incidents. |
| 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.<br>Monitoring of print, electronic and social media, instant global communications and resolution of issues.<br>Senior management oversight. |
| NON-PERFORMING LOANS | Credit Risk | HIGH | Monitoring and reporting of the loan book.<br>Setting of appetite limits and sector concentration limits.<br>Revision of the Business Continuity Plan<br>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<br>COVID-19 GUIDELINES AND PROTOCOLS | Compliance Risk<br>Operational Risk<br>Regulatory Risk | HIGH | Identification of changes to the regulatory compliance universe and enhancement of the internal policy environment.<br>Identification and analysis of compliance gaps.<br>Continuous compliance training for staff.<br>Engaging MSBs through site visits and quarterly reviews of account transactions. |
| NATURAL DISASTERS | Environmental Risk<br>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)<br>Regulatory Risk<br>Reputational Risk<br>Financial Risk | MEDIUM | Various AML Policies, hiring and training staff, audits and embedding the "3 Lines of Defence" risk management culture and methodology. |

# AUDITED FINANCIAL STATEMENTS

NATIONAL BANK
OF THE VIRGIN ISLANDS LIMITED

Audited Financial Statements

For The Year Ended December 31, 2020

**NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED**

Audited Financial Statements

For The Year Ended December 31, 2020

## 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 |
| Mr. Ivan Hudson Carr | Member |
| Ms. Antoinette Skelton | Member |
| Mrs. Michelle Todman Smith | Member |
| Mr. Mervyn Hope | Member |
| Mrs. Joy Penn | Ex-Officio Member |

**Registered Office**

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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, 2020, 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, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 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.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of 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
January 4, 2022

## NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

**Statement of Financial Position**
**As at December 31, 2020**
*Expressed in United States Dollars*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | 19,501,879 | 20,058,555 |
| Due from banks | 3 | 148,763 | 19,690,766 |
| Loans and advances to customers | 4 | 214,671,828 | 201,449,748 |
| Other customer receivables | 6 | 2,240,080 | 567,351 |
| Financial investments | 7 | 35,627,860 | 28,538,247 |
| Prepayments | | 381,029 | 598,839 |
| Property and equipment | 9 | 9,266,017 | 8,561,279 |
| Regulatory deposit | 10 | 500,000 | 500,000 |
| **TOTAL ASSETS** | | **$282,337,456** | **$279,964,785** |
| **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 | | 16,506,133 | 17,156,159 |
| Total capital and reserves | | 41,116,854 | 41,766,880 |
| **Liabilities** | | | |
| Amounts owed to demand deposit holders | | 4,907,347 | 3,627,610 |
| Amounts owed to savings depositors | 12 | 70,676,210 | 64,617,854 |
| Amounts owed to certificate of deposit holders | 13 | 156,422,760 | 160,514,791 |
| Preference shares - liability component | 11 | 4,127,379 | 4,127,379 |
| Lease liabilities | 14 | 3,198,800 | 3,699,750 |
| Trade and other payables | 15 | 1,888,106 | 1,610,521 |
| Total liabilities | | 241,220,602 | 238,197,905 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **$282,337,456** | **$279,964,785** |

APPROVED BY THE BOARD

Benedicta Samuels
_______________________ Director
Dr. Benedicta Samuels, *Chairman (Ag.)*

January 3, 2022 _______ Date approved

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

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## NATIONAL BANK OF THE VIRGIN ISLANDS LIMITED

**Statement of Comprehensive Income**
**For The Year Ended December 31, 2020**
*Expressed in United States Dollars*

| | Notes | 2020 | 2019 |
|---|---|---|---|
| Interest and similar income | 16 | 11,643,351 | 13,661,722 |
| Interest expense | 17 | (3,715,068) | (3,656,241) |
| **Net interest income** | | 7,928,283 | 10,005,481 |
| Fees and commissions | 18 | 532,778 | 652,735 |
| Other operating income | | 278,667 | 199,456 |
| **Total operating income** | | 8,739,728 | 10,857,672 |
| Credit loss expenses | 5 | (600,419) | (653,023) |
| **Net operating income** | | **8,139,309** | **10,204,649** |
| **EXPENSES** | | | |
| Depreciation | 9 | (1,341,952) | (1,167,056) |
| Other operating expenses | 19 | (7,385,472) | (7,734,248) |
| Total operating expenses | | (8,727,424) | (8,901,304) |
| **NET (LOSS)/PROFIT FOR THE YEAR** | | **$(588,115)** | **$1,303,345** |

*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, 2020**
*Expressed in United States Dollars*

**2020**

| | Note | Share Capital | Additional Paid-in Capital | Retained Earnings | Total |
|---|---|---|---|---|---|
| Balance at the beginning of the year | | 1,375,793 | 23,234,928 | 17,156,159 | 41,766,880 |
| Net loss for the year | | - | - | (588,115) | (588,115) |
| Preference share dividend component | 11 | - | - | (61,911) | (61,911) |
| **BALANCE AT THE END OF THE YEAR** | | **$1,375,793** | **$23,234,928** | **$16,506,133** | **$41,116,854** |

**2019**

| | Note | 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 | 11 | - | - | (61,911) | (61,911) |
| **BALANCE AT THE END OF THE YEAR** | | **$1,375,793** | **$23,234,928** | **$17,156,159** | **$41,766,880** |

*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, 2020**
*Expressed in United States Dollars*

| | 2020 | 2019 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Interest, commission and other income received | 9,002,316 | 14,491,428 |
| Interest paid to deposit holders | (1,785,504) | (3,214,091) |
| Interest paid on lease liabilities | (135,058) | (176,003) |
| General and administrative expenses paid | (6,890,076) | (7,606,508) |
| | 191,678 | 3,494,826 |
| Changes in operating assets and liabilities: | | |
| Net increase in loans and advances to customers | (12,058,732) | (12,384,861) |
| Net increase in demand deposit holders | 1,279,737 | 1,611,738 |
| Net (decrease)/increase in savings deposit holders | 6,058,356 | (91,834) |
| Net increase in certificate of deposit holders | (5,886,537) | 27,660,242 |
| *Cash flows (used in)/from operating activities* | (10,415,498) | 20,290,111 |
| **INVESTING ACTIVITIES** | | |
| Net movement on amounts due from banks | 19,471,872 | (5,340,011) |
| Net movement on financial investments | (7,003,498) | (12,837,189) |
| Purchase of property and equipment | (2,177,709) | (1,671,754) |
| Disposal of property and equipment | 131,018 | 29,566 |
| *Cash flows from/(used in) investing activities* | 10,421,683 | (19,819,388) |
| **FINANCING ACTIVITIES** | | |
| Payment of principal portion of lease liabilities | (500,950) | - |
| Preference shares dividend | (61,911) | (247,643) |
| *Cash flows used in financing activities* | (562,861) | (247,643) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | (556,676) | 223,080 |
| **CASH AND CASH EQUIVALENTS** | | |
| At the beginning of the year | 20,058,555 | 19,835,475 |
| **At the end of the year** | **$19,501,879** | **$20,058,555** |
| **CASH AND CASH EQUIVALENTS:** | | |
| Cash in hand and current account balances with other banks | 6,293,337 | 9,998,223 |
| Fixed deposits with brokers | 13,208,542 | 10,060,332 |
| Certificates of deposit with other banks | - | - |
| | **$19,501,879** | **$20,058,555** |

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

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## 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, 2020 were authorised for issue in accordance with a resolution of the directors on January 3, 2022.

## 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 Changes in accounting policies

***New standards, interpretations and amendments adopted from January 1, 2020***

New standards that have been adopted in the annual financial statements for the year ended 31 December 2020, but have not had a significant effect on the Bank are:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment - Disclosure Initiative - Definition of Material); and
- Revisions to the Conceptual Framework for Financial Reporting.
- Definition of a Business (Amendments to IFRS 3); and
- COVID-19-Related Rent Concessions (Amendments to IFRS 16).

***Other standards***

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current
- Amendments to IFRS 3 Reference to the Conceptual Framework
- Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use
- Amendments to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020 Cycle Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture.

## 2. ACCOUNTING POLICIES (Continued)

### 2.2 Changes in accounting policies (continued)

*Other standards (continued)*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except as noted below:

Amendments to IAS 1 - Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

### 2.3 Comparative figures

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

### 2.4 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 COVID-19 pandemic gives rise to heightened uncertainty as it relates to accounting estimates and assumptions and increases the need to apply judgment in evaluating the economic and market environment and its impact on significant estimates. This particularly impacts estimates and assumptions relating to allowance for credit losses, valuation of financial instruments and asset impairment.

**2. ACCOUNTING POLICIES (Continued)**

**2.4 Significant accounting judgments and estimates (continued)**

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.

*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 2.8, Impairment of financial assets.

*Leases*

Application of IFRS 16 ***Leases*** requires assumptions and estimates in order to determine the value of the right-of-use assets and lease liabilities, the implicit and incremental borrowing rates, as applicable, and whether renewal options are reasonably certain of being exercised.

*Depreciation Methods*

Depreciation methods for property and equipment, including right-of-use assets, are based on management's estimate of the most appropriate method to reflect the pattern of an asset's future economic benefit. This includes judgement of what asset components constitute a significant cost in relation to the total cost of an asset.

## 2. ACCOUNTING POLICIES (Continued)

### 2.5 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.

### 2.6 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.

*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.

**2. ACCOUNTING POLICIES (Continued)**

**2.6 Financial assets and financial liabilities (continued)**

*Classification of financial assets and financial liabilities*

***Financial assets***

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;
- 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.

**2. ACCOUNTING POLICIES (Continued)**

**2.6 Financial assets and financial liabilities (continued)**

*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.

**2.7 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. ACCOUNTING POLICIES (Continued)

### 2.8 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.

*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

## 2. ACCOUNTING POLICIES (Continued)

### 2.8 Impairment of financial assets (continued)

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.

***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

**2. ACCOUNTING POLICIES (Continued)**

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

**Measurement of ECL (continued)**

*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.

*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.

## 2. ACCOUNTING POLICIES (Continued)

### 2.8 Impairment of financial assets (continued)

**Measurement of ECL (continued)**

*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.

### 2.9 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.

### 2.10 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.

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.

## 2. ACCOUNTING POLICIES (Continued)

### 2.10 Fair value measurements (continued)

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.

### 2.11 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, 2020 is $474,504 (2019: $856,288).

## 2. ACCOUNTING POLICIES (Continued)

### 2.12 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 recognized at a point in time when the requisite service is fulfilled.

### 2.13 Cash and cash equivalents

Cash and cash equivalents comprise 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.

### 2.14 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.

### 2.15 Taxation

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

### 2.16 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)

### 2.16 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.

### 2.17 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.

### 2.18 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.

### 2.19 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.

***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)

### 2.19 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)

### 2.19 Leases (continued)

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

| 31 December 2020 | Lease Contracts Number | Fixed payments % | Variable payments % | Sensitivity |
|---|---|---|---|---|
| Property leases with payments linked to inflation | 2 | - | 89.6% | 260,866 |
| Property leases with periodic uplifts to market rentals | 2 | - | 10.1% | 3,326 |
| Leases of plant and equipment | 1 | 0.3% | - | - |
| **Total** | **5** | **0.3%** | **99.7%** | **$264,192** |

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, 2020 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 $1,095,428 (2019: $1,095,428) are potentially avoidable were the Bank to exercise break clauses at the earliest opportunity.

### 2.20 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)

### 2.21 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

| | 2020 | 2019 |
|---|---|---|
| Certificates of deposit | 103,862 | 19,575,734 |
| Add: interest receivable | 44,901 | 115,032 |
| | $148,763 | $19,690,766 |

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 (2019: $95,000) as at December 31, 2020.

## 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:

| 2020 | Commercial | Residential Mortgages | Other Personal | Total |
|---|---|---|---|---|
| Performing loans | 56,769,208 | 111,682,447 | 21,343,384 | 189,795,039 |
| Non-performing loans | 11,651,280 | 15,241,664 | 1,419,814 | 28,312,758 |
| Gross loans | 68,420,488 | 126,924,111 | 22,763,198 | 218,107,797 |
| Less: allowance for expected credit losses (Note 5) | (2,197,582) | (2,582,580) | (234,302) | (5,014,464) |
| | $66,222,906 | $124,341,531 | $22,528,896 | $213,093,333 |
| Add: interest receivable | | | | 4,013,858 |
| Less: interest provision on restructured and non-performing loans | | | | (2,435,363) |
| | | | | $214,671,828 |

*Expressed in United States Dollars*

## 4. LOANS AND ADVANCES TO CUSTOMERS (Continued)

| 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 expected 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 |

In general, interest rates on loans and advances range between 3.5% and 12.5% (2019: 3.5% and 14.0%) per annum. The weighted average interest rate on these loans was 5.71% (2019: 5.95%).

### *Interest accruals on non-performing loans*

The interest receivable includes interest on non-performing loans totaling $1,690,850 (2019: $2,498,240) 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, 2020, loans and advances to customers includes $744,513 (2019: $795,383) 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.

## 5. EXPECTED CREDIT LOSSES ALLOWANCE

| | 2020 | 2019 |
|---|---|---|
| Opening balance | 5,093,139 | 5,596,001 |
| ECL Allowance | 600,419 | 653,023 |
| Releases | - | (4,834) |
| Write-offs | (679,094) | (1,151,051) |
| Ending balance | $5,014,464 | $5,093,139 |

During the calculation of estimated credit losses the Bank has made certain assumptions that were based amongst others, on: a) physical inspection findings of collateral with significant values; b) delinquency rates; and c) estimated time and efforts to liquidate collateral.

*Expressed in United States Dollars*

## 5. EXPECTED CREDIT LOSSES ALLOWANCE (Continued)

*Collateral repossessed*

During the year, the Bank exercised its power of sale over real estate collateral with a market value of $Nil (2019: $281,100).

***Impact of COVID-19 pandemic on expected credit losses for Loans and advances to customers***

As a result of the impact of the COVID-19 pandemic and the potential negative impact on the Bank's loan portfolio arising from the decline in economic activity, a heightened application of judgement in a number of areas was required in the determination of whether a significant increase in credit risk (SICR) has occurred. This included the careful evaluation of the evolving macroeconomic environment and the various client relief programs that were provided to our clients. Interest or principal deferments pursuant to various relief programs provided in some cases resulted in a SICR, that would trigger migration to stage 2 as we determined that there was a SICR based on our assessment of related forward-looking indicators. Customers who failed to recommence blended payments within three (3) months of the moratorium ceasing, were classified as non-performing and moved to stage 3.

***Modified financial assets and client relief moratorium programs***

On March 11, 2020, the outbreak of COVID-19 was officially declared a pandemic by the World Health Organization. During the financial year, the COVID-19 pandemic continues to have a significant adverse impact on the global economy. All territories across the region were negatively affected, and we were able to respond by providing support to our clients via our COVID-19 relief program.

As at December 31, 2020 the gross outstanding balance of loans in the moratorium program was $39.0 million for commercial loans, $48.3 million for residential mortgages, and $5.5 million for other personal loans.

Several of the regional regulators have provided guidance stating that clients who have entered into the COVID-19 moratorium programs should be frozen at their days past due position prior to entry into the program until expiry of the moratorium period. Additionally, no loans which have greater than 90 days past due (non-performing) should be granted entry into the program.

***Impact of relief moratorium programs on interest income***

During the moratorium period, customers with variable interest rate loans received a moratorium on principal payments, while interest payments remained due. For blended payment loans with fixed interest rates, interest continued to accrue to the general ledger, but neither principal or interest was due until the end of the moratorium period. Therefore, interest income in 2020 was not significantly affected by the moratorium relief program; the decrease noted was due to an increase in interest suspended for non-performing loans. Where customers accrued a significant interest balance due to the size of the loan facility and/or extended moratorium period, consideration will be given to the capitalisation of interest on a case-by-case basis, which could affect the interest income balance. (See Note 16.)

## 6. OTHER CUSTOMER RECEIVABLES

| | 2020 | 2019 |
|---|---|---|
| Merchant income | 2,154,892 | 531,084 |
| Insurance | 83,415 | - |
| Late charges | 973 | 36,047 |
| Other | 800 | 220 |
| | $2,240,080 | $567,351 |

*Expressed in United States Dollars*

## 7. FINANCIAL INVESTMENTS

| | 2020 | 2019 |
|---|---|---|
| Asset-backed securities | 21,930 | 258,325 |
| Corporate bonds | 25,252,936 | 18,013,043 |
| Government note | 10,000,000 | 10,000,000 |
| | 35,274,866 | 28,271,368 |
| Add: Interest receivable | 352,994 | 266,879 |
| | 35,627,860 | 28,538,247 |
| Less: Allowance for impairment | - | - |
| | $35,627,860 | $28,538,247 |

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

| | 2020 | 2019 |
|---|---|---|
| Beginning balance | 28,271,368 | 15,434,179 |
| Purchases | 43,423,844 | 18,013,043 |
| Sales and repayments | (36,420,346) | (5,175,854) |
| | $35,274,866 | $28,271,368 |

Interest rates on the asset-backed securities range from 3.0% to 6.5% per annum. The remaining life of these securities range from 9.63 to 22.75 (2019: 10.63 to 23.75) years.

Interest rates on the corporate bonds range from 2.5% to 5.0% per annum. The remaining life of these bonds ranges from 0.04 to 3.59 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, 2021 and carries an interest rate of 4.0% (2019: 4.0%).

*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, 2020** | | | | | |
| **Financial instruments not measured at fair value** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 19,501,879 | - | - | 19,501,879 | 19,501,879 |
| Due from banks | 148,763 | - | - | 148,763 | 148,763 |
| Loans and advances to customers | - | - | 222,745,000 | 222,745,000 | 214,671,828 |
| Other customer receivables | - | 2,240,080 | - | 2,240,080 | 2,240,080 |
| Financial investments | - | 35,627,860 | - | 35,627,860 | 35,627,860 |
| General banking licence deposit | - | 500,000 | - | 500,000 | 500,000 |
| **Total** | $19,650,642 | $38,367,940 | $222,745,000 | $280,763,582 | $272,690,410 |
| **Liabilities** | | | | | |
| Amounts owed to demand deposit holders | - | 4,907,347 | - | 4,907,347 | 4,907,347 |
| Amounts owed to savings depositors | - | 73,900,259 | - | 73,900,259 | 70,676,210 |
| Amounts owed to certificate of deposit holders | - | 154,056,544 | - | 154,056,544 | 156,422,760 |
| Preference shares - liability component | - | 4,127,379 | - | 4,127,379 | 4,127,379 |
| Lease liabilities | - | 3,198,800 | - | 3,198,800 | 3,198,800 |
| Trade and other payables | - | 1,888,106 | - | 1,888,106 | 1,888,106 |
| **Total** | - | $242,078,435 | - | $242,078,435 | $241,220,602 |

| | 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 - liability component | - | 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 |

*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, 2020 | 99,145 | 1,171,710 | 1,838,387 | 3,949,394 | 1,210,000 | 1,750,324 | 4,087,421 | 14,106,381 |
| Additions | 26,995 | 806 | 180,293 | 12,535 | - | 1,957,079 | - | 2,177,708 |
| Disposals | - | - | - | - | - | - | - | - |
| Transfers | - | 282 | 2,467,556 | 88,541 | - | (2,556,379) | - | - |
| Write-downs | - | - | - | - | - | (59,684) | (71,334) | (131,018) |
| December 31, 2020 | 126,140 | 1,172,798 | 4,486,236 | 4,050,470 | 1,210,000 | 1,091,340 | 4,016,087 | 16,153,071 |
| **Accumulated Depreciation** | | | | | | | | |
| January 1, 2020 | 25,501 | 825,583 | 1,638,762 | 2,575,011 | - | - | 480,245 | 5,545,102 |
| Charge | 24,297 | 106,583 | 294,911 | 453,812 | - | - | 462,349 | 1,341,952 |
| Disposals | - | - | - | - | - | - | - | - |
| December 31, 2020 | 49,798 | 932,166 | 1,933,673 | 3,028,823 | - | - | 942,594 | 6,887,054 |
| **Net Book Value** | | | | | | | | |
| December 31, 2019 | $73,644 | $346,127 | $199,625 | $1,374,383 | $1,210,000 | $1,750,324 | $3,607,176 | $8,561,279 |
| December 31, 2020 | $76,342 | $240,632 | $2,552,563 | $1,021,647 | $1,210,000 | $1,091,340 | $3,073,493 | $9,266,017 |

There are no capitalised borrowing costs related to the acquisition of property and equipment during the year (2019: $Nil). Transfer of assets from Work-in-Progress to Computer Equipment comprised the Bank's new core banking system, scanning software and other equipment. The balance transferred from Work-in-Progress to Leasehold Improvements comprised construction cost for additional office space and uninterrupted power supply for the Bank's premises.

*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 (2019: $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, 2020 was 0.98% (2019: 0.75%).

## 11. CAPITAL AND RESERVES

| | 2020 | 2019 |
|---|---|---|
| **(a) Authorised share capital:** | | |
| • Golden share 1 (2019: 1) voting, no par value | - | - |
| • Ordinary shares 20,000,000 (2019: 20,000,000) voting, no par value | - | - |
| • Convertible redeemable preference shares 10,000,000 (2019: 10,000,000) voting, US $1 par value | 10,000,000 | 10,000,000 |
| • Non-voting common shares 10,000,000 (2019: 10,000,000) US$1 par value | 10,000,000 | 10,000,000 |
| **(b) Issued and fully paid share capital:** | | |
| • 1 (2019: 1) Golden share of no par value issued to the Government | - | - |
| • Ordinary shares 14,534,478 (2019: 14,534,478) | - | - |
| • Convertible redeemable preference shares - Equity component 5,503,172 (2019: 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, 2020, the Government held 9,738,100 no par value ordinary shares for a consideration of $13,738,100 (2019: $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 (2019: $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.

*Expressed in United States Dollars*

## 11. CAPITAL AND RESERVES (Continued)

### (d) Share rights (continued)

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.

### (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:

| | 2020 | 2019 |
|---|---|---|
| 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 |

| Preference Share Dividend | 2020 | 2019 |
|---|---|---|
| Interest expense component | 185,732 | 185,732 |
| Dividend component | 61,911 | 61,911 |
| | 247,643 | 247,643 |

## 12. AMOUNTS OWED TO SAVINGS DEPOSITORS

| | 2020 | 2019 |
|---|---|---|
| Individuals | 57,727,286 | 50,034,196 |
| Businesses | 12,948,924 | 14,583,658 |
| | $70,676,210 | $64,617,854 |

The average effective rate of interest on customer deposits during the year was 0.25% (2019: 0.51%).

During the period ended December 31, 2020, the Bank transferred 85 (2019: 81) dormant accounts totaling $88,515 (2019: $45,209) to a special fund established for that purpose in accordance with the Dormant Accounts Act, 2011.

*Expressed in United States Dollars*

## 13. AMOUNTS OWED TO CERTIFICATE OF DEPOSIT HOLDERS

| | 2020 | 2019 |
|---|---|---|
| Individuals | 39,904,903 | 39,560,058 |
| Businesses | 112,487,556 | 118,719,623 |
| | 152,392,459 | 158,279,681 |
| Add: Interest payable | 4,030,301 | 2,235,110 |
| | $156,422,760 | $160,514,791 |

The average effective rate of interest on certificates of deposit during the year was 1.9% (2019: 2.22%).

## 14. LEASE LIABILITIES

The following table presents movement in lease liabilities.

| | Land and Buildings | Equipment | Total |
|---|---|---|---|
| **At 1 January 2020** | 3,672,662 | 27,088 | 3,699,750 |
| Interest Expense | 134,237 | 821 | 135,058 |
| Lease payments | (546,674) | (18,000) | (564,674) |
| Adjustments | (70,308) | (1,026) | (71,334) |
| **At 31 December 2020** | **$3,189,917** | **$8,883** | **$3,198,800** |

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

| | 2020 | 2019 |
|---|---|---|
| Short-term lease expense | 36,410 | 38,450 |
| Low value lease expense | 542 | 542 |
| Aggregate undiscounted commitments for short-term leases | **$36,952** | **$38,992** |

The table below shows the undiscounted lease obligations by maturity of the Bank's lease liabilities.

| 2020 | Within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Overs 5 years | Total |
|---|---|---|---|---|---|
| Lease liabilities | 141,218 | 416,155 | 2,197,695 | 999,688 | 3,754,756 |
| | $141,218 | $416,155 | $2,197,695 | $999,688 | $3,754,756 |

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*Expressed in United States Dollars*

## 14. LEASE LIABILITIES (Continued)

The table below shows the undiscounted lease obligations 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

| | 2020 | 2019 |
|---|---|---|
| Insurance escrow | 890,537 | 661,961 |
| Trade payables | 653,714 | 563,896 |
| Dividends payable | 247,643 | 247,643 |
| Commissions payable | 58,463 | 104,487 |
| Accrued pension liability (Note 18) | 37,749 | 32,534 |
| | $1,888,106 | $1,610,521 |

## 16. INTEREST AND SIMILAR INCOME

| | 2020 | 2019 |
|---|---|---|
| Loans and advances to customers | 10,542,647 | 12,198,207 |
| Held-to-maturity investments | 938,669 | 1,024,862 |
| Cash and placements | 157,151 | 434,918 |
| Other | 4,884 | 3,735 |
| | $11,643,351 | $13,661,722 |

## 17. INTEREST EXPENSE

| | Note | 2020 | 2019 |
|---|---|---|---|
| Certificate of deposit holders | | 3,203,737 | 2,957,978 |
| Savings depositors | | 190,541 | 336,528 |
| Preference share dividend - interest component | 11 | 185,732 | 185,732 |
| Lease liabilities | | 135,058 | 176,003 |
| | | $3,715,068 | $3,656,241 |

## 18. FEES AND COMMISSIONS

| | 2020 | 2019 |
|---|---|---|
| Commitment fees | 204,584 | 313,901 |
| Merchant service fees | 65,393 | 14,743 |
| Commission earned on administrative services | 46,604 | 46,130 |
| Late charges | 25,101 | 105,716 |
| Other fees received | 191,096 | 172,245 |
| | $532,778 | $652,735 |

*Expressed in United States Dollars*

**19. OTHER OPERATING EXPENSES**

| | 2020 | 2019 |
|---|---|---|
| Staff costs | 5,168,775 | 4,945,349 |
| Professional fees | 477,608 | 353,254 |
| Repairs and maintenance | 448,168 | 351,185 |
| Licence fees and bank charges | 418,070 | 379,931 |
| Systems and communications | 193,616 | 178,577 |
| Business insurance | 133,307 | 119,820 |
| Security services | 116,891 | 117,929 |
| Marketing and advertising | 101,762 | 224,647 |
| Electricity and water | 91,234 | 127,686 |
| Stationery and postage | 80,605 | 51,209 |
| Staff training | 45,962 | 37,453 |
| Travel and entertainment | 39,086 | 165,216 |
| Rent | 28,426 | 38,538 |
| Commission expense | - | 419,600 |
| Write-down of fixed assets | - | 191,121 |
| Insurance write-offs | - | 19,907 |
| Other | 41,962 | 12,826 |
| | $7,385,472 | $7,734,248 |

**Analysis of staff costs:**

| | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 4,063,817 | 3,861,201 |
| Social security and payroll taxes | 348,782 | 322,886 |
| Pension expenses | 324,548 | 266,621 |
| Directors' expenses | 183,621 | 210,497 |
| National health insurance | 143,811 | 132,454 |
| Staff insurance | 64,543 | 49,657 |
| Staff uniforms | 8,280 | 65,209 |
| Other staff-related costs | 31,373 | 36,824 |
| | $5,168,775 | $4,945,349 |

During the year ended December 31, 2020, wages and salaries of $4,063,817 (2019: $3,861,201) were paid to an average of 75 employees (2019: 70).

**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, 2020, pension expenses of $324,548 (2019: $266,621) were incurred.

## 20. RELATED PARTY TRANSACTIONS

(a) During the year ended December 31, 2020, the Bank did not approve any loans issued to current or former directors of the Bank and related persons. As at December 31, 2020, related party loans totaled $1,968,409 (2019: $2,043,752), which are included as part of loans and advances. The interest rates on these loans were recorded at 4.0% - 6.5% (2019: 4.0% - 6.5%).

(b) As at December 31, 2020, the Government held certificates of deposit totaling $28,107,611 (2019: $28,291,576). These certificates of deposit earn interest at rates ranging from 0.75% to 2.5% (2019: 1.5% to 2.5%) per annum. The Government also held savings deposits totaling $6,892,405 (2019: $8,584,856), which earned interest at a rate of 0.3% (2019: 0.5%) per annum.

(c) As at December 31, 2020, SSB held certificates of deposit totaling $73,437,127 (2019: $80,735,350) at interest rates ranging from 2.7% to 2.9% (2019: 2.0% to 2.5%). SSB also held savings deposits totaling $306,223 (2019: $469,253), which earned interest at a rate of 0.25% (2019: 0.5%) per annum.

(d) As at December 31, 2020, other Government statutory bodies held certificates of deposit totaling $7,657,038 (2019: $7,558,896) at interest rates ranging from 0.25% to 0.75% (2019: 0.6% to 1.25%).

(e) As at December 31, 2020, directors' allowances totaled $176,000 (2019: $198,000). These amounts are included within directors' expenses.

(f) As at December 31, 2020, commissions receivable totaled $720 (2019: $140) and commissions payable totaled $58,463 (2019: $104,487), in line with revised contract terms.

## 21. COMMITMENTS

*Undrawn loan commitments*

As at December 31, 2020, the Bank had undrawn commitments under existing customer loan agreements totaling $11,370,429 (2019: $10,023,623).

## 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.

## 22. FINANCIAL RISK MANAGEMENT (Continued)

### 22.1 Introduction (continued)

*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 monitors 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.

*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. FINANCIAL RISK MANAGEMENT (Continued)

### 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, 2020 is the carrying amount of the financial assets in the statement of financial position.

As at December 31, 2020, the Bank's cash and cash equivalents and certificates of deposit were held with five (5) financial institutions.

Deposits totaling $11,206,652 (2019: $20,234,460) or 4% (2019: 7%) of total assets are currently held at Bank of America, which has a long-term credit rating of A2 (2019: A2) per Moody's rating agency.

Deposits totaling $4,093,788 (2019: $8,301,128) or 1% (2019: 3%) of total assets are currently held at Banco Popular de Puerto Rico (Banco Popular), which has a long-term credit rating of B1 (2019: B1) per Moody's rating agency.

Deposits totaling $2,001,890 (2019: $9,412,776) or 1% (2019: 3%) of total assets are currently held at Raymond James Financial, which has a long-term credit rating of Baa1 (2019: Baa1) per Moody's rating agency.

Deposits totaling $138,308 (2019: $Nil) or 0.05% (2019: 0%) of total assets are currently held at St. Kitts-Nevis-Anguilla National Bank Limited, which is currently not rated by Moody's rating agency.

Deposits totaling $133,884 (2019: $46,617) or 0.05% (2019: 0.02%) of total assets are currently held at CIBC First Caribbean International Bank, which is currently not rated by Moody's rating agency.

***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.

*Expressed in United States Dollars*

**22. FINANCIAL RISK MANAGEMENT (Continued)**

**22.2 Credit risk (continued)**

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 $28,312,758 (2019: $24,664,020).

*As at December 31, 2020*

| | Less than 30 days | 30 to 59 days | 60 to 89 days | 90 days or more | Total |
|---|---|---|---|---|---|
| Commercial | 1,551,361 | 10,359,880 | 19,509,317 | - | 31,420,558 |
| Mortgages | 9,894,939 | 5,461,793 | 14,346,344 | - | 29,703,076 |
| Personal | 782,830 | 504,634 | 2,437,051 | - | 3,724,515 |
| | $12,229,130 | $16,326,307 | $36,292,712 | $ - | $64,848,149 |

During the year, the Bank renegotiated loans totaling $Nil (2019: $640,607).

*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 |

As at December 31, 2020, the credit ratings of issuers of the Bank's held-to-maturity investments (including interest receivable) as provided by the CariCRIS and Moody's rating agencies are as follows:

| 2020 | CariBBB Rated | A2 Rated | Baa1 Rated | Total |
|---|---|---|---|---|
| Government note securities | 10,100,015 | - | - | 10,100,015 |
| Corporate Bonds | - | 11,855,494 | 13,650,421 | 25,505,915 |
| Asset-backed securities | - | 21,930 | - | 21,930 |
| | $10,100,015 | $11,877,424 | $13,650,421 | $35,627,860 |

| 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 |

As detailed in Note 7, the government note was issued by the Government of St. Lucia and is repayable on October 8, 2021. The government note is 3.5% (2019: 3.6%) of total assets and therefore bankruptcy or insolvency of the issuer would have a moderate impact on the Bank's financial position.

*Expressed in United States Dollars*

## 22. FINANCIAL RISK MANAGEMENT (Continued)

### 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, short-term bank deposits and financial investments held-to-maturity. The Bank's financial investments held-to-maturity balance includes an ultra-short bond fund totalling $12.9M, which is open ended and allows investors to enter and exit at their convenience. 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, 2020, the ratio of liquid assets over short-term deposit liabilities was recorded at 28% (2019: 39%).

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

| Liquid assets | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents | 19,501,879 | 20,058,555 |
| Due from banks | 148,763 | 19,690,766 |
| Financial investments held-to-maturity | 12,900,006 | - |
| | $32,550,648 | $39,749,321 |

*Concentration risk*

As at December 31, 2020, the Government held certificates of deposit totaling $28,107,611 (2019: $28,291,576) and its statutory bodies held certificates of deposit totaling $81,094,165 (2019: $88,294,246) and savings deposits totaling $6,892,405 and $306,223 respectively (2019: $8,584,856 and $469,253). Deposits issued to the Government and its statutory bodies represent 50% (2019: 55%) of deposits held, and withdrawal of these deposits 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.

**2020**

| | 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 | 4,907,347 | - | - | - | 4,907,347 |
| Amounts owed to savings depositors | 70,752,575 | - | - | - | 70,752,575 |
| Amounts owed to certificate of deposit holders | 40,016,177 | 109,675,245 | 8,726,205 | - | 158,417,627 |
| Trade and other payables | 1,888,106 | - | - | - | 1,888,106 |
| **Total** | $117,564,205 | $109,675,245 | $8,726,205 | $ - | $235,965,655 |

*Expressed in United States Dollars*

**22. FINANCIAL RISK MANAGEMENT (Continued)**

**22.3 Liquidity risk and funding management (continued)**

*Analysis of financial liabilities by remaining contractual maturities (continued)*

| **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 |

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

| **2020** | **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 | 6,878,183 | 2,619,086 | 1,873,159 | - | 11,370,428 |
| | $6,878,183 | $2,619,086 | $1,873,159 | $ - | $11,370,428 |

| **2019** | **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 | 6,385,078 | 3,443,385 | 195,160 | - | 10,023,623 |
| | $6,385,078 | $3,443,385 | $195,160 | $ - | $10,023,623 |

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

*Expressed in United States Dollars*

## 22. FINANCIAL RISK MANAGEMENT (Continued)

### 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.

As at December 31, 2020, if market interest rates increased by 25 basis points (0.25%) (2019: 25 basis points), with all other variables held constant, the Bank's loss would have increased and total assets would have decreased by $484,014 (2019: $405,768). A decrease in market interest rates of 25 basis points (2019: 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 reasonable assumption for the 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.

| 2020 | 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 | 19,501,879 | - | - | - | 19,501,879 |
| Due from banks | - | 148,763 | - | - | 148,763 |
| Gross loans and advances to customers | 16,852,655 | 5,979,386 | 27,614,139 | 167,661,617 | 218,107,797 |
| Regulatory deposit | - | - | - | 500,000 | 500,000 |
| Financial investments at amortised cost | 13,650,421 | 11,383,324 | 10,572,185 | 21,930 | 35,627,860 |
| **Total** | $50,004,955 | $17,511,473 | $38,186,324 | $168,183,547 | $273,886,299 |
| **Financial Liabilities** | | | | | |
| Amounts owed to savings depositors | 70,676,210 | - | - | - | 70,676,210 |
| Amounts owed to certificate of deposit holders | 40,007,746 | 108,368,075 | 8,046,939 | - | 156,422,760 |
| **Total** | $110,683,956 | $108,368,075 | $8,046,939 | $ - | $227,098,970 |
| **Total interest re-pricing gap** | $(60,679,001) | ($90,856,602) | $30,139,385 | $168,183,547 | $46,787,329 |

*Expressed in United States Dollars*

**22. FINANCIAL RISK MANAGEMENT (Continued)**

**22.4 Market risk (Continued)**

**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 held-to-maturity | 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 |

***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.

*Expressed in United States Dollars*

## 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 the component of preference shares classified as equity.

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, 2020:

| | 2020 | 2019 |
|---|---|---|
| Tier 1 Capital | 39,741,061 | 40,391,087 |
| Tier 2 Capital | 1,375,793 | 1,375,793 |
| Total Capital | 41,116,854 | 41,766,880 |
| Risk Weighted Capital Adequacy Ratio | 23.22% | 24.79% |
| Leverage Ratio | 13.92% | 15.06% |

## 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 January 22, 2021, Mr. Clarence Faulkner's term as Chairman of the Board of Directors expired. On even date, in accordance with Clause 11.8 of the Bank's Articles of Association, the Board of Directors resolved that Dr. Benedicta Samuels, Vice Chair, would assume the role of Chairman of the Board of Directors, effective January 23, 2021, until such time that an appointment is made by the Government of the Virgin Islands.

On March 24, 2021 the Board of Directors of the Bank resolved to pay a preferential dividend to the minority shareholder after confirming that the requisite solvency test was completed and satisfied. Payment of the preferential dividend in an aggregate amount of $247,643 was settled on March 31, 2021.

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