VISION

To be the Preferred Financial Institution in the Markets we serve.

MISSION

To be a profitable and compliant Financial Institution, proactive in exceeding our stakeholders' expectations, with a committed and empowered team.

THE BANK OF NEVIS LIMITED

"Improving the quality of Life"

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NOTICE OF MEETING

Notice is hereby given that the Twenty Third Annual General Meeting of The Bank of Nevis Limited will be held at the Old Manor Hotel on Thursday, January 28th, 2010 at 5:00 p.m.

AGENDA

1. To approve the Minutes of the twenty-second Annual General Meeting held on March 31st, 2009.

2. To receive the report of the Directors.

3. To receive and consider the accounts for the year ended June 30, 2009.

4. To elect three Directors; Oral Martin, Janice Daniel-Hodge and Lyra Richards retire by rotation, and being eligible, offer themselves for re-election.

5. To declare an interim dividend of five cents per share.

6. To appoint auditors for the year ending June 30, 2010. PricewaterhouseCoopers, Chartered Accountants, retire and being eligible, offer themselves for reappointment.

7. Any other business.

BY ORDER OF THE BOARD

AIANDRA E. KNIGHTS
Secretary

NOTES

1. **All shareholders of record as at January 6th, 2010 will be entitled to receive an interim dividend.**

2. **A shareholder who is entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxy holder, or one or more alternate proxy holders, none of whom need be shareholders, to attend and act at the meeting or any adjournment thereof in the manner and to the extent authorized by the proxy and with the authority conferred by the proxy. A corporation being a member of the Company may appoint as a proxy one of its officers or any other person though not a member of the Company.**

3. **A proxy is valid only at the meeting in respect of which it is given or any adjournment of that meeting.**

4. **No person not being a retiring director shall, unless recommended by the directors for election, be eligible for election to the office of Director at any General Meeting unless he, or some other member intending to propose him has, at least seven clear days before the meeting, left at the office a notice in writing, duly signed, specifying his candidature for the office, and the intention of such member to propose him.**

CORPORATE INFORMATION

DIRECTORS

Richard Lupinacci
Hotelier/Chairman

Kishu Chandiramani
Businessman

Janice Daniel-Hodge
Businesswoman

Oral Martin
Solicitor

Sonya L. E. Parry
Solicitor

David A. Straz, Jr.
Ambassador at Large
Honorary Consul of the Republic of Liberia

Dr. Telbert R. Glasgow
Engineer

Lyra Richards
Banker

Desmond Herbert
Businessman

Chris Morton
Businessman

SECRETARY
Aiandra E. Knights

REGISTERED OFFICE
Main Street,
Charlestown
Nevis, West Indies

AUDITORS
PricewaterhouseCoopers
Cnr. Bank Street & West
Independence Square Street
Basseterre, St. Kitts

IN-HOUSE COUNSEL
Aiandra E. Knights, LL.B (Hons) UWI
General Counsel

SUBSIDIARIES
Bank of Nevis International Limited
Bank of Nevis International Fund Limited
Bank of Nevis International Fund Managers Limited
Bank of Nevis Mutual Fund Limited
Bank of Nevis Fund Managers Limited

CORRESPONDENT BANKS

Antigua	Antigua Commercial Bank
Barbados	Barbados National Bank
Canada	Toronto Dominion Bank
St. Kitts	SKNA National Bank
	Royal Bank of Canada
	First Caribbean International Bank
St. Lucia	Bank of St. Lucia
St. Maarten	Windward Island Bank
St. Vincent & the Grenadines	National Commercial Bank (SVG) Ltd.
United Kingdom	ABN-AMRO N.V. (London)
	Lloyds TSB Bank PLC
United States of America	Bank of America

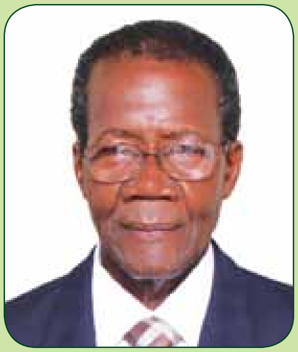
INVESTMENT BROKERS
CMMB
Morgan Stanley Smith Barney

BOARD COMMITTEES
Audit
Building
Compensation
Credit
Risk Management
Strategic Action Planning

BOARD OF DIRECTORS

Sitting l - r: Ms. Lyra Richards, Mr. Richard Lupinacci (Chairman), Hon. David Straz Jr., Mr. Chris Morton
Standing l - r: Ms. Janice Daniel-Hodge, Miss Aiandra Knights (Secretary), Mr. Kishu Chandiramani, Miss Sonya Parry, Dr. Telbert Glasgow.

Mr. Oral Martin



Mr. Desmond Herbert

GROUP FINANCIAL HIGHLIGHTS

Expressed in Eastern Caribbean Dollars

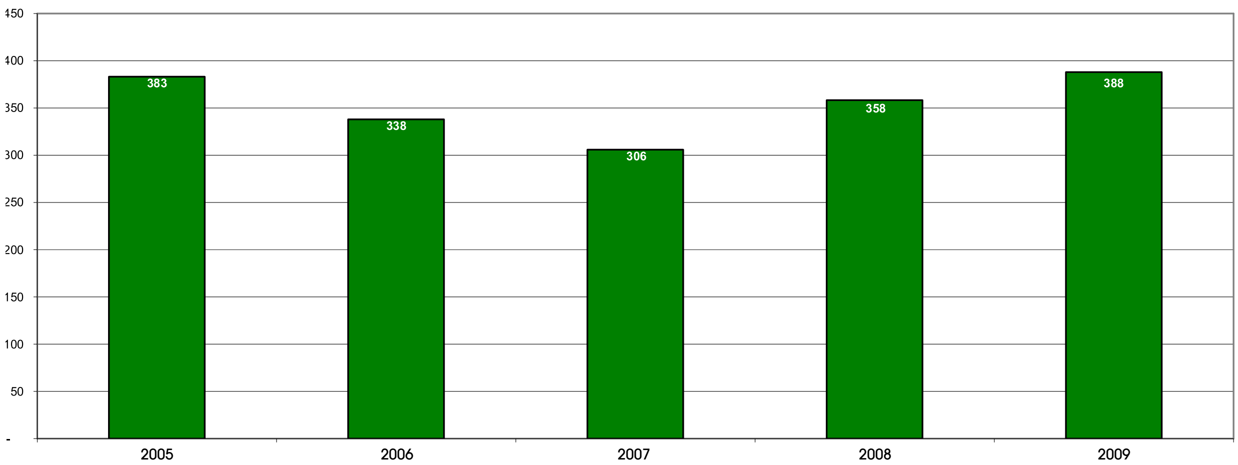
	2009 ($ 000)	2008 ($ 000)	2007 ($ 000)	2006 ($ 000)	2005 ($ 000)
Total assets	388,040	358,196	305,836	337,890	383,186
Due from banks and other financial institutions	100,464	111,344	57,708	77,239	135,070
Investment securities	86,394	74,838	96,907	130,259	141,186
Loans & advances	178,737	149,495	137,468	120,537	96,896
Customers' deposits	319,652	285,323	253,532	292,991	342,284
Paid-up share capital	7,478	7,478	7,478	7,478	7,478
Shareholders' equity	43,322	51,027	36,466	32,521	28,498
Gross operating income	26,695	27,881	25,794	25,134	22,085
Total expenses & provisions (excl. tax)	30,941	21,249	20,731	18,834	17,337
Interest income	22,878	22,755	19,949	21,030	17,510
Interest expense	9,795	8,570	7,700	8,033	8,551
Staff costs	5,338	5,996	5,591	3,576	3,183
Operating income/(loss) before tax	(4,245)	6,632	5,063	6,301	4,749
Provision for income tax	1,158	(179)	126	95	112
Net income/(loss)	(5,403)	6,811	4,937	6,206	4,636
Earnings per share ($)	(0.72)	0.91	0.66	0.83	0.62
Dividend per share (cents)	-	20.00	20.00	25.00	20.00
Return on average assets (%)	(1.45)	2.05	1.53	1.72	1.31
Return on average equity (%)	(11.45)	15.57	14.31	20.34	17.62
Number of employees	64	62	53	50	48

GROUP FINANCIAL HIGHLIGHTS ...Cont'd

Expressed in Eastern Caribbean Dollars

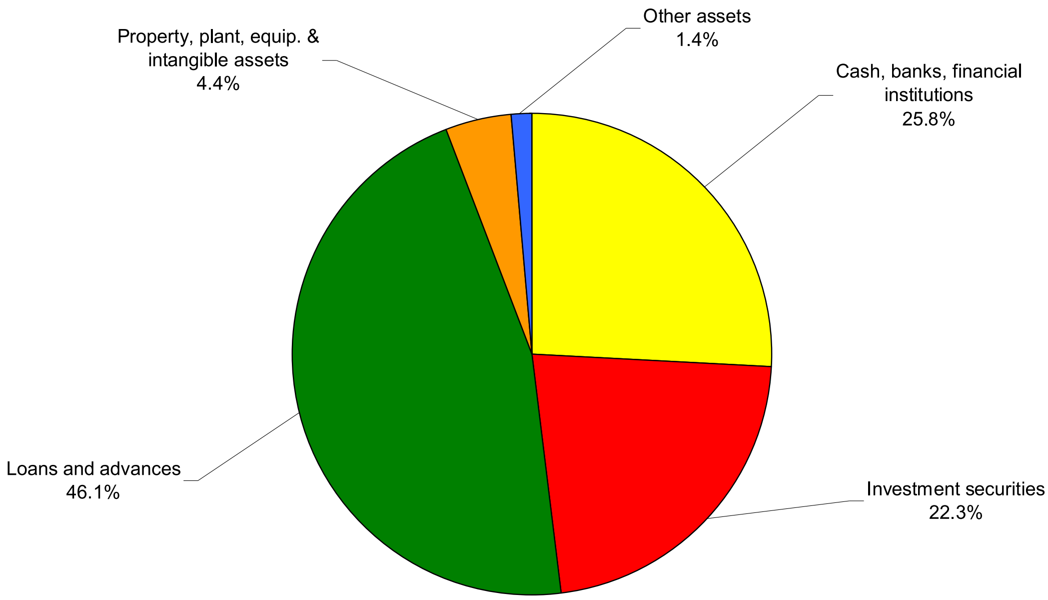
GROUP ASSETS

Group Total Assets (EC$M): 2005-2009



- Total assets increased by $29.8 million or 8.3% over 2008
- Cash and balances due from banks and other financial institutions decreased by $10.9 million or 9.8% over 2008
- Investment securities increased by $11.6 million or 15.4% over 2008
- Loans and advances increased by $29.2 million or 19.6% over 2008

Group Asset Summary: 2009

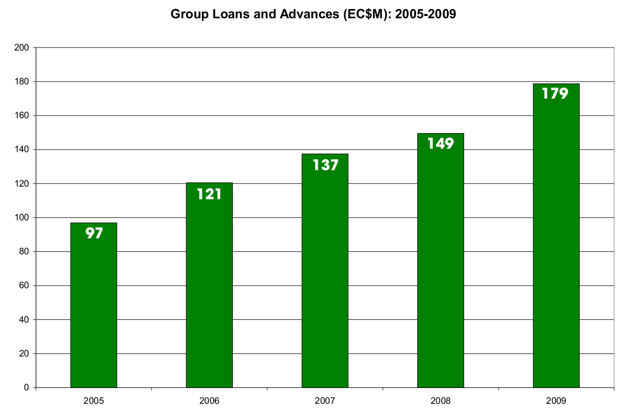


GROUP FINANCIAL HIGHLIGHTS ...Cont'd

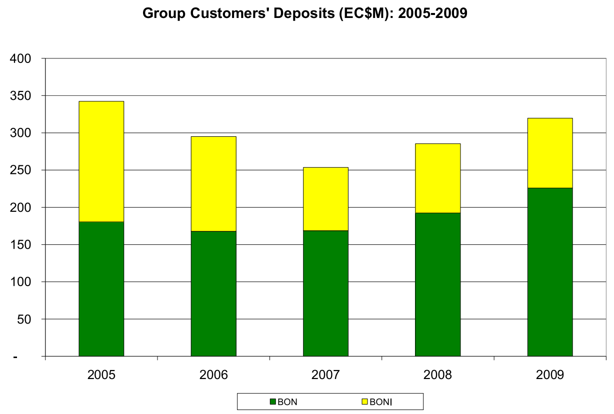
Expressed in Eastern Caribbean Dollars

LOANS AND ADVANCES

- Total loans and advances increased by $29.2 million or 19.6% over 2008
- Personal loans (including residential mortgages and other consumer loans) increased by $18.4 million or 38.3% over 2008
- Investment loans increased by $4.1 million or 38.1% over 2008
- Commercial loans increased by $3.3 million or 12.9% over 2008



CUSTOMERS' DEPOSITS



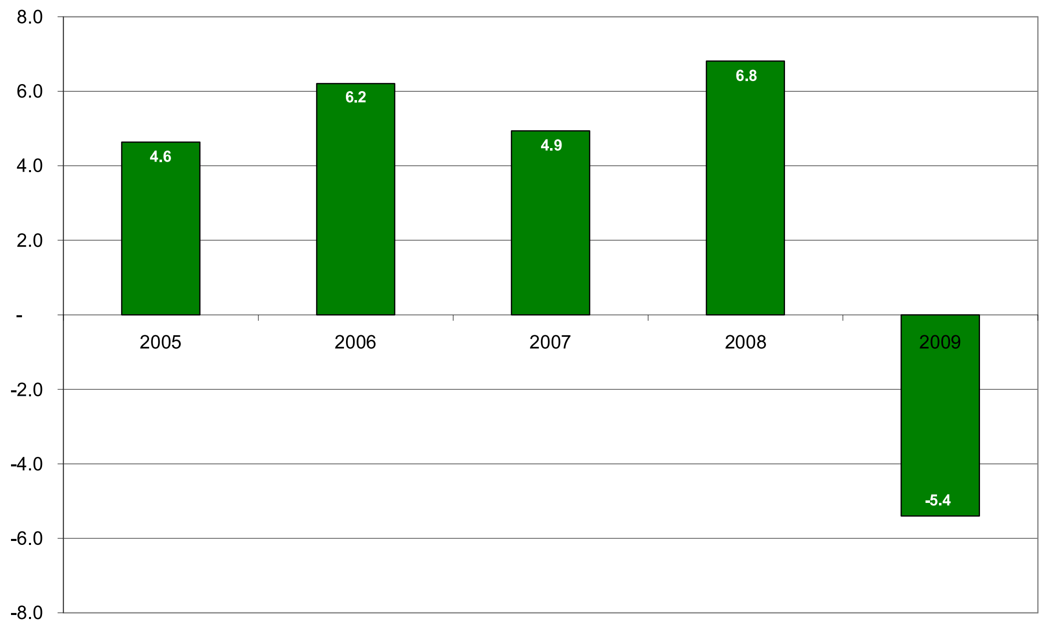
- Total deposits increased by $34.3 million or 12.0% over 2008
- In 2009, deposits increased by $33.6 million (17.5%) and $0.7 million (0.7%) in BON and BONI respectively
- At June 20, 2009, $226.0 million or 70.7% of the deposits were held in BON, while $93.6 million or 29.3% were held in BONI

GROUP FINANCIAL HIGHLIGHTS ...Cont'd

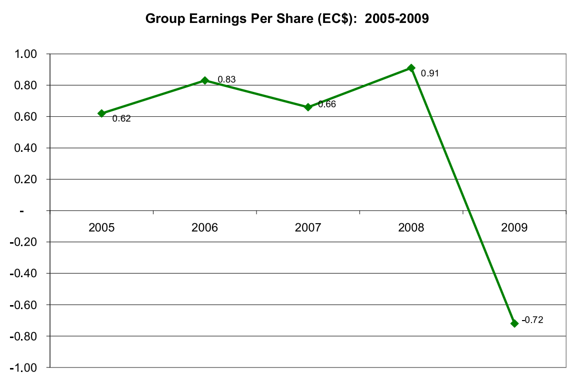
Expressed in Eastern Caribbean Dollars

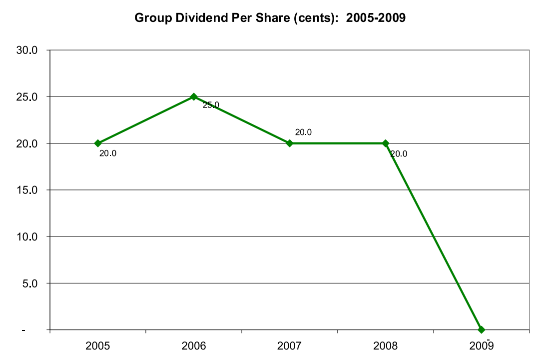
GROUP EARNINGS

Group Net Income (EC$M): 2005 - 2009



- Net loss for the year $5.4 million due primarily to $10.1 million impairment provision on fixed deposits
- Total interest income for 2009 is $22.9 million, an increase of $0.1 million or 0.5% over 2008
- Total operating expenses decreased by $0.9 million or 7.8% over 2008





GROUP FINANCIAL HIGHLIGHTS ...Cont'd

Expressed in Eastern Caribbean Dollars

SHAREHOLDINGS OF DIRECTORS AND RELATED PARTIES
JUNE 30, 2009

DIRECTOR	NUMBER OF SHARES HELD
Kishu Chandiramani	18,730
Janice Daniel-Hodge	20,000
Telbert Glasgow	2,370
Chris Morton	1,000
Richard Lupinacci	51,930
Desmond Herbert	163,455
Oral Martin	1,550
Sonya Parry	16,450
Lyra Richards	66,070
David Straz Jr.	1,495,630
TOTAL	**1,837,185**

SHAREHOLDINGS BY SIZE
JUNE 30, 2009

SIZE OF SHAREHOLDING	NUMBER OF SHAREHOLDERS	PERCENTAGE OF SHAREHOLDERS	TOTAL SHARES HELD	PERCENTAGE OF SHARES HELD
1 – 500	234	34.1	48,854	0.7
501 - 1,000	114	16.6	90,441	1.2
1,001 - 2,500	108	15.7	178,689	2.4
2,501 - 5,000	77	11.2	279,220	3.7
5,001 - 10,000	46	6.7	335,581	4.5
10,001 - 25,000	61	8.9	1,011,768	13.5
25,001 - 50,000	20	2.9	627,997	8.4
50,001 - 100,000	16	2.3	1,112,044	14.9
100,001 - 250,000	8	1.2	1,435,555	19.2
250,001 - 500,000	1	0.1	313,800	4.2
500,001 and above	2	0.3	2,044,201	27.3
TOTAL	**687**	**100.0**	**7,478,150**	**100.0**

Chairman's Remarks

Richard Lupinacci
Chairman

Since its establishment, The Bank of Nevis Limited has been embraced by all its stakeholders with trust and confidence and is now an integral part of the Nevisian heritage. The challenges of the last twelve months have threatened the progress made over the years with the adverse impact on the economy by the global financial crisis and the closure of the Four Seasons Resort due to damage from Hurricane Omar's storm surge. However, the Group was able to successfully navigate through these challenges to record an increase of 8.3 percent ($29.8 million) in the asset base. The main contributors to this increase were loans and advances and investments which grew by 19.6 percent ($29.2 million) and 15.4 percent ($11.6 million) respectively. The expansion in the asset base was financed mainly by deposit growth of 12 percent ($34.3 million). I believe that these are critical achievements.

The financial difficulties faced by the CL Financial Group, a regional conglomerate and parent company of British American Insurance Company Limited (BAICO), impacted negatively on the Group's results. Due to these financial challenges, on 31 July 2009, Judicial Managers were appointed by the Eastern Caribbean Supreme Court to review the operations of BAICO in the Eastern Caribbean Currency Union (ECCU). Based on the Judicial Managers' reports, the Bank's management decided to adopt the most prudent approach and record a 100 percent impairment provision for its investments with BAICO. The result of this provision is a Group pre-tax net loss of $4.2 million. The investments with BAICO were held by the subsidiary, Bank of Nevis International Limited and measures have been implemented to bolster the risk management techniques utilised by our Investment Department. Additionally, the Caribbean Information and Credit Rating Services Limited (CARICRIS) was engaged to conduct an independent assessment of the investment portfolios and policy frameworks of both the parent Bank and the subsidiary, and their recommendations are being implemented.

As I contemplate on the overall performance of the Group during the 2009 financial year, I am pleased with our efforts to empower our staff through training and certification. Through personal dedication, staff members completed supervisory and management courses, anti-money laundering and securities market certification. The training of staff in customer service, team building and management skills will enhance the leadership skills of our staff.

In keeping with our philosophy of rewarding academic excellence, we continue to present two awards annually to the students who achieve the best 'A' and 'O' Level results on Nevis. I am proud to report that the 2008 awardees not only achieved the best results on Nevis but also in the Federation of St Kitts and Nevis.

In the year ahead, we will continue our focus on corporate governance and concomitantly address issues of enterprise risk management. We will enhance our customer service and continue to observe international banking best practices to ensure that we achieve our vision of being the "preferred financial institution in the markets we serve."

The Directors continue to demonstrate commitment and dedication to the effective monitoring of the Bank's activities. Accordingly, I convey deepest gratitude to my fellow directors for their support during the year. I extend appreciation to our dedicated customers and to our loyal shareholders for their patronage and for their continued confidence in The Bank of Nevis Limited. Finally, I applaud management and staff for their dedication and will to succeed in challenging times.

RICHARD LUPINACCI
Chairman

CORPORATE GOVERNANCE

In April 2006, Corporate Governance Guidelines were issued by the Eastern Caribbean Central Bank (ECCB) as a guide to encouraging a governance framework that promotes among financial institutions, high standards of professional conduct, prudent and diligent discharge of duties, and compliance with applicable laws, regulations and guidelines. As per the Guidelines, corporate governance is defined as the processes, structures and information used for directing and overseeing the management of an institution. It encompasses the relationships and mechanisms utilised for achieving accountability between an institution's board of directors, management, shareholders and other stakeholders.

Board of Directors

The Board of Directors (the "Board") of The Bank of Nevis Limited (the "Bank") and its subsidiaries, is responsible for the governance of the Bank, and is committed to adhering to the highest standards of integrity, transparency and accountability, in order to achieve continued business growth, enhanced shareholder value and protection of the interests of customers, employees and other stakeholders. To achieve its stated goal, the Bank has adopted and is guided, inter alia, by the ECCB's 2006 Corporate Governance Guidelines.

Role of the Board

The Board provides guidance to the Bank within a framework of prudent and effective controls which enables risk to be assessed and managed. It employs strategic planning to ensure that the necessary financial and human resources are in place to enable attainment of its objectives. The Board is responsible for:

- Overseeing of the Bank including its control and accountability systems;
- Appointing and removing the executive;
- Formulating policy;
- Contributing to and approving management's development of corporate strategy and performance objectives;
- Reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- Monitoring senior management's performance and implementing strategy and ensuring appropriate resources are available.
- Approving and monitoring the progress of major capital expenditure and capital management.
- Approving and monitoring financial and other reporting;

Evaluation of the Board

The Board performs an annual review of its own performance and of individual Directors through a self assessment exercise. The process is intended to focus attention on among other things, specific areas for improvement in the governance of the Bank. The evaluation is conducted by the Bank's Internal Auditor and a summary of the evaluations is provided to Directors for discussion and implementation of recommendations for improvement.

Composition of the Board

The Board comprises 10 elected directors, eight non-independent directors and two independent directors, who govern the affairs of the Bank. It reviews the Bank's strategies, financial objectives, operating plans and plans for management succession. The Board meets every month and special meetings are held as required.

The names of the Directors, including details of their qualifications and experience are available on the Bank's website: **http://www.thebankofnevis.com**

CORPORATE GOVERNANCE ...Cont'd

Committees of the Board

In an effort to effectively allocate tasks and responsibilities, the Board has established committees with clearly defined objectives, authorities, responsibilities and tenure. These committees serve the Boards of the Bank and its subsidiary, Bank of Nevis International Limited. The committees are as follows:

Audit Committee

The Audit Committee is responsible for providing oversight of the Bank's operations, in particular:

- integrity of the Bank's financial reporting;
- internal controls over financial reporting and disclosure controls;
- performance of the Bank's internal audit function and the qualifications and independence of the Bank's Internal Auditor;
- qualifications, independence and performance of the external auditor;
- compliance with legal and regulatory requirements; and
- such other duties as the Board may from time to time delegate to it.

The Audit Committee comprises four members, including three directors and one independent non-director with the relevant financial expertise. The Committee meets at least quarterly and at such other times as may be necessary.

Members of the Audit Committee are as follows:

- Sonya Parry (Chairperson)
- Oral Martin
- Richard Lupinacci
- Kieron Pinard-Byrne (Independent Member)

Compensation Committee

The Compensation Committee is responsible for discharging the responsibilities of the Board relating to compensation of the Bank's officers and staff, specifically to:

- determine and recommend to the Board, the framework or broad policy for the remuneration of staff.
- review the ongoing appropriateness and relevance of the remuneration policy;
- approve the design of, and determine targets for, any performance related pay schemes operated by the Bank and make recommendations to the Board regarding the total annual payments made under such schemes;
- ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Bank, that failure is not rewarded and that the duty to mitigate loss is fully recognized.

The Compensation Committee comprises three members and meets at least quarterly and at such other times as may be necessary.

Members of the Compensation Committee are as follows:

- Janice Daniel-Hodge (Chairperson)
- Sonya Parry
- Dr. Telbert Glasgow

CORPORATE GOVERNANCE ...Cont'd

Credit Committee

The Credit Committee is responsible for:

- formulating the credit and lending strategies and objectives of the Bank
- overseeing the credit risk management of the Bank,
- reviewing internal credit policies and establishing portfolio limits; and
- reviewing the quality and performance of the Bank's credit portfolio.

The Credit Committee comprises five members and meets at least monthly and at such other times as may be necessary.

Members of the Credit Committee are as follows:

- Richard Lupinacci (Chairperson)
- Janice Daniel-Hodge
- Lyra Richards
- Dr. Telbert Glasgow
- Desmond Herbert

Risk Management Committee

The Risk Management Committee is charged with responsibility for:

- recommending the risk profile and risk appetite of the Bank, for approval by the Board;
- receiving and reviewing reports from management concerning the Bank's risk management strat egies;
- recommending and overseeing the process developed by management to identify principal risks, evaluating their potential impact, and implementing appropriate strategies to manage those risks;
- recommending principles, strategies, policies and processes for managing risk;
- receiving and reviewing reports from management regarding resolution of significant risk exposures and risk events;
- reviewing and monitoring the risk implications of new and emerging risks, organizational change, regulatory change and major initiatives; and
- providing a formal forum for communication between the Board and senior management;

The Risk Management Committee comprises five members and meets at least monthly and at such other times as may be necessary.

Members of the Risk Management Committee are as follows:

- Dr. Telbert Glasgow (Chairperson)
- Janice Daniel-Hodge
- Kishu Chandiramani
- Lyra Richards
- Oral Martin

The Bank also has a Building Committee and Strategic Action Planning Committee, the former meets on an ad hoc basis, and the latter meets annually.

DIRECTORS' REPORT

Your Directors are pleased to report on the performance of the Group for the year ended June 30, 2009.

FINANCIAL ANALYSIS

Income Before Taxation

The global financial environment experienced unprecedented changes during the financial year which impacted the local and regional financial landscape. Despite these changes, the Group's core business continues to grow in the key areas of loans and advances, investments and customer deposits. Additionally, the Group's operating expenses continue to trend downwards. The Group recorded a 100 percent impairment provision for the investments held by its subsidiary with British American Insurance Company Limited (BAICO) and this resulted in a Group pre-tax net loss of $4.2 million dollars.

Total interest income increased by 0.5% ($0.1 million) over 2008 to $22.9 million. This increase was associated with increases in interest income on loans and treasury bills as the Group continued to expand its loan portfolio and participated in treasury bills issues of the Nevis Island Administration. Interest expense increased significantly by 14.3% ($1.2 million) a reflection of the competitive environment in which the institution operates. Through our keen focus on cost containment, we reduced operating expenses by 7.8% ($0.9 million). This is a demonstration of management's sensitivity to the need to curtail expenditure.

Going forward, the Group will intensify its marketing efforts to be more competitive in the industry. We will also continue to adopt prudent risk management strategies that will facilitate timely responses to changes in the market so as to reduce potential losses.

Bank of Nevis International Ltd registered a pre-tax net loss of $7.0 million which was associated with the BAICO investments. Profit for the domestic bank exclusive of intercompany earnings improved by 62.5% ($1.1 million) over the prior year as its profitability continued to trend upwards.

Contribution to Pre-tax Income Before Inter-Company Earnings (EC $millions)

	2009	2008	2007	2006	2005
The Bank of Nevis Limited	2.8	1.7	1.5	1.4	1.4
Bank of Nevis International Limited	(7.0)	4.9	3.5	4.7	3.3

Comparison of Income and Expenses – The Bank of Nevis Limited (BON) & Bank of Nevis International Limited (BONI), excluding intercompany transactions

	BON EC$	BONI EC$
Loan interest income	14,255,383	681,958
Other interest income	2,673,599	5,267,500
Other income	3,098,896	539,148
Operating expenses	8,995,804	1,977,518

CREDIT DEPARTMENT

Despite a slowing in economic activity, the Group continued to expand its loan portfolio. The loan base grew by 19.6% ($29.2 million) over the previous year. Growth in the portfolio was reflected primarily in the retail area (residential mortgages and other consumer loans) which grew by 38.3% ($18.4 million).

We continue to strengthen the underwriting techniques utilised by staff and provide exposure to relevant training. During the year, the Group adopted more stringent loan requirements to contain the expansion of the non-performing loan portfolio. Accordingly, the ratio of non-performing loans to total loans declined from 9.0% in the previous year to 7.9% as at June 30, 2009. The ratio is above the Eastern Caribbean Central Bank's benchmark of 5% and we continue our efforts to reduce it to within the required level.

Changes in Loans and Advances

	2009 EC$M	2008 EC$M	Change EC$M
The Bank of Nevis Ltd			
Loans and advances (gross)	173.81	143.20	30.61
Less: Provision for loan impairment	(2.69)	(3.31)	0.62
Loans and advances (net)	171.12	139.89	31.23
Bank of Nevis International Ltd			
Loans and advances (gross)	7.62	9.60	(1.98)
Less: Provision for loan impairment	-	-	-
Loans and advances (net)	7.62	9.60	(1.98)

DEPOSITS

The customer deposit base exclusive of intercompany deposits, grew by 17.5% ($33.6 million) at The Bank of Nevis Limited (BON) and marginally by 0.7% ($0.7 million) at Bank of Nevis International Limited (BONI). Considering the slowing of the local economy during the year, the performance was outstanding. The marginal increase at BONI reflected the decline in the global economy.

Changes in Deposits

	2009 EC$M	2008 EC$M	Change EC$M
The Bank of Nevis Ltd			
Current	40.50	27.05	13.45
Savings	63.41	73.33	(9.92)
Time	119.79	90.16	29.63
Interest Payable	2.31	1.87	0.44
Total	226.01	192.41	33.60

Changes in Deposits

	2009 EC$M	2008 EC$M	Change EC$M
Bank of Nevis International Ltd			
Current	45.46	61.53	(16.07)
Savings	25.90	25.89	0.01
Time	21.96	5.41	16.55
Interest Payable	0.33	0.12	0.21
Total	93.65	92.95	0.70

HUMAN RESOURCE DEVELOPMENT

We continue to provide the relevant resources to facilitate the empowerment and leadership expertise of our employees. Our philosophy is that the sustained advancement of the institution cannot be achieved without investment in our employees. This year we focused on creating an environment in which staff can advance professionally by refining their skills. Below are some of the achievements for the year:

- Two employees graduated with diplomas in supervisory and management courses from the University of the West Indies and University of Leicester respectively.
- We continued to ensure that we enhance the expertise in our Compliance Department with another employee achieving the distinction of becoming a Certified Anti-Money Laundering Specialist (CAMS).
- A critical aspect of our strategic direction is to promote a culture of compliance within the organisation. Accordingly, we have established anti-money laundering cohorts geared towards the training of employees at all levels across the institution.
- Two additional staff members attended the securities training certification programme and have been granted Representative licences to operate on the Eastern Caribbean Securities Exchange.
- Employees at the supervisory and management levels were trained in customer service excellence and team building while staff members at other levels were exposed to sessions in managing conflict, promoting a development and results oriented culture and providing executive support.
- Several employees were exposed to training in credit risk management, treasury management and other core banking areas.
- We continue to support employees engaged in diploma, undergraduate, graduate and professional programmes to ensure that our staff are equipped with cutting edge practices so that the organisation can benefit from emerging opportunities.

CORPORATE SOCIAL RESPONSIBILITY

We believe that our commitment to corporate social responsibility is critical to the sustainability of the institution. Every year we assist with the growth and development of our community through the sponsorship of various events and donation to various charitable organisations.

SPORTS

The Bank of Nevis Limited is committed to the development of sports in St Kitts and Nevis. During the year, the Group partnered with former Nevisian cricketers who played for the West Indies cricket team to host The Bank of Nevis Limited Annual Summer Cricket Coaching Clinic. The Clinic is available to children ages 6 - 13 with emphasis on fundamental cricketing skills. Additionally, the Clinic exposes the children to other life enhancement skills including good nutrition, the importance of saving, safety while at play and anti-criminal behavior. The Group also donated to primary school sports, athletic groups and women's cricket.

Presentation of sponsorship cheque to former West Indies cricketer Carl Tuckett

Participants of the Summer Cricket Coaching Clinic

EDUCATIONAL DEVELOPMENT

The Group promotes educational development as part of its mandate to "Improve the Quality of Life" for customers. We continue to reward academic excellence through our annual awards for the best "A" and "O" level results and we were the proud sponsor of the Elocution Contest which was held to commemorate the Jocelyn Liburd Primary School's 30th Anniversary. In recognition of the importance of the hospitality industry to the island of Nevis, we made a donation towards the NICHE 2008 scholarship fund. This scholarship is used to assist Nevisian students studying for careers in the hotel and hospitality industry.

Presentation for Elocution Contest

Presentation to Niche

COMMUNITY OUTREACH

The Bank of Nevis Limited continued to demonstrate its corporate responsibility when it made a donation to the Ministry of Health to assist the Alexandra Hospital in purchasing a new ultra-sound machine. This machine is a critical piece of equipment for the hospital to provide preventative and diagnostic health care.

In support of the elderly in our community, we continue to provide donations to the Flamboyant Nursing Home. During December 2008, staff also visited the home to share the joys of Christmas by singing carols and distributing gift hampers.

To commemorate the Group's 23rd Anniversary, we made a special donation to the Pink Lily Breast Cancer Care Nevis Foundation's 50K200 Appeal. The donation will provide funding for five women to be screened for breast cancer. The Pink Lily Breast Cancer Care Nevis Foundation 50K200 Appeal is trying to raise EC$50,000 to provide free breast cancer screening for 200 women.

The Group continues to support the empowerment of women. Accordingly, we provided assistance with the hosting of the second Conference of Women Parliamentarians of the Caribbean, the Americas and the Atlantic Region of the Caribbean Parliamentary Association which was held in Nevis during the year.

Donation to Pink Lily Foundation

Veta Morton - Hospital Administrator making remarks at the Ultrasound equipment donation

CULTURAL DEVELOPMENT

During the year, the Group demonstrated its commitment to the development of culture by supporting Nevis' premier cultural festival, Culturama. Our sponsorship was granted to assist with the staging of the Mr. & Miss. Talented Youth Pageant.

Presentation for Cultrama

DIRECTORS' REPORT ...Cont'd

OPERATIONAL CHANGES

During the year, we continued to focus on enhancing our banking operations to improve efficiency. The following operational changes were implemented:

- The Group launched its redesigned website in April 2009. The new website is more user-friendly with enhanced navigation. We expect the new website to facilitate more efficient business relations and improve our service to the virtual customer. For the benefit of the customer, the new website features access to the B-Online Internet Banking, the daily foreign exchange rates and easy access to application forms for all products and services. Visitors to the site can also learn about the Group's history and obtain financial information on the institution.
- We continue to enhance technology to ensure the efficiency of the operations. During the year, we upgraded and enhanced our technology through the following:

Installations & Upgrades

- The yellow hammer compliance software to assist the Group in its anti-money laundering customer due diligence.
- Mail server which assists staff in scheduling meetings, planning and enhancing time management.
- An enhanced fire wall system installed to protect the Group's Information systems.
- Contingency Systems and upgrades for the main banking Software Core Director.

CHANGES IN DIRECTORSHIP

In March 2009, two new directors were elected to the Board. Mr Chris Morton and Mr Desmond Herbert respectively replaced one director retiring by rotation and Mr Spencer Howell, who resigned on 31 July 2008. We welcome them to the Board and look forward to their contribution to the development of the institution.

Mr Hanzel Manners who served as Chief Financial Officer of The Bank of Nevis Ltd for nine years and as an Executive Director as well as the first Chairman of the Board of Directors, retired by rotation. The Board expresses sincere appreciation to Mr Manners for his invaluable contribution and dedicated service to the Group.

BANK OF NEVIS INTERNATIONAL LTD

A Strategic Action Committee has been established to chart the way forward for the offshore subsidiary. Several companies have expressed an interest in establishing a strategic partnership but their objectives were not aligned with the strategic business direction of Bank of Nevis International Limited. Going forward, the Committee will continue to focus on the strategic direction of the company.

CONSTRUCTION OF NEW BANKING PREMISES

The employment of a Project Manager assisted in advancing the project during the year. The drawings have been finalised and approved by the relevant authorities. Efforts are now focused on arranging financing for the project.

CONCLUSION

The Directors recognise the continued dedication of the staff towards "Providing Financial Security in Challenging Times" for our customers. We thank all of our stakeholders for their support and continued trust and confidence in the institution over the years.

By order of the Board

A Knights.

AIANDRA KNIGHTS
SECRETARY

The Bank of Nevis Limited

Consolidated Financial Statements
JUNE 30, 2009
(expressed in Eastern Caribbean dollars)

PRICEWATERHOUSECOOPERS

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P.O. Box 1038
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St. Kitts, West Indies
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Independent Auditors' Report

To the Shareholders of
The Bank of Nevis Limited

We have audited the accompanying consolidated financial statements of **The Bank of Nevis Limited**, which comprise the consolidated balance sheet as of June 30, 2009, and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of **The Bank of Nevis Limited** as of June 30, 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
December 11, 2009
Basseterre, St. Kitts

CONSOLIDATED BALANCE SHEET

As of June 30, 2009
(expressed in Eastern Caribbean dollars)

	2009 $	Restated 2008 $
Assets		
Cash and balances due from banks and other financial institutions (note 6)	**100,463,687**	111,344,389
Investment securities (note 7)	**86,393,530**	74,838,387
Loans and advances (note 8)	**178,736,729**	149,494,786
Other assets (note 9)	**5,298,694**	5,198,611
Property, plant and equipment (note 10)	**16,764,588**	16,920,938
Intangible assets (note 11)	**382,403**	398,840
Total assets	**388,039,631**	358,195,951
Liabilities		
Customers' deposits (note 12)	**319,652,000**	285,322,693
Loan payable (note 13)	**15,312,605**	7,168,520
Other liabilities and accrued expenses (note 14)	**8,636,264**	14,295,369
Provision for income tax (note 15)	**851,424**	382,237
Deferred tax (note 15)	**265,063**	-
Total liabilities	**344,717,356**	307,168,819
Shareholders' Equity		
Share capital (note 16)	**7,478,150**	7,478,150
Revaluation reserves (note 17)	**9,619,680**	10,425,454
Other reserves (note 18)	**12,380,088**	11,218,941
Retained earnings	**13,844,357**	21,904,587
Total shareholders' equity	**43,322,275**	51,027,132
Total liabilities and shareholders' equity	**388,039,631**	358,195,951

The notes on pages 28 to 94 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on December 4, 2009

Richard S Lupinacci Chairman ______ Director

CONSOLIDATED STATEMENT OF INCOME

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

	2009 $	Restated 2008 $
Interest income (note 19)	**22,878,440**	22,754,559
Interest expense (note 20)	**(9,794,753)**	(8,570,375)
Net interest income	**13,083,687**	14,184,184
Realised (loss)/gain from investment securities (note 7)	**(1,353)**	181,249
Reversal of/(impairment loss) on available-for-sale investment securities (note 7)	**179,373**	(179,373)
Impairment provision on fixed deposits (note 6)	**(10,145,991)**	–
Impairment loss on building (note 10)	**-**	(571,312)
Other operating income (note 21)	**3,638,046**	4,945,732
Operating income	**6,753,762**	18,560,480
Operating expenses		
General and administrative expenses (note 27)	**9,736,325**	9,808,210
(Recoveries) / Provision for loan impairment, net of recoveries (note 8)	**(405,420)**	217,817
Directors' fees and expenses	**504,710**	666,186
Audit fees	**411,603**	355,000
Depreciation (note 10)	**366,918**	385,833
Amortisation (note 11)	**194,898**	213,807
Correspondent bank charges	**189,919**	281,339
	10,998,953	11,928,192
Operating (loss)/income for the year before taxation	**(4,245,191)**	6,632,288
Taxation (note 15)		
Current tax expense	**888,716**	345,907
Prior year tax expense	**589**	2,164
Deferred tax expense/(credit)	**268,957**	(526,655)
Income tax expense/(credit)	**1,158,262**	(178,584)
Net (loss)/income for the year	**(5,403,453)**	6,810,872
(Loss)/Earnings per share (note 23)	**(0.72)**	0.91

The notes on pages 28 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

	Share capital $	Revaluation reserve - available for sale investments $	Revaluation reserve - property $	Other reserves $	Retained earnings $	Total $
Balance, June 30, 2007	7,478,150	(407,315)	1,586,632	10,162,765	17,645,521	36,465,753
Net income for the year	–	–	–	–	6,810,872	6,810,872
Dividend (note 25)	–	–	–	–	(1,495,630)	(1,495,630)
Appreciation in market value of land and buildings	–	–	9,068,696	–	–	9,068,696
Reserve for loan impairment (note 18)	–	–	–	(1,022,703)	1,022,703	–
Transfer of net losses (net of tax) (note 17)	–	43,829	–	–	–	43,829
Appreciation in market value of investment securities (net of tax) (note 17)	–	133,612	–	–	–	133,612
Reserve for interest on non-performing loans (note 18)	–	–	–	1,612,498	(1,612,498)	–
Transfer to reserve fund (note 18)	–	–	–	466,381	(466,381)	–
Balance, June 30, 2008	7,478,150	(229,874)	10,655,328	11,218,941	21,904,587	51,027,132
Net loss for the year	–	–	–	–	(5,403,453)	(5,403,453)
Dividend (note 25)	–	–	–	–	(1,495,630)	(1,495,630)
Reserve for loan impairment (note 18)	–	–	–	377,760	(377,760)	–
Reversal of previously recognised impairment loss (note 17)	–	179,373	–	–	–	179,373
Transfer of net gains to income (note 17)	–	(1,353)	–	–	–	(1,353)
Depreciation in market value of investment securities (net of tax) (note 17)	–	(983,794)	–	–	–	(983,794)
Reserve for interest on non-performing loans (note 18)	–	–	–	783,387	(783,387)	–
Balance, June 30, 2009	**7,478,150**	**(1,035,648)**	**10,655,328**	**12,380,088**	**13,844,357**	**43,322,275**

The notes on pages 28 to 94 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

	2009 $	Restated 2008 $
Cash flows from operating activities		
Operating (loss)/income for the year before taxation	**(4,245,191)**	6,632,288
Items not affecting cash:		
Realised loss/(gain) on available for sale investments	**1,353**	(181,249)
(Recovery of)/Provision for loan impairment	**(405,420)**	217,817
Depreciation	**366,918**	385,833
Amortisation	**194,898**	213,807
(Reversal of)/Impairment loss on available-for-sale investment securities	**(179,373)**	179,373
Impairment provision on fixed deposits	**10,145,991**	–
Impairment loss property, plant and equipment	**-**	571,312
Interest income	**(22,878,440)**	(22,754,559)
Interest expense	**9,794,753**	8,570,375
Cash flows from operating income before changes in operating assets and liabilities	**(7,204,511)**	(6,165,003)
Changes in operating assets and liabilities		
Decrease in restricted fixed deposits	**-**	6,198,273
Increase in deposits held for regulatory purposes	**(13,023,165)**	(1,597,585)
Increase in loans and advances	**(27,810,697)**	(10,638,216)
Increase in other assets	**(125,445)**	(28,162)
Increase in customer deposits	**33,684,817**	31,944,026
Decrease in other liabilities and accrued expenses	**(5,659,105)**	(588,630)
Cash (used in)/from operations	**(20,138,106)**	19,124,703
Interest paid	**(8,738,199)**	(8,649,656)
Interest received	**21,664,589**	20,397,305
Income tax paid, net of refunds	**(420,118)**	(127,233)
Net cash (used in)/from operating activities	**(7,631,834)**	30,745,119
Cash flows from investing activities		
Purchase of property, plant and equipment	**(210,568)**	(460,507)
Purchase of intangible assets	**(178,461)**	(335,997)
Increase in other marketable securities	**(2,694,900)**	-
(Increase)/decrease in investment securities	**(4,622,005)**	14,498,955
Increase in fixed deposits	**(9,309,807)**	(20,481,240)
Net cash used in investing activities	**(17,015,741)**	(6,778,789)

The notes on pages 28 to 94 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS … Cont'd

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

	2009 $	2008 $
Cash flows used in financing activities		
Redemption of redeemable shares	**–**	(220,346)
Increase in loan payable	**7,732,021**	7,094,254
Dividends paid	**(1,495,630)**	(1,495,630)
Net cash from financing activities	**6,236,391**	5,378,278
(Decrease)/increase in cash and cash equivalents	**(18,411,184)**	29,344,608
Cash and cash equivalents, beginning of year	**109,201,726**	79,857,118
Cash and cash equivalents, end of year (note 26)	**90,790,542**	109,201,726

The notes on pages 28 to 94 are an integral part of these consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

1 Incorporation and principal activity

The Bank of Nevis Limited (the "Bank") is a public company incorporated on August 29, 1985 under the laws of the Federation of St. Christopher and Nevis. It is licensed to conduct banking activities under the Banking Act No. 4 of 2004 of St. Christopher and Nevis.

In July 1998, the Bank's offshore activities and operations were transferred into a newly formed subsidiary company, Bank of Nevis International Limited which is licensed to carry on the business of Offshore Banking as contemplated by the Nevis Offshore Banking Ordinance No. 1 of 1996.

On July 29, 2004 the Bank of Nevis International Fund Limited was incorporated. The Fund is an open-ended public mutual fund approved to be registered under the Nevis International Mutual Fund Ordinance, 2004. It commenced operations on February 9, 2005. The Fund ceased operations on January 31, 2008.

On July 29, 2004, the Bank of Nevis International Fund Managers Limited was incorporated in Nevis in accordance with the Nevis Business Corporation Ordinance, 1984 as amended and is a licensed and regulated investment manager under the Nevis International Mutual Fund Ordinance, 2004. The company is the investment manager for its related Fund – Bank of Nevis International Fund Limited, and manages the investment activities of the Fund.

On February 3, 2005, the Bank of Nevis Mutual Fund Limited was incorporated. The Fund is an open-ended public investment fund approved to be registered under the Securities Act 2001 of St. Kitts and Nevis. The Fund has not yet commenced its mutual fund activities.

On April 25, 2005, the Bank of Nevis Fund Managers Limited was incorporated under the laws of the Federation of St. Christopher and Nevis, through the Companies Ordinance 1999 of St. Kitts and Nevis. The company will be engaged to provide investment management service to its related Fund – Bank of Nevis Mutual Fund Limited – when the Fund commences its mutual fund activities.

The Bank's shares are listed on the Eastern Caribbean Securities Exchange (ECSE).

2 Significant accounting policies

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

a) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, as modified by the revaluation of land and buildings and available-for-sale investment securities.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

a) Basis of preparation ... *continued*

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Banks' accounting periods beginning on or after July 1, 2009 or later periods, but the Bank has not early adopted them:

- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Bank will apply IFRS 8 from July 1, 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting.

- IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Bank will apply IAS 1 (Revised) from July 1, 2009.

- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Bank will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from July 1, 2009.

- IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Bank will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from July 1, 2009.

- IAS 38 (Amendment), 'Intangible assets'(effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

a) Basis of preparation ... *continued*

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

A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Bank will apply the IAS 38 (Amendment) from July 1, 2009.

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

  - This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  - The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  - The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity.

  - When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used.

The Bank will apply the IAS 39 (Amendment) from July 1, 2009. It is not expected to have an impact on the Bank's statement of income.

- IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Bank will apply the IAS 39 (Amendment) from July 1, 2009. It is not expected to have an impact on the Bank's financial statements.

- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Bank's accounts and have therefore not been analysed in detail.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

b) Basis of consolidation

The consolidated financial statements include the accounts of the Bank and its subsidiaries: Bank of Nevis International Limited and subsidiaries, Bank of Nevis Mutual Fund Limited and Bank of Nevis Fund Managers Limited. Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date that control ceases.

c) Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand, non-mandatory deposits with the Central Bank and other banks, treasury bills and other eligible bills, short-term funds and investments with original maturities of less than or equal to 90 days.

e) Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables and available-for-sale securities. Management determines the classification of its investments at the time of initial recognition.

(a) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and advances to customers are carried at amortized cost using the effective interest method.

(b) Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

e) Financial assets...*continued*

(b) Available-for-sale…….continued

Purchases and sales of available-for-sale financial assets are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. However, unimpaired equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. However, interest calculated using the effective interest method is recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in the statement of income when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices.

f) Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

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

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

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

f) Impairment of financial assets...*continued*

a) assets carried at amortised cost…continued

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
– adverse changes in the payment status of borrowers in the group; or
– national or local economic conditions that correlate with defaults on the assets in the group.

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

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, The Bank may measure impairment on the basis of an instruments' fair value using an observable market price.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

f) Impairment of financial assets ... *continued*

a) assets carried at amortised cost…continued

Estimates of changes in future cash flows for group of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of income.

Statutory and other regulatory loan reserve requirements that exceed these amounts are dealt with in other reserves as an appropriation of retained earnings.

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

(b) Assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income.

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

g) Offsetting financial instruments

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

h) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value for money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an expense.

i) Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost or valuation, less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method at rates considered appropriate to write-off the cost of an asset to its residual value over the estimated useful life of the asset at the following annual rates:

Buildings	2.5%
Furniture and fixtures	15%
Equipment	15%
Computer equipment	20%

Land is not depreciated.

Property, plant and equipment are periodically reviewed for impairment. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Revaluations of property are carried out every 3 – 5 years based on independent valuations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

j) Intangible assets

Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

k) Interest income and expense and revenue recognition

Interest income and expenses are recognised in the statement of income for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

l) Fees and commissions income and revenue recognition

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan.

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

m) Dividend income

Dividends are recognized in the statement of income when the entity's right to receive payment is established.

n) Dividends on ordinary shares

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...

o) Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the "functional currency"). The financial statements are presented in Eastern Caribbean dollars, which is the Bank's functional and presentation currency.

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the closing rates of exchange prevailing at the balance sheet date. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

p) Pension costs

The Bank's contributions to the defined contribution pension plan are charged to the statement of income in the period to which the contributions relate.

q) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

The principal temporary differences arise from the depreciation of property, plant and equipment and the revaluation of certain financial assets and liabilities.

Income tax payable on profits, based on the applicable tax law is recognised as an expense in the period in which profits arise. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax related to fair value re-measurements of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of income together with the deferred gain or loss.

r) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

s) Share Capital

Ordinary shares are classified as equity.

t) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

u) Prior period adjustment

Prepaid employee benefit
During the year, the Bank corrected the manner in which it accounted for the benefit given to its employees as a result of staff loans issued at preferential interest rates. In the prior years, this benefit was not recorded. The benefit is now recorded as an increase in other assets and a corresponding increase in other liabilities and accrued expenses. The interest income is increased for the amount that would have been recognised if the loans were issued at market rates, with a corresponding increase to the staff costs. As a result the comparatives have been restated. The effect has been tabulated below. Other assets and liabilities have both increased by $569,302. Interest income and staff costs have both increased by $68,256.

There was no impact on the statement of changes in equity or the opening retained earnings as a result of the correction of the error. There was no cash flow impact as a result of the restatement other than the consequential adjustments arising as a result of restatement of the comparative balances as at June 30, 2008.

	As previously stated 2008 $	As restated 2008 $	Restatement 2008 $
Effect on Balance Sheet			
Other assets	4,629,309	5,198,611	569,302
Other liabilities and accrued expenses	13,726,067	14,295,369	569,302
Effect on Statement of Income			
Interest income on loans	14,646,519	14,714,775	68,256
Staff costs	5,927,746	5,996,002	68,256

3 Financial risk management

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

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

Risk management is carried out by the Credit and Risk Management committees under policies approved by the Board of Directors. These committees identify, evaluate and hedge financial risks in close co- operation with the Bank's operating units. The Board provides written policies for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non derivative financial instruments. In addition, the Internal Audit Department is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business. Management, therefore, carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in the Bank's Investment, Credit and Asset and Liability Committees, and reported to the Board of Directors and Audit Committee regularly.

3.1.1 Credit risk management

(a) Loans and advances
The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed based on the Eastern Caribbean Central Bank's guidelines. Customers of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The ratings tools are kept under review and upgraded as necessary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.1.1 Credit risk management . . . *continued*

(a) Loans and advances . . . continued

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

(b) Debt securities and other bills
The Bank's portfolio of debt securities and other bills consists of St Kitts and Nevis Federal Government, and Nevis Island Government ninety one day treasury bills, and other debt obligations by regional banking and non banking financial institutions, all of which are unrated. The Bank assesses the risk of default on these obligations by regularly monitoring the performance of the Federal Government, and the Nevis Island Government, through published government data, information received directly from government departments and information published by international agencies such as the International Monetary Fund (IMF) and the World Bank. The risk of default on regional corporate debt is assessed by continuous monitoring of the performance of these companies through published financial information, and other data gleaned from various sources.

3.1.2. Risk limit control and mitigation policies

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to regular review by the Board of Directors.

The exposure to any one borrower, including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored.

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

3 Financial risk management . . . *continued*

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

The following specific control and mitigation measures are also utilised:

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

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

Longer-term finance and lending to corporate entities are generally secured; individual credit facilities are generally secured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counter party as soon as there are impairment indicators for the relevant individual loans and advances.

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

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter term commitments.

3.1.3 Impairment and provision policies

The internal rating system described in Note 3.1.1 focuses more on credit quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on the objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.1.3 Impairment and provision policies . . . *continued*

The impairment provision shown in the balance sheet at year end is derived from each of the five rating grades. However, the majority of the impairment provision comes from the doubtful and loss grades. The table below shows the percentage of the Bank's on- and off- balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's rating	Loans and advances (%)	2009 Impairment provision (%)	Loans and advances (%)	2008 Impairment provision (%)
Pass	88.4	–	80.7	–
Special mention	3.7	3.9	9.9	–
Sub standard	5.2	18.4	5.6	14.8
Doubtful	2.4	52.2	3.3	69.0
Loss	0.3	25.5	0.5	16.2
Total	**100.0**	**100.0**	**100.0**	**100.0**

The internal rating tools assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experienced by the borrower (eg. Equity ratio, net income percentage of sales)
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case by case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

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

	2009 $	2008 $
Credit risk exposures relating to on-balance sheet assets:		
Deposits with other banks	**49,677,438**	48,104,042
Deposits with non bank financial institutions	**23,472,119**	49,742,452
Investments securities:		
– Treasury bills and other eligible bills	**43,453,363**	35,266,200
– Bonds and other debt instruments	**7,065,298**	2,360,422
– Available for sale investments – unquoted	**3,224,482**	3,224,482
– Available for sale investments – quoted	**17,337,782**	26,818,763
– Pledged assets	**15,312,605**	7,168,520
Loans and advances	**178,736,729**	149,494,786
Other assets	**5,298,694**	5,198,611
Pledged assets	**808,470**	808,470
	344,386,980	328,186,748
Credit exposures relating to off-balance sheet items:		
– Financial guarantees	**231,715**	–
– Capital commitments	**308,640**	–
– Loan commitments and other credit related facilities	**23,192,489**	32,341,964
Total	**368,119,824**	**360,528,712**

The above table represents a worse case scenario of credit exposure to the Bank at June 30, 2009 and 2008, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 48.6% of the total maximum exposure is derived from loans and advances (2008: 41.5%) and 23.5% represents investment in securities (2008: 20.7%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and investment securities, based on the following:

- 92.1% of the loans and advances portfolio is categorized in the top two grades of the internal rating system (2008: 90.6%).
- 99.9% of loans and advances, which represent the biggest group in the portfolio, are backed by collateral. (2008: 99.8%).
- 88.9% of the loans and advances portfolio are considered to be neither past due nor impaired (2008: 87.3%).
- 9.5% of loans and advances are considered impaired (2008: 10.4%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements . . . *continued*

- The impairment provision on the balance sheet decreased during the year to $2.7 million, a decrease of 18.6% over the previous year ($3.3 million).
- The Bank has introduced a more stringent selection process upon granting loans and advances.
- 52.2% (2008: 30.1%) of the investment portfolio is held in the overseas markets, including the United States of America, and consist of rated securities. 47.8% (2008: 69.9%) is held in regional (Caribbean) banks and other business organisations, which carry no official rating.

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2009 Loans and advances to customers $	2009 Loans and advances to financial institutions $	2008 Loans and advances to customers $	2008 Loans and advances to financial institutions $
Neither past due nor impaired	149,132,917	9,821,285	121,940,078	8,645,898
Past due but not impaired	5,572,306	–	6,694,885	–
Impaired	16,906,681	–	15,525,884	–
Gross	**171,611,904**	**9,821,285**	**144,160,847**	**8,645,898**
Less: allowance for impairment	(2,696,460)	–	(3,311,959)	–
Net	**168,915,444**	**9,821,285**	**140,848,888**	**8,645,898**

The total impairment provision for loans and advances is $2,696,460 (2008: $3,311,959) of which $1,779,587 (2008: $2,876,824) represents the individually impaired loans, and the remaining amount of $916,873 (2008: $435,135) represents the portfolio provision. Further information on the impairment provision for loans and advances to banks and to customers is provided in Note 8.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
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3 Financial risk management . . . *continued*

3.1.5 Loans and advances . . . *continued*

(a) Loans and advances neither past due nor impaired
The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

As at June 30, 2009

	Overdraft	Personal	Commercial	Public Sector	Total
	$	$	$	$	$
Grades:					
Pass	15,598,159	62,082,748	32,888,815	46,720,632	157,290,354
Special mention	1,663,848	–	–	–	1,663,848
Substandard	–	–	–	–	–
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	**17,262,007**	**62,082,748**	**32,888,815**	**46,720,632**	**158,954,202**

As at June 30, 2008

	Overdraft	Personal	Commercial	Public Sector	Total
	$	$	$	$	$
Grades:					
Pass	2,565,373	40,553,429	28,567,502	47,668,238	119,354,542
Special mention	11,231,434	–	–	–	11,231,434
Substandard	–	–	–	–	–
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	**13,796,807**	**40,553,429**	**28,567,502**	**47,668,238**	**130,585,976**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.1.5 Loans and advances . . . *continued*

(b)Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary. Gross amounts of loans and advances by class to customers that were past due but not impaired were as follows:

As at June 30, 2009	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Past due up to 30 days	–	1,934,923	989,851	–	2,924,774
Past due 30-60 days	–	1,236,705	106,327	–	1,343,032
Past due 60-90 days	–	999,192	305,308	–	1,304,500
Total	**–**	**4,170,820**	**1,401,486**	**–**	**5,572,306**

As at June 30, 2008	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Past due up to 30 days	–	1,602,689	1,018,822	–	2,621,511
Past due 30-60 days	–	525,017	660,330	–	1,185,347
Past due 60-90 days	–	2,073,473	814,554	–	2,888,027
Total	**–**	**4,201,179**	**2,493,706**	**–**	**6,694,885**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.1.5 Loans and advances . . . *continued*

(c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security is as follows:

As at June 30, 2009

	Overdraft	Personal	Commercial	Public Sector	Total
	$	$	$	$	$
Individually impaired loans	1,020,902	6,680,721	9,205,058	–	16,906,681
	1,020,902	**6,680,721**	**9,205,058**	**–**	**16,906,681**
Fair value of collateral	**423,512**	**15,720,745**	**30,608,892**	**–**	**46,753,149**

As at June 30, 2008

	Overdraft	Personal	Commercial	Public Sector	Total
	$	$	$	$	$
Individually impaired loans	1,481,440	6,726,580	7,317,864	–	15,525,884
	1,481,440	**6,726,580**	**7,317,864**	**–**	**15,525,884**
Fair value of collateral	**857,765**	**15,314,112**	**21,380,680**	**–**	**37,552,557**

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $14,111,350 (2008: $13,441,928).

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferred payments. Following restructuring, a previously overdue account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators of criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled $639,298 at June 30, 2009 (2008: $200,542).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.1.6 Debt securities, treasury bills and other eligible bills

The table below represents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at June 30, 2009, based on Standard & Poor's rating or equivalent:

	Treasury bills $	Bonds and other debt instruments $	Available for sale $	Total $
AAA	–	–	5,395,241	5,395,241
Aa1—Baa3	–	–	13,565,531	13,565,531
Lower than Baa3	–	–	4,879,680	4,879,680
Unrated	43,453,364	7,065,298	12,034,416	62,553,078
Total	**43,453,364**	**7,065,298**	**35,874,868**	**86,393,530**

3.1.7 Repossessed collateral

The Bank took no possession of collateral during the years ended June 30, 2009 and 2008.

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.1.8. Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as at June 30, 2008 and 2009. For all classes of assets, except loans, the Bank has allocated exposures to regions based on country of domicile of the counterparties. Allocation of loans is based on the domicile where the loan project and related collateral are located.

	St. Christopher & Nevis $	Other Caribbean $	North America $	Europe $	Total $
Credit risk exposures relating to on-balance sheet assets:					
Deposits with other banks	2,332,771	36,380,888	3,052,301	7,911,478	**49,677,438**
Deposits with non bank financial institutions	206,438	21,525,797	1,739,884	–	**23,472,119**
Investment securities:					
– Treasury bills and other eligible bills	43,453,363	–	–	–	**43,453,363**
– Bonds and other debt instruments	150,000	6,915,298	–	–	**7,065,298**
– Available for sale investments – unquoted	173,566	3,050,916	–	–	**3,224,482**
– Available for sale investments – quoted	8,809,935	2,357,100	6,170,747	–	**17,337,782**
– Pledged assets	–	–	15,312,605	–	**15,312,605**
Loans and advances	178,520,341	–	216,388	–	**178,736,729**
Other assets	1,920,545	–	3,378,149	–	**5,298,694**
Pledged assets	808,470	–	–	–	**808,470**
	236,375,429	70,229,999	29,870,074	7,911,478	**344,386,980**
Credit exposures relating to off balance sheet items:					
Financial guarantees	231,715	–	–	–	231,715
Capital commitment	308,640	–	–	–	308,640
Loan commitments and other credit related facilities	21,361,588	–	1,830,901	–	23,192,489
As at June 30, 2009	**258,277,372**	**70,229,999**	**31,700,975**	**7,911,478**	**368,119,824**
As at June 30, 2008	**231,219,145**	**80,995,197**	**32,897,893**	**15,416,477**	**360,528,712**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.1.8 Concentration of risks of financial assets with credit risk exposure . . . *continued*

Economic risk concentrations within the customer loan portfolio were as follows:

	2009		2008	
	$	**%**	**$**	**%**
Personal	66,343,903	36.5	47,967,329	31.4
Commercial	28,495,641	15.7	25,238,075	16.5
Public sector	58,950,234	32.5	58,297,172	38.2
Investment	15,033,672	8.3	10,889,639	7.1
Land	6,865,565	3.8	3,939,720	2.6
Agricultural/manufacturing	1,036,780	0.6	1,686,332	1.1
Educational	1,531,301	0.8	1,698,171	1.1
Professional	857,848	0.5	687,436	0.4
Credit card advances	2,318,245	1.3	2,402,871	1.6
Total	**181,433,189**	**100.0**	**152,806,745**	**100.0**

3.2 Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value of cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading portfolios are monitored by the Investment Committee and management. Regular reports are submitted to the Board of Directors and department heads.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held to maturity and available-for-sale investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.2.1 Price risk

The Bank is exposed to equity securities price risk because of equity investments held by the Bank and classified in the balance sheet either as available-for-sale or at fair value through profit and loss. The Bank's portfolio includes securities that are quoted on the Eastern Caribbean Securities Exchange, and its exposure to equity securities price risk is minimal because the total of these securities is insignificant in relation to its balance sheet and because of the limited volatility in this market. The Bank does not hold equity securities that are quoted on the world's major securities markets. The Bank is not exposed to commodity price risk.

If market rates at June 30, 2009 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $3,575 lower/ higher as a result of the increase/decrease in the fair value of available-for-sale investment securities.

3.2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The Bank's exposure to currency risk is not excessive since most of its assets and liabilities in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.7 =US$1.00 since 1974. The following table summarises the Bank's exposure to foreign currency exchange risk at June 30, 2009. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.2.2 Foreign exchange risk . . . *continued*

	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
As at June 30, 2009							
Assets							
Cash and balances with the Central Bank	25,724,893	248,591	123,844	373,969	19,748	14,615	**26,505,660**
Deposits with banks	9,145,912	33,709,937	1,932,396	4,386,579	430,356	72,258	**49,677,438**
Deposits with non-bank financial institutions	202,296	15,852,197	4,150,111	3,267,515	–	–	**23,472,119**
Investment securities:							
– Treasury bills and other eligible bills	37,210,365	6,242,998	–	–	–	–	**43,453,363**
– Bonds and other debt instruments	150,000	6,915,298	–	–	–	–	**7,065,298**
– Available for sale investments- unquoted	173,566	3,050,916	–	–	–	–	**3,224,482**
– Available for sale investments- quoted	3,771,410	13,566,372	–	–	–	–	**17,337,782**
– Pledged assets	–	15,312,605	–	–	–	–	**15,312,605**
Loans and advances	154,782,019	23,954,710	–	–	–	–	**178,736,729**
Other assets	1,466,692	3,772,614	–	58,522	866	–	**5,298,694**
Pledged assets	–	808,470	–	–	–	–	**808,470**
Total financial assets	**232,627,153**	**123,434,708**	**6,206,351**	**8,086,585**	**450,970**	**86,873**	**370,892,640**
Liabilities							
Customer deposits	191,316,513	125,358,649	616,970	2,267,818	92,050	–	**319,652,000**
Loan payable	-	15,312,605	–	–	–	–	**15,312,605**
Other liabilities and accrued expenses	4,073,977	4,562,287	–	–	–	–	**8,636,264**
Income tax payable	851,424	–	–	–	–	–	**851,424**
Deferred tax payable	265,063	–	–	–	–	–	**265,063**
Total financial liabilities	**196,506,977**	**145,233,541**	**616,970**	**2,267,818**	**92,050**	**–**	**344,717,356**
Net on-balance sheet position	**36,120,176**	**(21,798,833)**	**5,589,381**	**5,818,767**	**358,920**	**86,873**	**26,175,284**
Credit commitments	**16,465,618**	**7,267,226**	**–**	**–**	**–**	**–**	**23,732,844**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.2.2 Foreign exchange risk . . . *continued*

	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
As at June 30, 2008							
Total financial assets	209,155,362	119,172,371	7,073,057	5,279,786	133,980	61,617	340,876,173
Total financial liabilities	159,698,529	144,108,256	1,314,198	1,947,626	100,210	–	307,168,819
Net on-balance sheet position	**49,456,833**	**(24,935,885)**	**5,758,859**	**3,332,160**	**33,770**	**61,617**	**33,707,354**
Credit commitments	**19,812,016**	**12,529,948**	**–**	**–**	**–**	**–**	**32,341,964**

If at June 30, 2009, the Eastern Caribbean dollar had weakened /strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been $558,935 (2008: $575,886) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro denominated loans and receivables and foreign exchange losses/gains on translation of customer deposits denominated in Euro.

The contribution to profit before taxation of foreign exchange gains/losses on assets and liabilities held in Euro currency in 2009 is a loss of $359,102 (2008: gain of $513,777).

The Bank holds no Euro denominated available-for-sale investment securities. Hence, there would have been no impact on equity if the Eastern Caribbean Dollar had weakened/strengthened against the Euro at June 30, 2009.

If at June 30, 2009, the Eastern Caribbean dollar had weakened/strengthened by 10% against the Pound Sterling with all other variables held constant, post-tax profit for the year would have been $581,866 (2008: $327,363) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Pounds Sterling denominated loans and receivables, and foreign exchange losses/gains on translation of customer deposits denominated in Pounds Sterling.

The contribution of profit before taxation of foreign exchange gains/losses is on assets and liabilities held in Pound Sterling resulted is an exchange loss of $463,151 (2008: gain of $183,180).

Because the Bank holds no Pounds Sterling denominated available-for-sale investment securities, there would have been no impact on equity, if the Eastern Caribbean dollar had weakened/strengthened against the Pound Sterling at June 30, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.2.2 Foreign exchange risk . . . *continued*

If at June 30, 2009, the Eastern Caribbean dollar had weakened /strengthened by 10% against the Canadian dollar with all other variables held constant, post-tax profit for the year would have been $45,097 (2008:$ 13,309) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Canadian dollar denominated loans and receivables and foreign exchange losses/gains on translation of customer deposits denominated in Canadian dollars.

The contribution to profit before taxation of foreign exchange gains on assets and liabilities held in Canadian currency in 2009 is a gain of $33,574 (2008: $41,614).

Because the Bank holds no Canadian dollar denominated available-for-sale investment securities, there would have been no impact on equity, if the Eastern Caribbean dollar had weakened/strengthened against the Canadian dollar at June 30, 2009.

3.2.3 Interest rate risk

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.2.3 Interest rate risk . . . *continued*

	Under 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-Interest bearing $	Total $
As at June 30, 2009							
Assets							
Cash and balances with the Central Bank	48,535	–	–	–	–	26,457,125	**26,505,660**
Deposits with banks	27,923,957	7,867,264	9,878,733	–	–	4,007,484	**49,677,438**
Deposits with non bank financial institutions	7,612,394	–	15,668,572	–	–	191,153	**23,472,119**
Investment securities:							
– Treasury bills	15,656,434	24,994,737	2,802,192	–	–	–	**43,453,363**
– Bonds and other debt instruments	–	5,127,202	18,142	–	1,919,954	–	**7,065,298**
– Available for sale investments –unquoted	–	–	–	–	–	3,224,482	**3,224,482**
– Available for sale securities – quoted	70,912	–	2,460,027	9,040,948	4,665,397	1,100,498	**17,337,782**
– Pledged assets	–	390,761	4,003,028	3,039,195	1,862,276	6,825,815	**16,121,075**
Loans and advances	16,756,589	4,981,396	31,967,088	120,680,043	4,351,613	–	**178,736,729**
Other assets	–	–	–	–	–	5,298,694	**5,298,694**
Total financial assets	**68,068,821**	**43,361,360**	**66,797,782**	**132,760,186**	**12,799,240**	**47,105,251**	**370,892,640**
Liabilities							
Customer deposits	163,236,228	34,204,012	78,825,114	5,055,009	–	38,331,637	**319,652,000**
Loan payable	15,312,605	–	–	–	–	–	**15,312,605**
Other liabilities and accrued expenses	–	–	–	–	–	8,636,264	**8,636,264**
Income tax payable	–	–	–	–	–	851,424	**851,424**
Deferred tax payable	–	–	–	–	–	265,063	**265,063**
Total financial liabilities	**178,548,833**	**34,204,012**	**78,825,114**	**5,055,009**	**–**	**48,084,388**	**344,717,356**
Total interest repricing gap	**(110,480,012)**	**9,157,348**	**(12,027,332)**	**127,705,177**	**12,799,240**	**(979,137)**	**26,175,284**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.2.3 Interest rate risk . . . *continued*

	Up to 1 year	1 to 5 years	Over 5 years	Non-Interest bearing	Total
	$	$	$	$	$
As at June 30, 2008					
Total financial assets	176,559,751	125,197,802	12,698,445	26,420,175	340,876,173
Total financial liabilities	224,396,450	3,299,190	–	79,473,179	307,168,819
Total interest repricing gap	**(47,836,699)**	**121,898,612**	**12,698,445**	**(53,053,004)**	**33,707,354**

The Bank's fair value interest rate risk arises from debt securities classified as available-for-sale. If market rates at June 30, 2009 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $106,737 lower/higher as a result of the increase/decrease in the fair value of available-for-sale securities.

Cash flow interest rate risk arises from loans and advances to customers, and other interest bearing assets at variable rates. If at June 30, 2009, variable interest rates on loans and advances to customers and other interest bearing assets had been 0.5% higher/lower, with all other variables held constant, post tax profit for the year would have been $1,040,041 higher/lower (2008: $1,535,999), mainly as a result of higher/lower interest income. Cash flow interest rate risk also arises from customers' deposits, at variable interest rates. If at June 30, 2009 variable interest rates on customers' deposits had been 0.5% higher/lower, with all other variables held constant, net profit for the year would have been $1,141,470 (2008: $1,141,461) lower/higher, mainly as a result of higher/lower interest expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
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3 Financial risk management . . . *continued*

3.3 Liquidity risk

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

3.3.1 Liquidity risk management process

The Bank's liquidity management process, is carried out within the Bank by the Investment/Treasury Department, and monitored by management. Oversight includes the following:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against unforeseen interruption to cash flow.
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement, and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Investment/Treasury Department also monitors unmatched medium term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3.3.2. Funding approach

Sources of liquidity are regularly reviewed by management and the Board of Directors in order to maintain a wide diversification by currency, geography, provider, product and term.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.3.3 Non derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual and undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash flows.

	Under 1 month $	1-3 months $	3-12 months $	1-5 years	Over 5 years	Total $
As at June 30, 2009						
Deposits from customers	201,701,788	34,670,127	81,975,695	5,440,395	–	**323,788,005**
Loan payable	15,312,605	–	–	–	–	**15,312,605**
Other payables	8,408,880	36,750	110,834	–	–	**8,556,464**
Income tax payable	–	–	851,424	–	–	**851,424**
	225,423,273	**34,706,877**	**82,937,953**	**5,440,395**	**–**	**348,508,498**

	Up to 1 Year	1-5 years	Over 5 Years	Total
As at June 30, 2008				
Deposits from customers	285,598,214	3,594,605	–	**289,192,819**
Loan payable	7,168,520	–	–	**7,168,520**
Other payables	14,295,369	–	–	**14,295,369**
Income tax payable	382,237	–	–	**382,237**
Total financial liabilities	**307,444,340**	**3,594,605**	**–**	**311,038,945**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
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3 Financial risk management . . . *continued*

3.3.3 Non derivative cash flows . . . *continued*

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, items in the course of collection and treasury and other eligible bills; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt securities and treasury bills and other bills have been pledged to secure liabilities. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset backed markets.

3.3.4. Off balance sheet items

(a) *Loan commitments*
The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit to extend credit to customers and other facilities are summarised in the table below.

	Up to 1 year $	1 to 5 years $	Over 5 years $	Total $
As at June 30, 2009				
Financial guarantees	231,715	–	–	231,715
Capital commitments	308,640	–	–	308,640
Loan commitments	23,192,489	–	–	23,192,489
	23,732,844	**–**	**–**	**23,732,844**
As at June 30, 2008				
Loan commitments	**32,341,964**	–	–	**32,341,964**

(b) *Financial guarantees and other financial facilities*
The Bank financial guarantees of $231,715 at June 30, 2009 (2008: $Nil).

(c) *Operating Lease Commitments*
The Bank had no operating lease commitments as at June 30, 2009 (2008: $Nil).

(d) *Capital commitments*
The Bank had contractual capital commitments totalling $308,640 as at June 30, 2009 (2008$Nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2009
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3 Financial risk management . . . *continued*

3.4. Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value.
The table below summarises the carrying amounts and fair values of the Bank's financial assets and liabilities.

	Carrying value		Fair value	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with the Central Bank	26,505,660	12,689,425	26,505,660	12,689,425
Deposits with other banks	49,677,438	48,104,042	49,677,438	48,104,042
Deposits with non-bank financial institutions	23,472,119	49,742,452	23,472,119	49,742,452
Investment securities:				
– Treasury bills and other eligible bills	43,453,363	35,266,200	43,453,363	35,266,200
– Bonds and other debt instruments	7,065,298	2,360,422	7,065,298	2,360,422
– Available for sale investments – unquoted	3,224,482	3,224,482	3,224,482	3,224,482
– Available for sale investments – quoted	17,337,782	33,987,283	17,337,782	33,987,283
– Pledged assets	15,312,605	7,168,520	15,312,605	7,168,520
Loans and advances	178,736,729	149,494,786	178,043,729	148,858,293
Other Assets	5,298,694	4,629,309	5,298,694	4,629,309
Pledged assets	808,470	808,470	808,470	808,470
	370,892,640	**347,475,391**	**370,199,640**	**346,838,898**
Financial liabilities				
Customer deposits	319,652,000	285,322,693	319,652,000	285,322,693
Loan payable	15,312,605	7,168,520	15,312,605	7,168,520
Other payables and accrued expenses	8,636,264	14,295,369	8,636,264	14,295,369
Income tax payable	851,424	382,237	851,424	382,237
	344,452,293	**307,168,819**	**344,452,293**	**307,168,819**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.4 Fair value of financial assets and liabilities . . . *continued*

(a) Financial instruments measured at fair value . . .continued

(i) Due from other banks
Due from other banks includes inter bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers
Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine their fair value.

(iii) Investment securities
Investment securities include only interest-bearing assets classified as available-for-sale which are measured at fair value, and loans and receivables.

(iv) Due to other banks and customers, other depositors and other borrowings.
The estimated value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed-interest bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) Debt securities in issue
The aggregate values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

3.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
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3 Financial risk management . . . *continued*

3.5 Capital management . . . *continued*

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the ECCB, for supervisory purposes. The required information is filed with the ECCB on a quarterly basis.

The ECCB requires all banks under its jurisdiction to: (a) hold the minimum level of regulatory capital of $5,000,000, and (b) maintain a ratio of total regulatory capital to the risk-weighted assets ('the Basel ratio') at or above the internationally agreed minimum of 8%.

The Bank's regulatory capital as managed by the Board of Directors is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings.

- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of securities held as available for sale.

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

The following table summarises the composition of the regulatory capital and the Basel ratios for the years ended June 30, 2008 and June 30, 2009. During those two years, the Bank and its subsidiaries complied with all the externally imposed capital requirements to which they are subject.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
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3 Financial risk management . . . *continued*

3.5 Capital management . . . *continued*

	2009 $	2008 $
Tier 1 capital		
Share capital (net of treasury shares)	**7,478,150**	7,478,150
Statutory reserve	**8,678,148**	8,678,148
Retained earnings	**13,844,357**	21,904,587
Total qualifying tier 1 capital	**30,000,655**	38,060,885
Tier 2 capital		
Revaluation reserve	**9,619,679**	10,425,454
Reserve for loan impairment	**1,306,055**	928,295
Reserve for interest on non-performing loans	**2,395,885**	1,612,498
Total qualifying tier 2 capital	**13,321,619**	12,966,247
Total regulatory capital	**43,322,274**	51,027,132
Risk weighted assets		
On - balance sheet	**180,234,377**	159,176,000
Off-balance sheet	**23,732,844**	32,341,964
Total risk weighted assets	**203,967,221**	191,517,964
Basel ratio	**21.2 %**	26.6%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
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3 Financial Risk Management . . . *continued*

3.6 Financial assets and liabilities by category

The table below analyses the Bank's financial assets and liabilities by category:

As at June 30, 2009	Loans and receivables $	Available for sale $	Total $
Assets			
Balances with the Central Bank	26,505,660	-	26,505,660
Due from banks and other financial institutions	73,958,027	-	73,958,027
Investment securities	50,518,661	35,874,869	86,393,530
Loans and advances	178,736,729	-	178,736,729
Other assets	5,298,694	-	5,298,694
Total financial assets	**335,017,771**	**35,874,869**	**370,892,640**

	Other financial liabilities $
Liabilities	
Customer deposits	319,652,000
Loan payable	15,312,605
Other liabilities and accrued expenses	8,636,264
Income tax payable	851,424
Total financial liabilities	**344,452,293**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

3 Financial Risk Management . . . *continued*

3.6 Financial assets and liabilities by category . . . *continued*

	Loans and receivables $	Available for sale $	Total $
As at June 30, 2008			
Assets			
Balances with the Central Bank	11,131,364	–	**11,131,364**
Due from banks and other financial institutions	98,654,964	–	**98,654,964**
Investment securities	37,626,622	37,211,765	**74,838,387**
Loans and advances	149,494,786	–	**149,494,786**
Other assets	5,198,611	–	**5,198,611**
Total financial assets	**302,106,347**	**37,211,765**	**339,318,112**

	Other financial liabilities $
Liabilities	
Customer deposits	285,322,693
Loan payable	7,168,520
Other liabilities and accrued expenses	14,295,369
Income tax payable	382,237
Total financial liabilities	**307,168,819**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

4 Critical accounting estimates, and judgements in applying accounting policies and key sources of estimation uncertainty

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment losses on loans and advances
The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be estimated $111,663 lower or $121,185 higher respectively.

(b) Impairment of available for-sale equity investments
The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

There were no declines in fair value below cost during the year.

(c) Income taxes
The Bank is subject to income taxes in St. Christopher and Nevis. Judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determination is made. Were the actual final outcome to differ by +/-10% from management's estimates on the judgement areas, the impact on the losses carried forward and the current income tax provision would not be significant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

5 Business segments

At June 30, 2009, the Bank is organised into three main business segments:

(1) Retail and Corporate banking – incorporating private banking services, customer current accounts, savings, deposits, consumer loans and mortgages and other credit facilities, overdrafts, debit cards;

(2) Offshore Banking – incorporating private banking services, customer current accounts, savings, deposits, consumer loans and mortgages and other credit facilities, overdrafts to non-residents of Nevis; and

(3) Mutual Funds – Open-ended public mutual funds.

Transactions between the business segments are on normal commercial terms and conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

5 Business segments ... *continued*

	Retail and corporate banking $	Offshore banking $	Mutual fund $	Eliminating entries $	Total $
As of June 30, 2009					
External revenues	20,027,878	6,667,981	–	–	26,695,859
Revenues from other segments	694,518	–	6,664	(701,182)	–
Total revenues	**20,722,396**	**6,667,981**	**6,664**	**(701,182)**	**26,695,859**
Segment result and profit/(loss) before tax	2,771,296	(6,990,858)	(25,629)	–	(4,245,191)
Income tax credit (expense)	(1,158,262)	–	–	–	(1,158,262)
Profit/(loss) for the year	**1,613,034**	**(6,990,858)**	**(25,629)**	**–**	**(5,403,453)**
Segment assets	**273,787,878**	**114,251,753**	**-**	**–**	**388,039,631**
Segment liabilities	**233,139,243**	**111,572,921**	**5,193**	**–**	**344,717,357**
Other segment items					
Impairment provision-fixed deposits	–	10,145,991	–	–	10,145,991
Reversal of impairment loss-investments	–	(179,373)	–	–	(179,373)
Impairment provision-loans	(405,420)	–	–	–	(405,420)
Depreciation	342,995	23,923	–	–	366,918
Amortisation	185,207	9,691	–	–	194,898
Capital expenditure	382,060	6,969	–	–	389,029

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

5 Business segments .... *continued*

	Retail and corporate banking $	Offshore banking $	Mutual fund $	Eliminating entries $	Total $
As of June 30, 2008					
External revenues	19,454,917	8,171,383	186,984	–	27,813,284
Revenues from other segments	2,538,980	359,676	83,363	(2,982,019)	–
Total revenues	**21,993,897**	**8,531,059**	**270,347**	**(2,982,019)**	**27,813,284**
Segment result and profit before tax	1,714,182	4,858,784	59,323	–	6,632,289
Income tax (expense)	272,889	(93,516)	(790)	–	178,583
Profit for the year	**1,987,071**	**4,765,268**	**58,533**	**–**	**6,810,872**
Segment assets	**235,886,168**	**121,740,481**	**–**	**–**	**357,626,649**
Segment liabilities	**202,243,749**	**104,315,152**	**40,616**	**–**	**306,599,517**
Other segment items					
Impairment provision – investments	–	179,373	–	–	179,373
Impairment provision – loans	217,817	–	–	–	217,817
Impairment loss – buildings	571,312	–	–	–	571,312
Depreciation	356,540	29,293	–	–	385,833
Amortisation	183,407	30,400	–	–	213,807
Capital expenditure	457,934	2,571	–	–	460,505

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

6 Cash and balances due from banks and other financial institutions

	2009 $	2008 $
Cash on hand	**2,323,144**	1,558,061
Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits	**177,066**	149,079
Cash and current accounts with other banks	**12,885,098**	20,965,970
Cheques in the course of collection	**1,234,104**	1,347,594
Short-term marketable securities	**7,555,742**	33,560,744
Short term fixed deposits	**25,231,757**	17,721,950
Included in cash and cash equivalents (note 26)	**49,406,911**	75,303,398
Mandatory reserve deposits with the ECCB	**24,005,450**	10,982,285
Restricted fixed deposits	**808,470**	808,470
Fixed deposits	**32,485,947**	23,176,140
Other marketable securities	**2,694,900**	–
	109,401,678	110,270,293
Interest receivable	**1,208,000**	1,074,096
Provision for impairment	**(10,145,991)**	–
Total cash and balances due from banks and other financial institutions	**100,463,687**	111,344,389
Current	**75,649,767**	89,644,646
Non-current	**24,813,920**	21,699,743
	100,463,687	111,344,389

Commercial banks doing banking business in member states of the OECS are required to maintain a non-interest bearing reserve with the ECCB equivalent to a minimum 6% of their total deposit liabilities (excluding inter-bank deposits, and foreign currencies). This reserve deposit is not available for use in the Bank's day-to-day operations, and is non-interest bearing.

The short-term fixed deposits are composed of deposits held with Bank of St Lucia of $5,073,973 (2008: $10,779,600); Caribbean Commercial Bank of $10,865,927 (2008: $Nil); ABI Bank Limited of $3,723,874 (2008: $Nil); TCI Bank Limited of $2,873,083 (2008: $Nil); and National Bank of Anguilla of $2,694,900 (2008: $Nil). At June 30, 2008, there was a short-term fixed deposit of $2,900,000 held with British American Insurance Company Limited.

The interest rates on short-term fixed deposits range from 6.0% to 6.5% per annum (2008: $5.15% to 8.25% per annum).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

6 Cash and balances due from banks and other financial institutions ... *continued*

Included in short-term marketable securities is an amount of $1,739,884 (2008: $3,187,035) held as security for the Smith Barney Line of Credit (note 13).

The restricted fixed deposits comprise deposits held with Caribbean Credit Card Corporation of $808,470 (2008: $808,470) bearing interest of 4.50% per annum. These deposits are not available for use in the Bank's day-to-day operations and are used as security deposits primarily for the credit card operations.

The fixed deposits are comprised of deposits held with Colonial Life Insurance Company (Trinidad) Limited of $12,557,539 (2008: $5,389,800) maturing between December 22, 2009 and March 17, 2010; British American Insurance Company Limited of $10,145,991 (2008: $7,006,740) maturing between May 31, 2009 and December 5, 2009; ABI Bank Limited of $6,737,250 (2008: $5,389,800) maturing between October 20, 2009 and March 11, 2010; and Bank of Antigua of $3,045,167 (2008: $5,389,800) maturing October 9, 2009.

The interest rates of fixed deposits range from 6.25% to 8.25% per annum (2008: 6.25% to 8.25% per annum).

Fixed deposits held with British American Insurance Company Limited and Colonial Life Insurance Company (Trinidad) Limited

During a media conference on January 30, 2009, the Minister of Finance of Trinidad and Tobago and the Governor of the Central Bank of Trinidad and Tobago released a statement that subsidiaries of the CL Financial Limited Group were facing liquidity challenges and the Company approached the Government and the Central Bank for assistance. Additionally, they informed the public that the Government had reached an agreement with the CL Financial Limited Group to provide a package of financial support for the Group's financial services companies.

At the time, The Bank of Nevis Limited and its subsidiaries collectively held investments in three CL Financial Limited Group entities being Caribbean Money Market Brokers (CMMB), Colonial Life Insurance Company (Trinidad) Limited (CLICO) and British American Insurance Company Limited (BAICO). On January 31, 2009, the management of The Bank of Nevis Limited decided to redeem all investments held by the Bank and its subsidiaries with the CL Financial Group and submitted requests to that effect to the three entities. Subsequent to the request, all funds held with CMMB were received.

CLICO

By letters dated March 4, 2009, the Managing Director of CLICO informed both The Bank of Nevis Limited and Bank of Nevis International Limited that the Central Bank of Trinidad and Tobago had invoked Section 44D of the Central Bank Act on February 13, 2009 and as a consequence, CLICO was constrained in taking any actions. However, he noted that it was the company's intention to meet all obligations to policy holders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

6 Cash and balances due from banks and other financial institutions ... *continued*

As a result of the actions of the Government of Trinidad and Tobago and the Central Bank of Trinidad and Tobago, CLICO has been placed under direct control of the Central Bank of Trinidad and Tobago. In a media press release dated June 16, 2009, the Central Bank of Trinidad and Tobago committed to a "transformed and vibrant CLICO." At June 30, 2009, the total fixed deposits held in CLICO by The Bank of Nevis Limited and its subsidiaries collectively was EC$12,557,540 with accrued interest of EC$373,926. The Bank's management has been closely monitoring the developments with CLICO and have determined that based on the aforementioned information together with the fact that all interest payments due on the deposits have been honoured to date, the deposits with CLICO do not require a provision for impairment.

BAICO

On March 26, 2009 the Assistant Vice President, Administration of BAICO responded acknowledging receipt of the request to surrender the policies and stating that due to the number of requests that the company had received to surrender policies, it had been forced to prioritise cash payments and that the company aimed to have surrendered policies paid on or before the expiration of six months from the date of request. On June 10, 2009, the Assistant Vice-President, Administration for BAICO wrote to Bank of Nevis International Limited again indicating that the company was committed to repaying the funds within the shortest possible time but that this may take up to six months.

On July 31, 2009 the local High Court, upon application by the Registrar of Insurance, directed that the business of BAICO carried out in St. Kitts and Nevis be placed under judicial management. Subsequently, Judicial Mangers were appointed to the branches in St. Lucia, St. Vincent and the Grenadines, Antigua and Barbuda, Grenada, Montserrat and an administrator to BAICO'S branch in Anguilla. All of these are branches of BAICO and are not separate legal entities. At June 30, 2009, total fixed deposits held in BAICO was EC$10,145,991 with accrued interest of EC$1,287,677. As at the date of approval of these financial statements, two fixed deposits had matured (May 31, 2009 and July 11, 2009) and have not been repaid, while the other two remaining are due to mature on November 28, 2009 and December 4, 2009. The Judicial Manager's report was filed with the local High Court on October 30, 2009. Management has reviewed the Judicial Manager's report and has determined that the most prudent approach should be adopted by making a provision for impairment of 100% of the value of these deposits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7 Investment securities

	2009 $	2008 $
Loans and receivables		
Treasury bills		
Treasury bills – Government of Saint Christopher and Nevis, maturing August 19, 2009 with interest rate of 6.5% per annum	**24,772,792**	25,701,453
Treasury bills – Nevis Island Administration maturing July 22, 2009 with interest rate of 6.5% per annum	**14,360,436**	8,196,875
Included in cash and cash equivalents (note 26)	**39,133,228**	33,898,328
Treasury bill – Nevis Island Administration maturing July 21, 2009 with interest rate of 6.5% per annum	**1,125,805**	1,054,392
Nevis Island Government maturing June 24, 2010 with interest rate Of 6.5% per annum	**2,797,500**	–
	43,056,533	34,952,720
Bonds and other debt instruments Government of Anguilla 90-day note maturing September 28, 2009with interest rate of 8.0% per annum	**2,250,403**	–
Included in cash and cash equivalents (note 26)	**2,250,403**	–
Antigua & Barbuda Port Authority Commercial Paper maturing September 7, 2009 with interest rate of 9.0% per annum	**2,694,900**	–
Government of Antigua and Barbuda Fixed rate bond bearing interest at 9%	**1,769,954**	2,008,620
Caribbean Credit Card Corporation Limited Unsecured loan bearing interest at a rate of 10%, with no specific terms of repayment	**150,000**	150,000
	6,865,257	2,158,620
Total loans and receivables	**49,921,790**	37,111,340

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

7 Investment securities... *continued*

	2009 $	2008 $
Available for sale		
Fixed income securities, quoted at market value	**24,382,483**	24,702,058
Mutual funds, quoted at market value	**6,825,815**	7,830,329
Equity securities, quoted at market value	**1,100,498**	1,111,200
Equity securities – unquoted	**3,224,482**	3,224,482
Total available for sale	**35,533,278**	36,868,069
Total investment securities before interest receivable	**85,455,068**	73,979,409
Interest receivable	**938,462**	858,978
Total investment securities	**86,393,530**	74,838,387
Current	**61,446,300**	43,642,029
Non-current	**24,947,230**	31,196,358
	86,393,530	74,838,387

The treasury bill with a cost of $1,125,805 acts as a statutory deposit with the Nevis Island Administration and is not available to finance the Bank's day-to-day operations.

Included in available-for-sale fixed income securities is an amount of $15,312,605 (2008: $7,168,520) held as security for the Smith Barney Line of Credit (note 13).

The movement in investment securities may be summarised as follows:

	Loans and receivables $	Available-for-sale $	Total $
Balance as of June 30, 2008	37,111,340	36,868,069	73,979,409
Additions	15,016,617	3,979,423	18,996,040
Disposals (sale and redemption)	(2,206,167)	(4,800,965)	(7,007,132)
Loss from change in fair value, net	–	(513,249)	(513,249)
Balance as of June 30, 2009	**49,921,790**	**35,533,278**	**85,455,068**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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7 Investment securities... continued

Net losses from investment securities comprise:

	2009 $	2008 $
Net realised gains (losses) from disposal of available-for-sale financial assets	**(1,353)**	181,249

The restructuring of General Motors Acceptance Corporation (GMac) Financial Services and Ford Motor Credit Company (Ford) during the financial year has caused the securities of these companies to appreciate on the market. Management has deemed it necessary to reverse previously recognised impairment losses in the amount of $179,373.

8 Loans and advances

	2009 $	2008 $
Reducing balance loans	**157,447,177**	132,812,457
Overdrafts	**17,882,495**	14,806,674
Credit card advances	**2,318,311**	2,402,871
	177,647,983	150,022,002
Interest receivable	**3,785,206**	2,784,743
	181,433,189	152,806,745
Less: Allowance for loan impairment	**(2,696,460)**	(3,311,959)
Total loans and advances	**178,736,729**	149,494,786
Current	**53,705,073**	49,174,675
Non-current	**125,031,656**	100,320,111
	178,736,729	149,494,786

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009
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8 Loans and advances...*continued*

Allowance for loan impairment

The movement in allowance for loan impairment is as follows:

	2009 $	2008 $
Balance, beginning of year	**3,311,959**	3,120,966
(Recoveries)/provision for the year	**(405,420)**	217,817
Increase in provision for other asset	**(25,363)**	8,871
Loans and advances written off during the year as uncollectible	**(184,716)**	(35,695)
Balance, end of year	**2,696,460**	3,311,959

According to the Eastern Caribbean Central Bank loan provisioning guidelines, the calculated allowance for loan impairment amounts to $4,002,515 (2008: $4,240,254) (See note 18).

Included in interest income is an amount for interest on non-productive loans of $1,118,477 (2008: $1,452,423). The total value of non-productive loans at the end of the year amounted to $14,111,350 (2008: $13,441,928).

The interest receivable on non-productive loans and advances but not recognised in the financial statements at the end of the year amounted to $2,034,813 (2008: $1,911,533).

Included in loans and advances is an amount due from other financial institutions of $9,821,285 (2008: $8,645,898).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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9 Other assets

	2009 $	Restated 2008 $
Other receivables	**3,435,204**	3,538,704
Items in-transit	**938,888**	902,722
Prepaid employee benefit	**601,341**	569,302
Prepayments	**438,450**	302,877
Credit card and stationery stock	**111,604**	70,834
Miscellaneous	**–**	15,603
	5,525,487	5,400,042
Provision for other receivables	**(226,793)**	(201,431)
Total other assets	**5,298,694**	5,198,611
Current	**4,590,700**	1,421,805
Non-current	**707,994**	3,776,806
	5,298,694	5,198,611

Included in other receivables is an amount of $3,139,559 (2008: $3,139,559) which represents the sum due from United States Government in respect of funds seized from the Bank's account in 2006 (See note 30).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Total $
Year ended June 30, 2008							
Opening net book amount	4,033,705	3,474,182	126,654	345,248	182,315	142,402	8,304,506
Additions	–	98,994	146,896	123,786	90,831	–	460,507
Revaluation adjustment	8,986,295	(444,537)	–	–	–	–	8,541,758
Disposals at cost	–	–	–	(24,728)	(20,221)	–	(44,949)
Depreciation charge	–	(98,006)	(60,642)	(105,235)	(86,350)	(35,600)	(385,833)
Write-back of depreciation on disposals	–	–	–	24,728	20,221	–	44,949
Closing net book amount	**13,020,000**	**3,030,633**	**212,908**	**363,799**	**186,796**	**106,802**	**16,920,938**
At June 30, 2008							
Cost	13,020,000	3,030,633	904,944	859,432	644,934	178,000	18,637,943
Accumulated depreciation	–	–	(692,036)	(495,633)	(458,138)	(71,198)	(1,717,005)
Net book amount	**13,020,000**	**3,030,633**	**212,908**	**363,799**	**186,796**	**106,802**	**16,920,938**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment...*continued*

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Total $
Year ended June 30, 2009							
Opening net book amount	13,020,000	3,030,633	212,908	363,799	186,796	106,802	16,920,938
Additions	–	93,694	13,018	55,798	48,058	–	210,568
Depreciation charge	–	(78,263)	(57,315)	(107,901)	(87,839)	(35,600)	(366,918)
Closing net book amount	**13,020,000**	**3,046,064**	**168,611**	**311,696**	**147,015**	**71,202**	**16,764,588**
At June 30, 2009							
Cost	13,020,000	3,124,327	917,962	915,230	692,992	178,000	18,848,511
Accumulated depreciation	–	(78,263)	(749,351)	(603,534)	(545,977)	(106,798)	(2,083,923)
Net book amount	**13,020,000**	**3,046,064**	**168,611**	**311,696**	**147,015**	**71,202**	**16,764,588**

NOTES TO CONSOLIDATED STATEMENTS

June 30, 2009
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10 Property, plant and equipment ... *continued*

During, 2008, the land and buildings were revalued at market value at year end by an independent property appraiser. The surplus on revaluation at that date was taken to the revaluation reserve account (note 17).

As a result of the revaluation performed on the land and buildings at year end, the Bank incurred an impairment loss of $571,312 on a building that is located in Charlestown Nevis, (formerly Tony's Supermarket). The impairment loss is the difference between the carrying value of the building prior to the revaluation and the value assessed by the independent property appraiser.

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of June 30, 2009:

	Land $	Buildings $	Total $
Cost	2,307,737	4,139,117	6,446,854
Accumulated Depreciation	–	(943,481)	(943,481)
Net book values	**2,307,737**	**3,195,636**	**5,503,373**

NOTES TO CONSOLIDATED STATEMENTS

June 30, 2009
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11 Intangible assets

	Computer software $
At June 30, 2007	
Cost	2,013,735
Accumulated Amortisation	(1,737,085)
Net book amount	**276,650**
Year ended June 30, 2008	
Opening net book amount	276,650
Additions	335,997
Amortisation charge	(213,807)
Closing net book amount	**398,840**
At June 30, 2008	
Cost	2,349,732
Accumulated Amortisation	(1,950,892)
Net book amount	**398,840**
Year ended June 30, 2009	
Opening net book amount	398,840
Additions	178,461
Amortisation charge	(194,898)
Closing net book amount	**382,403**
At June 30, 2009	
Cost	2,528,193
Accumulated Amortisation	(2,145,790)
Net book amount	**382,403**

NOTES TO CONSOLIDATED STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

12 Customers' deposits

	2009 $	2008 $
Current accounts	**85,734,284**	88,343,543
Time deposits	**141,751,508**	95,573,406
Savings accounts	**89,306,845**	99,182,407
Merchant reserve accounts	**221,092**	223,974
Custodial accounts	**–**	5,582
	317,013,729	283,328,912
Interest payable	**2,638,271**	1,993,781
Total customers' deposits	**319,652,000**	285,322,693
Current	**314,621,810**	282,023,503
Non-current	**5,030,190**	3,299,190
	319,652,000	285,322,693

Included in the customers deposits at year end are balances for other financial institutions amounting to $54,590,934 (2008: $16,324,438).

13 Loan Payable

	2009 $	2008 $
Line of credit	**14,826,275**	7,094,254
Interest Payable	**486,330**	74,266
Total loan payable	**15,312,605**	7,168,520
Current	**15,312,605**	7,168,520

The loan payable represents a line of credit from Smith Barney one of the Bank's United States investment brokers. The line of credit is fully secured by securities on the Bank's United States based investment portfolio. The interest expense on the line of credit is payable at three month LIBOR plus 1.00%.

NOTES TO CONSOLIDATED STATEMENTS
June 30, 2009
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14 Other liabilities and accrued expenses

	2009 $	Restated 2008 $
Accounts payable and accrued expenses	**1,558,746**	2,128,114
Items-in-transit	**4,193,331**	9,613,406
Manager's cheques	**1,347,751**	741,906
Deferred loan fees	**832,993**	604,588
Fair value adjustment on employee loans	**601,341**	569,302
Staff bonus payable	**–**	560,162
Government stamp duty	**102,102**	77,891
Total other liabilities and accrued expenses	**8,636,264**	14,295,369
Current	**7,397,826**	13,090,767
Non-current	**1,238,438**	1,204,602
	8,636,264	14,295,369

NOTES TO CONSOLIDATED STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

15 Provision for income tax

	2009 $	2008 $
Deferred income tax		
Balance, beginning of year	**-**	571,881
Deferred tax asset realised on unused tax losses	**72,667**	(72,667)
Deferred tax asset realised on unused capital cost allowances	**228,593**	(228,593)
Deferred tax on depreciation of property, plant and equipment	**(32,303)**	(225,395)
Deferred tax on revaluation of property, plant and equipment	**–**	44,369
Deferred tax on revaluation of available for sale investment securities	**(3,894)**	(89,595)
Balance, at end of year	**265,063**	–

The deferred income tax on the balance sheet is comprised of the following:	2009 $	2008 $
Deferred tax on depreciation of property, plant and equipment	**55,051**	87,354
Deferred tax on revaluation of available-for-sale investment securities	**210,012**	213,906
Deferred tax on unused tax losses	**–**	(72,667)
Deferred tax on unused capital cost allowances	**–**	(228,593)
Deferred income tax liability	**265,063**	–

The deferred tax expense (credit) in the statement of income is comprised of the following:

	2009 $	2008 $
Deferred tax on depreciation of property, plant and equipment	**(32,303)**	(225,395)
Deferred tax asset de-recognized on unused tax losses	**72,667**	(72,667)
Deferred tax asset de-recognized on unused capital cost allowances	**228,593**	(228,593)
	268,957	(526,655)

NOTES TO CONSOLIDATED STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

15 Provision for income tax... *continued*

	2009 $	2008 $
Income tax payable		
Income tax payable net, beginning of year	**382,237**	161,399
Payments made during year, net of refunds	**(420,118)**	(127,233)
Current tax expense	**888,716**	345,907
Prior year tax expense	**589**	2,164
Income tax payable, at end of year	**851,424**	382,237
Income tax expense		
Operating (loss)/income for the year	**(4,245,901)**	6,632,288
Income tax expense at standard rate of 35% (2008: 35%)	**(1,486,065)**	2,321,301
Non-deductible expenses	**993,704**	852,325
Income from tax exempted entity	**–**	(50,414)
Untaxed interest income	**(1,173,743)**	(1,029,871)
Untaxed dividend income	**(25,676)**	(24,428)
Effect of lower tax rate in subsidiary bank	**3,186,207**	(1,166,065)
Prior year income tax adjustment	**589**	2,164
Effect of movement in deferred taxes not recognized	**268,957**	(139,449)
Effect of tax losses and capital cost allowances (utilized) and carried forward (net)	**(605,711)**	(944,147)
Actual income tax expense/(credit)	**1,158,262**	(178,584)

The Bank's subsidiary has carried forward income tax losses of $3,355,785 at June 30, 2009 (2008: $247,449). The tax losses have not been confirmed by the tax authorities. Losses maybe carried forward and deducted against future taxable income within six years following the year which the losses were incurred. Losses are restricted to 50% of the taxable income in any one year. The losses were incurred as follows:

Year of loss	2009 $	2008 $
2006	**–**	247,449
2009	**3,355,785**	–
	3,355,785	247,449

NOTES TO CONSOLIDATED STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

15 Provision for income tax... *continued*

Capital cost allowances

The Bank has carried forward capital cost allowances totalling $Nil (2008: $1,378,498). The additions during the current year have not been confirmed with the Comptroller of Inland Revenue. Unclaimed capital cost allowances may be carried forward indefinitely and deducted against future taxable income. The amount claimed is restricted to 50% of the taxable income in any one year.

	2009 $	2008 $
Balance at beginning of year	**1,133,360**	2,212,982
Adjustment for amounts confirmed by Inland Revenue	**(41,240)**	(171,053)
Additions during the year	**432,544**	562,561
Claims during the year	**(1,524,664)**	(1,471,130)
Balance end of year	**–**	1,133,360

There is a deferred tax asset of $Nil (2008: $396,676) that relate to the carry forward capital cost allowances. In 2008, $228,593 was recognised in the financial statements.

16 Share capital

	2009 $	2008 $
Authorised share capital 50,000,000 shares at $1 each	**50,000,000**	50,000,000
Issued and fully paid 7,478,150 shares of $1 each	**7,478,150**	7,478,150

NOTES TO CONSOLIDATED STATEMENTS
June 30, 2009
(expressed in Eastern Caribbean dollars)

17 Revaluation reserves

	2009 $	2008 $
Balance, beginning of year	**10,425,454**	1,179,317
Transfer net gains / losses on investment securities to income, (net of tax)	**178,020**	43,829
(Depreciation) / Appreciation in market value of investment securities, (net of tax)	**(983,794)**	133,612
Appreciation in market value of land and buildings	**–**	9,068,696
Balance, end of year	**9,619,680**	10,425,454
Represented by revaluation reserves attributable to:		
Available-for-sale investment securities	**(1,035,648)**	(229,874)
Property	**10,655,328**	10,655,328
	9,619,680	10,425,454

An independent valuation of the land and buildings was performed during 2008 (note 10).

NOTES TO CONSOLIDATED STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

18 Other reserves

	2009 $	2008 $
Other reserves:		
Balance at beginning of year	**11,218,941**	10,162,765
Transfer from retained earnings for the year	**–**	466,381
Reserve for loan impairment	**377,760**	(1,022,703)
Reserve for interest on non-performing loan	**783,387**	1,612,498
Total other reserves	**12,380,088**	11,218,941
Other reserves is represented by:		
Reserve fund	**8,678,148**	8,678,148
Reserve for loan impairment	**1,306,055**	928,295
Reserve for interest collected on non-performing loan	**2,395,885**	1,612,498
	12,380,088	11,218,941

Reserve fund

Section 14 (1) of the Saint Christopher and Nevis Banking Act No. 4 of 2004 provides that not less than 20% of each year's net earnings shall be set aside to a reserve fund whenever the fund is less than the paid-up capital of the Bank.

Section 23 (1) of the Nevis Offshore Banking Ordinance 1996 provides that the Bank is to maintain a reserve fund and shall out of its net profits of each year and before any dividend is paid, transfer to the said fund a sum equal to not less than 25% of those profits whenever the amount of the reserve fund is less than the paid-up capital of the Bank.

Reserve for loan impairment

This reserve is created to set aside the amount by which the loan loss provision calculated under the Prudential Guidelines of the Eastern Caribbean Central Bank exceeds the loan loss provision calculated in accordance with IAS 39.

Reserve for interest on non-performing loans

This reserve is created to set aside interest accrued on non-performing loans in accordance with International Accounting Standard (IAS) 39. The prudential guidelines of the Eastern Caribbean Central Bank, however do not allow for the accrual of such interest. The interest is therefore set aside in a reserve and is not available for distribution to shareholders.

NOTES TO CONSOLIDATED STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

19 Interest income

	2009 $	Restated 2008 $
Loans and advances	**14,937,341**	14,714,775
Deposits with banks and other financial institutions	**3,188,749**	3,375,401
Treasury bills	**2,622,207**	2,383,858
Other investment securities	**2,130,143**	2,280,525
Total interest income	**22,878,440**	22,754,559

20 Interest expense

	2009 $	2008 $
Time deposits	**6,442,373**	5,476,476
Savings deposits	**2,378,650**	2,457,698
Demand deposits	**561,666**	519,705
Other	**412,064**	116,496
Total interest expense	**9,794,753**	8,570,375

21 Other operating income

	2009 $	2008 $
Fees and commissions	**1,932,413**	1,808,694
Foreign exchange gain	**185,044**	1,579,891
Credit card fees	**956,707**	876,417
Bad debts recovered	**30,795**	527,736
Dividend income	**533,087**	148,943
Miscellaneous revenue	**–**	2,051
Rental income	**–**	2,000
Total other operating income	**3,638,046**	4,945,732

NOTES TO CONSOLIDATED STATEMENTS
June 30, 2009
(expressed in Eastern Caribbean dollars)

22 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A number of banking transactions were entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

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

	2009 $	2008 $
Loans to Directors and key members of management		
Loans outstanding at beginning of year	**3,950,791**	4,962,394
Loans disbursed during the year	**9,235,852**	10,152,862
Loan repayments during the year	**(8,305,200)**	(11,164,465)
Loans outstanding at end of year	**4,881,443**	3,950,791

Interest income earned on loans and advances to directors and key members of management during the year is $354,168 (2008: $411,529). Interest rates on loans to directors and key members of management range from 5% to 12%. The Bank's commitment to extend credit to directors and key members of management in the future, amounted to $571,677 (2008: $252,342).

	2009 $	2008 $
Deposits by Directors and key members of management		
Deposits at beginning of year	**7,750,709**	1,627,914
Deposits received during the year	**17,391,587**	17,383,624
Deposits withdrawn during the year	**(19,717,523)**	(11,260,829)
Deposits at end of year	**5,424,773**	7,750,709

Interest expense paid on deposits to directors and key members of management during the year is $152,674 (2008: $231,268). Interest rates on deposits to directors and key members of management range from 2% to 6.75%.

NOTES TO CONSOLIDATED STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

22 Related party transactions ... *continued*

During the year, salaries and related benefits of $2,389,599 (2008: $2,541,363) were paid to key members of management allocated as follows:

	2009 $	2008 $
Salaries and wages	**1,843,849**	1,810,072
Other staff costs	**334,565**	294,813
Gratuity	**–**	236,940
Social security costs	**127,703**	120,516
Pension costs	**83,482**	79,022
	2,389,599	2,541,363

23 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2009 $	2008 $
Net (loss)/profit attributable to shareholders	**(5,403,453)**	6,810,872
Weighted average number of ordinary shares in issue	**7,478,150**	7,478,150
Basic and diluted (loss)/earnings per share	**(0.72)**	0.91

NOTES TO CONSOLIDATED STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

24 Contingencies and commitments

Credit related and capital commitments

The following table indicates the contractual amounts of the Banks' off-balance sheet financial instruments:

	2009 $	2008 $
Undrawn commitments to extend advances	**23,192,489**	32,341,964
Capital commitments	**308,640**	–
Financial guarantees	**231,715**	–
	23,732,844	32,341,964

Included in the amount of undrawn commitments to extend advances above are credit card commitments totalling $5,285,043 (2008: $5,652,341) at the year end.

25 Dividends

The financial statements reflect a dividend of $1,495,630 for the year ended June 30, 2008 which was approved at the twenty second Annual General Meeting held on March 31, 2009 and paid subsequently.

26 Cash and cash equivalents

	2009 $	2008 $
Cash and balances due from other banks (note 6)	**49,406,911**	75,303,398
Investment securities (note 7)	**41,383,631**	33,898,328
Total cash and cash equivalents	**90,790,542**	109,201,726

NOTES TO CONSOLIDATED STATEMENTS
June 30, 2009
(expressed in Eastern Caribbean dollars)

27 General and administrative expenses

	2009 $	Restated 2008 $
Salaries and related costs (note 28)	**5,338,203**	5,996,002
Credit card processing expense	**1,063,827**	751,371
Stationery and supplies	**361,911**	338,777
Equipment repairs	**345,844**	163,680
Insurance expense	**307,363**	294,548
Advertisement and promotion	**303,458**	143,870
Legal fees	**288,590**	103,544
Professional fees	**286,557**	502,009
Telephone, telex and cables	**241,679**	235,744
Utilities	**196,689**	188,418
Miscellaneous expenses	**187,931**	28,044
Debit card expenses	**141,401**	107,587
Repairs and maintenance	**91,582**	227,566
Administrative fees	**81,060**	95,052
Taxes and licences	**73,600**	76,696
Online banking expenses	**63,216**	35,281
Subscriptions and fees	**62,992**	79,179
Security services	**62,636**	65,682
Rent	**57,601**	57,600
Stamps and postage	**56,121**	56,732
ECSE fees and expenses	**46,898**	72,835
Cleaning	**30,385**	25,238
Travel and entertainment	**26,374**	53,771
Credit card chargeback losses	**14,070**	(1,039)
Secretarial fees	**6,468**	11,758
(Reversal of prior year over provision)/charge for annual report	**(6,161)**	93,055
Cash shorts	**3,394**	4,340
Custody fees	**2,636**	1,409
Other credit card income	**–**	(539)
Total general and administrative expenses	**9,736,325**	9,808,210

NOTES TO CONSOLIDATED STATEMENTS

June 30, 2009
(expressed in Eastern Caribbean dollars)

28 Salaries and related costs

	2009 $	Restated 2008 $
Salaries and wages	**3,905,978**	4,579,284
Other staff costs	**869,262**	621,981
Social security costs	**367,704**	339,940
Gratuity	**–**	311,388
Pension costs	**195,259**	143,409
Total salaries and related costs	**5,338,203**	5,996,002

In 2003 the Bank introduced a defined contribution pension scheme for its employees. Contributions to the pension scheme for the year ended June 30, 2009 amounted to $195,259 (2008: $143,409).

29 Comparative figures

Two items in the consolidated financial statements have been classified differently to achieve clearer or more appropriate presentation. The comparative figures have been similarly reformatted and reclassified in order to achieve comparability with the current period. The items which have been reclassified are as follows:

a) Audit fees has been reclassified from professional fees under general and administrative expenses in the notes to consolidated financial statements, to a separate line item under operating expenses in the separate statement of income.

b) The line of credit from Citigroup Global Markets of $7,094,254 together with interest payable of $74,266 has been reclassified from other liabilities to loan payable on the balance sheet.

30 Events after the balance sheet date

On June 16, 2009, the Bank entered in to an agreement with the United States government which sought to secure the reimbursement of the funds that were seized from the Bank's correspondent account in 2006 (note 9). The full amount owing at year end of $3,139,559 was received by the Bank on July 14, 2009.

SEPARATE BALANCE SHEET

As of June 30, 2009
(expressed in Eastern Caribbean dollars)

	2009 $	Restated 2008 $
Assets		
Cash and balances with the Central Bank	**26,505,660**	12,689,425
Due from other banks and other financial institutions	**22,900,991**	39,126,826
Investment securities	**34,342,599**	25,866,119
Loans and advances	**171,115,568**	139,893,374
Other assets	**1,828,261**	1,638,786
Investment in subsidiaries	**2,350,000**	2,350,000
Property, plant and equipment	**16,717,457**	16,856,853
Intangible assets	**377,341**	384,087
Due from related parties	**2,093**	4,036,198
Total assets	**276,139,970**	242,841,668
Liabilities		
Customers' deposits	**228,816,501**	194,287,504
Other liabilities and accrued expenses	**6,029,341**	10,189,219
Income tax payable	**839,305**	251,602
Deferred tax	**265,063**	–
Due to related parties	**1,282,887**	11,159
Total liabilities	**237,233,097**	204,739,484
Shareholders' Equity		
Share capital	**7,478,150**	7,478,150
Revaluation reserve	**11,045,350**	11,052,583
Other reserves	**10,013,352**	8,966,908
Retained earnings	**10,370,021**	10,604,543
Total shareholders' equity	**38,906,873**	38,102,184
Total liabilities and shareholders' equity	**276,139,970**	242,841,668

SEPARATE STATEMENT OF INCOME

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

	2009 $	Restated 2008 $
Interest income	**17,084,520**	15,698,002
Interest expense	**(8,260,778)**	(7,855,618)
Net interest income	**8,823,742**	7,842,384
Gain on sale of investment securities	**-**	139,868
Impairment loss on property, plant and equipment	**-**	(571,312)
Other operating income	**3,637,876**	6,224,283
	12,461,618	13,635,223
Operating expenses		
General and administrative expenses	**8,054,325**	8,024,215
Depreciation	**342,995**	356,540
Amortisation	**185,207**	183,407
Directors' fees and expenses	**325,354**	350,925
Audit fees	**308,000**	252,879
(Recovery of)/provision for loan impairment	**(405,420)**	217,817
Correspondent bank charges	**185,343**	238,010
	8,995,804	9,623,793
Income before tax for the year	**3,465,814**	4,011,430
Taxation		
Current tax expense	**(888,716)**	(251,602)
Prior years' tax expense	**(589)**	(2,164)
Deferred tax (expense)/credit	**(268,957)**	526,655
	(1,158,262)	272,889
Net income for the year	**2,307,552**	4,284,319
Earnings per share	**0.31**	0.57

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

	Share capital $	Revaluation reserve: property $	Revaluation reserve: available for sale investments $	Other reserves $	Retained earnings $	Total $
Balance June 30, 2007	7,478,150	1,586,632	563,647	8,697,912	8,084,850	26,411,191
Net income for the year	–	–	–	–	4,284,319	4,284,319
Dividends	–	–	–	–	(1,495,630)	(1,495,630)
Appreciation in market value of land, buildings, net of tax	–	9,068,696	–	–	–	9,068,696
Depreciation in market values of investment securities, net of tax	–	–	(72,228)	–	–	(72,228)
Transfer of gains to income, net of tax	–	–	(94,164)	–	–	(94,164)
Reserve for loan impairment	–	–	–	(1,022,703)	1,022,703	–
Reserve for interest on non-performing loans	–	–	–	825,318	(825,318)	–
Transfer to reserve fund	–	–	–	466,381	(466,381)	–
Balance June 30, 2008	7,478,150	10,655,328	397,255	8,966,908	10,604,543	38,102,184
Net income for the year	-	-	-	-	2,307,552	2,307,552
Dividends	-	-	-	-	(1,495,630)	(1,495,630)
Depreciation in market values of investment securities, net of tax	-	-	(7,233)	-	-	(7,233)
Reserve for loan impairment	-	-	-	472,082	(472,082)	-
Reserve for interest on non-performing loans	-	-	-	574,362	(574,362)	-
Balance June 30, 2009	**7,478,150**	**10,655,328**	**390,022**	**10,013,352**	**10,370,021**	**38,906,873**

SEPARATE STATEMENT OF CASH FLOWS

For the year ended June 30, 2009
(expressed in Eastern Caribbean dollars)

	2009 $	Restated 2008 $
Cash flows from operating activities		
Income before tax for the year	**3,465,814**	4,011,430
Items not affecting cash		
(Recovery of)/provision for loan impairment	**(405,420)**	217,817
Depreciation	**342,995**	356,540
Amortisation	**185,207**	183,407
Gain on disposal of investment securities	**-**	(139,868)
Impairment loss on buildings	**-**	571,312
Interest income	**(17,084,520)**	(15,629,746)
Interest expense	**8,260,778**	7,855,618
Cash flows from operating income before changes in operating assets and liabilities	**(5,235,146)**	(2,573,490)
Changes in operating assets and liabilities		
Decrease in restricted deposits with other banks	**-**	4,581,330
Increase in mandatory deposits held with Central Bank	**(13,023,165)**	(1,597,585)
(Increase)/decrease in other assets	**(214,838)**	33,757
Increase in loans and advances, net of repayments received	**(30,128,273)**	(12,612,249)
Increase in customers' deposits	**34,091,979**	24,122,826
Decrease in other liabilities and accrued expenses	**(4,159,878)**	(1,412,334)
Cash (used in)/from operations before interest and tax	**(18,669,321)**	10,542,255
Interest paid	**(7,823,760)**	(8,089,869)
Interest received	**16,051,605**	14,971,289
Income tax paid	**(301,602)**	(19,610)
Net cash (used in)/from operating activities	**(10,743,078)**	17,404,065
Cash flows from investing activities		
Purchase of property, plant and equipment	**(203,599)**	(457,934)
Purchase of intangible assets	**(178,461)**	(335,997)
(Increase)/Decrease in investment securities	**(2,695,325)**	139,868
Increase in fixed deposits	**(1,439,449)**	-
Net cash used in investing activities	**(4,516,834)**	(654,063)
Cash flows from financing activities		
Dividends paid	**(1,495,630)**	(1,495,630)
Advances from/(Repayments to) related parties	**5,305,833**	(6,379,490)
Net cash from (used in) financing activities	**3,810,203**	(7,875,120)
(Decrease)/Increase in cash and cash equivalents	**(11,449,709)**	8,874,882
Cash and cash equivalents, beginning of year	**58,543,957**	49,669,075
Cash and cash equivalents, end of year	**47,094,248**	58,543,957

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