CELEBRATING 25 Years

1985 - 2010

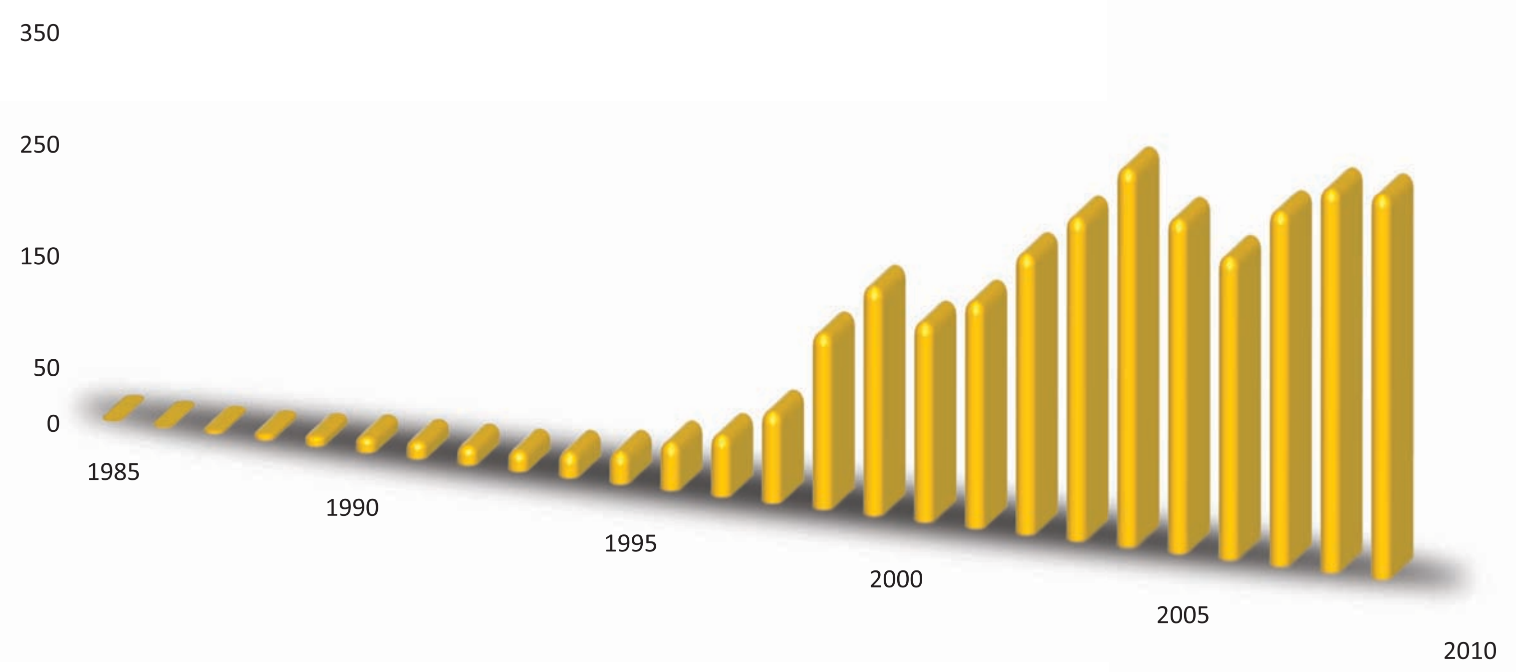
A Symbol of Success, Strength and Stability

The Bank of Nevis Limited

Annual Report 2010

The Bank of Nevis Limited

Asset Growth 1985- 2010



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.

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NOTICE OF MEETING

Notice is hereby given that the Twenty Fourth Annual General Meeting of The Bank of Nevis Limited (the 'Company') will be held at Occasions located on the Pinneys By-pass Road, Nevis on Thursday, April 28, 2011 at 5:30 p.m.

AGENDA

1. To approve the Minutes of the twenty-third Annual General Meeting held on January 28, 2010.

2. To receive the report of the Board of Directors.

3. To receive and consider the accounts for the year ended June 30, 2010.

4. To elect one independent director; Dr. Telbert Glasgow retires by rotation, and being eligible, offers himself for re-election.

5. To elect two non-independent directors; Richard Lupinacci retires by rotation, and being eligible, offers himself for re-election.

6. To appoint auditors for the year ending June 30, 2011. PricewaterhouseCoopers, Chartered Accountants, retire and being ineligible by virture of the Eastern Caribbean Central Bank's (ECCB) Enforced Guidelines, Deloitte and Touche / Pannell Kerr Forster, Chartered Accountants, offer themselves for appointment.

7. Any other business.

BY ORDER OF THE BOARD

AIANDRA E. KNIGHTS (MS.)
Secretary

NOTES

1. Votes at meetings of shareholders may be given either personally or by proxy or, in the case of a shareholder who is a body corporate or association, by an individual authorised by a resolution of the directors or governing body of that body corporate or association to represent it at meetings of shareholders of the Company.

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.

NOTICE OF MEETING ... Cont'd

4. The Restated Articles of Incorporation for the Company provide for a minimum of five and maximum of ten directors. Having due regard to the variable size Board permitted by the Company's constituent document, at a meeting of the Board of Directors of the Company held on February 24, 2011 it was resolved as follows:

   "Be it and it is hereby resolved that the number of directors of the Company be reduced from ten to eight."

5. 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.

6. In proposing candidates for nomination as independent directors, shareholders are asked to have regard to the definition ascribed to and determining considerations for an 'Independent Director' in the Eastern Caribbean Central Bank's (ECCB) Enforced Guidelines on Corporate Governance for Institutions licensed to conduct Banking Business (the 'Guidelines'). The Guidelines define 'Independent Director' as a director who is independent of management and free of any business or other relationships that would materially interfere with, or could reasonably be perceived to materially interfere with the exercise of his unfettered and independent judgment, the Guidelines go on to state that in the determination of independence, consideration should be given to whether the person:

   a) Was employed by the institution within the last five years; or
   b) Within the last five years, had a material relationship with the institution either directly, or as an advisor, partner, shareholder, director or senior employee or a body that has or had such relationship with the institution; or
   c) Received or receives additional remuneration from the institution apart from a director's fee, participates in the institution's share option or a performance-related pay scheme, or is a member of the institution's pension scheme, or receives other forms or deferred compensation not contingent upon continued service; or
   d) Represents a significant shareholder on the board; or
   e) Has served on the board for more than ten years.

7. In proposing candidates for nomination to directorship generally, shareholders are asked to have regard to the following subsections of the Banking Act, No. 4 of 2004 of the laws of St. Christopher and Nevis:

   26. **(1) Every person who is, or is likely to be a director, significant shareholder, or manager of the licensed financial institution shall be a fit and proper person to hold the particular position which he holds or is likely to hold.**

   (2) In determining whether a person is a fit and proper person to hold any particular position, regard shall be had to

   a) that person's probity, competence and soundness of judgment for fulfilling the responsibilities of that position;
   b) the diligence with which that person is fulfilling or likely to fulfill the responsibilities of that position; and
   c) whether the interest of depositors or potential depositors of the licensed financial institution are, or are likely to be, in any way threatened by that person holding that position.

8. The ECCB's Enforced Guidelines for External Auditing of Institutions provide as follows:

   1.1.2 The lead and concurring audit partner should be rotated at least once every six years, provided however that the financial institution shall not engage the services of the same auditor for more than nine consecutive years.

   PricewaterhouseCoopers (PwC) has served as the Bank's external auditors since its financial year ending June 30, 1998.

CORPORATE INFORMATION

DIRECTORS

Rawlinson Isaac
Chairman

Richard Lupinacci Sr.
Hotelier

Krishan Chandiramani
Businessman

Janice Daniel-Hodge
Businesswoman

Desmond Herbert
Retired Businessman

Sonya Parry
Solicitor

Vernel Powell
Businessman

Dr. Telbert Glasgow
Engineer

Chris Morton
Businessman

SECRETARY
Aiandra E. Knights

REGISTERED OFFICE
Bank of Nevis Building
Main Street, Charlestown
Nevis, West Indies

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

IN-HOUSE COUNSEL
Aiandra E. Knights, LL.B (Hons.) UWI, LEC
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	Royal Bank of Canada
St. Kitts	SKNA National Bank
	First Caribbean International Bank
	Royal Bank of Canada
St. Lucia	Bank of St. Lucia
St. Maarten	Windward Island Bank
St. Vincent & the Grenadines	National Commercial Bank (SVG) Ltd.
United Kingdom	The Royal Bank of Scotland
	Lloyds TSB Bank PLC
United States	Bank of America

INVESTMENT BROKERS
First Citizens Investment Services Ltd.
MorganStanley SmithBarney

BOARD COMMITTEES
Audit
Credit
Human Resource
Investment
Risk Management
Building

BOARD OF DIRECTORS

Term of Office	Shareholding
1 year	27,000

Rawlinson Isaac (Chairman)

BA (Hons), MBA, FCIB, FAIA, FIFA, DIPFS, DTEP

Mr. Rawlinson A. Isaac has a long and distinguished career in Banking spanning 30 years. He holds a BA (Hons.) in Accounting, an MBA in Finance and a Diploma in Trust and Estate Practice. He is a Fellow of the Chartered Institute of Bankers, Fellow of the Association of International Associates, Fellow of the Institute of Financial Accountants and a Fellow of the Chartered Management Institute.

Mr. Isaac previously served as a director of The Bank of Nevis Limited from 1992-2008. He also served as General Manager of the Bank from 1991-2006.

He has served on the following Boards: Caribbean Credit Card Corporation Ltd, Eastern Caribbean Home Mortgage Bank, Eastern Caribbean Securities Exchange, West Indies Power (Nevis) Ltd.

Mr. Isaac is pursuing a DBA in Banking and Finance and owns a Consulting Practice.

Term of Office	Shareholding
25 years	51,930

Richard Lupinacci Sr

BA

Mr. Lupinacci Sr has been involved in commercial and international banking since 1963. In 1968, he took up residence in the Federation of St. Kitts and Nevis where he became actively involved in banking, hospitality and a myriad of other community activities. He served as the first Managing Director of The Bank of Nevis Limited.

He is the owner of The Hermitage Inn and Hermitage Builders.

Term of Office	Shareholding
7 years	18,730

Krishan (Kishu) Chandiramani

Mr. Chandiramani emigrated to St Kitts in 1956. In 1960 he ventured into the Supermarket & Wholesale Food Business which is today known asThe Rams Group of Companies. He is a charter member of the Rotary Club of St Kitts. He is very active with the St Kitts Chamber of Industry and Commerce and the Hotel & Tourism Association.

Mr. Chandiramani was awarded the MBE (Member of the British Empire) by H M Queen Elizabeth II in 1999 for his service to the community of St Kitts and Nevis and in 2008 he was appointed Honorary Consul of India to St. Kitts-Nevis.

BOARD OF DIRECTORS ... Cont'd

Term of Office	Shareholding
4 years	20,000

Janice Daniel-Hodge

BSc, MSc

Ms. Daniel-Hodge graduated from St. Francis College in Brooklyn, New York, with a Bachelor of Science degree, and from Alabama A&M University with a Master of Science degree. Ms. Daniel-Hodge has been involved with natural resource management and development policies of island communities since 1992.

She is the principal of Caribbean Development and Environmental Consultants, Inc., which provides services primarily in environmental impact assessment reports and real estate sales in St. Kitts and Nevis.

Term of Office	Shareholding
2 years	1,000

Chris Morton

Dip ITM, TEP

Mr. Morton is a retired banker, with over 29 years experience in Domestic and International Banking, including 16 years with Barclays Bank Plc in Nevis. He is currently a Resident Director of Hamilton Trust Company (Nevis) Limited with responsibility for Trust and Company Administration, a position he has held for over 12 years.

He is a registered Trust and Estate Practitioner (TEP) and a qualified member of The Society of Trust and Estate Practitioners (STEP).

Term of Office	Shareholding
2 years	164,955

Desmond Herbert

Mr. Herbert, who is one of the founding members of The Bank of Nevis Limited, first served as an Overseas Director of the Bank during the period 1985 – 1992. Mr. Herbert is now retired but he has had a successful business career as a Mortgage and Insurance Broker, Property Developer/Manager and Financial Consultant. Mr. Herbert resides in Leeds, England.

BOARD OF DIRECTORS ... Cont'd

Term of Office	Shareholding
1 year	545

Vernel Powell

MSc

Mr. Powell graduated from the College for Human Services in New York with a Master of Science in Administration in 1992. He is currently the Assistant Director of the Nevis Branch of the St. Christopher and Nevis Social Security Board and has served in this capacity since 1992.

Term of Office	Shareholding
3 years	7,810

Sonya Parry (Independent Director)

LL.B (UWI), LLM (UCL), Dip ITM, TEP

Miss Parry is a practising Barrister-at-Law and Solicitor and is presently a partner at the firm Gonsalves Hamel-Smith.

She holds a Bachelor of Laws with Upper Second Class Honours from the University of the West Indies, a Master of Laws with a specialisation in Banking and Finance from the University College of London and a Diploma in International Trust Management from the Society of Trust and Estate Practitioners.

Term of Office	Shareholding
3 years	2,370

Telbert Glasgow (Independent Director)

BSc, PhD

Dr. Glasgow holds a Doctor of Philosophy degree in telecommunications engineering from the University of Southampton in England. His work experience spans tutoring of social and natural sciences in schools and universities, management in government communication and planning ministries and engineering consultancy in telecommunications.

Aiandra E. Knights (Corporate Secretary)

LL.B (Hons.) UWI, LEC

Ms. Knights was appointed as Corporate Secretary to the Boards of both The Bank of Nevis Limited and Bank of Nevis International Limited on September 30, 2007. She is an attorney and has also held the position of General Counsel to both Banks since August 1, 2007. She attended the University of the West Indies (Cave Hill Campus) and Sir Hugh Wooding Law School, qualifying as an attorney in 2002.

Ms. Knights has been admitted to practice in Dominica, Barbados, St. Lucia and St. Christopher and Nevis.

STAFF MEMBERS

General Manager

Internal Audit

Domestic Operations

Legal

STAFF MEMBERS ... Cont'd

Bank of Nevis International Limited

Administration, Human Resources and Marketing

Information Technology

Card Services

STAFF MEMBERS ... Cont'd

Brokerage and Business Development

Compliance

Accounting and Investment

Credit

GROUP FINANCIAL HIGHLIGHTS

Expressed in Eastern Caribbean Dollars

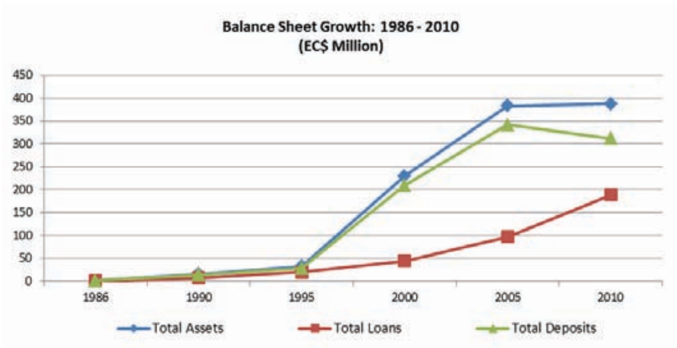
	2010 (000)	2009 (000)	2008 (000)	2007 (000)	2006 (000)
Total assets	388,002	387,720	358,196	305,836	337,890
Due from banks and other financial institutions	95,030	100,464	111,344	57,708	77,239
Investment securities	85,402	86,394	74,838	96,907	130,259
Loans & advances	188,822	178,417	149,495	137,468	120,537
Customers' deposits	312,586	319,652	285,323	253,532	292,991
Paid-up share capital	7,478	7,478	7,478	7,478	7,478
Shareholders' equity	48,526	43,322	51,027	36,466	32,521
Gross operating income	31,017	26,696	27,813	25,794	25,134
Total expenses & provisions (excl. tax)	25,985	30,941	21,181	20,731	18,834
Interest income	25,101	22,878	22,686	19,949	21,030
Interest expense	11,519	9,795	8,570	7,700	8,033
Staff costs	5,700	5,338	5,996	5,591	3,576
Operating income / (loss) before tax	5,032	(4,245)	6,632	5,063	6,301
Provision for income tax	749	1,158	(179)	126	95
Net profit / (loss)	4,283	(5,403)	6,811	4,937	6,206
Earnings / (loss) per share ($)	0.57	(0.72)	0.91	0.66	0.83
Dividend per share (cents)	5.00	-	20.00	20.00	25.00
Return on average assets (%)	1.10	(1.45)	2.05	1.53	1.72
Return on average equity (%)	9.33	(11.45)	15.57	14.31	20.34
Number of employees	60	64	62	53	50

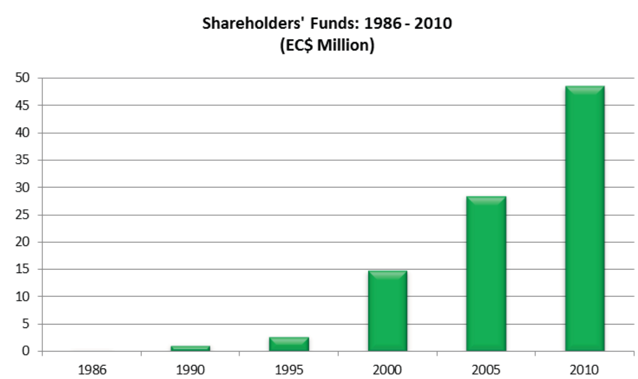
CHAIRMAN'S REMARKS

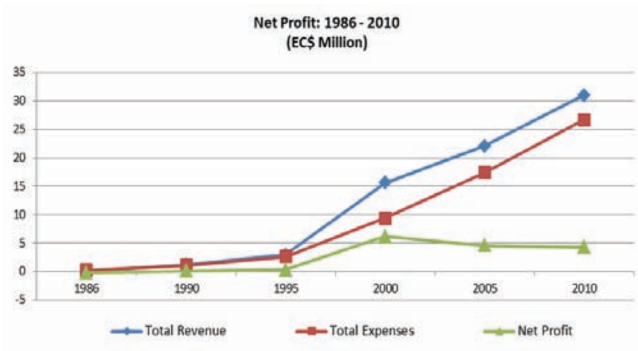
Rawlinson Isaac
Chairman

The Bank of Nevis Limited is here to stay.

I am delighted to report on the financial performance of The Bank of Nevis Limited and its subsidiaries for the financial year ended June 30, 2010. Before I proffer my comments, I feel compelled to reflect on the achievements of the Bank over the past 25 years of its operations (1985-2010). The achievements are depicted below graphically and at intervals of five (5) years.



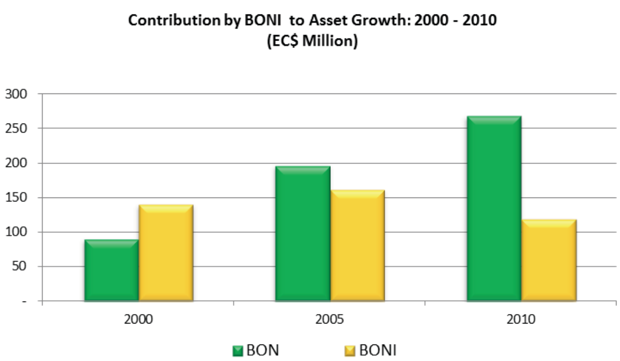




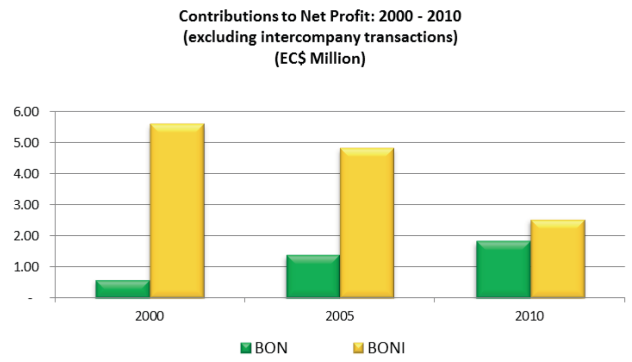
Other notable highlights in the Bank's history are as follows:

- Acquisition of the Bank's first premises on Main Street, Charlestown in 1989
- Computerisation of its operations in 1990
- Establishment of the offshore bank (BONI) in 1998
- Listing of the Bank's shares on the Eastern Caribbean Securities Exchange on October 19, 2001
- Acquisition of the Tony's Building in 2005 and commencement of construction of the Bank's financial complex in 2010
- Payment of first cash dividend in 1990 of 7.5%.
- Payment of total cash dividend of 287.50% on outstanding shares over the 25 year period
- Issuance of stock dividends (bonus shares) as follows:
    - 1 share for every 3 held – 1989
    - 1 share for every 2 held – 1999
    - 1 share for every 4 held – 2010

Impact of the Offshore Bank



CHAIRMAN'S REMARKS ... Cont'd



The vision of the Board of Directors in 1998 to establish an offshore bank was pivotal to the growth and development of the Bank as a whole and can be seen from the juxtaposition above.

Undoubtedly, the Bank has shown phenomenal growth over the past 25 years of its existence and is the number one bank on Nevis as measured by total assets and deposits.

Turning now to the year under review, the Group reported a net profit of EC$4.3 million in 2010, from a loss position sustained in 2009 of (EC$5.4 million).

Summary of Financial Performance

	2010 (EC$M)	2009 (EC$M)	2008 (EC$M)
Income			
Interest income	25.1	22.9	22.8
Non-interest income	5.9	3.8	5.1
	31.0	26.7	27.9
Expenses			
Interest expense	11.5	9.8	8.6
Impairment provision	2.9	10.1	0.6
Loan loss provision	0.7	(0.4)	0.2
Administrative expenses	10.9	11.4	11.9
Taxes	0.7	1.2	(0.2)
	26.7	32.1	21.1
Net profit (loss)	4.3	(5.4)	6.8
EPS ($)	0.57	(0.72)	0.91

You will recall that in 2009, the Group took a decision to make an impairment provision in respect of its total investments in the sum of EC$10.1 million in British American Insurance Company Limited (BAICO). During 2010, the Group incurred another impairment provision, this time of its investments in TCI Bank Limited in the sum of EC$2.9 million.

TCI Bank Limited is an indigenous Bank of the Turks and Caicos Islands which was placed into liquidation in 2010 by the Supreme Court of the Turks and Caicos Islands for failing to meet its obligations to its creditors. The Group's total investment in TCI Bank Limited is EC$4.4 million (US$1.6 million).

Notwithstanding this year's impairment provision, and the global and local economic and financial challenges, the Group's performance improved as follows:

- Total revenue increased by EC$4.3 million or 16.2% compared with a decrease in 2009 of EC$1.1 million or 4.0%.
- Earnings per share (EPS) recovered from a loss position in 2009 of ($0.72) to $0.57 in 2010. The earnings per share is a vital measure of financial performance and a good predictor of the stock price.
- Overhead efficiency improved from 0.34 to 0.51 and is a measure of the non-interest expense covered by the non-interest income. At a time of falling interest yields, the Group increased its non-interest income and fees on services.
- Return on Average Assets (ROA) was 1.1% compared with a negative 1.5% slide in 2009. The Return on Average Equity (ROE) (shareholders' funds) was 9.3% compared with a loss of 11.5% in 2009.
- Total assets grew slightly by EC$0.3 million or 0.1%, and deposits fell by EC$7.1 million or 2.2% compared with an increase in 2009 of EC$34.3 million or 12.0%.
- Net loans and advances grew by EC$10.4 million or 5.8% compared with EC$28.9 million or 19.3% in 2009.

CHAIRMAN'S REMARKS ... Cont'd

Despite the improvements in the financial performance for the review period, it is to be noted that the default rate among borrowers increased and non-performing loans stood at EC$15.3 million (EC$14.3 million in 2009).

Shareholders' Value

The maximisation of shareholders' value is a key objective of the Bank. This objective has been achieved over the past 25 years as measured by the Net Asset Backing of EC$0.60 per share in 1985/86 to EC$6.50 per share in 2010 – a multiple of approximately 10 times.

Net Asset Backing: 1986 - 2010

	1986	1990	1995	2000	2005	2010
Shares outstanding ('000)	501	698	1,906	7,478	7,478	7,478
Net asset backing ($)	0.60	0.87	1.11	2.00	3.74	6.50
Earnings per share (EPS) ($)	(4.67)	1.60	1.92	0.83	0.62	0.57

It is to be noted that shareholders who held shares from 1989 through to 2010 benefited from stock dividends (bonus shares) amounting to 2.5 times shares held.

It is significant to note also that the Bank paid to shareholders cash dividend amounting to 287.5% for the period 1990 to present.

At the close of business on June 30, 2010, the price per share on the ECSE was EC$6.00 which confirms the market perception of the economic value of the equity.

Strategic Objectives

Emanating from a Bank Strategic Planning exercise in 2010, the Bank delineated its 10 point strategic objectives for the next three years to 2013.

These objectives concisely stated are as follows:

1. Capital enhancement – an increase of over 20 million
2. Sustained Profitability – Return on Average Assets (ROA) of over 1.5 percent by 2013
3. Reduction of the non-performing loan portfolio
4. Maintenance and management of liquidity – a target loans deposit ratio of 80 percent
5. Maintenance of a strong corporate governance and risk management framework – revision of the Bank's By Laws, directors' self-assessment and certification
6. Expansion of market share from 8.6 percent to 11 percent in three years
7. Establishment of physical presence in St. Kitts
8. Enhancement of staff training and empowerment
9. Enhancement of technological capability to meet the needs of customers
10. Enhancement of banking environment through the construction of a modern financial complex

The implementation process has commenced and the Board is of the view that these objectives are achievable within the three year time frame.

Capitalization

The Board is cognisant of the Bank's need to maintain capital adequacy in order to:

- Ensure the safety and soundness of the Bank
- Act as a buffer for potential deterioration in asset quality
- Increase customer confidence
- Enhance liquidity
- Meet regulatory requirement
- Ensure economic equity capital remains positive
- Fund the construction and renovation of Bank's Financial Complex

On October 21, 2010, the Board of Directors sought approval by way of a resolution from shareholders to make a rights issue of one (1) ordinary share at a price of EC$2.00 for every one share held in the Bank. This resolution was not approved by the shareholders. Efforts by the Board of Directors to seek approval of the rights issue a second time on December 9, 2010 were impeded by an ex-parte injunction obtained by a shareholder with significant holding. This injunction has since been discharged.

CHAIRMAN'S REMARKS ... Cont'd

The Board of Directors is still of the view that the Bank has an immediate need for capital enhancement and as such considers the proposed rights issue to be justifiable, prudent, and in the best interest of the Bank.

We hereby call on all shareholders to support the rights issue resolution which will be put to you at a Special Meeting immediately preceding the upcoming Annual General Meeting.

Dividends

In January 2010 the Shareholders approved an interim dividend of 5%. This interim dividend was paid.

Also at a special meeting held on October 21, 2010, the shareholders approved a Stock Dividend (Bonus) of one (1) share for every four (4) held which represents 25% of the shares held, making a cumulative dividend of 30%.

The Board is aware that in these challenging economic times shareholders will be glad to receive a final cash dividend. However, in light of the need to increase capital, the Board of Directors does not consider it prudent to propose any additional dividends at this time.

Conclusion

The Bank of Nevis Limited has certainly over the past 25 years, helped to change the social and economic landscape of Nevis. It has been that catalyst for mobilising savings deposits into consumer and commercial loans and has provided an opportunity for the growth and development of many small businesses. The current loan portfolio of approximately EC$190 million is a testimony to its philosophy and mantra of **"improving the quality of life for all"**.

25 years is a very short time in the life of a financial institution and as we continue to focus on risk management framework, good corporate governance, capital adequacy, asset quality and liquidity, the future will certainly be bright for all stakeholders.

To those who have contributed at the various stages of the Bank's growth and development over the 25 years, I salute you. Mr. Hanzel Manners, first Chairman; Mr. Richard Lupinacci, – first Managing Director and his initial staff; Mr Reginald Kawaja, who chaired the Bank during a period in which it experienced its highest rate of growth 1998 – 2005, and to the Hon Joseph Parry, who chaired for a short stint before his elevation to lead the Nevis Island Administration.

To all those other Directors and staff both past and present who have propelled the bank to the number one position, I salute you for your vision, tenacity, dedication, commitment, loyalty and insight and commend you for creating this great legacy.

The Bank of Nevis Limited is here to stay.

Rawlinson A. Isaac
Chairman

CORPORATE GOVERNANCE

Introduction

As a publicly traded financial institution, The Bank of Nevis Limited (the "Bank") recognizes the need to adhere to best practices in corporate governance. Sound corporate governance policies and practices are important to the creation of shareholder value and maintaining the confidence of depositors and investors alike.

The Bank's Corporate Governance Policies are designed to ensure the independence of the Board of Directors (the "Board") and its ability to effectively supervise management's operation of the Bank. These Policies embody the Corporate Governance Guidelines issued by the Eastern Caribbean Central Bank (ECCB) in April 2006.

The Board of Directors

The Board comprises 10 elected directors, 8 non-independent directors and 2 independent directors, who govern the affairs of the Bank. The Board's principal responsibility is to oversee the management of the Bank's business and affairs. The Board must provide effective governance over the Bank's affairs. In doing so it must seek to balance the interests of the Bank's diverse constituency, including its shareholders, customers, employees and the communities in which it operates. The Board is expected at all times to exercise independent business judgment in what they reasonably believe to be in the best interest of the Bank. In discharging that obligation, Directors may rely on the honesty and integrity of the Bank's Senior Management, its outside advisors and auditors.

The Role of the Board

The basic responsibility of the Directors is to exercise their business judgment, to act in what they reasonably believe to be in the best interest of the Bank and its shareholders. The Board has regular monthly meetings to discharge its responsibilities, at which time it reviews and discusses reports by management on the performance of the Bank, its plans and prospects, as well as immediate issues facing the Bank. Directors are expected to attend Board meetings, meetings of committees on which they serve, and annual meetings of the shareholders. Information and data that are important to the Board's understanding of the business to be conducted at a Board or committee meeting are usually distributed in writing to the Directors in advance of each meeting in order to allow time to review these materials.

In addition to its monthly scheduled meetings, the Board meets at such other times as the situation warrants. Before the commencement of every meeting, members disclose their conflicts of interests in any matter on the Agenda. At its scheduled meetings, the Board, among others things;

- Approves Policies
- Reviews and approves Financial Statements
- Reviews and approves the applications for loans over a certain threshold
- Receives and reviews reports of sub-committees
- Evaluates the progress made towards the attainment of the strategic plans of the Group
- Reviews and approves recommendations from Management
- Monitors the progress with respect to the fulfillment of Eastern Caribbean Central Bank Prudential Guidelines and other Regulatory and Statutory obligations
- Performs an evaluation of the General Manager

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 evaluation is provided to Directors for discussion and making of recommendations for improvements.

Committees of the Board

The standing committees of the Board are the Audit Committee, Credit Committee, Human Resources Committee, Investment Committee and Risk Management Committee. Each Committee reports directly to the Board. Subject to their availability, each director should serve on one or more Board committees. Committee members and chairs are appointed by the Board after consultation with the individual Directors. Committee chairs and members are reappointed annually. The Chairman of the Board is an ex officio member of all Committees.

Each Committee has its own written charter which complies with with all applicable laws and regulations. The charters set forth the mission and responsibilities of the committees as well as

CORPORATE GOVERNANCE ...Cont'd

procedures for committee member appointment, committee structure and operations and reporting to the Board. The chair of each Committee, in consultation with the committee members, determines the frequency and length of the committee meetings consistent with any requirements set forth in the Committee's charter. The chair of each Committee, in consultation with the appropriate members of the Committee and senior management develop the Committee's agenda.

The Board may from time to time, establish or maintain additional committees as necessary or appropriate.

Audit Committee

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

- the integrity of the Bank's financial reporting;
- the Bank's internal controls over financial reporting and disclosure controls;
- the performance of the Bank's internal audit function and
- the qualifications and independence of the Bank's internal auditor;
- the qualifications, independence and performance of the external auditor;
- the Bank's 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 (4) members, including three (3) directors and one (1) independent non-director with the relevant financial experience. 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)
- Vernel Powell
- Richard Lupinacci
- L. Mignon Wade (Independent Member)

Credit Committee

The Credit Committee is responsible for overseeing the credit and lending strategies and objectives of the Bank, including:

- to oversee the credit risk management of the Bank,
- to review internal credit policies and establishing portfolio limits; and
- to review the quality and performance of the Bank's credit portfolio.

The Credit Committee comprises five (5) 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)
- Rawlinson Isaac
- Janice Daniel Hodge
- Dr. Telbert Glasgow
- Desmond Herbert

Human Resources Committee

The mandate of the Human Resources Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing the management of human resources within the Bank and providing recommendations and advice on the Bank's human resources management strategies, initiatives, and policies. To fulfill the mandate bestowed upon it by the Board, the Committee:

- reviews and monitors the development of the Bank's human resources management strategy to determine whether human resources plans and initiatives will enable the Bank to achieve its strategic objectives;
- reviews and, when appropriate, recommends to the Board approval of the Bank's human resources policies;
- reviews the terms and conditions of employment for management and non-management employees, and may recommend to the Board amendment thereto from time to time;
- reviews and makes recommendations to the Board on the Bank's compliance with legislative requirements in areas dealing with human resources management ;
- reviews investments and strategies for employee training, education, and development;
- develops a Human Resources Committee Workplan on an annual basis, identifying priorities and objectives; and

  undertakes any other duties that the Board may delegate

- to the Committee.

The Human Resources Committee comprises three (3) members and meets at least quarterly and at such other times as may be necessary.

Members of the Human Resources Committee are as follows:

- Janice Daniel Hodge (Chairperson)
- Sonya Parry
- Vernel Powell

Investment Committee

The responsibilities of the Investment Committees are as follows:

- maintain a written statement of investment policies and guidelines (subject to the approval of the Board), including policies and guidelines regarding asset classes, asset allocation ranges, and prohibited investments (the 'Investment Policy').
- ensure that all investments and reinvestments of the funds of the Bank adhere to the Investment Policy.
- oversee investment and reinvestment of the funds of the Bank. The Committee may in writing delegate investment functions to officers and employees of the Bank and to external investment managers.
- monitor the management of the funds by reviewing written reports from investment staff and by discussions with investment staff at Committee meetings that focus on the primary determinants of returns, including asset allocation and investment strategy.
- evaluate investment performance of the Bank based on a comparison of actual returns with the Bank's absolute return objective, and with such other benchmarks as the Board or Committee may from time to time select. The evaluation will take into account compliance with investment policies and guidelines and risk levels.

The Investment Committee comprises four (4) members and meets monthly and at such other times as may be necessary.

Members of the Investment Committee are as follows:

- Dr. Telbert Glasgow (Chairperson)
- Rawlinson Isaac
- Vernel Powell
- Richard Lupinacci

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 strategies;
- 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 (5) members and meets at least quarterly and at such other times as may be necessary.

Members of the Risk Management Committee are as follows:

- Dr. Telbert Glasgow (Chairperson)
- Rawlinson Isaac
- Richard Lupinacci
- Vernel Powell
- Desmond Herbert

The Bank also has a Building Committee that meets on an ad hoc basis as required.

DIRECTORS' REPORT

Your Directors are pleased to report on the performance of The Bank of Nevis Limited and its subsidiaries ('the Group' / 'the Bank').

The Bank of Nevis Limited celebrated 25 years of operation during 2010. The achievement of this milestone is a demonstration of the commitment of the shareholders, directors, management, staff and customers to the institution. The confidence of the community in this indigenous institution has assured that it remains **A Symbol of Success, Strength and Stability.**

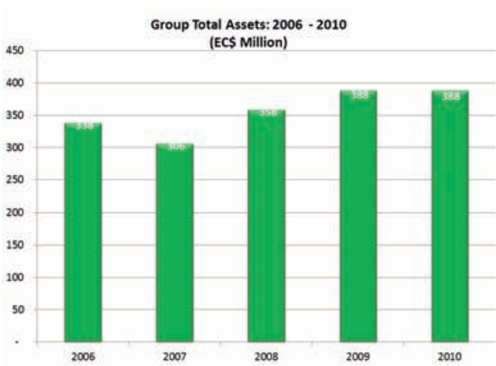
FINANCIAL ANALYSIS

The events which have transpired over the last three years, associated with the global financial crisis, have threatened the progress made by the Bank. Internationally, the high public and private sector debt burdens in advanced economies and the bailout of several large financial institutions, the increasing inflationary pressures in emerging economies, the failure of a number of financial institutions and unsustainable public sector debt levels regionally and high unemployment due to the closure of the Four Seasons Resort locally have cumulatively created a challenging business environment within which financial institutions operate. Slow economic activity has stymied business growth and adversely impacted financial performance.

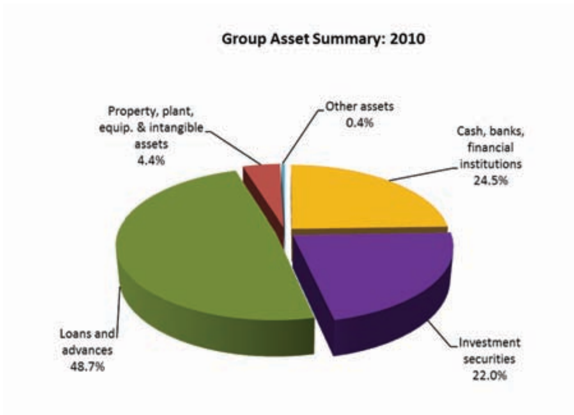
Notwithstanding these challenges, The Bank of Nevis Limited has persevered through prudent management and the implementation of carefully crafted risk management strategies.

Group Assets

The Group's asset base increased by EC$0.3 million (0.1%) over 2009, with total assets at June 30, 2010 amounting to EC$388.0 million.

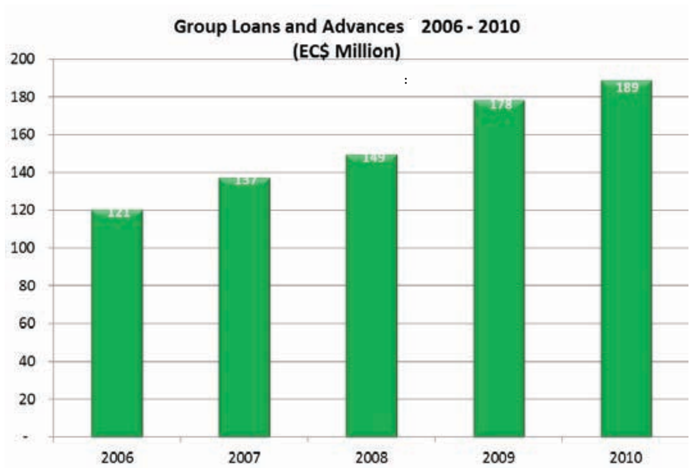


EC$188.8 million (48.7%) of the Group's assets are employed in loans and advances, while EC$95.0 million (24.5%) and EC$85.4 million (22.0%) are employed in bank deposits and investment securities with other financial institutions respectively. The percentage allocation of the Group's asset base is illustrated in the chart below:



Loans and advances

Total loans and advances (net) grew by EC$10.4 million (5.8%) compared with an increase of EC$28.9 million (19.3%) in 2009.



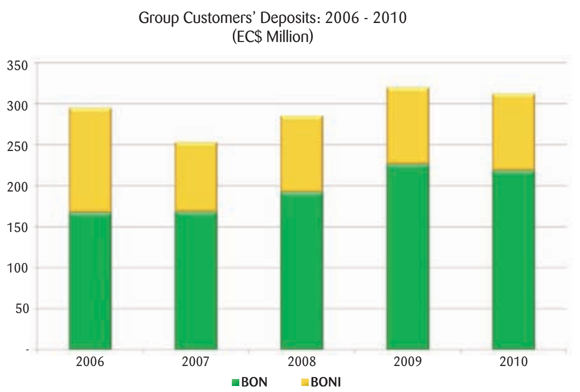
During the current year, significant growth was evident in the commercial sector, which realized an overall net increase of EC$21.3 million (75.2%). Public sector facilities declined by EC$8.3 million (14.0%), as did retail loans by EC$3.3 million (5.0%).

DIRECTORS' REPORT ... Cont'd

Customers' Deposits

The Group's customer deposit base continues to be the primary source of funding for its lending and other investment activities.

At reporting date, total customers' deposits stood at EC$312.6 million, a net decline of EC$7.1 million or 2.2% over the previous year. Current accounts decreased by EC$25.7 million (30.0%), while savings accounts and fixed deposit accounts increased by EC$17.6 million (19.8%) and EC$0.8 million (0.5%) respectively.



At June 30, 2010, EC$218.3 million (69.8%) of the customers' deposits were held in the Domestic Bank, while EC$94.3 million (30.2%) were held in the Offshore Bank.

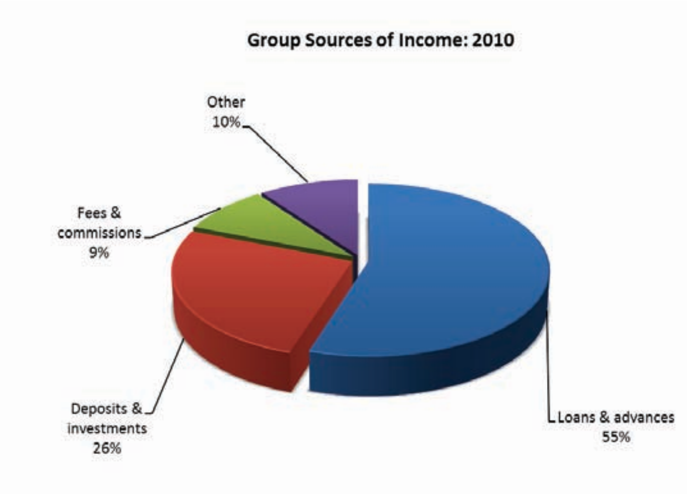
Group Profitability

Despite the challenging business environment, the Group achieved a pre-tax profit of EC$5.0 million for the year under review, compared to a net loss of EC$4.2 million reported in 2009.

The contribution to pre-tax earnings for 2010 was evenly distributed between and domestic and offshore operations. The Offshore Bank's contribution to group earnings for the past two years has been severely restricted due to the impact of impairment provisions on investments.

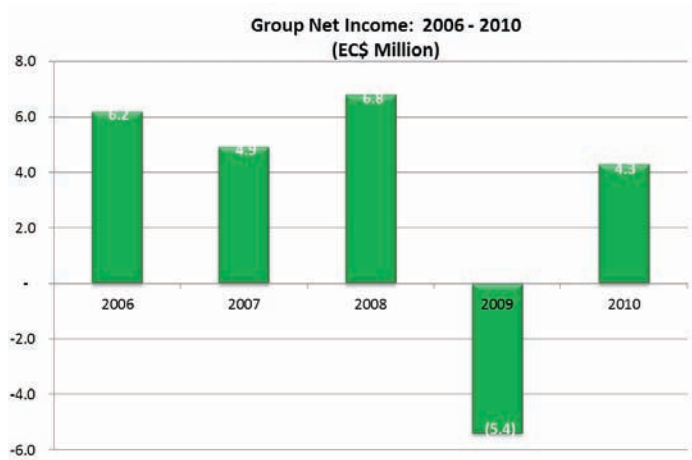
	2006	2007	2008	2009	2010
	EC$M	EC$M	EC$M	EC$M	EC$M
Domestic Bank	1.40	1.50	1.70	2.80	2.56
Offshore Bank	4.70	3.50	4.90	(7.00)	2.47

Gross revenues for the year under review amounted to EC$31.0 million, an increase of EC$4.3 million (16.2%) when compared to the gross earnings in 2009.



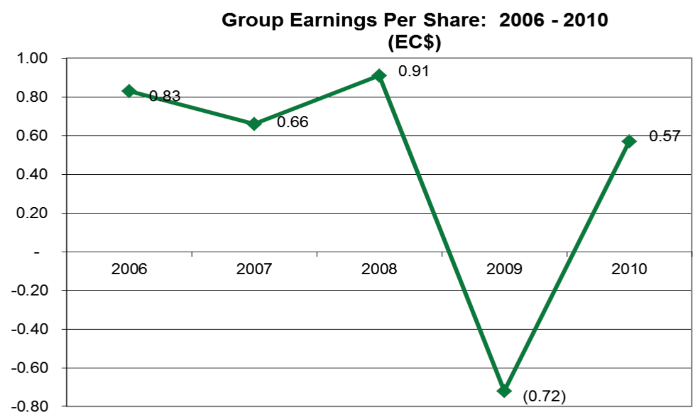
EC$17.0 million (55.0%) of gross revenue are generated within the loans portfolio, while EC$8.1 million (26.0%) are generated from bank deposits and investments.

At June 30, 2010, the net profit (after tax) attributable to shareholders of the Company is EC$4.3 million. A net loss of EC$5.4 million was reported at June 30, 2009.



Group earnings per share increased to EC$0.57, when compared to a loss per share of EC$0.72 which was reported in 2009.

DIRECTORS' REPORT ... Cont'd



Market Capitalization

The Bank's shares continue to be traded on the Eastern Caribbean Securities Exchange (ECSE). During the year under review, 705,652 of the Bank's shares were traded on the ECSE for total value of EC$4.13 million. The shares traded at a low of EC$5.25 per share and a high of EC$6.10 per share.

At close of business on June 30, 2010, the Bank's shares traded at EC$6.00 per share, resulting in total market capitalisation at that date of EC$44.9 million.

The following table provides a summary of the distribution of the Bank's ordinary shares outstanding at June 30, 2010:

SHAREHOLDINGS BY SIZE
June 30, 2010

SIZE OF SHAREHOLDING	NUMBER OF SHARE-HOLDERS	PERCENTAGE OF SHARE-HOLDERS	TOTAL SHARES HELD	PERCENTAGE OF SHARES HELD
1 - 500	243	35.1	49,866	0.7
500 - 1,000	117	16.8	92,636	1.2
1,001 - 2,500	107	15.4	176,520	2.4
2,501 - 5,000	79	11.4	284,882	3.8
5,001 - 10,000	44	6.3	322,261	4.3
10,001 - 25,000	57	8.2	958,002	12.8
25,001 - 50,000	21	3.0	654,707	8.8
50,001 - 100,000	14	2.0	917,064	12.2
100,001 - 250,000	10	1.4	1,674,480	22.4
250,001 - 500,000	1	0.1	313,800	4.2
500,001 and above	2	0.3	2,033,932	27.2
TOTAL	**695**	**100.0**	**7,478,150**	**100.0**

HUMAN RESOURCE DEVELOPMENT

The Group strives to develop a team of high performance, empowered and committed employees who are fully engaged and work collaboratively to create operational excellence. Accordingly, the institution continues to invest in the education and training of our employees to build the requisite skills needed to ensure that The Bank of Nevis Limited remains the "Preferred Financial Institution in the markets we serve." Some of the training programs for the year included the following:

- Employees in the Compliance and Operations Departments attended several Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) conferences and workshops including the 10th Annual FIBA AML Compliance Conference. Additionally, the Financial Intelligence Unit delivered a presentation to the Board of Directors on AML compliance and our weekly AML training continued for all staff of the Group.

- Several employees were trained in card services management, credit underwriting, effective business writing and human resource management.

- Staff attended the 3rd Annual Conference of the Caribbean Association of Audit Committee Members Inc (CAACM) and the 11th Annual Caribbean Commercial Law Workshop in St Lucia and Jamaica respectively.

The Bank continues to support nine employees who are currently pursuing graduate studies in Business Management and Marketing, undergraduate degrees in Accounting and Banking and Finance and professional certification in Accounting. We anticipate that the knowledge and skills obtained from these programmes would redound to the benefit of the institution through enhanced performance.

CORPORATE SOCIAL RESPONSIBILTY

The Bank is committed to its role as a responsible corporate entity. To this end, during the year, the Bank supported projects

DIRECTORS' REPORT ... Cont'd

that positively impacted the lives of the citizens of the Federation, particularly those geared at unleashing the potential of the young people.

Former West Indian cricketer Carl Tuckett accepts sponsorship cheque from Marketing Officer, Bronte Swanston-Hendrickson

Sports

The Group continued its partnership with former West Indian test and one day cricketers from Nevis to host The Bank of Nevis Limited 2nd Annual Summer Cricket Coaching Clinic. The Clinic seeks to expose children ages 6 – 13 to fundamental cricketing and life enhancement skills.

Former West Indian Cricketer Stuart Williams coaches youngster during BON's Summer Cricket Coaching Clinic.

Additionally, the Group assisted the Nevis Teachers Union by sponsoring the participation of a Nevisian athlete in the Caribbean Teachers Union Championship Meet.

Educational Development

We continue to reward academic excellence through our annual awards for the best "A" and "O" level results. These awards were first presented in 1995 when the Bank celebrated its 10th Anniversary. The awards act as an impetus for students to strive for excellence in education. In recognition of our continued support to the education of our youth, we donated a Public Announcement System to the Violet O J Nicholls Primary School.

Cultural Development

The Group continued to support the development of our cultural heritage through the sponsorship of Culturama and other cultural events. We sponsored the representatives of the Joycelyn Liburd Primary School for the 2010 Mr. & Miss. Talented Pageant and provided assistance to the staging of the 3rd Annual Shekhinah Dance Theatre Production.

OPERATIONAL CHANGES

One of the Group's major strategic goals is to surpass the expectations of its customers. To achieve this goal the Group adopted the philosophy that "the customer comes first." By focusing on the importance of the customer, the institution has improved its customer service delivery and continues to develop a quality customer service culture.

During the year, the ATM services were transferred to a new platform to enhance the banking operations efficiency. As part of this project, all ATM cards were converted to VISA debit cards, providing customers with 24 hour access to their funds from anywhere in the world. Additionally, customers are able to shop online using funds from their accounts.

The core banking software, CORE Director was upgraded to achieve greater efficiency.

CHANGES IN DIRECTORSHIP

At the twenty-third Annual General Meeting held in January 2010, Mr Rawlinson Isaac was re-elected to the Board of Directors of The Bank of Nevis Limited and was appointed as Chairman of both the Domestic and Offshore Banks. Mr. Isaac had previously

DIRECTORS' REPORT ... Cont'd

served as the General Manager of the Group from 1991 – 2006 and also as a director of both the Domestic and Offshore Banks. Also joining the Board in January 2010 was Mr Vernel Powell. Mr. Isaac and Mr. Powell replaced Mr Oral Martin and Ms Lyra Richards who were not returned to office.

Mr. David Straz Jr., Mr. Chris Morton and Mr. Krishan Chandiramani resigned from office as Directors in April, October and December 2010, respectively. The Board expresses appreciation to the above-mentioned outgoing directors for their years of dedicated service and invaluable contribution to the development of the Group.

CHANGE OF THE BANK'S EXTERNAL AUDITORS

The Eastern Caribbean Central Bank Enforced Guidelines for external auditing of financial institutions require that the lead and concurring audit partners should be rotated at least once every six years, provided however that the financial institution shall not engage the services of the same auditor for more than nine consecutive years.

PricewaterhouseCoopers (PwC) has served as the Bank's External Auditors since the financial year ending June 30, 1998 and based on the above stipulated provision are due for rotation. As a consequence, the firm of Deloitte and Touche/Panell Kerr Forster Chartered Accountants will be recommended for appointment as the Bank's External Auditors for the financial year ending June 30, 2011.

BANK OF NEVIS INTERNATIONAL LIMITED

A Corporate Strategic Plan was developed for Bank of Nevis International Limited with the objective of building a world class institution. The Strategic Plan focuses on the restructuring of the operations to provide more timely and efficient service. Additionally, partnerships with offshore service providers and trust companies will be expanded and new products will be created to facilitate greater investment opportunities for customers.

Trevor Hendrickson - Secretary of Building Committee turns soil at Ground Breaking Ceremony for the Bank's Financial Complex

CONSTRUCTION OF FINANCIAL COMPLEX

The construction of The Bank of Nevis Limited's Financial Complex commenced in June 2010 and is scheduled to be completed in December 2011. The commencement of this construction project is the Bank's most significant undertaking for the financial year under review, and the completed edifice will signify a new surge of energy and purpose, and a renewed commitment to serving its customers through the next 25 years and beyond.

This project comprises the construction of a new building and the refurbishment of the current structure. It is anticipated that construction of the new building will be completed by June 2011 at which time the group's entire operations will be relocated there until refurbishment of the existing structure is completed. The Financial Complex will house both the domestic and offshore operations, providing a more professional and customer friendly environment.

CONCLUSION

We express gratitude to the staff for their commitment and all stakeholders for their continued support to the institution. We will continue our collective endeavours to find innovative strategies to satisfy our customers, maximise shareholder wealth, empower our employees and "Improve the Quality of Life" for all.

By order of the Board

A Knights.
....

AIANDRA E. KNIGHTS
SECRETARY

The Bank of Nevis Limited

Consolidated Financial Statements

June 30, 2010

(expressed in Eastern Caribbean dollars)

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Cnr. Bank Street & W. Independence Sq.
P.O. Box 1038
Basseterre
St. Kitts, West Indies
Telephone (869) 466-8200
Facsimile (869) 466-9822

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 statement of financial position as of June 30, 2010, and the consolidated statements of income, comprehensive 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 about 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, 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
March 14, 2011
Basseterre, St. Kitts

The Bank of Nevis Limited

Consolidated Statement of Financial Position

As of June 30, 2010

(expressed in Eastern Caribbean dollars)

	2010 $	2009 $
Assets		
Cash and balances due from banks and other financial institutions (note 6)	**95,029,574**	100,463,687
Investment securities (note 7)	**85,402,242**	86,393,530
Loans and advances (note 8)	**188,822,487**	178,417,159
Other assets (note 9)	**1,680,544**	5,298,694
Property, plant and equipment (note 10)	**16,743,061**	16,764,588
Intangible assets (note 11)	**324,645**	382,403
Total assets	**388,002,553**	387,720,061
Liabilities		
Customers' deposits (note 12)	**312,585,707**	319,652,000
Debt security (note 13)	**14,807,343**	15,312,605
Other liabilities and accrued expenses (note 14)	**11,215,014**	8,316,694
Provision for income tax (note 15)	**729,498**	851,424
Deferred tax (note 15)	**138,930**	265,063
Total liabilities	**339,476,492**	344,397,786
Shareholders' Equity		
Share capital (note 16)	**7,478,150**	7,478,150
Revaluation reserves (note 17)	**10,914,712**	9,619,680
Other reserves (note 18)	**15,357,723**	12,380,088
Retained earnings	**14,775,476**	13,844,357
Total shareholders' equity	**48,526,061**	43,322,275
Total liabilities and shareholders' equity	**388,002,553**	387,720,061

The notes on pages 34 to 112 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on March 14, 2011

_______________ Chairman

_______________ Director

The Bank of Nevis Limited

Consolidated Statement of Income

For the year ended June 30, 2010

(expressed in Eastern Caribbean dollars)

	2010 $	2009 $
Interest income (note 19)	**25,100,576**	22,878,440
Interest expense (note 20)	**(11,519,287)**	(9,794,753)
Net interest income	**13,581,289**	13,083,687
Realised gain / (loss) from investment securities (note 7)	**4,220**	(1,353)
(Impairment provision) / Reversal of impairment loss, on available-for-sale investment securities (note 7)	**(1,347,450)**	179,373
Impairment provision on fixed deposits (note 6)	**(1,597,537)**	(10,145,991)
Other operating income (note 21)	**5,912,188**	3,638,046
Operating income	**16,552,710**	6,753,762
Operating expenses		
General and administrative expenses (note 27)	**9,292,309**	9,736,325
Provision for loan impairment, net of recoveries (note 8)	**737,654**	(405,420)
Directors' fees and expenses	**451,298**	504,710
Audit fees	**333,001**	411,603
Depreciation (note 10)	**332,392**	366,918
Amortisation (note 11)	**142,056**	194,898
Correspondent bank charges	**232,183**	189,919
	11,520,893	10,998,953
Operating profit / (loss)for the year before taxation	**5,031,817**	(4,245,191)
Taxation (note 15)		
Current tax expense	**778,120**	888,716
Prior year tax (over accrual) / expense	**(11,329)**	589
Deferred tax (credit) / expense	**(17,636)**	268,957
Income tax expense	**749,155**	1,158,262
Net profit / (loss)for the year	**4,282,662**	(5,403,453)
Earnings/(loss) per share (note 23)	**0.57**	(0.72)

The notes on pages 34 to 112 are an integral part of these consolidated financial statements.

The Bank of Nevis Limited

Consolidated Statement of Comprehensive Income

For the year ended June 30, 2010

(expressed in Eastern Caribbean dollars)

	2010 $	2009 $
Net profit (loss) for the year	**4,282,662**	(5,403,453)
Other comprehensive income/(loss) for the year:		
Appreciation/(depreciation) in market value of investment securities, net of tax (note 17)	**1,295,032**	(625,048)
Reversal of impairment loss on available-for-sale investment securities	**–**	(179,373)
Transfer of net gains to income, net of tax (note 17)	**–**	(1,353)
Total other comprehensive income/(loss) for the year	**1,295,032**	(805,774)
Total comprehensive income/(loss) for the year	**5,577,694**	(6,209,227)

The notes on pages 34 to 112 are an integral part of these consolidated financial statements.

The Bank of Nevis Limited

Consolidated Statement of Changes in Equity

For the year ended June 30, 2010

(expressed in Eastern Caribbean dollars)

	Share capital $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance at June 30, 2008	7,478,150	10,425,454	11,218,941	21,904,587	51,027,132
Comprehensive income					
Net loss for the year	–	–	–	(5,403,453)	(5,403,453)
Other comprehensive income					
Reversal of previously recognised impairment loss (note 17)	–	(179,373)	–	–	(179,373)
Transfer of net losses net of tax (note 17)	–	(1,353)	–	–	(1,353)
Depreciation in market value of investment securities, net of tax (note 17)	–	(625,048)	–	–	(625,048)
Reserve for loan impairment (note 18)	–	–	377,760	(377,760)	–
Reserve for interest on non-performing loans (note 18)	–	–	783,387	(783,387)	–
Total other comprehensive income	–	(805,774)	1,161,147	(1,161,147)	(805,774)
Total comprehensive income	**–**	**(805,774)**	**1,161,147**	**(6,564,600)**	**(6,209,227)**
Transactions with owners					
Dividends (note 25)	–	–	–	(1,495,630)	(1,495,630)
Balance at June 30, 2009	**7,478,150**	**9,619,680**	**12,380,088**	**13,844,357**	**43,322,275**

The notes on pages 34 to 112 are an integral part of these consolidated financial statements

The Bank of Nevis Limited

Consolidated Statement of Changes in Equity ... Continued

For the year ended June 30, 2010

(expressed in Eastern Caribbean dollars)

	Share capital $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance at June 30, 2009	7,478,150	9,619,680	12,380,088	13,844,357	43,322,275
Comprehensive income					
Net profit for the year	–	–	–	4,282,662	4,282,662
Other comprehensive income					
Appreciation in market value of investment securities, net of tax (note 17)	–	1,295,032	–	–	1,295,032
Reserve for loan impairment (note 18)	–	–	76,636	(76,636)	–
Reserve for interest on non-performing loans (note 18)	–	–	1,310,837	(1,310,837)	–
Reserve for items in-transit on correspondent bank accounts (note 18)	–	–	1,590,162	(1,590,162)	–
Total other comprehensive income	–	1,295,032	2,977,635	(2,977,635)	1,295,032
Total comprehensive income	**–**	**1,295,032**	**2,977,635**	**1,305,027**	**5,577,694**
Transactions with owners					
Dividends (note 25)	–	–	–	(373,908)	(373,908)
Balance at June 30, 2010	**7,478,150**	**10,914,712**	**15,357,723**	**14,775,476**	**48,526,061**

The notes on pages 34 to 112 are an integral part of these consolidated financial statements

The Bank of Nevis Limited

Consolidated Statement of Cash Flows

For the year ended June 30, 2010

(expressed in Eastern Caribbean dollars)

	2010 $	2009 $
Cash flows from operating activities		
Operating profit/(loss) for the year before taxation	**5,031,817**	(4,245,191)
Items not affecting cash:		
Provision/(Recovery of) for loan impairment	**737,654**	(405,420)
Depreciation	**332,392**	366,918
Amortisation	**142,056**	194,898
Impairment provision/(reversal of impairment loss) on available-for-sale investment securities	**1,347,450**	(179,373)
(Gain)/loss on investment securities	**(4,220)**	1,353
Impairment provision on fixed deposits	**1,597,537**	10,145,991
Share dividend received	**(741,040)**	–
Interest income	**(25,100,576)**	(22,878,440)
Interest expense	**11,519,287**	9,794,753
Cash flows from operating income before changes in operating assets and liabilities	**(5,137,643)**	(7,204,511)
Changes in operating assets and liabilities		
(Increase)/decrease in restricted deposits	**(5,790,893)**	1,447,152
Decrease/(increase) in deposits held for regulatory purposes	**10,543,631**	(13,022,371)
Increase in loans and advances	**(9,667,260)**	(27,836,059)
Decrease/(increase) in other assets	**3,618,150**	(100,083)
(Decrease)/increase in customer deposits	**(7,286,940)**	33,684,817
Increase/(decrease) in other liabilities and accrued expenses	**2,898,320**	(5,589,050)
Cash used in operations	**(10,822,635)**	(18,620,105)
Interest paid	**(11,049,330)**	(8,738,199)
Interest received	**24,212,987**	21,594,534
Income tax paid, net of refunds	**(888,717)**	(420,118)
Net cash from/(used) in operating activities	**1,452,305**	(6,183,888)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(310,865)**	(210,568)
Purchase of intangible assets	**(84,298)**	(178,461)
Decrease/(increase) in other marketable securities	**2,694,900**	(2,694,900)
Decrease/(increase) in investment securities	**748,567**	(4,622,005)
Increase in fixed deposits	**(998,356)**	(9,309,807)
Net cash from/(used in) investing activities	**2,049,948**	(17,015,741)

The notes on pages 34 to 112 are an integral part of these consolidated financial statements

The Bank of Nevis Limited

Consolidated Statement of Cash Flows ... Continued

For the year ended June 30, 2010

(expressed in Eastern Caribbean dollars)

	2010 $	2009 $
Cash flows used in financing activities		
Repayment of debt security	**(754,572)**	7,732,021
Dividends paid	**(373,908)**	(1,495,630)
Net cash (used in)/from financing activities	**(1,128,480)**	6,236,391
Increase/(decrease) in cash and cash equivalents	**2,373,773**	(16,963,238)
Cash and cash equivalents, beginning of year	**88,922,127**	105,885,365
Cash and cash equivalents, end of year (note 26)	**91,295,900**	88,922,127

The notes on pages 34 to 112 are an integral part of these consolidated financial statements

(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. Christopher 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. Christopher 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 consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated:

2.1 Basis of preparation

These consolidated financial statements for the year 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

The consolidated financial statements comprise the consolidated statement of income, consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and available-for-sale investment securities.

The Bank classifies its expenses by the nature of expense method.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *... continued*

2.1 Basis of preparation … *continued*

The disclosures of risks from financial instruments are presented in the financial risk management report contained in Note 3.

The consolidated statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. The composition of cash and cash equivalents is disclosed in Note 26.

The cash flows from operating activities are determined by using the indirect method. Net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interest received or paid is classified as operating cash flows.

The cash flows from investing and financing activities are determined by using the direct method. The Bank's assignment of the cash flows to operating, investing and financing categories depends on the Bank's business model (management approach).

The preparation of financial statements in conformity with IFRS 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. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

The Bank's consolidated financial statements are filed with the Eastern Caribbean Central Bank.

Standards, amendments and interpretations effective for periods beginning on or after January 1, 2009

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Bank:

- Amendments to IFRS 7, 'Financial instruments: Disclosures' *(effective from January 1, 2009*)
  The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Bank.

2 Significant accounting policies ... *continued*

2.1 Basis of preparation … *continued*

Standards, amendments and interpretations effective for periods beginning on or after January 1, 2009*…continued*

- IFRS 8, ' Operating segments' *(effective from January 1, 2009)*
  IFRS 8 was issued in November 2006 and excluding early adoption would first be required to be applied to the Bank's accounting period beginning on or after January 1, 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Bank's external segment reporting will be based on the internal reporting to the Bank's executive board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 does not have any material effect for the Bank but has an impact on segment disclosure and on the measurement bases within segments. The segment disclosures have been changed accordingly.

- IAS 1 (Revised), 'Presentation of financial statements' *(effective from 1 January 2009)*
  The revised standard prohibits 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 are required to present a restated statement of financial position as at the beginning comparative period in addition to the current requirement to present statement of financial position at the end of the current period and comparative period. The Bank has applied IAS 1 (Revised) from July 1, 2009. The Bank chose to present two statements (the income statement and statement of comprehensive income).

Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the Bank's accounting periods beginning on or after July 1, 2010 or later periods and are expected to be relevant to the Bank:

- IFRS 1 and IAS 27, 'Cost of an investment in a subsidiary, jointly-controlled entity or associate'. The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies … *continued*

2.1 Basis of preparation … *continued*

Standards and interpretations issued but not yet effective … *continued*

- IAS 27, 'Consolidated and separate financial statements'. 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 the statement of income. The Bank will apply IAS 27 (revised) prospectively to transactions with non-controlling interest from July 1, 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Bank.

- 'Improvements to IFRS' were issued in May 2008 (endorsed by the EU on January 23, 2009) and April 2009 (not yet endorsed). They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2009 and January 1, 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

- IFRS 9, 'Financial instruments part 1: Classification and measurement'. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  (i) Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  (ii) An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit and loss.

  (iii) All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

2 **Significant accounting policies …** *continued*

2.1 Basis of preparation … *continued*

Standards and interpretations issued but not yet effective … *continued*

While adoption of IFRS 9 is mandatory from January 1, 2013, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

2.2 Consolidation

The financial statements of the subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date. The consolidation principles are unchanged from the previous year.

Subsidiaries
The consolidated financial statements of the Bank comprise the financial statements of the parent entity and all subsidiaries (the "Bank") as of June 30, 2010.

Subsidiaries are companies in which the Bank directly or indirectly holds the majority of the voting rights and where it determines their financial and business policies and is able to exercise control over them in order to benefit from their activities. 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 on which control ceases.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

Inter-company transactions, balances and intragroup gains on transactions between group companies are eliminated. Intragroup losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

2.3 Cash and Cash Equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.4 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments - are recognised in the consolidated statement of financial position and measured in accordance with their assigned category.

2 Significant accounting policies … *continued*

2.4.1 Financial Assets

The Bank allocates its financial assets to the following IAS 39 categories: loans and receivables and available-for-sale financial assets. Management determines the classification of its financial instruments at 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 other than:

(a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(b) those that the Bank upon initial recognition designates as available-for-sale; or

(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value - which is the cash consideration to originate or purchase the loan including any transaction costs - and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the consolidated statement of financial position as loans and advances or as investment securities. Interest on loans is included in the consolidated statement of income and is reported as 'Interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the consolidated statement of income as 'provision for loan impairment'.

(b) Available-for-sale financial assets
Available-for-sale investments are financial assets that are 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, or that are classified as loans and receivables.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. However, unimpaired equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is recognised in the consolidated statement of income. Interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the consolidated statement of income.

Dividends on available-for-sale equity instruments are recognised in the consolidated statement of income within other operating income as 'Dividend income' when the Bank's right to receive payment is established.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies … *continued*

2.4.2 Financial liabilities

The Bank's financial liabilities are carried at amortised cost.

Financial liabilities measured at amortised cost are customers' deposits and trade payables.

2.4.3 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the consolidated statement of financial position within 'cash and balances due from banks and other financial institutions' and 'investment securities', if the transferee has the right to sell or repledge them.

2.4.4 Reclassification of financial assets

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies … *continued*

2.4.5 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information disclosed and take into account the characteristics of those financial instruments. The classification hierarchy can be seen in the table below:

<table>
<tr><td rowspan="21">Financial assets</td><td rowspan="16">Loans and receivables</td><td colspan="2" rowspan="3">Due from banks and other financial institutions</td><td>Deposits with the Central Bank</td></tr>
<tr><td>Correspondent bank accounts</td></tr>
<tr><td>Fixed deposits</td></tr>
<tr><td rowspan="8">Loans and advances to customers</td><td rowspan="4">Loans and advances to individuals</td><td>Credit Cards</td></tr>
<tr><td>Overdrafts</td></tr>
<tr><td>Mortgage loans</td></tr>
<tr><td>Consumer loans</td></tr>
<tr><td rowspan="2">Loans and advances to corporate entities</td><td>Overdrafts</td></tr>
<tr><td>Commercial loans</td></tr>
<tr><td rowspan="2">Loans and advances to government and statutory bodies</td><td>Overdrafts</td></tr>
<tr><td>Loans</td></tr>
<tr><td rowspan="3">Investment securities</td><td>Treasury bills</td><td>Local treasury bills</td></tr>
<tr><td rowspan="2">Debt instruments</td><td>Quoted</td></tr>
<tr><td>Unquoted</td></tr>
<tr><td colspan="3">Other assets</td></tr>
<tr><td colspan="3">Due from related parties</td></tr>
<tr><td rowspan="5">Available-for-sale financial assets</td><td rowspan="5">Investment securities</td><td rowspan="2">Debt instruments</td><td>Quoted</td></tr>
<tr><td>Unquoted</td></tr>
<tr><td>Mutual funds</td><td>Quoted</td></tr>
<tr><td rowspan="2">Equity securities</td><td>Quoted</td></tr>
<tr><td>Unquoted</td></tr>
</table>

<table>
<tr><td rowspan="6">Financial liabilities</td><td rowspan="6">Financial liabilities at amortised cost</td><td colspan="2">Deposits from banks and other financial institutions</td></tr>
<tr><td rowspan="3">Deposits from customers</td><td>Deposits from individuals</td></tr>
<tr><td>Deposits from corporate entities</td></tr>
<tr><td>Deposits from government and statutory bodies</td></tr>
<tr><td colspan="2">Other liabilities</td></tr>
<tr><td colspan="2">Due from related parties</td></tr>
<tr><td rowspan="3">Off-balance sheet financial instruments</td><td colspan="3">Loan commitments</td></tr>
<tr><td colspan="3">Financial guarantees</td></tr>
<tr><td colspan="3">Capital commitments</td></tr>
</table>

2 Significant accounting policies … *continued*

2.5 Impairment of financial assets

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

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

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

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

(iii) the lender 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 becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

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

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

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three and twelve months; in exceptional cases, longer periods are warranted.

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.

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 consolidated 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 instrument's fair value using an observable market price.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

2.5 Impairment of financial assets...*continued*

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the 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.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). 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. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (held to maturity and loans and receivables categories) are classified in 'Net gains/(losses) on investment securities'.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are recognised 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 provision account. The amount of the reversal is recognised in the consolidated statement of income.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies … *continued*

2.5 Impairment of financial assets…*continued*

(b) *Assets classified as available-for-sale*
The Bank assesses at each date of the consolidated statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of income.

Impairment losses recognised in the consolidated statement of income on equity investments are not reversed through the consolidated 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 consolidated statement of income.

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

2.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position 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.

2.7 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 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.

2 Significant accounting policies … *continued*

2.8 Property, plant and equipment

Buildings are shown at fair value base on periodic valuations not exceeding five years by external independent valuers, less subsequent depreciation for building. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost or valuation, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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 down 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%
Motor vehicle	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.

Increases in the carrying amount arising on revaluation of land and buildings are credited to revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the consolidated statement of income.

Capital work-in-progress are not depreciated. On completion of project, the relevant amounts would be transferred to Buildings.

2.9 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.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies … *continued*

2.10 Interest income and expense

Interest income and expense are recognised in the consolidated 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.

2.11 Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans which are likely to be 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.

2.12 Dividend income

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

2.13 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 statement of financial position date are disclosed as a subsequent event.

2.14 Foreign currency translation

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

2 Significant accounting policies … *continued*

2.14 Foreign currency translation*…continued*

(b) 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 statement of financial position 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 consolidated statement of income.

2.15 Pension costs

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

2.16 Income tax

a) Current income tax
Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity (for example, current tax on available-for-sale investments).

Where the Bank has tax losses that can be relieved against a tax liability for a previous year, it recognises those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against an existing current tax balance. Where tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position.

b) *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 consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the consolidated statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Income tax payable on profits, based on the applicable tax law in each jurisdiction 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 that is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the consolidated statement of income together with the deferred gain or loss.

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies … *continued*

2.17 Share Capital

Ordinary shares are classified as equity.

2.18 Comparatives

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

3 Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses of profits foregone, which may be caused by internal or external factors.

Risk Management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risks (which are discussed below) and operational risk.

3.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

(expressed in Eastern Caribbean dollars)

3 Financial risk management*...continued*

3.1.1 Credit risk management

(a) Loans and advances
The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of the 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.

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 Administration 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 St. Kitts and Nevis Federal Government, and the Nevis Island Administration, 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 groups, 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, on an ongoing basis.

(expressed in Eastern Caribbean dollars)

3 Financial risk management…continued

3.1.2 Risk limit control and mitigation policies…continued

Lending limits are reviewed in light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(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; and
- 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 counterparty 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.

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 provisioning policies

The internal rating system described in Note 3.1.1 focuses on expected credit losses – that is, taking into account the risk of future events giving rise to losses. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the date of the consolidated statement of financial position, based on the objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses

(expressed in Eastern Caribbean dollars)

3 Financial risk management*...continued*

3.1.3 Impairment and provisioning policies*...continued*

provided for in the consolidated 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.

The impairment provision shown in the consolidated statement of financial position at year end is derived from each of the five rating grades. However, the largest component 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:

	2010		**2009**	
Bank's rating	**Loans and advances** (%)	**Impairment provision** (%)	**Loans and advances** (%)	**Impairment provision** (%)
Pass	**85.9**	**–**	88.3	–
Special mention	**6.0**	**–**	3.7	3.4
Sub-standard	**5.9**	**41.5**	5.2	16.4
Doubtful	**2.0**	**40.7**	2.4	46.3
Loss	**0.2**	**17.8**	0.4	33.9
Total	**100.0**	**100.0**	**100.0**	**100.0**

(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

	2010 **$**	**2009** **$**
Credit risk exposures relating to on-balance sheet assets:		
Deposits with other banks	**55,098,621**	49,677,438
Deposits with non-bank financial institutions	**15,941,050**	21,732,235
Investment securities:		
– Treasury bills and other eligible bills	**46,537,020**	43,453,363
– Bonds and other debt instruments	**17,009,706**	15,736,488
– Available-for-sale investments-quoted	**–**	1,395,346
Loans and advances	**188,822,487**	178,417,159
Other assets	**385,913**	4,129,800
Pledged assets:		
– Available-for-sale		
Fixed income securities, quoted	**9,345,848**	14,657,537
– Deposits with non-bank financial institutions	**8,339,247**	2,548,354
	341,479,892	331,747,720
Credit exposures relating to off-balance sheet items:		
– Financial guarantees	**507,155**	231,715
– Loan commitments and other credit related facilities	**18,327,560**	23,192,489
Total	**360,314,607**	355,171,924

The above table represents a worse case scenario of credit exposure to the Bank at June 30, 2010 and 2009, 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 consolidated statement of financial position.

52.4% of the total maximum exposure is derived from loans and advances (2009: 50.2%) and 20.2% represents investment in securities (2009: 21.2%).

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:

- 91.9% of the loans and advances portfolio is categorized in the top two grades of the internal rating system (2009: 92.0%).
- 87.1% of the loans and advances portfolio are considered to be neither past due nor impaired (2009: 87.7%).
- 10.0% of loans and advances are considered impaired (2009: 9.3%).

(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 increased during the year to $3.0 million, an increase of 4.2% over the previous year ($2.9 million).
- The Bank has introduced a more stringent selection process upon granting loans and advances.
- 21.5% (2009: 24.9%) of the investment portfolio is held in the overseas markets, including the United States of America and consists primarily of securities with a minimum rating of BA1/BB+. 78.5% (2009: 75.1%) is held in regional (Caribbean) institutions which carry no official rating.

3.1.5 Credit quality of loans and advances

Loans and advances are summarised as follows:

	2010		2009	
	Loans and advances to customers $	**Loans and advances to financial institutions $**	**Loans and advances to customers $**	**Loans and advances to financial institutions $**
Neither past due nor impaired	157,011,473	10,023,353	149,132,917	9,821,285
Past due but not impaired	5,738,490	–	5,572,306	–
Impaired	19,095,610	–	16,813,904	–
Gross	**181,845,573**	**10,023,353**	**171,519,127**	**9,821,285**
Less: allowance for impairment	(3,046,439)	–	(2,923,253)	–
Net	**178,799,134**	**10,023,353**	**168,595,874**	**9,821,285**

The total impairment provision for loans and advances is $3,046,439 (2009: $2,923,253) of which $1,954,571 (2009: $2,006,380) represents the individually impaired loans, and the remaining amount of $1,091,868 (2009: $916,873) represents the portfolio provision. Further information on the impairment provision for loans and advances to banks and to customers is provided in Note 8.

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.1.5 Credit quality of 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, 2010

	Overdraft $	Personal $	Commercial $	Public sector $	Total $
Grades:					
Pass	12,291,895	58,146,425	46,480,233	42,700,555	159,619,108
Special mention	7,415,718	–	–	–	7,415,718
Sub-standard	–	–	–	–	–
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	**19,707,613**	**58,146,425**	**46,480,233**	**42,700,555**	**167,034,826**

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
Sub-standard	–	–	–	–	–
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	**17,262,007**	**62,082,748**	**32,888,815**	**46,720,632**	**158,954,202**

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.1.5 Credit quality of 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, 2010

	Overdraft $	Personal $	Commercial $	Total $
Past due up to 30 days	–	3,128,106	3,501	3,131,607
Past due 30-60 days	–	381,008	–	381,008
Past due 60-90 days	–	508,812	1,717,063	2,225,875
Total	**–**	**4,017,926**	**1,720,564**	**5,738,490**

As at June 30, 2009

	Overdraft $	Personal $	Commercial $	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**

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.1.5 Credit quality of 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, 2010

	Overdraft $	Personal $	Commercial $	Total $
Individually impaired loans	**606,761**	**8,788,461**	**9,700,388**	**19,095,610**
Fair value of collateral	**373,512**	**19,563,757**	**40,516,852**	**60,454,121**

As at June 30, 2009

	Overdraft $	Personal $	Commercial $	Total $
Individually impaired loans	701,332	6,907,514	9,205,058	16,813,904
Fair value of collateral	423,512	15,720,745	30,608,892	46,753,149

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $19,095,610 (2009: $16,813,904).

(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 $1,163,212 at June 30, 2010 (2009: $639,298).

(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, 2010 and 2009 based on Standard & Poor's rating or their equivalent:

	Treasury bills $	Bonds and other debt instruments $	Available-for-sale $	Total $
Aa1—Baa3	–	4,045,384	4,300,437	8,345,821
Lower than Baa3	–	–	1,068,598	1,068,598
Unrated	46,537,020	12,964,322	16,486,481	75,987,823
As at June 30, 2010	**46,537,020**	**17,009,706**	**21,855,516**	**85,402,242**

	Treasury bills $	Bonds and other debt instruments $	Available-for-sale $	Total $
Aa1—Baa3	–	2,670,912	12,576,328	15,247,240
Lower than Baa3	–	–	4,907,130	4,907,130
Unrated	43,453,363	13,065,576	9,720,221	66,239,160
As at June 30, 2009	**43,453,363**	**15,736,488**	**27,203,679**	**86,393,530**

3.1.7 Repossessed collateral

During the year ended June 30, 2010, the Bank took possession of collateral securing facilities with carrying value of $56,914 (2009: $Nil).

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

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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, (without taking into account any collateral held or other credit support) as categorised by geographical region as at June 30, 2009 and 2010. For all classes of assets, the Bank has allocated exposures to regions based on country of domicile of the counterparties.

	St. Christopher & Nevis $	Other Caribbean $	North America $	Europe $	Total $
Credit risk exposures relating to on-balance sheet assets:					
Deposits with other banks	2,752,298	32,967,269	9,859,255	9,519,799	55,098,621
Deposits with non bank financial institutions	74,887	15,866,163	–	–	15,941,050
Investment securities:					
– Treasury bills and other eligible bills	46,537,020	–	–	–	46,537,020
– Bonds and other debt instruments	9,233,909	7,775,797	–	–	17,009,706
Loans and advances	172,735,503	2,655,162	9,711,981	3,719,841	188,822,487
Other assets	148,176	2,807	183,359	51,571	385,913
Pledged assets:					
– Available-for-sale					
Fixed income securities	–	–	9,345,848	–	9,345,848
–Deposits with non-bank financial institutions	808,470	–	7,530,777	–	8,339,247
	232,290,263	**59,267,198**	**36,631,220**	**13,291,211**	**341,479,892**
Credit exposures relating to off balance sheet items:					
Financial guarantees	507,155	–	–	–	507,155
Loan commitments and other credit related facilities	16,701,622	–	1,546,558	79,380	18,327,560
As at June 30, 2010	**249,499,040**	**59,267,198**	**38,177,778**	**13,370,591**	**360,314,607**

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

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

(a) Geographical sectors...continued

	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	–	–	21,732,235
Investment securities:					
– Treasury bills and other eligible bills	43,453,363	–	–	–	43,453,363
– Bonds and other debt instruments	7,859,437	7,877,051	–	–	15,736,488
– Available-for-sale-quoted	–	1,395,346	–	–	1,395,346
Loans and advances	164,171,800	4,075,448	6,829,390	3,340,521	178,417,159
Other assets	768,988	–	3,360,812	–	4,129,800
Pledged assets:					
– Available-for-sale					
Fixed income securities	–	–	14,657,537	–	14,657,537
– Deposits with non-bank financial institutions	808,470	–	1,739,884	–	2,548,354
	219,601,267	**71,254,530**	**29,639,924**	**11,251,999**	**331,747,720**
Credit exposures relating to off balance sheet items:					
Financial guarantees	231,715	–	–	–	231,715
Loan commitments and other credit related facilities	21,361,588	–	1,830,901	–	23,192,489
As at June 30, 2009	**241,194,570**	**71,254,530**	**31,470,825**	**11,251,999**	**355,171,924**

(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:

	2010 $	%	2009 $	%
Personal	**63,019,487**	**32.8**	66,343,837	36.5
Commercial	**49,683,416**	**25.9**	28,355,131	15.6
Public sector	**50,682,620**	**26.4**	58,950,234	32.5
Investment	**15,287,394**	**8.0**	15,033,672	8.3
Land	**6,931,103**	**3.6**	6,865,565	3.8
Agricultural/manufacturing	**739,291**	**0.4**	1,036,780	0.6
Educational	**1,596,542**	**0.8**	1,531,301	0.8
Professional	**929,028**	**0.5**	857,848	0.5
Credit card advances	**3,000,045**	**1.6**	2,545,104	1.4
Total	**191,868,926**	**100.0**	**181,519,472**	**100.0**

3.2 Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future 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 Risk Management Committee and by management. Regular reports are submitted to the Board of Directors and department heads.

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 available-for-sale investments.

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 consolidated statement of financial position as available-for-sale. The Bank's portfolio includes securities that are quoted on the Eastern Caribbean Securities Exchange (ECSE) in addition to mutual funds that are quoted in the United States. Its exposure to equity securities price risk in respect of ECSE traded securities is minimal because the total of these securities is insignificant in relation to its consolidated statement of financial position and because of the limited volatility in this market. The mutual funds' exposure to equity securities price risk is managed by setting maximum exposure limits and the close monitoring of these securities. The Bank is not exposed to commodity price risk.

If market rates at June 30, 2010 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $23,458 (2009: $12,700) lower/ higher as a result of the increase/decrease in the fair value of available-for-sale investment securities.

	2010 $	2009 $
Available-for-sale		
Equity securities quoted at market value	**1,531,546**	1,100,498
Mutual funds quoted at market value	**9,052,770**	6,825,815
	10,584,316	7,926,313

3.2.2 Foreign currency 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.

Most of the Bank's 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 risk at June 30, 2010. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

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3 Financial risk management . . . *continued*

3.2.2 Foreign exchange risk . . . *continued*

	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
As at June 30, 2010							
Assets							
Cash and balances with ECCB	15,215,178	323,940	26,629	74,034	3,328	7,547	15,650,656
Deposits with banks	4,773,452	45,320,630	1,915,796	3,009,006	–	79,737	55,098,621
Deposits with non-bank financial institutions	70,662	9,415,768	3,551,964	2,902,656	–	–	15,941,050
Investment securities:							
– Treasury bills and other eligible bills	39,869,995	6,667,025	–	–	–	–	46,537,020
– Bonds and other debt securities	7,859,437	9,150,269	–	–	–	–	17,009,706
– Available-for-sale investments - unquoted	221,886	1,703,466	–	–	–	–	1,925,352
– Available-for-sale investments - quoted	1,531,546	–	–	–	–	–	1,531,546
Loans and advances to customers	156,451,537	32,370,950	–	–	–	–	188,822,487
Other assets	150,659	182,817	–	51,571	866	–	385,913
Pledged assets:							
– Available-for-sale							
Fixed income securities, quoted	–	18,398,618	–	–	–	–	18,398,618
– Deposits with non-bank and other financial institutions	–	8,339,247	–	–	–	–	8,339,247
Total financial assets	**226,144,352**	**131,872,730**	**5,494,389**	**6,037,267**	**4,194**	**87,284**	**369,640,216**
Liabilities							
Customer deposits	181,110,274	128,055,475	1,367,260	2,002,823	49,875	–	312,585,707
Debt security	–	14,807,343	–	–	–	–	14,807,343
Other liabilities and accrued expenses	1,465,649	7,800,198	97,662	56,730	3,372	223	9,423,834
Total financial liabilities	**182,575,923**	**150,663,016**	**1,464,922**	**2,059,553**	**53,247**	**223**	**336,816,884**
Net on-balance sheet position	**43,568,429**	**(18,790,286)**	**4,029,467**	**3,977,714**	**(49,053)**	**87,061**	**32,823,332**
Credit commitments	**13,377,158**	**8,990,249**	**–**	**–**	**–**	**–**	**22,367,407**

(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 ECCB	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	14,112,313	4,150,111	3,267,515	–	–	21,732,235
Investment securities:							
– Treasury bills and other eligible bills	37,210,365	6,242,998	–	–	–	–	43,453,363
– Bonds and other debt securities	7,859,437	7,877,051	–	–	–	–	15,736,488
– Available-for-sale investments- unquoted	173,566	3,050,916	–	–	–	–	3,224,482
– Available-for-sale securities- quoted	1,100,498	1,395,346	–	–	–	–	2,495,844
Loans and advances to customers	154,462,449	23,954,710	–	–	–	–	178,417,159
Other assets	315,134	3,755,278	–	58,522	866	–	4,129,800
Pledge assets:							
– Available-for-sale							
Fixed income securities	–	21,483,353	–	–	–	–	21,483,353
– Deposits with non-bank financial institutions	–	2,548,354	–	–	–	–	2,548,354
Total financial assets	**236,194,550**	**118,378,847**	**6,206,351**	**8,086,585**	**450,970**	**86,873**	**369,404,176**
Liabilities							
Customer deposits	191,316,513	125,358,649	616,970	2,267,818	92,050	–	319,652,000
Debt security	–	15,312,605	–	–	–	–	15,312,605
Other liabilities and accrued expenses	2,259,091	4,336,732	97,662	100,879	2,552	581	6,797,497
Total financial liabilities	**193,575,604**	**145,007,986**	**714,632**	**2,368,697**	**94,602**	**581**	**341,762,102**
Net on-balance sheet position	**42,618,946**	**(26,629,139)**	**5,491,719**	**5,717,888**	**356,368**	**86,292**	**27,642,074**
Credit commitments	**16,465,618**	**7,267,226**	**–**	**–**	**–**	**–**	**23,732,844**

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.2.2 Foreign exchange risk . . . *continued*

If at June 30, 2010, 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 $361,916 (2009: $483,067) 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 2010 was $606,829 (2009: loss of $359,102).

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, 2010.

If at June 30, 2010, 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 $319,102 (2009: 433,202) 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 in an exchange loss of $527,521 (2009: loss of $463,151).

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, 2010.

If at June 30, 2010, 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 $3,541 (2009: $38,068) 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 2010 is a gain of $22,411 (2009: $33,574).

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, 2010.

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

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 fair 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 or decrease as a result of such changes.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.

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

For the year ended June 30, 2010

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.2.3 Interest rate risk . . . *continued*

As at June 30, 2010	Under 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-Interest bearing $	Total $
Assets							
Cash and balances with the Central Bank	2,000	–	–	–	–	15,648,656	15,650,656
Deposits with banks	42,653,137	7,684,484	–	1,416,685	–	3,344,315	55,098,621
Deposits with non bank financial institutions	3,995,298	151,079	–	11,734,096	–	60,577	15,941,050
Investment securities:							
– Treasury bills	16,155,544	26,122,440	4,259,036	–	–	–	46,537,020
– Bonds and other debt instruments	2,670,912	93,087	4,187,694	7,051,492	3,006,521	–	17,009,706
– Available-for-sale investments – unquoted	–	–	–	–	–	1,925,352	1,925,352
– Available-for-sale securities-quoted	–	–	–	–	–	1,531,546	1,531,546
Loans and advances to customers	43,404,237	2,854,767	6,229,643	34,371,354	101,962,486	–	188,822,487
Other assets	–	–	–	–	–	385,913	385,913
Pledged assets:							
– Available-for-sale Fixed income securities	987,128	–	–	3,708,182	4,650,537	9,052,771	18,398,618
– Deposits with bank and other financial institution	7,530,777	–	808,470	–	–	–	8,339,247
Total financial assets	**117,399,033**	**36,905,857**	**15,484,843**	**58,281,809**	**109,619,544**	**31,949,130**	**369,640,216**
Liabilities							
Customer deposits	142,855,637	28,303,321	92,635,771	6,385,755	–	42,405,223	312,585,707
Debt security	14,807,343	–	–	–	–	–	14,807,343
Other liabilities and accrued expenses	–	–	–	–	–	9,423,834	9,423,834
Total financial liabilities	**157,662,980**	**28,303,321**	**92,635,771**	**6,385,755**	**–**	**51,829,057**	**336,816,884**
Total interest repricing gap	**(40,263,947)**	**8,602,536**	**(77,150,928)**	**51,896,054**	**109,619,544**	**(19,879,927)**	**32,823,332**

(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 ECCB	48,535	–	–	–	–	26,457,125	26,505,660
Deposits with banks	27,923,958	7,867,264	9,878,733	–	–	4,007,483	49,677,438
Deposits with non bank financial institutions	5,872,510	–	15,668,572	–	–	191,153	21,732,235
Investment securities:							
–Treasury bills	15,656,434	24,994,737	2,802,192	–	–	–	43,453,363
–Bonds and other debt instruments	70,912	5,145,344	58,576	8,541,702	1,919,954	–	15,736,488
–Available-for-sale securities –unquoted	–	–	–	–	–	3,224,482	3,224,482
–Available-for-sale securities –quoted	–	–	1,395,346	–	–	1,100,498	2,495,844
Loans and advances to customers	31,798,527	2,106,820	6,686,374	46,890,312	90,935,126	–	178,417,159
Other assets	–	–	–	–	–	4,129,800	4,129,800
Pledged assets:							
– Available-for-sale Fixed income securities	–	390,761	5,009,132	3,538,441	5,719,204	6,825,815	21,483,353
– Deposits with banks and other financial institutions	1,739,884	–	808,470	–	–	–	2,548,354
Total financial assets	**83,110,760**	**40,504,926**	**42,307,395**	**58,970,455**	**98,574,284**	**45,936,356**	**369,404,176**
Liabilities							
Customers deposits	163,236,227	34,204,011	78,825,116	5,055,009	–	38,331,637	319,652,000
Debt security	15,312,605	–	–	–	–	–	15,312,605
Other liabilities and accrued expenses	–	–	–	–	–	6,797,497	6,797,497
Total financial liabilities	**178,548,832**	**34,204,011**	**78,825,116**	**5,055,009**	**–**	**45,129,134**	**341,762,102**
Total interest repricing gap	**(95,438,072)**	**6,300,915**	**(36,517,721)**	**53,915,446**	**98,574,284**	**807,222**	**27,642,074**

3 Financial risk management . . . *continued*

3.2.3 Interest rate risk . . . *continued*

The Bank's fair value interest rate risk arises from fixed income debt securities classified as available-for-sale. If market rates at June 30, 2010 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $91,570 (2009: $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, 2010, 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 $1,066,480 higher/lower (2009: $1,040,041), 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, 2010 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 $967,256 (2009: $1,141,470) lower/higher, mainly as a result of higher/lower interest expense.

3.3 Liquidity risk

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

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;
- Monitoring liquidity ratios of the consolidated statement of financial position 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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by management and the Board of Directors and primarily consist of deposits from customers, share capital and lines of credit with other financial institutions.

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
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(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 date of the consolidated statement of financial position. 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, 2010						
Deposits from customers	185,329,134	28,672,635	95,873,425	6,914,048	–	316,789,242
Debt security	14,807,343	–	–	–	–	14,807,343
Other liabilities and accrued expenses	9,273,985	116,550	33,299	–	–	9,423,834
Total financial liabilities (contractual maturity dates)	**209,410,462**	**28,789,185**	**95,906,724**	**6,914,048**	**–**	**341,020,419**
Assets held for managing liquidity risk (contractual maturity dates)	**145,538,490**	**36,872,276**	**14,676,373**	**58,374,196**	**107,960,471**	**363,421,806**
As at June 30, 2009						
Deposits from customers	201,701,789	34,670,127	81,975,696	5,440,395	–	323,788,007
Debt security	15,312,605	–	–	–	–	15,312,605
Other liabilities and accrued expenses	6,647,648	116,550	33,299	–	–	6,797,497
Total financial liabilities (contractual maturity dates)	**223,662,042**	**34,786,677**	**82,008,995**	**5,440,395**	**–**	**345,898,109**
Assets held for managing liquidity risk (contractual maturity dates)	**123,010,257**	**40,475,341**	**41,498,926**	**58,970,455**	**98,424,283**	**362,379,262**

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.3.4 Non derivative cash flows

Assets held for managing liquidity risk

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

- Loans and advances;
- Cash and balances with central banks;
- Certificates of deposit; and
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks.

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

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 $	Total $
As at June 30, 2010			
Financial guarantees	507,155	–	507,155
Capital commitments	2,292,450	1,240,242	3,532,692
Loan commitments	18,327,560	–	18,327,560
	21,127,165	**1,240,242**	**22,367,407**
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**

(b) Financial guarantees and other financial facilities
The Bank had financial guarantees of $507,155 at June 30, 2010 (2009: $231,715).

(c) Operating Lease Commitments
The Bank had no operating lease commitments as at June 30, 2010 (2009: $Nil).

(d) Capital commitments
The Bank had contractual capital commitments totalling $3,532,692 as at June 30, 2010 (2009: $308,640). These commitments relate to the Bank's building construction and refurbishment project which officially commenced in June 2010.

(expressed in Eastern Caribbean dollars)

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	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with the Central Bank	15,650,656	26,505,660	15,650,656	26,505,660
Deposits with other banks	55,098,621	49,677,438	55,098,621	49,677,438
Deposits with non-bank financial institutions	15,941,050	21,732,235	15,941,050	21,732,235
Investment securities:				
– Treasury bills and other eligible bills	46,537,020	43,453,363	46,537,020	43,453,363
– Bonds and other debt instruments	17,009,706	15,736,488	17,009,706	15,736,488
– Available-for-sale investments – unquoted	1,925,352	3,224,482	1,925,352	3,224,482
– Available-for-sale investments – quoted	1,531,546	2,495,844	1,531,546	2,495,844
Loans and advances	188,822,487	178,417,159	188,021,490	177,815,818
Other Assets	385,913	4,129,800	385,913	4,129,800
Pledged assets:				
– Available-for-sale				
Fixed income securities, quoted	18,398,618	21,483,353	18,398,618	21,483,353
– Deposits with bank and other financial institutions	8,339,247	2,548,354	8,339,247	2,548,354
	369,640,216	**369,404,176**	**368,839,219**	**368,802,835**
Financial liabilities				
Customer deposits	312,585,707	319,652,000	312,585,707	319,652,000
Debt security	14,807,343	15,312,605	14,807,343	15,312,605
Other payables and accrued expenses	9,423,834	6,797,497	9,423,834	6,797,497
	336,816,884	**341,762,102**	**336,816,884**	**341,762,102**

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 Security
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.

3.4.1 Fair value hierarchy

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes debt instruments listed on exchanges.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.4.1 Fair value hierarchy ... *continued*

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

	Level 1 $	Level 3 $	Total $
Financial assets at fair value			
Investment securities			
Fixed income securities, quoted at market value	9,241,998	–	9,241,998
Mutual funds, quoted at market value	9,052,770	–	9,052,770
Equity securities, quoted at market value	1,531,546	–	1,531,546
Equity securities, unquoted	–	1,925,352	1,925,352
Balance as at June 30, 2010	**19,826,314**	**1,925,352**	**21,751,666**

	Level 1 $	Level 3 $	Total $
Financial assets at fair value			
Investment securities			
Fixed income securities, quoted at market value	15,840,781	–	15,840,781
Mutual funds, quoted at market value	6,825,815	–	6,825,815
Equity securities, quoted at market value	1,100,498	–	1,100,498
Equity securities, unquoted	–	3,224,482	3,224,482
Balance as at June 30, 2009	**23,767,094**	**3,224,482**	**26,991,576**

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

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.

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, 2009 and June 30, 2010. During those two years, the Bank and its subsidiaries complied with all the externally imposed capital requirements to which they are subject.

(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.5 Capital management . . . *continued*

	2010 $	2009 $
Tier 1 capital		
Share capital	**7,478,150**	7,478,150
Statutory reserve	**8,678,148**	8,678,148
Retained earnings	**14,775,476**	13,844,357
Total qualifying tier 1 capital	**30,931,774**	30,000,655
Tier 2 capital		
Revaluation reserve	**10,914,712**	9,619,680
Reserve for loan impairment	**1,382,691**	1,306,055
Reserve for interest on non-performing loans	**3,706,722**	2,395,885
Reserve for items in-transit on correspondent bank accounts	**1,590,162**	–
Total qualifying tier 2 capital	**17,594,287**	13,321,620
Total regulatory capital	**48,526,061**	43,322,275
Risk weighted assets		
On-balance sheet	**181,014,651**	180,234,377
Off-balance sheet	**22,367,407**	23,732,844
Total risk weighted assets	**203,382,058**	203,967,221
Basel ratio	**23.9%**	21.2 %

(expressed in Eastern Caribbean dollars)

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:

	Loans and receivables $	Available-for-sale $	Total $
As at June 30, 2010			
Assets			
Cash and Balances with the Central Bank	15,650,656	–	15,650,656
Due from banks and other financial institutions	79,378,918	–	79,378,918
Investment securities	63,546,726	21,855,516	85,402,242
Loans and advances	188,822,487	–	188,822,487
Other assets	385,913	–	385,913
Total financial assets	**347,784,700**	**21,855,516**	**369,640,216**

	Other financial liabilities $	Total $
Liabilities		
Customer deposits	312,585,707	312,585,707
Debt security	14,807,343	14,807,343
Other liabilities and accrued expenses	9,423,834	9,423,834
Total financial liabilities	**336,816,884**	**336,816,884**

(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, 2009			
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	59,189,851	27,203,679	86,393,530
Loans and advances	178,417,159	–	178,417,159
Other assets	4,129,800	–	4,129,800
Total financial assets	**342,200,497**	**27,203,679**	**369,404,176**

	Other financial liabilities $	Total $
Liabilities		
Customer deposits	319,652,000	319,652,000
Debt security	15,312,605	15,312,605
Other liabilities and accrued expenses	6,797,497	6,797,497
Total financial liabilities	**341,762,102**	**341,762,102**

(expressed in Eastern Caribbean dollars)

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

The Bank's consolidated financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Certain accounting policies and management's judgements are especially critical for the Bank's results and financial situation due to their materiality.

(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 consolidated 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 $67,066 lower or $78,029 higher respectively.

(b) Impairment of available-for-sale investments
The Bank determines that available-for-sale 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.

Had all the declines in fair value below cost been considered significant or prolonged, the Bank would suffer an increase in the impairment loss of $549,045 in its 2010 consolidated financial statements, which would be included in the transfer of the accumulated fair value declines recognised in equity on the impaired available-for-sale financial assets to the consolidated statement of income. Management's determination of the impairment provision involves the use of assumptions and significant judgement. In making this judgement, the Bank evaluates among other factors, the expected length of time to liquidate investments and any estimated loss on the principle invested.

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

(c) Impairment of fixed deposits
The Bank holds fixed deposits with certain institutions that have been experiencing liquidity challenges, and were therefore unable to fulfill all the Bank's requests to redeem the fixed deposits. The Bank reviews its fixed deposits to assess impairment on a regular basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from the fixed deposit. Such observable data may indicate that there has been an adverse change in the payment ability and financial condition of the counterparty. Management use experience, judgment and estimates based on objective evidence of impairment when assessing future cash flows. Were the net present value of estimated cash flows of these fixed deposits to differ by +/-10%, the impairment would be estimated $210,995 lower or $241,138 higher.

5 Business segments

Segment reporting by the Bank was prepared in accordance with IFRS 8.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Bank's Board of Directors (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance.

The Bank has three operating segments:

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

- 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

- Mutual Funds – Open-ended public mutual funds.

As the Bank's segment operations are all financial with a majority of revenues deriving from interest and the Bank's Board of Directors relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis.

There were no changes in the reportable segments during the year.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Bank's Board of Directors is measured in a manner consistent with that in the consolidated statement of income.

(expressed in Eastern Caribbean dollars)

5 Business segments…*continued*

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

The Bank's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments. As the Bank's Board of Directors Executive Board reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Bank's Board of Directors.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position.

Revenue and non-current assets are primarily in the federation of St. Kitts and Nevis.

Included in revenues arising from the retail and corporate banking segment are revenues of approximately $3,790,645 or 13.2% (2009: $4,005,456 or 15.0%) which arose from transactions with the Bank's largest customer.

	Retail and corporate banking $	**Offshore banking $**	**Mutual fund $**	**Total $**
At June 30, 2010				
Net interest income from external customers	9,159,698	4,421,591	–	13,581,289
Inter-segment net interest income	(99,724)	(8,627)	108,351	-
Fee and commission income	2,417,993	403,259	–	2,821,252
Dividend income	782,791	515,168	–	1,297,959
Other income	1,950,638	935,424	–	2,886,062
General and administrative expenses	(7,973,717)	(1,832,464)	(25,108)	(9,831,289)
Impairment provision – investments	(1,347,450)	(1,597,537)	–	(2,944,987)
Loan loss provision	(737,654)	–	–	(737,654)
Depreciation and amortization expenses	(437,569)	(36,879)	–	(474,448)
Other operating expenses	(718,556)	(847,811)	–	(1,566,367)
Operating profit	**2,996,450**	**1,952,124**	**83,243**	**5,031,817**
Income tax expense	**(740,425)**	**6,583**	**(15,313)**	**(749,155)**
Profit the year	**2,256,025**	**1,958,707**	**67,930**	**4,282,662**
Total assets	**271,023,262**	**120,030,296**	**2,043,048**	**393,096,606**
Total liabilities	**230,437,509**	**111,224,256**	**24,035**	**341,685,800**

(expressed in Eastern Caribbean dollars)

5 Business segments ... *continued*

	Retail and corporate banking $	Offshore banking $	Mutual fund $	Total $
At June 30, 2009				
Net interest income from external customers	8,668,204	4,415,486	–	13,083,690
Inter-segment net interest income	155,538	(155,538)	–	–
Fee and commission income	2,506,956	382,164	6,661	2,895,781
Dividend income	73,359	459,728	–	533,087
Other income	1,057,561	179,373	–	1,236,934
General and administrative expenses	(8,054,325)	(2,195,378)	(32,266)	(10,281,969)
Impairment provision – fixed deposits	–	(10,145,991)	–	(10,145,991)
Recovery of loan loss provision	405,420	–	–	405,420
Depreciation and amortization expenses	(528,202)	(33,614)	–	(561,816)
Other operating expenses	(818,697)	(591,602)	(28)	(1,410,327)
Operating profit	**3,465,814**	**(7,685,372)**	**(25,633)**	**(4,245,191)**
Income tax expense	**(1,158,262)**	**–**	**–**	**(1,158,262)**
Profit the year	**2,307,552**	**(7,685,372)**	**(25,633)**	**(5,403,453)**
Total assets	**275,820,400**	**117,198,794**	**1,967,318**	**394,986,512**
Total liabilities	**236,915,267**	**111,847,987**	**16,235**	**348,779,489**

(expressed in Eastern Caribbean dollars)

5 Business segments ... *continued*

Reconciliation of segment results of operations to consolidated results of operations:

	Total Management Reporting $	Consolidation adjustments $	Total $
At June 30, 2010			
Net interest income from external customers	13,581,289	–	13,581,289
Fee and commission income	2,821,252	–	2,821,252
Dividend income	1,297,959	–	1,297,959
Other income	2,886,062	(538,980)	2,347,082
General and administrative expenses	(9,831,289)	538,980	(9,292,309)
Impairment provision – investments	(2,944,987)	–	(2,944,987)
Loan loss provision	(737,654)	–	(737,654)
Depreciation and amortization expenses	(474,448)	–	(474,448)
Other operating expenses	(1,566,367)	–	(1,566,367)
Operating profit	**5,031,817**	**–**	**5,031,817**
Income tax expense	**(749,155)**	**–**	**(749,155)**
Profit the year	**4,282,662**	**–**	**4,282,662**
Total assets	**393,096,606**	**(5,094,053)**	**388,002,553**
Total liabilities	**341,685,800**	**(2,209,308)**	**339,476,492**

(expressed in Eastern Caribbean dollars)

5 Business segments ... *continued*

Reconciliation of segment results of operations to consolidated results of operations:

	Total Management Reporting $	Consolidation adjustments $	Total $
At June 30, 2009			
Net interest income from external customers	13,083,687	–	13,083,687
Fee and commission income	2,895,784	(6,664)	2,889,120
Dividend income	533,087	–	533,087
Other income	1,236,934	(538,980)	697,954
General and administrative expenses	(10,281,969)	545,644	(9,736,325)
Impairment provision – fixed deposits	(10,145,991)	–	(10,145,991)
Recovery of loan loss provision	405,420	–	405,420
Depreciation and amortization expenses	(561,816)	–	(561,816)
Other operating expenses	(1,410,327)	–	(1,410,327)
Operating profit	**(4,245,191)**	**–**	**(4,245,191)**
Income tax expense	**(1,158,262)**	**–**	**(1,158,262)**
Profit the year	**(5,403,453)**	**–**	**(5,403,453)**
Total assets	**394,986,512**	**(7,266,451)**	**387,720,061**
Total liabilities	**348,779,489**	**(4,381,703)**	**344,397,786**

(expressed in Eastern Caribbean dollars)

6 Cash and balances due from banks and other financial institutions

	2010 $	2009 $
Cash on hand	**2,058,306**	2,323,144
Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits	**2,000**	48,535
Cash and current accounts with other banks	**21,646,097**	12,885,098
Cheques in the course of collection	**924,854**	1,234,104
Short-term marketable securities	**1,282,209**	5,815,858
Short term fixed deposits	**24,722,077**	25,231,757
Included in cash and cash equivalents (note 26)	**50,635,543**	47,538,496
Dormant account reserve	**222,544**	128,531
Mandatory reserve deposits with the ECCB	**13,367,806**	24,005,450
Restricted fixed deposits	**808,470**	808,470
Other restricted deposits	**7,530,777**	1,739,884
Fixed deposits	**33,484,303**	32,485,947
Other marketable securities	**–**	2,694,900
	106,049,443	109,401,678
Interest receivable	**723,659**	1,208,000
Provision for impairment	**(11,743,528)**	(10,145,991)
Total cash and balances due from banks and other financial institutions	**95,029,574**	100,463,687
Current	**67,479,973**	75,649,767
Non-current	**27,549,601**	24,813,920
	95,029,574	100,463,687

Under the Banking Act of St. Christopher and Nevis No. 4 of 2004, commercial banks are required to transfer to the ECCB balances on accounts which are inactive for a period of over 15 years. The balances transferred to the ECCB are held in a special account and are not available for use in the Bank's day-to-day operations.

Commercial banks doing banking business in member states of the OECS are required to maintain a mandatory non-interest bearing reserve deposit with the ECCB, which when combined with the EC dollar cash on hand should be equivalent to a minimum 6% of their total deposit liabilities (excluding inter-bank deposits and foreign currencies). This reserve deposit relates only to The Bank of Nevis Limited (unconsolidated), and is not available for use in its day-to-day operations. At June 30, 2010 the minimum required amount was $11,757,000.

(expressed in Eastern Caribbean dollars)

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

The short term fixed deposits are comprised of fixed deposits held with the following entities:

	2010 $	2009 $
ABI Bank Limited, see below	**7,616,830**	3,723,875
Bank of St. Lucia Limited, maturing on July 26, 2010 and July 21, 2010 with interest of 5% per annum	**7,468,247**	5,073,972
Bank of Antigua Limited, maturing July 9, 2010 with interest of 6.25% per annum	**3,239,480**	–
First Citizens Investment Services Limited (formerly CMMB) Money Market Fund maturing July 7, 2010, with interest rate of 2.5%	**2,698,779**	–
National Bank of Anguilla Limited, maturing on September 6, 2010 with interest of 6.25% per annum	**2,694,900**	2,694,900
Caribbean Commercial Bank (Anguilla) Limited, maturing July 30, 2010 with interest of 6.25% per annum	**1,003,841**	10,865,927
TCI Bank Limited	–	2,873,083
Total short-term deposits	**24,722,077**	25,231,757

The interest rates on short-term fixed deposits range from 2.5% to 6.25% per annum (2009: $6.00% to 6.50% per annum).

The restricted fixed deposits comprise deposits held with Caribbean Credit Card Corporation of $808,470 (2009: $808,470) bearing interest of 4.50% per annum. These deposits are not available for use in theBank'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 the following entities:

	2010 $	2009 $
Colonial Life Insurance Company (Trinidad) Limited, see below	**11,734,097**	12,557,539
British American Insurance Company Limited (BAICO), see below	**10,145,991**	10,145,991
Caribbean Commercial Bank (Anguilla) Limited, maturing July 30, 2010 with interest of 6.25% per annum	**8,589,994**	–
TCI Bank Limited	**3,014,221**	–
ABI Bank Limited	–	6,737,250
Bank of Antigua Limited, matured on October 9, 2009 with interest of 6.25% per annum	–	3,045,167
	33,484,303	32,485,947

An impairment provision of $10,145,991 has been made in respect of the deposits held with BAICO, and an impairment provision of $1,597,537 has been made in respect of the deposit held with TCI Bank Limited.

The interest rates on fixed deposits range from 5.0% to 6.5% per annum (2009: 6.25% to 8.25% per annum).

The other restricted deposit of $7,530,777 (2009: $1,739,884) is comprised of a money market account at Morgan Stanley Smith Barney which is held as partial security for the line of credit (see note 13).

(expressed in Eastern Caribbean dollars)

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

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 Bank were facing liquidity challenges and therefore 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 Bank's financial services companies.

At the time, the Bank held fixed deposits and investments in three CL Financial Limited 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, management decided to redeem all deposits and investments held by the Bank with the CL Financial Group entities and submitted requests to that effect. Subsequent to the request, all funds held with CMMB were received.

BAICO

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.

The Judicial Manager's report was filed with the local High Court on October 30, 2009. After reviewing the Judicial Manager's report, management determined that the most prudent approach should be adopted, thereby making a provision for impairment of 100% of the value of these deposits.

The above provision for impairment has been maintained in the financial statements at June 30, 2010 and no income has been recognised in respect of the fixed deposits.

CLICO

By letters dated March 4, 2009, the Managing Director of CLICO informed the Bank that the Central Bank of Trinidad and Tobago had invoked Section 44D of the Central Bank Act of Trinidad and Tobago 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.

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."

(expressed in Eastern Caribbean dollars)

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

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

On May 17th, 2010 the Bank of Nevis Limited and Bank of Nevis International Limited (The Banks) jointly instituted legal proceedings against CLICO for the full repayment of all outstanding principal and interest payments. The Banks were awarded Judgment in Default of Appearance against CLICO on May 26th, 2010. On September 15th, 2010 the Banks and CLICO entered into a formal agreement for the repayment of the outstanding amounts. At the time of the approval of these financial statements, all payments under the agreement have been honored.

At June 30, 2010, total fixed deposits held with CLICO by the Bank of Nevis Limited and its subsidiaries collectively were $11,734,097, with accrued interest of $176,757.

Fixed deposits with certain other financial institutions

The Bank holds fixed deposits in certain financial institutions experiencing liquidity challenges and which have been unable to redeem the fixed deposits as requested by the Bank. Management has assessed these investments considering the indicators of impairment as described in note 4 (c); and have made appropriate impairment provisions in the financial statements as necessary, except where alternative arrangements for repayment have been put in place and the institutions are complying with the revised repayment terms.

(expressed in Eastern Caribbean dollars)

7 Investment securities

Loans and receivables	2010 $	2009 $
Treasury bills		
Government of Saint Christopher and Nevis, maturing August 19, 2010 with interest rate of 6.5% per annum	**25,882,463**	24,772,792
Nevis Island Administration maturing July 22, 2010 with interest rate of 6.5% per annum	**14,777,894**	14,360,436
Included in cash and cash equivalents (note 26)	**40,660,357**	39,133,228
Nevis Island Administration maturing July 21, 2010 with interest rate of 6.5% per annum	**1,202,055**	1,125,805
Nevis Island Government maturing June 24, 2011 with interest rate of 6.75% per annum	**4,253,132**	2,797,500
	46,115,544	43,056,533
Bonds and other debt instruments		
Government of Anguilla 90-day note maturing September 28, 2009 with interest rate of 8.0% per annum	**–**	2,250,403
Included in cash and cash equivalents (note 26)	**–**	2,250,403
Government of St. Kitts and Nevis Bond, maturing November 25, 2012, and bearing interest rate of 7.5% per annum	**5,000,000**	5,000,000
Eastern Caribbean Home Mortgage Bank bond maturing July 1, 2010 and August 26, 2011, and bearing interest at 6% per annum	**3,947,450**	2,600,000
Antigua & Barbuda Airport Authority Commercial Paper, maturing September 7, 2009 with interest rate of 9.0% per annum	**2,694,900**	2,694,900
Government of St. Lucia Fixed Rate Bond maturing March 19, 2013 and February 16, 2016, and bearing interest at 7.25% per annum	**2,051,493**	941,703
Caribbean Credit Card Corporation Limited unsecured loan bearing interest at a rate of 10%, with no specific terms of repayment	**150,000**	150,000
Government of Antigua and Barbuda Fixed Rate Bond, maturing November 19, 2014 and bearing interest at 9% per annum	**1,509,070**	1,769,953
Bank of St. Lucia Fixed Rate Bond maturing December 15, 2010 and bearing interest at 6.25% per annum	**1,347,450**	–
	16,700,363	15,406,959
Total loans and receivables	**62,815,907**	58,463,492

(expressed in Eastern Caribbean dollars)

7 Investment securities... *continued*

	2010 $	2009 $
Available-for-sale		
Fixed income securities, quoted at market value	**9,241,997**	15,840,781
Mutual funds, quoted at market value	**9,052,770**	6,825,815
Equity securities, quoted at market value	**1,531,546**	1,100,498
Equity securities, unquoted	**1,925,352**	3,224,482
Total available-for-sale	**21,751,665**	26,991,576
Total investment securities before interest receivable	**84,567,572**	85,455,068
Interest receivable	**834,670**	938,462
Total investment securities	**85,402,242**	86,393,530
Current	**48,297,662**	61,446,300
Non-current	**37,104,580**	24,947,230
	85,402,242	86,393,530

The treasury bill with a cost of $1,202,055 acts as a statutory deposit with the Nevis Island Administration and is not available to finance the Bank's day-to-day operations.

Antigua and Barbuda Airport Authority (ABAA) Commercial Paper

On September 7, 2008, the Bank participated in a one-year commercial paper issued by the Antigua and Barbuda Airport Authority (ABAA). By letter dated October 2, 2009 the Bank was advised by the arrangers of the issue that there had been a delay in finalising the arrangements to repay the commercial paper and that the maturity date of the commercial paper would be extended for an additional three months to December 9, 2009, with interest continuing to accrue at a rate of 9%.

On November 23, 2009, the Board of Directors of the ABAA advised the Bank of further delays in finalising the arrangements to repay the commercial paper, and commitment was given for full repayment of principal and interest no later than March 31, 2010. Subsequently, correspondence has been received by the Bank advising of ongoing negotiations aimed at arranging funding for the repayment of the commercial paper. However, no specific timeframe for repayment has been provided. The Bank has been receiving full interest payments while the principle remains outstanding.

(expressed in Eastern Caribbean dollars)

7 **Investment securities**... *continued*

	2010 $	2009 $
Available-for-sale – unquoted		
Caribbean Credit Card Corporation Limited		
275 shares of $1,000 each	**275,000**	275,000
Impairment provision	**(149,644)**	(149,644)
	125,356	125,356
TCI Bank Limited		
500,000 shares of US$1.00 (EC $2.69) each	**1,347,450**	1,347,450
Impairment provision	**(1,347,450)**	-
	–	1,347,450
ECIC Holdings Limited		
632,200 ordinary shares of US$1.00 (EC $2.69) each	**1,703,466**	1,703,466
Eastern Caribbean Securities Exchange Limited		
7,500 Class ‘C’ shares (7,500 shares with cost of $10 each)	**75,000**	75,000
Impairment provision	**(74,990)**	(74,990)
	10	10
Eastern Caribbean Home Mortgage Bank		
482 shares at cost of $100 each	**48,200**	48,200
302 shares at cost of $160 each	**48,320**	–
	96,520	48,200
Equity securities – unquoted	**1,925,352**	3,224,482
Available-for-sale – quoted		
St. Kitts-Nevis-Anguilla National Bank		
617,409 ordinary shares, at market value of $2.48 per share, (2009: 370,400 ordinary shares, at market value of $2.97 per share)	**1,531,174**	1,100,088
Cable and Wireless (St Kitts and Nevis) Limited:		
63 Ordinary shares, at market value of $5.90 per share, (2009: $6.50 per share)	**372**	410
Equity investments, quoted at market value	**1,531,546**	1,100,498

(expressed in Eastern Caribbean dollars)

7 Investment securities... *continued*

	2010 $	2009 $
Fixed income securities quoted at market value		
Corporate Bonds		
Merrill Lynch & Co.	**1,432,677**	1,351,007
Citigroup, Inc.	**1,396,376**	1,299,696
Macys Retail Holdings, Inc.	**1,041,148**	887,738
Bank of America Corporation	**697,958**	584,572
Goldman Sachs Group, Inc.	**697,028**	642,343
Ford Motor Credit Corporation	**–**	1,268,301
General Motors Acceptance Corporation	**–**	2,627,932
IBM Corporation	**–**	393,520
Federal National Mortgage Association (USA)	**2,529,770**	3,989,729
Federal Home Loan Mortgagee Corporation (USA)	**1,447,040**	1,405,512
Government of Barbados	**–**	1,390,431
	9,241,997	15,840,781
Mutual Funds quoted at market value		
MFS Meridian Emerging Market Debt Fund	**2,915,742**	2,581,353
MFS Meridian Bond Fund	**2,394,756**	2,136,536
Alliance Bernstein Global High Yield Fund	**1,471,625**	–
Western Asset Global Bond Fund	**1,156,689**	1,001,166
Franklin Mutual Discovery Fund	**1,113,958**	1,106,760
	9,052,770	6,825,815

Included in available-for-sale fixed income securities and mutual funds is an amount of $18,294,767 (2009: $21,276,165) held as security for the Morgan Stanley Smith Barney Line of Credit (see note 13).

(expressed in Eastern Caribbean dollars)

7 Investment securities... *continued*

Equity Investment in TCI Bank Limited

On April 9, 2010, by petition of the Financial Services Commission (FSC) in the Turks and Caicos Islands to the Supreme Court, TCI Bank Limited was placed in provisional liquidation and joint provisional liquidators were appointed. On October 29, 2010, the Bank was placed in full liquidation and final joint liquidators were appointed. At June 30, 2010, the Bank held an equity investment in TCI Bank Limited in the amount of $1,347,450. Management has decided that a prudent approach should be adopted, thereby making a provision for impairment of 100% of this investment.

The movement in investment securities may be summarised as follows:

	Loans and receivables $	Available-for-sale $	Total $
Balance as of June 30, 2008	**45,892,027**	**28,087,380**	**73,979,407**
Additions	15,016,617	4,095,116	19,111,733
Disposals (sale and redemption)	(2,445,152)	(4,561,978)	(7,007,130)
Unrealised loss from change in fair value, net	–	(628,942)	(628,942)
Balance as of June 30, 2009	**58,463,492**	**26,991,576**	**85,455,068**

	Loans and receivables $	Available-for-sale $	Total $
Balance as of June 30, 2009	**58,463,492**	**26,991,576**	**85,455,068**
Additions	7,101,361	2,185,908	9,287,269
Disposals (sale and redemption)	(2,748,946)	(7,264,904)	(10,013,850)
Impairment loss	–	(1,347,450)	(1,347,450)
Unrealised gain from change in fair value, net	–	1,186,535	1,186,535
Balance as of June 30, 2010	**62,815,907**	**21,751,665**	**84,567,572**

(expressed in Eastern Caribbean dollars)

7 Investment securities… *continued*

Net losses from investment securities comprise:

	2010 $	2009 $
Net realised gains (losses) from disposal of available-for-sale financial assets	**4,220**	(1,353)

During the previous financial year, the restructuring of General Motors Acceptance Corporation (Gmac) Financial Services and Ford Motor Credit Company caused the securities of these companies to appreciate on the market. Management therefore reversed the previously recognised impairment loss of $179,373.

8 Loans and advances

	2010 $	2009 $
Reducing balance loans	**163,702,666**	157,447,177
Overdrafts	**20,224,857**	17,882,495
Credit card advances	**3,000,045**	2,545,104
	186,927,568	177,874,776
Interest receivable	**4,941,358**	3,465,636
	191,868,926	181,340,412
Less: Allowance for loan impairment	**(3,046,439)**	(2,923,253)
Total loans and advances	**188,822,487**	178,417,159
Current	**52,488,647**	40,591,721
Non-current	**136,333,840**	137,825,438
	188,822,487	178,417,159

The movement in allowance for loan impairment is as follows:

	2010 $	2009 $
Balance, beginning of year	**2,923,253**	3,513,389
Provisions/(recoveries for the year)	**737,654**	(405,420)
Loans and advances written off during the year	**(614,468)**	(184,716)
Balance, end of year	**3,046,439**	2,923,253

(expressed in Eastern Caribbean dollars)

8 Loans and advances...*continued*

According to the Eastern Caribbean Central Bank loan provisioning guidelines, the calculated allowance for loan impairment amounts to $4,429,130 (2009: $4,229,308) (see note 18).

Included in interest income is an amount for interest on non-productive loans of $1,427,714 (2009: $1,118,477). The total value of non-productive loans at the end of the year amounted to $15,299,895 (2009: $14,338,139).

The interest receivable on non-productive loans and advances but not recognised in the consolidated financial statements at the end of the year amounted to $1,859,419 (2009: $2,034,813).

Included in loans and advances is an amount due from other financial institutions of $10,023,353 (2009: $9,821,285).

9 Other assets

	2010 $	2009 $
Prepaid employee benefit	**800,997**	601,341
Prepayments	**386,769**	438,450
Items in-transit	**331,166**	938,888
Credit card and stationery stock	**87,337**	111,604
Other receivables	**74,275**	3,208,411
Total other assets	**1,680,544**	5,298,694
Current	**792,213**	4,590,700
Non-current	**888,331**	707,994
	1,680,544	5,298,694

At June 30, 2009, other receivables included an amount of $3,139,559 which represented the sum due from the United States Government in respect of funds seized from an amount held by the Bank in 2006. Payment was received in full on July 14, 2009.

(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Capital work in progress $	Total $
As at June 30, 2008								
Cost/valuation	13,020,000	2,883,822	904,944	859,432	644,934	178,000	146,811	18,637,943
Accumulated depreciation	–	–	(692,036)	(495,633)	(458,138)	(71,198)	–	(1,717,005)
Net book amount	13,020,000	2,883,822	212,908	363,799	186,796	106,802	146,811	16,920,938
Year ended June 30, 2009								
Opening net book amount	13,020,000	2,883,822	212,908	363,799	186,796	106,802	146,811	16,920,938
Additions	–	–	13,018	55,798	48,058	–	93,694	210,568
Depreciation charge	–	(78,263)	(57,315)	(107,901)	(87,839)	(35,600)	–	(366,918)
Closing net book amount	13,020,000	2,805,559	168,611	311,696	147,015	71,202	240,505	16,764,588
At June 30, 2009								
Cost	13,020,000	2,883,822	917,962	915,230	692,992	178,000	240,505	18,848,511
Accumulated depreciation	–	(78,263)	(749,351)	(603,534)	(545,977)	(106,798)	–	(2,083,923)
Net book amount	**13,020,000**	**2,805,559**	**168,611**	**311,696**	**147,015**	**71,202**	**240,505**	**16,764,588**

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

For the year ended June 30, 2010

(expressed in Eastern Caribbean dollars)

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

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Capital work in progress $	Total $
Year ended June 30, 2010								
Opening net book amount	13,020,000	2,805,559	168,611	311,696	147,015	71,202	240,505	16,764,588
Additions	–	–	13,422	22,632	31,015	–	243,796	310,865
Depreciation charge	–	(60,059)	(55,086)	(107,481)	(74,166)	(35,600)	–	(332,392)
Closing net book amount	**13,020,000**	**2,745,500**	**126,947**	**226,847**	**103,864**	**35,602**	**484,301**	**16,743,061**
At June 30, 2010								
Cost/valuation	13,020,000	2,883,822	931,384	937,862	724,007	178,000	484,301	19,159,376
Accumulated depreciation	–	(138,322)	(804,437)	(711,015)	(620,143)	(142,398)	–	(2,416,315)
Net book amount	**13,020,000**	**2,745,500**	**126,947**	**226,847**	**103,864**	**35,602**	**484,301**	**16,743,061**

(expressed in Eastern Caribbean dollars)

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

The Bank's land and building were last revalued during 2008 by an independent property appraiser. The valuation was made on the basis of recent market transactions on arm's length terms. The revaluation surplus was credited to "revaluation reserves" in shareholder's equity (note 17).

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of June 30, 2010 and 2009:

	Land **$**	**Buildings** **$**	**Total** **$**
Cost	2,307,737	4,382,913	6,690,650
Accumulated Depreciation	–	(1,081,803)	(1,081,803)
Net book values as at June 30, 2010	**2,307,737**	**3,301,110**	**5,608,847**

	Land **$**	**Buildings** **$**	**Total** **$**
Cost	2,307,737	4,139,117	6,446,854
Accumulated Depreciation	–	(943,481)	(943,481)
Net book values as at June 30, 2009	2,307,737	3,195,636	5,503,373

(expressed in Eastern Caribbean dollars)

11 Intangible assets

	Computer software $
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
Year ended June 30, 2010	
Opening net book amount	382,403
Additions	84,298
Amortisation charge	(142,056)
Closing net book amount	**324,645**
At June 30, 2010	
Cost	2,612,491
Accumulated Amortisation	(2,287,846)
Net book amount	**324,645**

(expressed in Eastern Caribbean dollars)

12 Customers' deposits

	2010 $	2009 $
Time deposits	**142,519,400**	141,751,508
Savings accounts	**106,951,582**	89,306,845
Current accounts	**60,038,477**	85,734,284
Merchant reserve accounts	**217,330**	221,092
	309,726,789	317,013,729
Interest payable	**2,858,918**	2,638,271
Total customers' deposits	**312,585,707**	319,652,000
Current	**306,199,952**	314,596,991
Non-current	**6,385,755**	5,055,009
	312,585,707	319,652,000

Included in the customers deposits at year end are balances for other financial institutions amounting to $42,179,448 (2009: $54,590,934).

(expressed in Eastern Caribbean dollars)

13 Debt security

	2010 $	2009 $
Line of credit	**14,071,703**	14,826,275
Interest Payable	**735,640**	486,330
Total debt security	**14,807,343**	15,312,605
Current	**14,807,343**	15,312,605

Debt security represents a line of credit from MorganStanley SmithBarney - 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. Interest on the line of credit is payable at 'three-month LIBOR' plus 1.50%.

14 Other liabilities and accrued expenses

	2010 $	2009 $
Items-in-transit	**7,631,440**	4,193,331
Accounts payable and accrued expenses	**1,117,356**	1,239,176
Deferred loan fees	**863,917**	832,993
Fair value adjustment on employee loans	**800,997**	601,341
Manager's cheques	**636,374**	1,347,751
Government stamp duty	**128,540**	102,102
Staff bonus payable	**36,390**	–
Total other liabilities and accrued expenses	**11,215,014**	8,316,694
Current	**10,390,493**	7,078,256
Non-current	**824,521**	1,238,438
	11,215,014	8,316,694

(expressed in Eastern Caribbean dollars)

15 Provision for income tax

	2010 $	2009 $
Deferred income tax		
Balance, beginning of year	**265,063**	–
Deferred tax asset realised on unused tax losses	**–**	72,667
Deferred tax asset realised on unused capital cost allowances	**–**	228,593
Deferred tax on depreciation of property, plant and equipment	**(17,636)**	(32,303)
Deferred tax on revaluation of available-for-sale investment securities	**(108,497)**	(3,894)
Balance at end of year	**138,930**	265,063

The deferred income tax on the balance sheet is comprised of the following:

	2010	2009
Deferred tax on depreciation of property, plant and equipment	**37,415**	55,051
Deferred tax on revaluation of available-for-sale investment securities	**101,515**	210,012
Deferred income tax liability	**138,930**	265,063

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

	2010 $	2009 $
Deferred tax on depreciation of property, plant and equipment	**(17,636)**	(32,303)
Deferred tax asset de-recognized on unused tax losses	**–**	72,667
Deferred tax asset de-recognized on unused capital cost allowances	**–**	228,593
	(17,636)	268,957

(expressed in Eastern Caribbean dollars)

15 Provision for income tax... *continued*

	2010 $	2009 $
Income tax payable		
Income tax payable net, beginning of year	**851,424**	382,237
Payments made during year, net of refunds	**(888,717)**	(420,118)
Current tax expense	**778,120**	888,716
(Reversal of)/Prior year tax expense	**(11,329)**	589
Income tax payable, at end of year	**729,498**	851,424
Income tax expense		
Operating income/(loss) for the year	**5,031,817**	(4,245,191)
Income tax expense at standard rate of 35% (2009: 35%)	**1,761,136**	(1,485,817)
Non-deductible expenses	**733,924**	993,704
Untaxed interest income	**(647,479)**	(1,173,743)
Untaxed dividend income	**(273,977)**	(25,676)
Effect of lower tax rate in subsidiary bank	**(648,264)**	3,186,207
Prior year income tax adjustment	**(11,329)**	341
Effect of movement in deferred taxes not recognized	**(17,636)**	268,957
Effect of tax losses and capital cost allowances (utilized) and carried forward (net)	**(147,220)**	(605,711)
Actual income tax expense/(credit)	**749,155**	1,158,262

The Bank's subsidiary has carried forward income tax losses of $8,853,655 at June 30, 2010 (2009: $9,043,505). The tax losses have not been confirmed by the tax authorities. Losses may be 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 tax loss may result in a deferred tax asset of $201,372 (2009: $226,088) which has not been recognised in the financial statements due to the uncertainty of its recovery. The losses incurred were as follows:

Year of loss	2010 $	2009 $
2009	**8,853,655**	9,043,505

(expressed in Eastern Caribbean dollars)

15 Provision for income tax... *continued*

Capital cost allowances

The Bank has carried forward capital cost allowances totalling $Nil (2009: $Nil). 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.

	2010 $	2009 $
Balance at beginning of year	–	1,133,360
Adjustment for amounts confirmed by Inland Revenue	–	(41,240)
Additions during the year	**402,612**	432,544
Claims during the year	**(402,612)**	(1,524,664)
Balance at end of year	**–**	–

16 Share capital

	2010 $	2009 $
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

(expressed in Eastern Caribbean dollars)

17 Revaluation reserves

	2010 $	2009 $
Balance, beginning of year	**9,619,680**	10,425,454
Reversal of previously recognised impairment loss	**–**	(179,373)
Transfer net gains/losses on investment securities to income, (net of tax)	**–**	(1,353)
Appreciation/(depreciation) in market value of investment securities, (net of tax)	**1,295,032**	(625,048)
Balance, end of year	**10,914,712**	9,619,680
Represented by revaluation reserves attributable to:		
Available-for-sale investment securities	**259,384**	(1,035,648)
Property	**10,655,328**	10,655,328
	10,914,712	9,619,680

This reserve is unrealised and hence not available for distribution to shareholders.

The deferred tax impact on the appreciation/(depreciation) in market values of investment securities is shown below:

	2010 $	2009 $
Appreciation/(depreciation) in market value	**1,186,535**	(628,942)
Deferred tax	**108,497**	3,894
	1,295,032	(625,048)

(expressed in Eastern Caribbean dollars)

18 Other reserves

	2010 $	2009 $
Other reserves:		
Balance at beginning of year	**12,380,088**	11,218,941
Reserve for loan impairment	**76,636**	377,760
Reserve for interest on non-performing loans	**1,310,837**	783,387
Reserve for items in-transit on correspondent bank accounts	**1,590,162**	–
Total other reserves	**15,357,723**	12,380,088
Other reserves is represented by:		
Reserve fund	**8,678,148**	8,678,148
Reserve for loan impairment	**1,382,691**	1,306,055
Reserve for interest on non-performing loans	**3,706,722**	2,395,885
Reserve for items in-transit on correspondent bank accounts	**1,590,162**	–
	15,357,723	12,380,088

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.

Reserve for items in-transit on correspondent bank accounts
This reserve is created to set aside the amount for items in-transit on correspondent bank account which have been statute barred and have been recognised in the profit and loss account but is not available for distribution to shareholders.

(expressed in Eastern Caribbean dollars)

19 Interest income

	2010 $	2009 $
Loans and advances	**17,045,472**	14,937,341
Deposits with banks and other financial institutions	**3,049,984**	3,188,749
Treasury bills	**2,926,602**	2,622,207
Other investment securities	**2,078,518**	2,130,143
Total interest income	**25,100,576**	22,878,440

20 Interest expense

	2010 $	2009 $
Time deposits	**8,106,572**	6,442,373
Savings deposits	**2,620,021**	2,378,650
Demand deposits	**543,383**	561,666
Other	**249,311**	412,064
Total interest expense	**11,519,287**	9,794,753

21 Other operating income

	2010 $	2009 $
Fees and commissions	**1,894,430**	1,932,413
Write-back of items in-transit	**1,590,162**	–
Dividend income	**1,297,959**	533,087
Card services fees and commissions	**926,822**	956,707
Bad debts recovered	**399,143**	30,795
Miscellaneous revenue	**130,538**	–
Foreign exchange (loss)/gain	**(326,866)**	185,044
Total other operating income	**5,912,188**	3,638,046

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, and also includes entities under common control.

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:

	2010 $	2009 $
Loans to Directors and key members of management		
Loans outstanding at beginning of year	**4,881,443**	3,950,791
Loans disbursed during the year	**12,976,238**	9,235,852
Loan repayments during the year	**(8,503,481)**	(8,305,200)
Loans outstanding at end of year	**9,354,200**	4,881,443

Interest income earned on loans and advances to directors and key members of management during the year is $629,808 (2009: $354,168). 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 $293,430 (2009: $571,677).

	2010 $	2009 $
Deposits by Directors and key members of management		
Deposits at beginning of year	**5,461,768**	7,750,709
Deposits received during the year	**12,529,848**	17,428,582
Deposits withdrawn during the year	**(11,364,377)**	(19,717,523)
Deposits at end of year	**6,627,239**	5,461,768

Interest expense paid on deposits to directors and key members of management during the year is $339,644 (2009: $152,674). Interest rates on deposits to directors and key members of management range from 2% to 6.75%.

(expressed in Eastern Caribbean dollars)

22 Related party transactions *... continued*

During the year, salaries and related benefits of $2,315,792 (2009: $2,389,599) were paid to key members of management and were allocated as follows:

	2010 $	2009 $
Salaries and wages	**1,774,069**	1,843,849
Other staff costs	**330,981**	334,565
Social security costs	**126,623**	127,703
Pension costs	**84,119**	83,482
	2,315,792	2,389,599

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.

	2010 $	2009 $
Net Profit/(loss) attributable to shareholders	**4,282,662**	(5,403,453)
Weighted average number of ordinary shares in issue	**7,478,150**	7,478,150
Basic and diluted (loss)/earnings per share	**0.57**	(0.72)

24 Contingencies and commitments

Credit related and capital commitments

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

	2010 $	2009 $
Undrawn commitments to extend advances	**18,327,560**	23,192,489
Capital commitments	**3,532,692**	308,640
Financial guarantees	**507,155**	231,715
	22,367,407	23,732,844

Included in the amount of undrawn commitments to extend advances above are credit card commitments totalling $5,003,733 (2009: $5,285,043) at the year end.

(expressed in Eastern Caribbean dollars)

25 Dividends

The dividend paid in 2010 and 2009 were $373,908 and $1,495,630, respectively.

26 Cash and cash equivalents

	2010 $	2009 $
Cash and balances due from banks and other financial institutions (note 6)	**50,635,543**	47,538,496
Investment securities (note 7)	**40,660,357**	41,383,631
Total cash and cash equivalents	**91,295,900**	88,922,127

27 General and administrative expenses

	2010 $	2009 $
Salaries and related costs (note 28)	**5,700,300**	5,338,203
Card processing expenses	**1,030,560**	1,220,177
Equipment repairs	**406,041**	345,844
Stationery and supplies	**365,462**	361,911
Insurance expense	**282,095**	307,363
Telephone, telex and cables	**218,605**	241,679
Advertisement and promotion	**203,712**	303,458
Utilities	**193,531**	196,689
Professional fees	**115,670**	286,557
Administrative fees	**104,730**	81,060
Taxes and licences	**92,355**	73,600
Rent	**74,619**	57,601
Security services	**63,299**	62,636
Online banking expenses	**62,739**	63,216
Stamps and postage	**52,592**	56,121
Subscriptions and fees	**51,899**	62,992
Repairs and maintenance	**50,134**	91,582
Cleaning	**39,688**	30,385
Legal fees	**46,548**	288,590
ECSE fees and expenses	**37,578**	46,898
Miscellaneous expenses	**33,796**	172,982
Annual report expense (credit)	**30,629**	(6,161)
Travel and entertainment	**23,736**	26,374
Secretarial fees	**6,468**	6,468
Credit card chargeback losses	**3,573**	14,070
Cash shorts	**1,950**	3,394
Custody fees	**–**	2,636
Total general and administrative expenses	**9,292,309**	9,736,325

(expressed in Eastern Caribbean dollars)

28 Salaries and related costs

	2010 $	2009 $
Salaries and wages	**4,122,218**	3,905,978
Other staff costs	**1,049,341**	869,262
Social security costs	**370,493**	367,704
Pension costs	**158,248**	195,259
Total salaries and related costs	**5,700,300**	5,338,203

In 2003 the Bank introduced a defined contribution pension scheme for its employees. Contributions to the pension scheme for the year ended June 30, 2010 amounted to $158,248 (2009: $195,259).

29 Events after the balance sheet date

Litigation

On September 24, 2010, a former employee of the Bank filed a claim for damages for wrongful and/or unfair termination of employment. A probable outcome has not yet been determined.

The Bank of Nevis Limited

Separate Statement of Financial Position

As of June 30, 2010

(expressed in Eastern Caribbean dollars)

	2010 $	2009 $
Assets		
Cash and balances with the Central Bank	**15,650,656**	26,505,660
Due from other banks and other financial institutions	**23,370,587**	22,900,991
Investment securities	**32,433,539**	34,342,599
Loans and advances	**178,781,586**	170,795,998
Other assets	**1,422,574**	1,828,261
Investment in subsidiaries	**2,350,000**	2,350,000
Property, plant and equipment	**16,717,047**	16,717,457
Intangible assets	**281,946**	377,341
Due from related parties	**15,327**	2,093
Total assets	**271,023,262**	275,820,400
Liabilities		
Customers' deposits	**220,134,412**	228,816,501
Other liabilities and accrued expenses	**9,345,425**	5,709,771
Income tax payable	**708,649**	839,305
Deferred tax	**138,930**	265,063
Due to related parties	**108,351**	1,282,887
Total liabilities	**230,435,767**	236,913,527
Shareholders' Equity		
Share capital	**7,478,150**	7,478,150
Revaluation reserve	**10,843,855**	11,045,350
Other reserves	**12,011,111**	10,013,352
Retained earnings	**10,254,379**	10,370,021
Total shareholders' equity	**40,587,495**	38,906,873
Total liabilities and shareholders' equity	**271,023,262**	275,820,400

Approved by the Board of Directors on March 14, 2011

_______________ Chairman

_______________ Director

The Bank of Nevis Limited

Separate Statement of Income

For the year ended June 30, 2010

(expressed in Eastern Caribbean dollars)

	2010 $	2009 $
Interest income	**18,800,630**	17,084,520
Interest expense	**(9,740,656)**	(8,260,778)
Net interest income	**9,059,974**	8,823,742
Impairment provision on investment securities	**(1,347,450)**	–
Other operating income	**5,151,422**	3,637,876
Operating income	**12,863,946**	12,461,618
Operating expenses		
General and administrative expenses	**7,973,717**	8,054,325
Depreciation	**311,275**	342,995
Amortisation	**126,294**	185,207
Directors' fees and expenses	**290,542**	325,354
Audit fees	**228,000**	308,000
Provision for/(recovery of) loan impairment	**737,654**	(405,420)
Correspondent bank charges	**200,014**	185,343
	9,867,496	8,995,804
Operating profit before income tax	**2,996,450**	3,465,814
Taxation		
Current tax expense	**(758,061)**	(888,716)
Prior years' tax expense	**–**	(589)
Deferred tax credit/(expense)	**17,636**	(268,957)
Income tax expense	**(740,425)**	(1,158,262)
Net profit for the year	**2,256,025**	2,307,552
Net profit attributable to shareholders of the Bank	**2,256,025**	2,307,552
Earnings per share	**0.30**	0.31

The Bank of Nevis Limited

Separate Statement of Comprehensive Income

For the year ended June 30, 2010

(expressed in Eastern Caribbean dollars)

	2010 $	2009 $
Net profit for the year	**2,256,025**	2,307,552
Other comprehensive loss:		
Depreciation in market value of investment securities, net of tax	**(201,495)**	(7,233)
Total comprehensive income for the year	**2,054,530**	2,300,319

The Bank of Nevis Limited
Separate Statement of Changes in Equity
For the year ended June 30, 2010

(expressed in Eastern Caribbean dollars)

	Share capital $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance June 30, 2008	7,478,150	11,052,583	8,966,908	10,604,543	38,102,184
Comprehensive income					
Net profit for the year	–	–	–	2,307,552	2,307,552
Other comprehensive income					
Net change in market value of investment securities	–	(7,233)	–	–	(7,233)
Reserve for loan impairment	–	–	472,082	(472,082)	–
Reserve for interest on non-performing loans	–	–	574,362	(574,362)	–
Total other comprehensive income	–	(7,233)	1,046,444	(1,046,444)	(7,233)
Total comprehensive income	**–**	**(7,233)**	**1,046,444**	**1,261,108**	**2,300,319**
Transaction with owners					
Dividends	–	–	–	(1,495,630)	(1,495,630)
Balance June 30, 2009	**7,478,150**	**11,045,350**	**10,013,352**	**10,370,021**	**38,906,873**
Comprehensive income					
Net profit for the year	–	–	–	2,256,025	2,256,025
Other comprehensive income					
Net change in market value of investment securities	–	(201,495)	–	–	(201,495)
Reserve for loan impairment	–	–	76,636	(76,636)	–
Reserve for interest on non-performing loans	–	–	1,131,777	(1,131,777)	–
Reserve for items in-transit on correspondent bank accounts	–	–	789,346	(789,346)	–
Total other comprehensive income	–	(201,495)	1,997,759	(1,997,759)	(201,495)
Total comprehensive income	**–**	**(201,495)**	**1,997,759**	**258,266**	**2,054,530**
Transaction with owners					
Dividends	–	–	–	(373,908)	(373,908)
Balance June 30, 2010	**7,478,150**	**10,843,855**	**12,011,111**	**10,254,379**	**40,587,495**

The Bank of Nevis Limited

Separate Statement of Cash Flows

For the year ended June 30, 2010

(expressed in Eastern Caribbean dollars)

	2010 $	2009 $
Cash flows from operating activities		
Operating profit before income tax	**2,996,450**	3,465,814
Items not affecting cash		
Provision for/(Recovery of) loan impairment	**737,654**	(405,420)
Depreciation	**311,275**	342,995
Amortisation	**126,294**	185,207
Impairment provision on investment securities	**1,347,450**	–
Share dividend received	**(741,040)**	–
Interest income	**(18,800,630)**	(17,084,520)
Interest expense	**9,740,656**	8,260,778
Cash flows from operating income before changes in operating assets and liabilities	**(4,281,891)**	(5,235,146)
Changes in operating assets and liabilities		
Decrease/(increase) in mandatory and restricted deposits held with Central Bank	**10,543,631**	(13,022,372)
Decrease/(increase) in other assets	**405,687**	(189,475)
Increase in loans and advances, net of repayments received	**(7,467,726)**	(30,153,635)
(Decrease)/increase in customers' deposits	**(8,879,942)**	34,091,979
Increase/(decrease) in other liabilities and accrued expenses	**3,635,654**	(4,089,823)
Cash (used in)/from operations before interest and tax	**(6,044,587)**	(18,598,472)
Interest paid	**(9,542,803)**	(7,823,760)
Interest received	**17,759,916**	15,981,550
Income tax paid	**(888,717)**	(301,602)
Net cash from/(used in) operating activities	**1,283,809**	(10,742,284)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(310,865)**	(203,599)
Purchase of intangible assets	**(30,899)**	(178,461)
Increase in investment securities	**(48,320)**	(2,695,325)
Decrease/(increase) in fixed deposits	**163,839**	(1,439,449)
Net cash used in investing activities	**(226,245)**	(4,516,834)
Cash flows from financing activities		
Dividends paid	**(373,908)**	(1,495,630)
(Repayments to)/advances from related parties	**(1,187,770)**	5,305,833
Net cash (used in) from financing activities	**(1,561,678)**	3,810,203
(Decrease)/increase in cash and cash equivalents	**(504,114)**	(11,448,915)
Cash and cash equivalents, beginning of year	**46,965,717**	58,414,632
Cash and cash equivalents, end of year	**46,461,603**	46,965,717

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THE BANK OF NEVIS LIMITED

Improving The Quality Of Life

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