The Bank of Nevis Limited

Annual Report 2011

Your Anchor in a Challenging Economic Environment

CAB Member
Caribbean Association of Banks Inc.

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.

CORE VALUES

Our Customers

We will build relationships with our customers by meeting our commitments, exceeding service requirements whenever possible, providing good values, responding in a timely manner to their needs and being innovative in helping them to realize their financial goals.

Our Colleagues

We will provide a working environment of fairness, equity and transparency which facilitates trust, respect and team work and afford all staff opportunities for meaningful, challenging and rewarding work.

Our Shareholders

We will achieve consistent growth and profitability over a long term with returns that result in increasing shareholder value.

Our Suppliers

We will treat suppliers fairly and forthrightly and fully live up to our agreements.

Our Communities

We will be good corporate citizens, respected and recognized as much for our integrity, commitment, insight and progressiveness, as for financial success. We will take an active interest in the communities in which we serve.

Our Work

Integrity – We value integrity in our employees, in our relationships with our customers and in our business practices. We believe in conducting business and maintaining all relationships with the highest ethical standards.

Respect - We recognize and appreciate the uniqueness of each individual. We are driven by shared goals and expectations and respect each other in our daily interactions.

Service Excellence

We take pride in delivering superior service that consistently exceeds expectations. We are committed to providing personalized, relationship oriented service that our customers value.

Open Communication Lines

We foster open communication throughout the organization. We support healthy debate and personal participation. Employee, customer and shareholder feedback are critical to our development.

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NOTICE OF MEETING

Notice is hereby given that the Twenty Fifth 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, March 29, 2012 at 5:00 p.m.

AGENDA

1. To approve the Minutes of the twenty-fourth Annual General Meeting held on April 28, 2011.

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

3. To receive the report of the Auditors.

4. To receive and consider the accounts for the year ended June 30, 2011.

5. To elect one independent director; Sonya Parry retires by rotation, and being eligible, offers herself for re-election.

6. To elect two non-independent directors; Vernel Powell retires by rotation, and being eligible, offers himself for re-election. Desmond Herbert ceased to be a director on May 26, 2011, thereby creating a vacancy.

7. To declare a dividend of 10 cents per share.

8. To appoint auditors for the year ending June 30, 2012. Deloitte & Touche/PKF Chartered Accountants, retire and being eligible, offer themselves for reappointment.

9. Any other business.

BY ORDER OF THE BOARD

A Knights.
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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.

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

5. 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.

7. 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Rawlinson Isaac *(Chairman)*
Financial Consultant

Richard Lupinacci Sr.
Hotelier

Janice Daniel-Hodge
Businesswoman

Sonya Parry
Solicitor

Vernel Powell
Businessman

Dr. Telbert Glasgow
Engineer

Hon. David Straz Jr.
Ambassador at Large
Honorary Counsul of the Republic of Liberia

SECRETARY

Aiandra E. Knights

REGISTERED OFFICE

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

AUDITORS

Deloitte & Touche
The Phoenix Centre
George Street
Belleville, St. Michael
Barbados

PKF
Independence House
North Independence Square
Basseterre
St. Kitts

IN-HOUSE COUNSEL

Aiandra E. Knights, LL.B (Hons.) UWI, LEC
General Counsel

SUBIDIARIES

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 & Barbuda	Antigua Commercial Bank
Barbados	Barbados National Bank
Canada	Royal Bank of Canada
St. Kitts & Nevis	SKNA National Bank
	CIBC/First Caribbean International Bank
	Royal Bank of Canada
St. Lucia	Bank of St. Lucia
St. Maarten	Windward Island Bank
St. Vincent & the Grenadines	Bank of St. Vincent and the Grenadines 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
Customer Service and Marketing
Building

BOARD OF DIRECTORS

Term of Office	Shareholding
2 years	33,250

Rawlinson Isaac (Chairman)

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
26 years	64,912

Richard Lupinacci Sr.

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
5 years	25,000

Janice Daniel-Hodge

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
4 years	9,762

Sonya Parry (Independent Director)

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
2 years	681

Vernel Powell

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
4 years	2,962

Dr. Telbert Glasgow (Independent Director)

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.

Hon. David Straz Jr.

The Honourable David A. Straz Jr. was elected to the Board of Directors of The Bank of Nevis Limited in April 2011 having previously served on the Board from February 2008 – April 2010. He is Ambassador at Large and Honorary Consul General, Republic of Liberia.

Graduating from Marquette University with a degree in finance, he moved into a leadership position in banking management as the chief executive officer of banks in Florida and Wisconsin. He served as a director of U.S. Bank and Fifth Third Bank.

Mr. Straz has received honorary doctorate degrees from Carthage College, Catholic University of Honduras and the University of Honduras. Marquette University named its College of Business Administration, David A. Straz, Jr. Hall. He received the Humanitarian Award of the Decade from the College of West Africa.

Active in supporting higher education and the performing arts, he is past Chairman of Marquette University and the University of Tampa. He serves as a director of the Metropolitan Opera, Tampa General Hospital, Mayo Clinic Foundation.

Term of Office	Shareholding
1 year	1,869,537

Aiandra E. Knights (Secretary)

Ms. Knights was appointed as 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.

GROUP FINANCIAL HIGHLIGHTS

Expressed in Eastern Caribbean Dollars

	2011 (000)	2010 (000)	2009 (000)	2008 (000)	2007 (000)
Total assets	414,818	388,003	387,720	358,196	305,836
Cash & due from banks and other financial institutions	97,979	95,030	100,464	111,344	57,708
Investment securities	89,729	85,402	86,394	74,838	96,907
Loans & advances	203,744	188,822	178,417	149,495	137,468
Customers' deposits	337,920	312,586	319,652	285,323	253,532
Paid-up share capital	9,348	7,478	7,478	7,478	7,478
Shareholders' equity	54,394	48,526	43,322	51,027	36,466
Gross operating income	29,910	31,017	26,696	27,813	25,794
Total expenses & provisions (excl. tax)	23,138	25,985	30,941	21,181	20,731
Interest income	23,691	25,101	22,878	22,686	19,949
Interest expense	11,921	11,519	9,795	8,570	7,700
Staff costs	5,413	5,700	5,338	5,996	5,591
Operating income / (loss) before tax	6,772	5,032	(4,245)	6,632	5,063
Income tax expense	736	749	1,158	(179)	126
Net profit / (loss)	6,036	4,283	(5,403)	6,811	4,937
Earnings per share ($)	0.65	0.46	(0.72)	0.91	0.66
Dividend per share (cents)	-	5.00	-	20.00	20.00
Return on average assets (%)	1.50	1.10	(1.45)	2.05	1.53
Return on average equity (%)	11.73	9.34	(11.45)	15.57	14.31
Number of employees	59	60	64	62	53

Rawlinson Isaac
Chairman

I am delighted to report that the financial year ended June 30, 2011 has been a successful one, which is evidenced by the financial results achieved notwithstanding the many challenges of the global economy and the banking industry.

Despite the financial headwinds, the Bank improved in all areas of financial measure:

- Total assets increased by EC$26.8 million to EC$414.8 million (EC$388.0 million in 2010).
- Deposits increased by EC$25.3 million to EC$337.9 million (EC$312.6 million in 2010).
- Total income stood at EC$29.9 million (EC$31.0 million in 2010).
- A net profit of EC$6.0 million (EC$4.3 million in 2010).
- Earnings per share was EC$0.65 (EC$0.46 in 2010).
- Return on assets (ROA) 1.5% (1.1% in 2010).
- Return on equity (ROE) 11.7% (9.3% in 2010).

The Board of Directors and Management continue to ensure that the Bank is well managed based on its policies guiding liquidity, credit, investments, capital, and operations. The Bank has leadership capacity and will continue to pursue a disciplined and proactive approach to its risk management.

During the year we were able to increase our local brand "a powerful Bank of Nevis brand" to capture market share and to deepen relationships with our customers. The Bank is now relocated to its new premises and we hope to complete the second phase by the end of this year.

Returning a satisfactory reward to our shareholders is always our focus and the Board of Directors has proposed a dividend of 10% for the financial year 2011 which represents 12.5% on the pre-bonus outstanding shares of 2010. The book value per share or net asset backing (NAB) stood at EC$5.82, with market share price of EC$5.60.

Below is a graph showing the movement in the book value and share price for the past 5 years.

There are 701 shareholders of record and during the year the Social Security Board increased its holding by 15% to become the largest shareholder of the Bank. The Bank's Board of Directors considers this investment by the Social Security Board as a demonstration of confidence in The Bank of Nevis and looks forward to strengthening its relationship with such a significant institutional shareholder as we continue our journey on the road to social and economic development on Nevis.

The Bank continues to ensure that its asset allocation policies are consistent with its risk matrices, and as such, a significant proportion of its assets is held in cash and near cash as well as other short term investments

(23.6% and 21.6% respectively). The returns on those assets are low compared with loans and advances, but is considered a very prudent principle of adherence in volatile market conditions.

Asset Allocation

	2011	%	2010	%
Cash and near cash	98.0	23.6	95.0	24.5
Investments	89.7	21.6	85.4	22.0
Loans & advances	203.7	49.1	188.8	48.7
Property/equipment	20.9	5.1	16.7	4.3
Other	2.5	0.6	2.1	0.5
	414.8	100.0	388.0	100.0

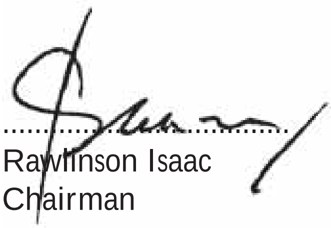
Our loans and advances stood at EC$203.7 million or 49.1% of total assets and 60.3% of deposits. Of the total loans, the public sector borrowings stood at EC$61.4 million or 30.1%.

We all are aware that the Government has embarked on a comprehensive debt restructuring program with a three-year Stand By Arrangement with the International Monetary Fund (IMF). The Board of Directors and Management have held discussions with the Government and its Debt Advisors regarding the adverse impact of several of the recommendations on the Bank's profitability and have therefore submitted alternative proposals for consideration. We will continue the discourse, as we seek to find mutually acceptable solutions to the national debt problems.

Also during the year under review, we deployed significant resources in terms of time, management and financial, in assisting our commercial customers, who make up 28.0% of the loan portfolio, as they grapple with changes in market demands and diminishing cash flows resulting from the global economic crisis. We recognize that their success is our success as we consider the commercial sector, both small and medium size enterprises, integral to our developmental strategy.

The 2011 financial year was a year of success as the Bank was able to achieve its targeted Return On Assets (ROA) of 1.5% - its key measure of financial performance. The road ahead continues to be challenging, but with resilience and momentum, with leadership and vision, with commitment, dedication, loyalty and a passion for doing the right thing, and of course, the right strategy for sustainable growth and development, the Bank will continue to be an anchor and the preferred financial institution in the markets it serves.

I must therefore express appreciation and thanks to our shareholders, directors, government, other financial institutions, our excellent management team and staff and our customers for their support, advice and encouragement throughout the year.



Rawlinson Isaac
Chairman

Your Directors are pleased to report on the performance of The Bank of Nevis Limited and its subsidiaries (the Bank) for the 2011 financial year.

OPERATING ENVIRONMENT

Recovery in the global economy continued to be stymied by several shocks during 2011 which negatively impacted the international financial system. The earthquake and tsunami in Japan, political unrest in some oil-producing countries, the fiscal challenges in the Eurozone, high and rising commodity prices and large budget deficits in a number of advanced economies have cumulatively hampered international economic recovery. According to the International Monetary Fund's (IMF) World Economic Outlook, global growth is forecast to decline to 3.25% in 2012 down from 3.8% in 2011 and 5.2% in 2010. Of particular concern is the continuing high unemployment in the United States and the need to tighten fiscal policy to combat the burgeoning fiscal deficit which will adversely impact remittances and tourist arrivals to the Caribbean region.

The St. Kitts and Nevis' economy is estimated to have remained flat in 2011 following contractions in 2009 and 2010 of 9.6% and 1.5% respectively in real gross domestic product (GDP). Additionally, the debt situation worsened with public sector debt escalating to 200% of GDP and debt service payments increasing to an estimated 30% of revenue. During the year, the Government of St Kitts and Nevis signed a three-year Stand-by Arrangement (SBA) with the IMF for US$84 million as part of its debt restructuring programme. Negotiations related to the debt restructuring are currently in progress with creditors.

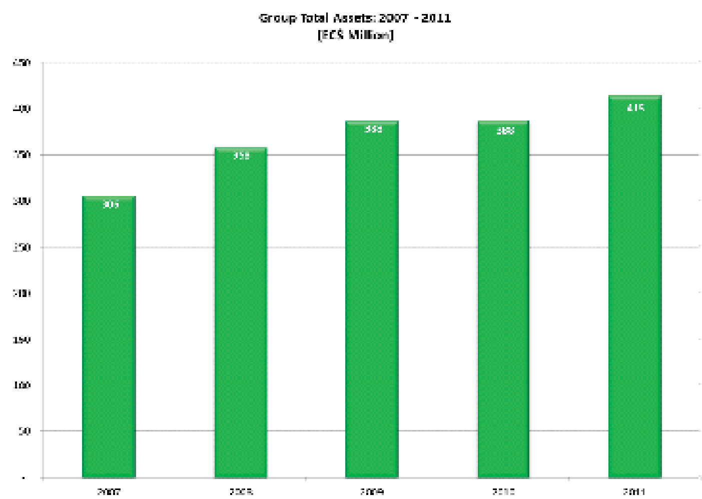
FINANCIAL PERFORMANCE

Despite the continuing challenging local and global economic environment, The Bank of Nevis Limited recorded growth in all of the primary performance areas. The Bank continues to consistently achieve growth in assets, deposits, loans, net profit and return on assets. The success of the institution is a result of its strategic planning framework and prudent risk management.

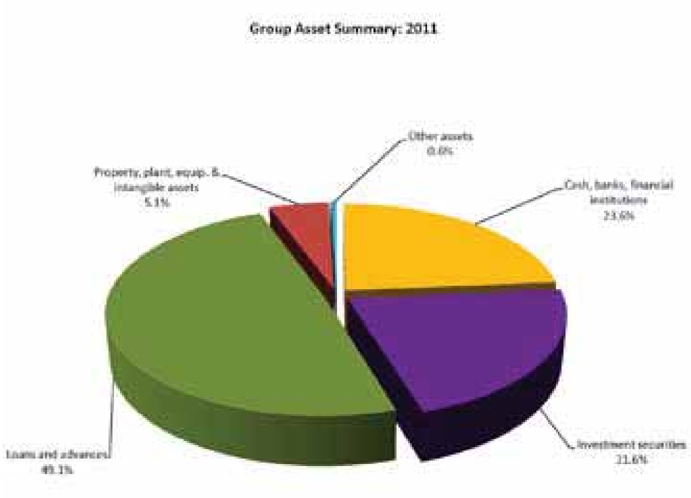
The Bank continues to focus its endeavours on creating value for all its stakeholders and maintaining the confidence of its constituents.

Assets

During the financial year, the Bank's total assets expanded by EC$26.8 million (6.9%) to EC$414.8 million which was associated primarily with an increase in loans and advances of EC$14.9 million (7.9%). This compared favourably with the marginal growth of EC$0.3 million (0.1%) during the 2010 financial year.

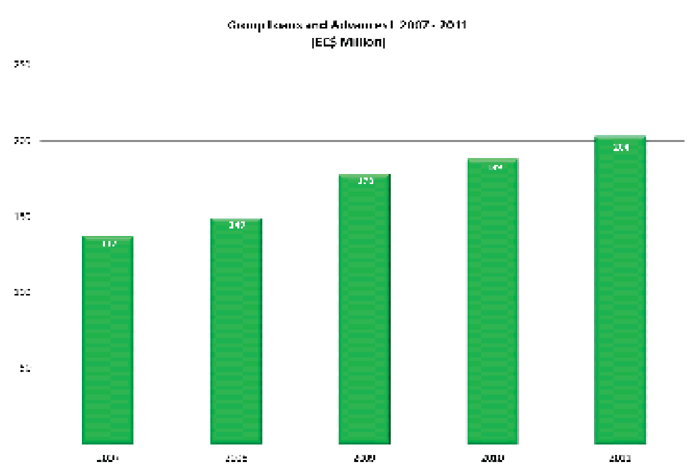


Of the total asset portfolio, loans and advances remained the largest component. At 30 June 2011, EC$203.7 million (49.1%) were employed in loans and advances, while EC$98.0 million (23.6%) and EC$89.7 million (21.7%) were held in bank deposits and investment securities. Included in bank deposits are amounts deposited at the Eastern Caribbean Central Bank to meet the statutory reserves requirement of 6% of customer deposits. Investment securities comprise the Bank's holdings in treaury bills, bonds, equities in local companies and the MorganStanley SmithBarney investment portfolio. The chart below displays the allocation of the asset portfolio.



Loans and Advances

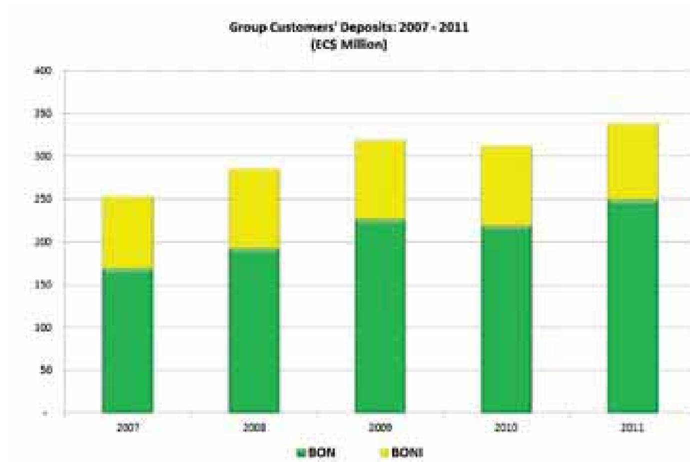
Despite slow business activity, loans and advances, net of provisions for credit losses, grew by EC$14.9 million (7.9%) to EC$203.7 million. This represents an improvement over the growth of EC$10.4 million (5.8%) in the prior year. The growth was exhibited primarily in the public and commercial sectors.



The Auditors have included an emphasis of matter paragraph in its opinion regarding the Bank's treatment of accruing interest on non-performing loans. The Bank's accounts include a reserve to set aside interest accrued on non-performing loans (delinquent loans over ninety days) in compliance with International Financial Reporting Standards (IFRS). At June 30, 2011, the balance on the reserve account was EC$4.4 million. This amount is a non-distributable reserve that is not available for distribution to shareholders. The Eastern Caribbean Central Bank's (ECCB) prudential guidelines however, do not allow for the accruing of interest on non-performing loans.

Customers' Deposits

Customers deposits remained the major funding source for the Bank's lending and investment activities. The Bank's total deposits grew by EC$25.3 million (8.1%) to EC$337.9 million, a significant improvement over the net decline of EC$7.1 million (2.2%) in 2010. The increase in customer deposits was reflected primarily in savings deposits which grew by EC$14.4 million (13.5%) to EC$121.4 million; a significant improvement over the previous year's growth of EC$0.8 million (0.5%). At reporting date, current accounts were EC$66.2 million increasing by EC$5.9 million (9.8%) while time deposits grew by EC$4.6 million (3.2%) to EC$147.1 million. The Bank continues to adopt strategies to reduce deposit cost and manage the deposit mix to ensure a consistent increase in core deposits.



At June 30, 2011, deposits in the Domestic Bank amounted to EC$250.7 million (74.2%) while EC$87.2 million (25.8%) were maintained in the Offshore Bank.

Profitability

The Bank's profitability continued its upward trajectory reflecting strong performance despite operating in a challenging economic environment. The Bank recorded pre-tax profit of EC$6.8 million for the financial year ended June 30, 2011, an increase of EC$1.7 million (34.6%).

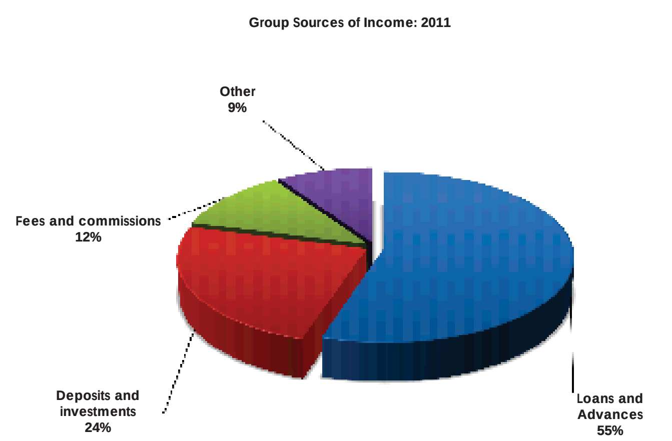
The Offshore Bank contributed the major portion of pre-tax profit reversing the trend for the last two years when its earnings were impacted by impairment provisions on its investments. However, it is important to note the continuing upward trend of the Domestic

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

	2007 EC$M	2008 EC$M	2009 EC$M	2010 EC$M	2011 EC$M
Domestic Bank	1.50	1.70	2.80	2.56	2.76
Offshore Bank	3.50	4.90	(7.00)	2.47	4.01

Bank's contribution to the overall profitability.
Gross income amounted to $29.9 million, a decline of EC$1.1 million (3.6%) when compared to the prior year's gross earnings increase of EC$4.3 million (16.2%) to EC$31.0 million. This was associated mainly with a decline in interest income due to reduced interest rates on investments and bank deposits. Considering the volatile market conditions, the Bank adopted the prudent approach of holding more assets in cash or near cash instruments.

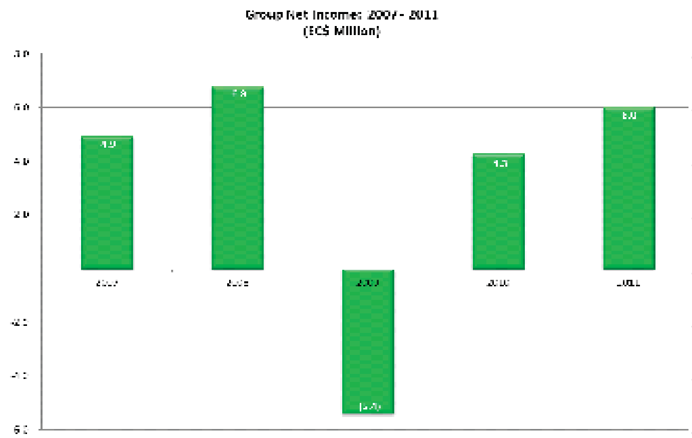
Loans and advances represented 55% of gross earnings while 24% was generated by deposits and investments.



At reporting date, operating income was EC$18.0 million compared with EC$16.6 million in 2010. Net interest income of EC$11.8 million represented 65.4% of operating income compared with EC$13.6 million or 82.1% in 2010. Non-interest income of EC$6.2 million represented 34.6% of operating income compared with EC$3.0 million or 18.0% in the prior year, recording an improvement of 106.7%.

Operating expenses declined marginally by EC$0.3 million (2.6%) as the Bank implemented initiatives to reduce expenses. The main component of operating expenses, general and administrative expenses remained relatively stable.

At June 30, 2011, the Bank recorded net profit (after tax) of EC$6.0 million, an increase of EC$1.8 million (41.0%) compared to the net earnings for 2010 of $4.3 million. Return on assets of 1.5% was achieved in 2011 compared to 1.1% in 2010.



The Bank's earning per share increased to EC$0.65 in 2011 from EC$0.46 in the previous year, adding greater value for shareholders.

Capital

The Bank's total shareholders' equity increased by EC$5.9 million (12.1%) to EC$54.4 million. The Bank continues its efforts to buttress its capital base to ensure future growth and competitiveness. To capitalise on its competitive strengths and remain the "Preferred Financial Institution" the Bank will continue to pursue its strategy to enhance capital.

HUMAN RESOURCE DEVELOPMENT

The Bank's human resource function is geared towards building capacity in order to develop a cadre of high performance professionals and leaders who demonstrate knowledge and expertise to serve all of the Bank's constituents thereby creating a sustainable programme of operational excellence. During the year, the Bank developed a Succession Plan as part of its strategic initiative to empower staff and ensure continuity. Following the creation of the Succession Plan, the critical positions within the Bank were identified and a number of employees selected for continuous training to assume higher level positions if the opportunity arises.

The Bank continues to invest in the strategic education and training of staff. To reduce cost, training has focused primarily on webinars. Training during the financial year included the following:

- Internal and external Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) workshops and conferences including the Caribbean AML/CTF Financial Crime Conference, Incident Management for the Compliance Silo: Operational Roles and Responsibilities, the 2011 Nevis AML/CFT Awareness Seminar and the Annual Compliance Training for Managers and Directors conducted by the Financial Intelligence Unit in St. Kitts.
- VISA Workshop – Card Program Management – Level 1 and 4Cs Annual Conference and training workshop.
- Investment Management and International Treasury Management.
- 4th Annual Meeting and Conference of the Caribbean Association of Audit Committee Members (CAACM).
- Credit underwriting, ethics and governance and information technology sessions.

The Bank continues to support eight staff members who are pursuing graduate and undergraduate studies in various disciplines related to banking and finance. The skills acquired are utilised in the daily duties and responsibilities of the staff members.

OPERATIONS AND TECHNOLOGY CHANGES

The Bank is committed to utilising the available technology to ensure its systems and processes are efficiently delivered. The Bank continues to upgrade its network operations to maximise the efficiency of its operations. During the financial year, the Bank upgraded its SWIFT System to facilitate first class international payments. Additionally, customers can now make their credit card payments online via the Bank's internet banking platform.

CORPORATE SOCIAL RESPONSIBILTY

The Bank is committed to exercising corporate social responsibility in the communities it serves. This commitment is executed particularly through its endeavours in Education, Sports, Health and other social areas.

EDUCATION

Academic Excellence Awards

The Bank continues to reward students for excellence in education. Academic Excellence Awards were awarded to the students who achieved the best CAPE and CSEC results on Nevis.

The Bank also donated prizes and awards to outstanding students at graduation ceremonies held at various Primary Schools across the island.

Scholarship Fund

In celebration of the Bank's 25th Anniversary and in honour of one of the Bank's pioneering members, Dr. Simeon Daniel, the Bank launched a scholarship named The Bank of Nevis Limited Simeon Daniel Scholarship. The scholarship is awarded annually to two students entering the Gingerland Secondary and the Charlestown Secondary Schools based on their academic performance and economic need.

(l – r) BON General Manager, Everette Martin, Julitta Huggins, Lauju Huggins (2010 Scholarship Recipient), Glenville Browne (father of 2010 Scholarship Recipient Dymon Browne) and Mrs. Sheila Daniel, wife of Dr. Simeon Daniel.

Also in the area of education, the Bank provided support to the Ministry of Education and in particular the teachers who are the pillars of the education system by making a donation to the 2010 Teacher of Excellence Awards Ceremony. This activity which is hosted annually by the Ministry and Department of Education seeks to appreciate teachers for their hard work and dedication in the teaching profession.

Support was also provided to the Nevis Public Library in the hosting of its 2010 International College Fair. Employees from the Bank attended the Fair and used the opportunity to educate students as well as adults who visited the Fair about the process of applying for students loans.

Sports

The Bank remains committed to the development of sports and has contributed to several sporting activities throughout the year.

Our partnership with former West Indian Cricketer, Carl Tuckett for yet a third consecutive year provided an opportunity for children ages 6 – 13 to learn fundamental cricketing and life enhancement skills. We are also proud to report that most of the players on the Nevis 13 and Under Cricket team were selected from The Bank of Nevis sponsored Summer Cricket Coaching Clinic. This team placed 2nd in the 13 and Under regional cricket tournament.

Throughout the year, the Bank also provided sponsorships and donations to several Pre-, Primary and Secondary Schools' Annual Sports Meets as well as an Inter-Primary Schools Netball Festival.

CHANGES IN DIRECTORSHIP

On February 24, 2011, the Board of Directors passed a resolution reducing the number of Directors from ten to eight. This followed the resignations of three directors in the previous year due to family and work commitments. At the twenty-fourth Annual General Meeting held on April 28, 2011, Hon. David Straz Jr. who had served on the Board previously was re-elected to the Board of Directors.

During the year, the Bank was without the services of one of its experienced and Senior Director, Mr Desmond Herbert. The Board expresses appreciation to

Mr Herbert for his unwavering commitment and sterling contribution to the Bank, not only as a Director but also as one of the pioneers of the institution.

BANK OF NEVIS INTERNATIONAL LIMITED

During the year, the strategic development of the Bank of Nevis International Limited (BONI) continued to be one of the main action items for the Board of Directors. The BONI Strategic Planning Committee remained steadfast in its efforts to build partnerships and create a world class international institution. Work continued on the Approved Intermediary Programme which is geared towards partnering with trust companies and service providers to make the conducting of business with BONI more efficient. Meetings were held with several service providers on both St Kitts and Nevis and marketing efforts were intensified with the placement of advertisements in international magazines.

Going forward, BONI will consider establishing an institutional trust company and recruit the relevant professionals to ensure the institution has the requisite skills necessary for its promotional activities.

CONSTRUCTION OF NEW PREMISES

The first phase of the construction and refurbishment project of the Bank's headquarters is now complete and occupied by the staff of the Domestic Bank. The second phase of the project is expected to be completed in 2012. The completion of this project will redound to the benefit of the Bank, its customers, staff and shareholders.

The Bank of Nevis Limited's new premises

CONCLUSION

The Directors express gratitude to the Bank's stakeholders who are the catalyst for the continued success of the institution. We are indebted to our customers, employees, shareholders and other constituents who continue to invest their confidence and trust in the institution as **"Your Anchor in a Challenging Economic Environment."**

By order of the Board

....

AIANDRA KNIGHTS
SECRETARY

The Bank of Nevis Limited

Consolidated Financial Statements
June 30, 2011
Expressed in Eastern Caribbean Dollars

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 at June 30, 2011, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements for the year ended June 30, 2010 were reported on by another firm of independent auditors whose opinion dated March 14, 2011 was unqualified.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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' judgment, 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.

Independent auditors' report (continued)

To the Shareholders of The Bank of Nevis Limited

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Bank of Nevis Limited as of June 30, 2011 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 9 which details management's recognition of interest on non-productive loans which is in accordance with International Financial Reporting Standards but is not in accordance with the Eastern Caribbean Central Bank prudential guidelines.

Deloitte & Touche

PKF

The Phoenix Centre
George Street
Belleville
St Michael
Barbados

Independence House
North Independence Square
Basseterre
St Kitts

December 15, 2011

The Bank of Nevis Limited

Consolidated Statement of Financial Position
As of June 30, 2011

(expressed in Eastern Caribbean dollars)

	2011 $	2010 $
Assets		
Cash and balances due from banks and other financial institutions (note 7)	**97,978,872**	95,029,574
Investment securities (note 8)	**89,728,996**	85,402,242
Loans and advances (note 9)	**203,744,099**	188,822,487
Other assets (note10)	**1,967,771**	1,680,544
Property, plant and equipment (note 11)	**20,935,426**	16,743,061
Intangible assets (note 12)	**335,889**	324,645
Deferred tax asset (note 16)	**126,633**	-
Total assets	**414,817,686**	388,002,553
Liabilities		
Customers' deposits (note 13)	**337,920,269**	312,585,707
Debt security (note 14)	**14,611,287**	14,807,343
Other liabilities and accrued expenses (note 15)	**7,022,770**	11,215,014
Provision for income tax (note 16)	**869,066**	729,498
Deferred tax liability (note 16)	**-**	138,930
Total liabilities	**360,423,392**	339,476,492
Shareholders' Equity		
Share capital (note 17)	**9,347,687**	7,478,150
Revaluation reserves (note 18)	**10,746,510**	10,914,712
Other reserves (note 19)	**17,059,531**	15,357,723
Retained earnings	**17,240,566**	14,775,476
Total shareholders' equity	**54,394,294**	48,526,061
Total liabilities and shareholders' equity	**414,817,686**	388,002,553

The notes on pages 30 to 90 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on December 15, 2011

______________________ Chairman ______________________ Director

The Bank of Nevis Limited

Consolidated Statement of Income
As of June 30, 2011

(expressed in Eastern Caribbean dollars)

	2011 $	2010 $
Interest income (note 20)	**23,691,238**	25,100,576
Interest expense (note 21)	**(11,921,400)**	(11,519,287)
Net interest income	**11,769,838**	13,581,289
Realised gain from investment securities (note 8)	**644,569**	4,220
Impairment provision on available-for-sale investment securities (note 8)	–	(1,347,450)
Impairment provision on fixed deposits (note 7)	–	(1,597,537)
Other operating income (note 22)	**5,574,049**	5,912,188
Operating income	**17,988,456**	16,552,710
Operating expenses		
General and administrative expenses (note 28)	**9,280,478**	9,292,309
Provision for loan impairment, net of recoveries (note 9)	**282,350**	737,654
Directors' fees and expenses	**455,888**	451,298
Audit fees	**438,751**	333,001
Depreciation (note 11)	**312,671**	332,392
Amortisation (note 12)	**168,445**	142,056
Correspondent bank charges	**277,596**	232,183
	11,216,179	11,520,893
Operating profit for the year before taxation	**6,772,277**	5,031,817
Taxation (note 16)		
Current tax expense	**930,090**	766,791
Deferred tax credit	**(194,248)**	(17,636)
Income tax expense	**735,842**	749,155
Net profit for the year	**6,036,435**	4,282,662
Earnings per share (note 24)	**0.65**	0.46

The notes on pages 30 to 90 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, 2011

(expressed in Eastern Caribbean dollars)

	2011 $	2010 $
Net profit for the year	**6,036,435**	4,282,662
Other comprehensive income for the year:		
Appreciation in market value of investment securities, net of tax (note 18)	**476,367**	1,295,032
Transfer of net gains to income (note 18)	**(644,569)**	–
Total other comprehensive (loss) income for the year	**(168,202)**	1,295,032
Total comprehensive income for the year	**5,868,233**	5,577,694

The notes on pages 30 to 90 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, 2011

(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 18)	–	1,295,032	–	–	1,295,032
Total comprehensive income for the year	**–**	**1,295,032**	**-**	**4,282,662**	**5,577,694**
Transactions with owners					
Dividends (note 26)	–	–	–	(373,908)	(373,908)
Reserve for loan impairment (note 19)	–	–	76,636	(76,636)	–
Reserve for interest on non-performing loans (note 19)	–	–	1,310,837	(1,310,837)	–
Reserve for items in-transit on correspondent bank accounts (note 19)	–	–	1,590,162	(1,590,162)	–
Balance at June 30, 2010	**7,478,150**	**10,914,712**	**15,357,723**	**14,775,476**	**48,526,061**

The notes on pages 30 to 90 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity (continued)
For the year ended June 30, 2011

(expressed in Eastern Caribbean dollars)

	Share capital $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance at June 30, 2010	7,478,150	10,914,712	15,357,723	14,775,476	48,526,061
Comprehensive income					
Net profit for the year	–	–	–	6,036,435	6,036,435
Other comprehensive income					
Appreciation in market value of investment securities, net of tax (note 18)	–	476,367	–	–	476,367
Transfer of net gains to income	–	(644,569)			(644,569)
Total comprehensive income	**–**	**(168,202)**	**-**	**6,036,435**	**5,868,233**
Transactions with owners					
Share dividend (bonus shares) (note 17)	1,869,537	–	–	(1,869,537)	–
Reserve for loan impairment (note 19)	–	–	(21,505)	21,505	–
Reserve for interest on non-performing loans (note 19)	–	–	664,414	(664,414)	–
Reserve for items in-transit on correspondent bank accounts (note 19)	–	–	(414)	414	–
Transfer to reserve fund (note19)	–	–	1,059,313	(1,059,313)	–
Balance at June 30, 2011	**9,347,687**	**10,746,510**	**17,059,531**	**17,240,566**	**54,394,294**

The notes on pages 30 to 90 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, 2011

(expressed in Eastern Caribbean dollars)

	2011 $	2010 $
Cash flows from operating activities		
Operating profit/(loss) for the year before taxation	**6,772,277**	5,031,817
Items not affecting cash:		
Provision for loan impairment	**282,350**	737,654
Depreciation	**312,671**	332,392
Amortisation	**168,445**	142,056
Impairment provision on available-for-sale investment securities	**-**	1,347,450
Gain on disposal of investment securities	**(644,569)**	(4,220)
Impairment provision on fixed deposits	**-**	1,597,537
Share dividend received	**-**	(741,040)
Interest income	**(23,691,238)**	(25,100,576)
Interest expense	**11,921,400**	11,519,287
Cash flows from operating income before changes in operating assets and liabilities	**(4,878,664)**	(5,137,643)
Changes in operating assets and liabilities		
Decrease/(increase) in restricted deposits	**3,335,879**	(5,790,893)
(Increase)/decrease in deposits held for regulatory purposes	**(641,659)**	10,543,631
Increase in loans and advances	**(14,455,987)**	(9,667,260)
(Increase)/decrease in other assets	**(287,227)**	3,618,150
Increase/(decrease) in customer deposits	**24,906,734**	(7,286,940)
(Decrease)/increase in other liabilities and accrued expenses	**(4,192,244)**	2,898,320
Cash from (used in) operations	**3,786,832**	(10,822,635)
Interest paid	**(11,156,065)**	(11,049,330)
Interest received	**23,166,125**	24,212,987
Income tax paid, net of refunds	**(790,522)**	(888,717)
Net cash from operating activities	**15,006,370**	1,452,305
Cash flows from investing activities		
Purchase of property, plant and equipment	**(4,505,036)**	(310,865)
Purchase of intangible assets	**(179,689)**	(84,298)
Decrease in other marketable securities	**-**	2,694,900
(Increase)/decrease in investment securities	**(1,827,954)**	748,567
Decrease/(increase) in fixed deposits	**8,187,636**	(998,356)
Net cash from investing activities	**1,674,957**	2,049,948

The notes on pages 30 to 90 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, 2011

(expressed in Eastern Caribbean dollars)

	2011 $	2010 $
Cash flows used in financing activities		
Repayment of debt security	**(533,563)**	(754,572)
Dividends paid	–	(373,908)
Net cash used in financing activities	**(533,563)**	(1,128,480)
Increase in cash and cash equivalents	**16,147,764**	2,373,773
Cash and cash equivalents, beginning of year	**91,295,900**	88,922,127
Cash and cash equivalents, end of year (note 27)	**107,443,664**	91,295,900

The notes on pages 30 to 90 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. The Bank is subject to the provision of the Banking Act No. 4 of 2004 of St. Christopher and Nevis. The principal activity of the Bank is the provision of financial services, and its registered office is: Main Street, Charlestown, 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 Adoption and amendments of published accounting standards and interpretations

Standards, amendments and interpretations effective on or after January 1, 2010

Several new and revised accounting standards came into effect during the current period. The adoption of these new and revised accounting standards does not have a material impact on these consolidated financial statements:

- IAS 1 – Presentation of financial statements (effective January 01, 2010)
- IAS 7 – Statement of cash flows (effective January 01, 2010)
- IAS 18 – Revenue (effective January 01, 2010)
- IAS 27 – Consolidated and separate financial statements (effective July 01, 2010)
- IAS 36 – Impairment of assets (effective January 01, 2010)
- IAS 38 – Intangible assets (effective January 01, 2010)
- IAS 39 – Financial Instruments: recognition and disclosure (effective January 01, 2010)

(expressed in Eastern Caribbean dollars)

2 Adoption and amendments of published accounting standards and interpretations (continued)

Standards and interpretations issued but not yet effective

The following new and revised accounting standards which are relevant to the Bank have been issued, but are not yet effective. These standards when adopted are not expected to have a material impact on the financial statements.

- IFRS 7 – Financial Instruments: Disclosures (effective January 01, 2011)
- IFRS 9 – Financial Instruments – Classification and Measurement (effective January 01, 2013)
- IAS 1 – Presentation of financial statements (effective January 01, 2011)
- IAS 24 – Related party disclosures (effective January 01, 2011)
- IFRS 10 – Consolidated financial statements (effective January 01, 2013)
- IFRS 12 – Disclosures of Interest in Other Entities (effective January 01, 2013)
- IFRS 13 – Fair Value Measurement (effective January 01, 2013)

3 Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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, 2011.

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.

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.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.3 Foreign currency translation

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.

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 reporting 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.

3.4 Financial Assets

The Bank classifies its financial assets into the following categories: loans and receivables and available-for-sale. 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. Loans and receivables including bank and cash balances, loans and advances, investments and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. In the case of an impairment, an impairment loss is reported as a deduction from the carrying value of the financial asset and recognised in the consolidated statement of income as a ‘provision for impairment’.

Interest income on loans and receivables is included in the consolidated statement of income and is reported as ‘interest income’.

(b) Available-for-sale financial assets
Available-for-sale instruments 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 not 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. Changes in the carrying amount of available-for-sale financial assets relating to changes in foreign currency rates are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of ‘revaluation reserves’. Unimpaired 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. Where the financial asset is disposed of or determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

Interest calculated using the effective interest method, and dividends on available-for-sale financial assets are recognised in profit or loss. Dividends on available-for-sale financial assets are recognised in profit or loss when the Bank’s right to receive the dividends is established.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.4.1 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 (or 'events') has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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 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.

If there is objective evidence that an impairment loss on as asset carried at amortised cost exists, 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 a 'provision for loan loss' account and the amount of the loss is recognised in the consolidated statement of income. If an asset carried at amortised cost 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.

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

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.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.4.1 Impairment of financial assets

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

When a loan is uncollectible, it is written off against the related provision for loan losses. Such loans are written off after all of the available options have been exhausted, the necessary procedures have been completed and the amount of the loss has been determined. If in a subsequent period, amounts previously written off are recovered, the amounts collected are recognised in profit or loss through the 'bad debts recovered' account.

(b) *Assets classified as available-for-sale*
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered 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.

3.4.2 Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to receive the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially of the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.4.2 Derecognition of financial assets (continued)

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Bank retains control), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under the continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3.5 Financial Liabilities

a) *Other Financial Liabilities*
Other financial liabilities (including borrowings) are subsequently recognised at amortised cost using the effective interest method.

3.5.2 Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.6 Interest income and expense and revenue recognition

Interest income and expenses are recognised in the consolidated statement of income for all financial assets and liabilities 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 liability on initial recognition. 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.

3.7 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.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.7 Fees and commission income (continued)

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.

3.8 Dividend income

Dividends are recognised in the consolidated statement of income when the Bank's right to receive the payment has been established (provided that it is probable that the economic benefits will flow to the group and the amount of income can be measured reliably).

3.9 Property, plant and equipment and depreciation

Land and buildings held for use in the production or supply of services, or administrative purposes are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.9 Property, plant and equipment and depreciation (continued)

Depreciation is recognised so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The following annual depreciation rates are applied:

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

Land is not depreciated.

All repairs and maintenance to property, plant and equipment are charged to other operating expenses during the financial period in which they are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.10 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 the computer software which is three to five years, using the straight line method.

Costs associated with maintaining computer software programmes are charged to other operating expenses during the financial period in which they are incurred.

3.11 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.12 Investment in subsidiaries

The investment in subsidiaries is stated at cost and accordingly the assets, liabilities and results of operations of the subsidiaries are not reflected in these accounts. Income from the subsidiaries' operations is recognised only to the extent of dividends received.

3.13 Cash and cash equivalents

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

3.14 Share capital

Ordinary shares are classified as equity.

3.15 Dividends on ordinary shares

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

3.16 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.

3.17 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 investment).

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.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.17 Income tax (continued)

b) Deferred income tax (continued)

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

4 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.

4.1 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.

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)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.1 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 Christopher 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.

4.1.2 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.

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.2 Risk limit control and mitigation policies (continued)

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.

4.1.3 Impairment and provisioning policies

The internal rating system described in Note 4.1.1 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 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.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.3 Impairment and provisioning policies

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:

	2011		2010	
Bank's rating	**Loans and advances (%)**	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
Pass	**84.5**	–	85.9	–
Special mention	**6.6**	–	6.0	–
Sub-standard	**7.0**	**33.4**	5.9	41.5
Doubtful	**1.7**	**51.0**	2.0	40.7
Loss	**0.2**	**15.6**	0.2	17.8
Total	**100.0**	**100.0**	100.0	100.0

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

	2011 $	2010 $
Credit risk exposures relating to on-balance sheet assets:		
Deposits with other banks	**58,666,444**	55,098,621
Deposits with non-bank financial institutions	**18,655,311**	15,941,050
Investment securities:		
– Treasury bills and other eligible bills	**47,060,319**	46,537,020
– Bonds and other debt instruments	**16,427,186**	17,009,706
Loans and advances	**203,744,099**	188,822,487
Other assets	**338,736**	385,913
Pledged assets:		
– Available-for-sale fixed income securities, quoted	**8,327,529**	9,345,848
– Deposits with non-bank financial institutions	**5,003,368**	8,339,247
	358,222,992	341,479,892
Credit exposures relating to off-balance sheet items:		
– Financial guarantees	**483,582**	507,155
– Loan commitments and other credit related facilities	**17,081,102**	18,327,560
Total	**375,787,676**	360,314,607

The above table represents a worse case scenario of credit exposure to the Bank at June 30, 2011 and 2010, 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.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

54.2% of the total maximum exposure is derived from loans and advances (2010: 52.4%) and 21.8% represents investment in securities (2010: 20.2%).

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:

- 91.1% of the loans and advances portfolio is categorized in the top two grades of the internal rating system (2010: 91.9%).
- 85.3% of the loans and advances portfolio are considered to be neither past due nor impaired (2010: 87.1%).
- 10.7% of loans and advances are considered impaired (2010: 10.0%).
- The impairment provision on the balance sheet increased during the year to $3.3 million, an increase of 8.9% over the previous year ($3.0 million).

4.1.5 Credit quality of loans and advances

Loans and advances are summarised as follows:

	2011		2010	
	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	168,456,326	8,232,773	157,011,473	10,023,353
Past due but not impaired	8,300,980	–	5,738,490	–
Impaired	22,071,233	–	19,095,610	–
Gross	**198,828,539**	**8,232,773**	**181,845,573**	**10,023,353**
Less: allowance for impairment	(3,317,213)	–	(3,046,439)	–
Net	**195,511,326**	**8,232,773**	**178,799,134**	**10,023,353**

The total impairment provision for loans and advances is $3,317,213 (2010: $3,046,439) of which $2,101,542 (2010: $1,954,571) represents the individually impaired loans, and the remaining amount of $1,215,671 (2010: $1,091,868) represents the portfolio provision. Further information on the impairment provision for loans and advances to banks and to customers is provided in Note 10.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 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, 2011

	Overdraft $	Personal $	Commercial $	Public sector $	Total $
Grades:					
Pass	14,098,800	48,757,283	52,431,947	50,754,510	166,042,540
Special mention	10,494,823	151,736	-	-	10,646,559
Total	**24,593,623**	**48,909,019**	**52,431,947**	**50,754,510**	**176,689,099**

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
Total	**19,707,613**	**58,146,425**	**46,480,233**	**42,700,555**	**167,034,826**

(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, 2011

	Personal $	Commercial $	Total $
Past due up to 30 days	4,577,421	1,365,029	5,942,450
Past due 30-60 days	306,259	–	306,259
Past due 60-90 days	2,052,271	–	2,052,271
Total	**6,935,951**	**1,365,029**	**8,300,980**

As at June 30, 2010

	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**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 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, 2011

	Overdraft $	Personal $	Commercial $	Total $
Individually impaired loans	**864,260**	**11,617,077**	**9,589,896**	**22,071,233**
Fair value of collateral	**503,917**	**26,244,064**	**45,681,846**	**72,429,827**

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

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $22,071,233 (2010: $19,095,610).

(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 $596,875 at June 30, 2011 (2010: $1,163,212).

4.1.6 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, 2011 and 2010 based on Standard & Poor's rating or their equivalent:

	Treasury bills $	Bonds and other debt instruments $	Available-for-sale $	Total $
Aa1—Baa3	–	5,913,566	7,368,400	13,281,966
Lower than Baa3	–	–	1,105,569	1,105,569
Unrated	47,060,319	10,513,620	17,767,522	75,341,461
As at June 30, 2011	**47,060,319**	**16,427,186**	**26,241,491**	**89,728,996**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.6 Debt securities, treasury bills and other eligible bills (continued)

	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**

4.1.7 Repossessed collateral

During the year ended June 30, 2011, the Bank took possession of collateral securing facilities with carrying value of $141,955 (2010: $56,914).

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.8 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, 2010 and 2011. 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	4,929,324	27,860,983	11,279,230	14,596,907	58,666,444
Deposits with non bank financial institutions	49,897	18,605,414	–	–	18,655,311
Investment securities:					
– Treasury bills and other eligible bills	46,564,943	495,376	–	–	47,060,319
– Bonds and other debt instruments	9,240,595	7,186,591	–	–	16,427,186
Loans and advances	188,436,919	5,035,878	6,973,866	3,297,436	203,744,099
Other assets	138,858	2,806	307,395	960	450,019
Pledged assets:					
– Available-for-sale fixed income securities	–	–	8,216,246	–	8,216,246
–Deposits with non-bank financial institutions	808,470	–	4,194,898	–	5,003,368
	250,169,006	**59,187,048**	**30,971,635**	**17,895,303**	**358,222,992**
Credit exposures relating to off balance sheet items:					
Financial guarantees	483,582	–	–	–	483,582
Loan commitments and other credit related facilities	13,345,716	105,888	3,576,889	52,609	17,081,102
As at June 30, 2011	**263,998,304**	**59,292,936**	**34,548,524**	**17,947,912**	**375,787,676**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.8 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	2,752,298	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	287,210	51,571	489,764
Pledged assets:					
– Available-for-sale fixed income securities	–	–	9,241,997	–	9,241,997
– 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)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.8 Concentration of risks of financial assets with credit risk exposure (continued)

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

	2011		2010	
	$	**%**	$	%
Public sector	**61,415,610**	**29.7**	50,682,620	26.4
Personal	**60,484,572**	**29.4**	63,019,487	32.8
Commercial	**58,063,548**	**28.0**	49,683,416	25.9
Investment	**14,280,676**	**6.9**	15,287,394	8.0
Land	**6,506,337**	**3.1**	6,931,103	3.6
Credit card advances	**3,204,623**	**1.5**	3,000,045	1.6
Educational	**1,519,941**	**0.7**	1,596,542	0.8
Professional	**911,901**	**0.4**	929,028	0.5
Agricultural/manufacturing	**674,104**	**0.3**	739,291	0.4
Total	**207,061,312**	**100.0**	191,868,926	100.0

4.2 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.

4.2.1 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, 2011 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $77,367 (2010: $23,458) lower/ higher as a result of the increase/decrease in the fair value of available-for-sale investment securities.

	2011	**2010**
	$	**$**
Available-for-sale		
Equity securities quoted at market value	**1,327,791**	1,531,546
Mutual funds quoted at market value	**14,610,899**	9,052,770
	15,938,690	10,584,316

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

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, 2011. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
As at June 30, 2011							
Assets							
Cash and balances with ECCB	15,018,265	447,445	117,896	18,647	45,301	6,195	15,653,749
Deposits with banks	7,339,636	44,936,733	2,610,374	3,073,722	606,300	99,679	58,666,444
Deposits with non-bank financial institutions	2,100,479	16,554,832	–	–	–	–	18,655,311
Investment securities:							
– Treasury bills and other eligible bills	39,940,468	7,119,851	–	–	–	–	47,060,319
– Bonds and other debt securities	7,865,457	8,561,729	–	–	–	–	16,427,186
– Available-for-sale investments - unquoted	271,806	1,703,466	–	–	–	–	1,975,272
– Available-for-sale investments – quoted	1,327,791	–	–	–	–	–	1,327,791
Loans and advances to customers	164,707,752	39,036,347	–	–	–	–	203,744,099
Other assets	141,341	306,852	–	960	866	–	450,019
Pledged assets:							
– Available-for-sale investment securities	–	22,827,145	–	–	–	–	22,827,145
– Deposits with non-bank and other financial institutions	–	5,003,368	–	–	–	–	5,003,368
Total financial assets	**238,712,995**	**146,497,768**	**2,728,270**	**3,093,329**	**652,467**	**105,874**	**391,790,703**
Liabilities							
Customer deposits	166,067,935	168,573,708	1,552,330	1,678,723	47,573	–	337,920,269
Debt security	–	14,611,287	–	–	–	–	14,611,287
Other liabilities and accrued expenses	1,584,487	2,668,365	97,662	224,172	2,630	759	4,578,075
Total financial liabilities	**167,652,422**	**185,853,360**	**1,649,992**	**1,902,895**	**50,203**	**759**	**357,109,631**
Net on-balance sheet position	**71,060,573**	**(39,355,592)**	**1,078,278**	**1,190,434**	**602,264**	**105,115**	**34,681,072**
Credit commitments	**11,347,502**	**8,224,528**	–	–	–	–	**19,572,030**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
As at June 30, 2010							
Assets							
Cash and balances with the 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 securities- 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	286,668	–	51,571	866	–	489,764
Pledge assets:							
– Available-for-sale investment securities	–	18,294,767	–	–	–	–	18,294,767
– Deposits with non-bank 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)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

If at June 30, 2011, 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 $94,513 (2010: $361,916) 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 2011 was a gain of $302,240 (2010: loss of $606,829).

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, 2011.

If at June 30, 2011, 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 $78,731 (2010: $319,102) 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 in 2011 was a gain of $195,092 (2010: loss of $527,521).

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, 2011.

If at June 30, 2011, 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 $4,532 (2010: $3,541) 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.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 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, 2011							
Assets							
Cash and balances with the Central Bank	2,000	–	–	–	–	15,651,749	15,653,749
Deposits with banks	9,910,826	18,101,674	–	–	–	30,653,944	58,666,444
Deposits with non bank financial institutions	14,568,446	–	4,051,754	–	–	35,111	18,655,311
Investment securities:							
– Treasury bills	16,725,824	27,783,371	2,551,124	–	–	–	47,060,319
– Bonds and other debt instruments	678	1,375,137	1,393,067	13,508,304	150,000	–	16,427,186
– Available-for-sale investments – unquoted	–	–	–	–	–	1,975,272	1,975,272
– Available-for-sale securities-quoted	–	–	–	–	–	1,327,791	1,327,791
Loans and advances to customers	49,548,348	9,451,959	6,564,285	26,601,768	111,577,739	–	203,744,099
Other assets	–	–	–	–	–	450,019	450,019
Pledged assets:							
– Available-for-sale investment securities	–	–	–	4,615,493	3,600,753	14,610,899	22,827,145
– Deposits with bank and other financial Institution	4,194,898	–	808,470	–	–	–	5,003,368
Total financial assets	**94,951,020**	**56,712,141**	**15,368,700**	**44,725,565**	**115,328,492**	**64,704,785**	**391,790,703**
Liabilities							
Customer deposits	163,695,833	24,678,468	97,379,301	3,833,987	–	48,332,680	337,920,269
Debt security	14,611,287	–	–	–	–	–	14,611,287
Other liabilities and accrued expenses	110,847	–	–	–	–	4,467,228	4,578,075
Total financial liabilities	**178,417,967**	**24,678,468**	**97,379,301**	**3,833,987**	**–**	**52,799,908**	**357,109,631**
Total interest repricing gap	**(83,466,947)**	**32,033,673**	**(82,010,601)**	**40,891,578**	**115,328,492**	**11,904,877**	**34,681,072**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 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, 2010							
Assets							
Cash and balances with ECCB	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 securities –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	–	–	–	–	–	489,764	489,764
Pledged assets:							
– Available-for-sale	987,128	–	–	3,604,331	4,650,537	9,052,771	18,294.767
– Deposits with banks and other financial institutions	7,530,777	–	808,470	–	–	–	8,339,247
Total financial assets	**117,399,033**	**36,905,857**	**15,484,843**	**58,177,958**	**109,619,544**	**32,052,981**	**369,640,216**
Liabilities							
Customers 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)**	**51,792,203**	**109,619,544**	**(19,776,076)**	**32,823,332**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 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, 2011 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $151,569 (2010: $91,570) 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, 2011, 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 $988,216 higher/lower (2010: $1,066,480), 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, 2011 variable interest rates on customers' deposits had been 0.5% higher/lower, with all other variables held constant, net profit for the year would have been $1,093,667 (2010: $967,256) lower/higher, mainly as a result of higher/lower interest expense.

4.3 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.

4.3.1 Liquidity risk management process

The Bank's liquidity management process is carried out within the Bank by the Accounting and Investment 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 Accounting and Investment 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.

4.3.2 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.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.3 Liquidity risk (continued)

4.3.3 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, 2011						
Deposits from customers	207,910,848	27,558,366	104,240,741	2,223,288	–	341,933,243
Debt security	14,611,287	–	–	–	–	14,611,287
Other liabilities and accrued expenses	4,261,003	317,072	–	–	–	4,578,075
Total financial liabilities (contractual maturity dates)	**226,783,138**	**27,875,438**	**104,240,741**	**2,223,288**	–	**361,122,605**
Assets held for managing liquidity risk (contractual maturity dates)	**154,634,088**	**56,757,241**	**17,277,511**	**41,976,154**	**115,306,068**	**385,951,062**
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**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.3 Liquidity risk (continued)

4.3.4 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.

4.3.5 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, 2011			
Financial guarantees	483,582	–	483,582
Capital commitments	2,007,346	–	2,007,346
Loan commitments	17,081,102	–	17,081,102
	19,572,030	–	**19,572,030**
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**

(b) Financial guarantees and other financial facilities
The Bank had financial guarantees of $483,582 at June 30, 2011 (2010: $507,155).

(c) Operating Lease Commitments
The Bank had no operating lease commitments as at June 30, 2011 (2010: $Nil).

(d) Capital commitments
The Bank had contractual capital commitments totalling $2,007,346 as at June 30, 2011 (2010: $3,532,692). These commitments relate to the Bank's building construction and refurbishment project which commenced in June 2010.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.4. Fair value of financial assets and liabilities (continued)

(a) The table below summarises the carrying amounts and fair values of the Bank's financial assets and liabilities

	Carrying value		Fair value	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with the Central Bank	15,653,749	15,650,656	15,653,749	15,650,656
Deposits with other banks	58,666,444	55,098,621	58,666,444	55,098,621
Deposits with non-bank financial institutions	18,655,311	15,941,050	18,655,311	15,941,050
Investment securities:				
– Treasury bills and other eligible bills	47,060,319	46,537,020	47,060,319	46,537,020
– Bonds and other debt instruments	16,427,186	17,009,706	16,427,186	17,009,706
– Available-for-sale investments – unquoted	1,975,272	1,925,352	1,975,272	1,925,352
– Available-for-sale investments – quoted	1,327,791	1,531,546	1,327,791	1,531,546
Loans and advances	203,744,099	188,822,487	202,782,933	188,021,490
Other Assets	338,736	385,913	338,736	385,913
Pledged assets:				
– Available-for-sale investment securities, quoted	22,938,428	18,398,618	22,938,428	18,398,618
– Deposits with bank and other financial institutions	5,003,368	8,339,247	5,003,368	8,339,247
	391,790,703	**369,640,216**	**390,829,537**	**368,839,219**
Financial liabilities				
Customer deposits	337,920,269	319,652,000	337,920,269	319,652,000
Debt security	14,611,287	15,312,605	14,611,287	15,312,605
Other payables and accrued expenses	4,578,075	6,797,497	4,578,075	6,797,497
	357,109,631	**341,762,102**	**357,109,631**	**341,762,102**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.4. Fair value of financial assets and liabilities (continued)

(a) The table below summarises the carrying amounts and fair values of the Bank's financial assets and liabilities (continued)

(i) Due from other banks
Due from other banks includes inter-bank placements and items in the course of collection. It is assumed that the fair value of this category of financial assets is a reasonable estimate of the fair value due to the relatively short term maturities.

(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 assets classified as available-for-sale which are measured at fair value based on quoted market prices. For available-for-sale investment securities for which no active market exists, the fair value is estimated at cost, net of any assessed impairment. Loans and receivables are carried at amortised cost using the effective interest rate method.

(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 fair value of fixed-interest bearing deposits and other borrowings is assumed to approximate the carrying values.

(v) Loans payable
The fair value of the loan payable is estimated to approximate the carrying value.

4.4.1 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)

4 Financial risk management (continued)

4.4. Fair value of financial assets and liabilities (continued)

4.4.1 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 $
Financial assets at fair value	
Investment securities	
Fixed income securities, quoted at market value	8,216,246
Mutual funds, quoted at market value	14,610,899
Equity securities, quoted at market value	1,327,791
Balance as at June 30, 2011	**24,154,936**

	Level 1 $
Financial assets at fair value	
Investment securities	
Fixed income securities, quoted at market value	9,241,998
Mutual funds, quoted at market value	9,052,770
Equity securities, quoted at market value	1,531,546
Balance as at June 30, 2010	**19,826,314**

4.5 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%.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.5 Capital management (continued)

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), 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, 2010 and June 30, 2011. During those two years, the Bank and its subsidiaries complied with all the externally imposed capital requirements to which they are subject.

	2011 $	2010 $
Tier 1 capital		
Share capital	**9,347,687**	7,478,150
Statutory reserve	**9,737,462**	8,678,148
Retained earnings	**17,240,566**	14,775,476
Total qualifying tier 1 capital	**36,325,715**	30,931,774
Tier 2 capital		
Revaluation reserve	**10,746,510**	10,914,712
Reserve for loan impairment	**1,361,186**	1,382,691
Reserve for interest on non-performing loans	**4,371,135**	3,706,722
Reserve for items in-transit on correspondent bank accounts	**1,589,748**	1,590,162
Total qualifying tier 2 capital	**18,068,579**	17,594,287
Total regulatory capital	**54,394,294**	48,526,061
Risk weighted assets		
On-balance sheet	**195,171,615**	181,014,651
Off-balance sheet	**19,572,030**	22,367,407
Total risk weighted assets	**214,743,645**	203,382,058
Basel ratio	**25.3%**	23.9%

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.6 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, 2011			
Assets			
Cash and Balances with the Central Bank	15,653,749	–	15,653,749
Due from banks and other financial institutions	82,325,123	–	82,325,123
Investment securities	63,598,788	26,130,208	89,728,996
Loans and advances	203,744,099	–	203,744,099
Other assets	338,736	–	338,736
Total financial assets	**365,660,495**	**26,130,208**	**391,790,703**

	Other Liabilities	Total
Liabilities		
Customer deposits	337,920,269	337,920,269
Debt security	14,611,287	14,611,287
Other liabilities and accrued expenses	4,578,075	4,578,075
Total financial liabilities	**357,109,631**	**357,109,631**

As at June 30, 2010

	Loans and receivables	Available-for-sale	Total
Assets			
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 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)

5 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 $176,026 lower or $57,089 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 impairment loss of $324,159 in its 2011 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.

(expressed in Eastern Caribbean dollars)

5 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 fulfil all the Bank's requests to redeem the fixed deposits. The Bank reviews its fixed deposits to assess impairment on a regular and periodic 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 uses 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 $120,570 lower or $150,712 higher.

6 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. 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.

(expressed in Eastern Caribbean dollars)

6 Business segments (continued)

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 $4,331,024 or 14.5% (2010: $3,790,645 or 13.2%) which arose from transactions with the Bank's largest customer.

	Retail and corporate banking $	Offshore banking $	Mutual fund $	Total $
At June 30, 2011				
Net interest income from external customers	8,150,576	3,619,262	–	11,769,838
Inter-segment net interest income	12,308	(43,873)	31,565	–
Fee and commission income	3,013,832	451,175	–	3,465,007
Dividend income	2,734,250	607,390	–	3,341,640
Other income	1,701,849	944,002	–	2,645,851
General and administrative expenses	(8,024,023)	(1,771,570)	(23,862)	(9,819,455)
Loan loss provision	(282,350)	–	–	(282,350)
Depreciation and amortization expenses	(456,510)	(24,606)	–	(481,116)
Other operating expenses	(840,059)	(332,179)	–	(1,172,238)
Operating profit	**6,009,873**	**3,449,601**	**7,703**	**9,467,177**
Income tax expense	**(713,307)**	**(20,460)**	**(2,075)**	**(735,842)**
Profit the year	**5,296,566**	**3,429,141**	**5,628**	**8,731,335**
Total assets	**302,612,420**	**118,157,202**	**2,035,437**	**422,805,059**
Total liabilities	**256,862,543**	**108,652,674**	**10,797**	**365,526,014**
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)

6 Business segments (continued)

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

	Total Management Reporting $	Consolidation adjustments $	Total $
At June 30, 2011			
Net interest income from external customers	11,769,838	–	11,769,838
Fee and commission income	3,465,007	–	3,465,007
Dividend income	3,341,640	(2,694,900)	646,740
Other income	2,645,851	(538,980)	2,106,871
General and administrative expenses	(9,819,455)	538,980	(9,280,475)
Loan loss provision	(282,350)	–	(282,350)
Depreciation and amortization expenses	(481,116)	–	(481,116)
Other operating expenses	(1,172,238)		(1,172,238)
Operating profit	**9,467,177**	**(2,694,900)**	**6,772,277**
Income tax expense	**(735,842)**	–	**(735,842)**
Profit the year	**8,731,335**	**(2,694,900)**	**6,036,435**
Total assets	**422,805,059**	**(7,987,373)**	**414,817,686**
Total liabilities	**365,526,014**	**(5,102,622)**	**360,423,392**

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)

7 Cash and balances due from banks and other financial institutions

	2011 $	2010 $
Cash on hand	**1,419,740**	2,058,306
Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits	**2,000**	2,000
Cash and current accounts with other banks	**28,514,714**	21,646,097
Cheques in the course of collection	**3,235,649**	924,854
Short term fixed deposits	**31,485,719**	26,004,286
Included in cash and cash equivalents (note 27)	**64,657,822**	50,635,543
Dormant account reserve	**230,641**	222,544
Mandatory reserve deposits with the ECCB	**14,001,368**	13,367,806
Restricted fixed deposits	**808,470**	808,470
Other restricted deposits	**4,194,898**	7,530,777
Fixed deposits	**25,296,667**	33,484,303
	109,189,866	106,049,443
Interest receivable	**532,534**	723,659
Provision for impairment on fixed deposits	**(11,743,528)**	(11,743,528)
Total cash and balances due from banks and other financial institutions	**97,978,872**	95,029,574
Current	**81,521,708**	67,479,973
Non-current	**16,457,164**	27,549,601
	97,978,872	95,029,574

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, 2011 the minimum required amount was $13,710,000.

(expressed in Eastern Caribbean dollars)

7 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:

	2011 $	2010 $
ABI Bank Limited	**1,981,169**	7,616,830
Bank of St. Lucia Limited, maturing on July 11, 2011, August 28, 2011 and September 11, 2001 with interest of 5% per annum	**7,756,390**	7,468,247
Eastern Caribbean Amalgamated Bank Limited, maturing July 9, 2011 with interest of 6.25% per annum	**3,446,742**	3,239,480
First Citizens Investment Services Limited Repurchase Agreements maturing July 6, 2011 and July 7, 2011, with interest rate of 2.5% and 2.75% per annum	**4,820,499**	2,698,779
National Bank of Anguilla Limited, maturing on September 6, 2011 with interest of 6.25% per annum	**2,694,900**	2,694,900
Caribbean Commercial Bank (Anguilla) Limited, maturing July 7, 2011 with interest of 5.0% per annum	**1,054,475**	1,003,841
Trinidad and Tobago Unit Trust Corporation call account, with interest of 1.80% per annum	**9,731,544**	1,282,209
Total short-term deposits	**31,485,719**	26,004,286

The interest rates on short-term deposits range from 1.80% to 6.25% per annum (2010: $1.80% to 6.50% per annum).

The restricted fixed deposits comprise deposits held with Caribbean Credit Card Corporation of $808,470 (2010: $808,470) bearing interest of 4.50% per annum. These deposits are not available for use in the Bank's day-to-day operations and are used as security deposits primarily for the credit card operations.

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

	2011 $	2010 $
Colonial Life Insurance Company (Trinidad) Limited, see below	**4,051,755**	11,734,097
British American Insurance Company Limited (BAICO), see below	**10,145,991**	10,145,991
Caribbean Commercial Bank (Anguilla) Limited, maturing July 30, 2011 with interest of 6.25% per annum	**8,084,700**	8,589,994
TCI Bank Limited, see below	**3,014,221**	3,014,221
	25,296,667	33,484,303

The interest rates on fixed deposits range from 5.0% to 6.5% per annum (2010: 6.25% to 8.25% per annum).

The other restricted deposit of $4,194,898 (2010: $7,530,777) 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 14).

(expressed in Eastern Caribbean dollars)

7 Cash and balances due from banks and other financial institutions (continued)

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

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 in the consolidated financial statements at June 30, 2009.

The above provision for impairment has been maintained in the consolidated financial statements at June 30, 2011 and no income has been recognised in respect of the fixed deposits.

CLICO

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 in to a formal agreement for the repayment of the outstanding amounts. At the time of the approval of these consolidated financial statements, all payments under the agreement have been honoured.

Fixed deposit held with TCI Bank Limited

On April 09, 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 liquidation and joint liquidators were appointed. The liquidators in a press release on November 1, 2010 indicated that in carrying out their duties they will focus on increasing the Company's liquidity in order to return as much of depositors' funds as possible.

After consideration of the above, and also considering the present value of future cash flows coming from the fixed deposit during a liquidation process based on varying scenarios, management determined that a prudent approach should be adopted, and an impairment provision of 53% of the value of the fixed deposit (amounting to $1,597,537) was recorded in the financial statements at June 30, 2010.

The first and second reports of the Joint Official Liquidators dated December 31, 2010 and June 30, 2011 respectively have been published. Management has reviewed the report and has determined based on the contents and Management's ongoing assessments, that the above impairment provision be maintained in the financial statements at June 30, 2011.

(expressed in Eastern Caribbean dollars)

8 Investment securities

Loans and receivables	**2011 $**	**2010 $**
Treasury bills		
Government of Saint Christopher and Nevis, maturing August 19, 2011 with interest rate of 6.5% per annum	**27,066,898**	25,882,463
Nevis Island Administration maturing July 19, 2011 with interest rate of 6.5% per annum	**15,223,619**	14,777,894
Government of St Vincent & the Grenadines, maturing August 19, 2011 with interest rate of 9.0% per annum	**495,325**	–
Included in cash and cash equivalents (note 26)	**42,785,842**	40,660,357
Nevis Island Administration maturing July 22, 2011 with interest rate of 6.5% per annum	**1,283,468**	1,202,055
Nevis Island Government maturing June 23, 2012 with interest rate of 6.75% per annum	**2,547,589**	4,253,132
	46,616,899	46,115,544
Bonds and other debt instruments		
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 bonds maturing July 1, 2011 and August 26, 2011, and bearing interest at 6% per annum	**3,947,450**	3,947,450
Antigua & Barbuda Airport Authority Commercial Paper, maturing September 7, 2010 with interest rate of 9.0% per annum (see below)	**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	**1,815,252**	2,051,493
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	**1,223,904**	1,509,070
Bank of St. Lucia Fixed Rate Bond maturing December 15, 2011 and bearing interest at 6.25% per annum	**1,347,450**	1,347,450
	16,178,956	16,700,363
Total loans and receivables	**62,795,855**	62,815,907

(expressed in Eastern Caribbean dollars)

8 Investment securities (continued)

	2011 $	2010 $
Available-for-sale		
Fixed income securities, quoted at market value	**8,216,246**	9,241,997
Mutual funds, quoted at market value	**14,610,899**	9,052,770
Equity securities, quoted at market value	**1,327,791**	1,531,546
Equity securities, unquoted	**1,975,272**	1,925,352
Total available-for-sale	**26,130,208**	21,751,665
Total investment securities before interest receivable	**88,926,063**	84,567,572
Interest receivable	**802,933**	834,670
Total investment securities	**89,728,996**	85,402,242
Current	**50,114,732**	48,297,662
Non-current	**39,614,264**	37,104,580
	89,728,996	85,402,242

The treasury bill with a cost of $1,283,468 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 07, 2008, the Bank participated in a one-year commercial paper issued by the Antigua and Barbuda Airport Authority (ABAA). The Bank has been advised by the arrangers of the issue that there have been delays in finalizing the arrangements to repay the commercial paper. Interest continues to accrue at a rate of 9.0% per annum, with periodic interest payments being received by the Bank.

At June 30, 2011, the outstanding principal on the commercial paper was $2,694,900, with accrued interest of $678.

Subsequent to the end of the financial year the Bank commenced legal proceedings against the ABAA for the full repayment of the amount outstanding.

(expressed in Eastern Caribbean dollars)

8 Investment securities (continued)

	2011 $	2010 $
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
614 shares (2010: 302 shares) at cost of $160 each	**98,240**	48,320
	146,440	96,520
Equity securities – unquoted	**1,975,272**	1,925,352
Available-for-sale – quoted		
St. Kitts-Nevis-Anguilla National Bank 617,409 ordinary shares, at market value of $2.48 per share, (2010: $2.97 per share)	**1,327,429**	1,531,174
Cable and Wireless (St Kitts and Nevis) Limited: 63 Ordinary shares, at market value of $5.90 per share, (2010: $6.50 per share)	**362**	372
Equity investments, quoted at market value	**1,327,791**	1,531,546

(expressed in Eastern Caribbean dollars)

8 Investment securities (continued)

	2011 $	2010 $
Fixed income securities quoted at market value		
Corporate Bonds		
Merrill Lynch & Co.	**1,418,473**	1,432,677
Citigroup, Inc.	**1,414,149**	1,396,376
Macys Retail Holdings, Inc.	**1,078,283**	1,041,148
Bank of America Corporation	**1,362,334**	697,958
Goldman Sachs Group, Inc.	**727,009**	697,028
General Electric Capital Corporation	**1,316,890**	–
Federal National Mortgage Association (USA)	**899,108**	2,529,770
Federal Home Loan Mortgagee Corporation (USA)	–	1,447,040
	8,216,246	9,241,997
Mutual Funds quoted at market value		
MFS Meridian Emerging Market Debt Fund	**2,696,451**	2,915,742
MFS Meridian Bond Fund	**2,540,520**	2,394,756
Alliance Bernstein Global High Yield Fund	**2,003,901**	1,471,625
Western Asset Global Bond Fund	**2,586,840**	1,156,689
Investec Global Mutual Fund	**2,012,239**	–
Templeton Global Bond Fund	**672,014**	–
ACM Global Investment Bond Fund	**669,198**	–
Franklin Mutual Discovery Fund	**1,429,736**	1,113,958
	14,610,899	9,052,770

Included in available-for-sale fixed income securities and mutual funds is an amount of $22,827,145 (2010: $18,294,767) held as security for the Morgan Stanley Smith Barney Line of Credit (see note 14).

Equity Investment in TCI Bank Limited

On April 09, 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 liquidation and joint liquidators were appointed. The liquidators in a press release on November 1, 2010 indicated that in carrying out their duties they will focus on the Company's liquidity in order to return as much of depositors' funds as possible.

Based on the foregoing, a provision for impairment of 100% of the value of the share capital in TCI Bank Limited in the amount of $1,347,450 was made in the consolidated financial statements as at June 30, 2010. This provision has been maintained in the consolidated financial statements at June 30, 2011.

The movement in investment securities may be summarised as follows:

	Loans and receivables $	Available-for-sale $	Total $
Balance as of June 30, 2010	**62,815,907**	**21,751,665**	**84,567,572**
Additions	5,249,314	13,622,770	18,872,084
Disposals (sale and redemption)	(5,269,366)	(9,677,027)	(14,946,393)
Unrealised gain from change in fair value, net	-	432,800	432,800
Balance as of June 30, 2011	**62,795,855**	**26,130,208**	**88,926,063**

(expressed in Eastern Caribbean dollars)

8 Investment securities (continued)

	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**

Net losses from investment securities comprise:

	2011 $	2010 $
Net realised gains from disposal of available-for-sale financial assets	**644,569**	4,220

9 Loans and advances

	2011 $	2010 $
Reducing balance loans	**172,823,226**	163,702,666
Overdrafts	**25,344,131**	20,224,857
Credit card advances	**3,204,622**	3,000,045
	201,371,979	186,927,568
Interest receivable	**5,689,333**	4,941,358
	207,061,312	191,868,926
Less: Allowance for loan impairment	**(3,317,213)**	(3,046,439)
Total loans and advances	**203,744,099**	188,822,487
Current	**65,564,592**	52,488,647
Non-current	**138,179,507**	136,333,840
	203,744,099	188,822,487

The movement in allowance for loan impairment is as follows:

	2011 $	2010 $
Balance, beginning of year	**3,046,439**	2,923,253
Provisions for the year	**282,350**	737,654
Loans and advances written off during the year	**(11,576)**	(614,468)
Balance, end of year	**3,317,213**	3,046,439

(expressed in Eastern Caribbean dollars)

9 Loans and advances (continued)

According to the Eastern Caribbean Central Bank loan provisioning guidelines, the calculated allowance for loan impairment amounts to $4,678,399 (2010: $4,429,130) (see note 19).

Included in interest is an amount for interest on non-productive loans of $806,511 (2010 - $1,245,654), in accordance with International Accounting Standard (IAS) 39. The recognition of interest on non-productive loans is however not in accordance with the prudential guidelines of the Eastern Caribbean Central Bank (ECCB). The total value of non-productive loans at the end of the year amounted to $15,888,941 (2010: $13,594,554). The interest accrued on non-productive loans and advances but not recognised in the consolidated financial statements amounted to $2,264,603 (2010: $1,859,419).

Included in loans and advances is an amount due from other financial institutions of $8,232,773 (2010: $10,023,353).

10 Other assets

	2011 $	2010 $
Prepaid employee benefit	**961,166**	800,997
Prepayments	**568,631**	386,769
Items in-transit	**262,209**	331,166
Credit card and stationery stock	**76,643**	87,337
Other receivables	**99,122**	74,275
Total other assets	**1,967,771**	1,680,544
Current	**929,962**	792,213
Non-current	**1,037,809**	888,331
	1,967,771	1,680,544

(expressed in Eastern Caribbean dollars)

11 Property, plant and equipment

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Capital work in progress $	Total $
As at June 30, 2009								
Cost/valuation	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**
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	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)

11 Property, plant and equipment (continued)

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Capital work in progress $	Total $
Year ended June 30, 2011								
Opening net book amount	13,020,000	2,745,500	126,947	226,847	103,864	35,602	484,301	16,743,061
Additions	–	–	–	6,643	97,076	–	4,401,317	4,505,036
Depreciation charge	–	(72,250)	(50,068)	(82,327)	(72,424)	(35,602)	–	(312,671)
Closing net book amount	**13,020,000**	**2,673,250**	**76,879**	**151,163**	**128,516**	**–**	**4,885,618**	**20,935,426**
At June 30, 2011								
Cost/valuation	13,020,000	2,883,822	931,384	944,505	821,083	178,000	4,885,618	23,664,412
Accumulated depreciation	–	(210,572)	(854,505)	(793,342)	(692,567)	(178,000)	–	(2,728,986)
Net book amount	**13,020,000**	**2,673,250**	**76,879**	**151,163**	**128,516**	**–**	**4,885,618**	**20,935,426**

(expressed in Eastern Caribbean dollars)

11 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, 2011 and 2010:

	Land $	Buildings $	Total $
Cost	2,307,737	4,382,913	6,690,650
Accumulated Depreciation	–	(1,154,053)	(1,154,053)
Net book values as at June 30, 2011	**2,307,737**	**3,228,860**	**5,536,597**

	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**

(expressed in Eastern Caribbean dollars)

12 Intangible assets

	Computer software $
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**
Year ended June 30, 2011	
Opening net book amount	324,645
Additions	179,689
Amortisation charge	(168,445)
Closing net book amount	**335,889**
At June 30, 2011	
Cost	2,792,180
Accumulated Amortisation	(2,456,291)
Net book amount	**335,889**

13 Customers' deposits

	2011 $	2010 $
Time deposits	**147,121,874**	142,519,400
Savings accounts	**121,353,383**	106,951,582
Current accounts	**66,158,266**	60,255,807
	334,633,523	309,726,789
Interest payable	**3,286,746**	2,858,918
Total customers' deposits	**337,920,269**	312,585,707
Current	**334,086,282**	306,199,952
Non-current	**3,833,987**	6,385,755
	337,920,269	312,585,707

(expressed in Eastern Caribbean dollars)

13 Customers' deposits (continued)

Included in the customers deposits at year end are balances for other financial institutions amounting to $41,033.251 (2010: $42,179,448).

14 Debt security

	2011 $	2010 $
Line of credit	**13,538,140**	14,071,703
Interest Payable	**1,073,147**	735,640
Total debt security	**14,611,287**	14,807,343
Current	**14,611,287**	14,807,343

Debt security represents a line of credit from Morgan Stanley Smith Barney - one of the Bank's United States investment brokers. The line of credit is fully secured by securities on the Bank's United States based investment portfolio. Interest on the line of credit is payable at 'three-month LIBOR' plus 1.50%.

15 Other liabilities and accrued expenses

	2011 $	2010 $
Items-in-transit	**2,873,136**	7,631,440
Deferred loan fees	**1,165,752**	863,917
Accounts payable and accrued expenses	**1,132,496**	807,829
Fair value adjustment on employee loans	**961,166**	800,997
Manager's cheques	**504,881**	636,374
Staff bonus payable	**166,411**	36,390
Government stamp duty	**110,847**	128,540
Advance deposits on credit cards	**108,081**	309,527
Total other liabilities and accrued expenses	**7,022,770**	11,215,014
Current	**4,870,011**	10,390,493
Non-current	**2,152,759**	824,521
	7,022,770	11,215,014

(expressed in Eastern Caribbean dollars)

16 Provision for income tax (asset) liability

	2011 $	2010 $
Deferred income tax (asset) liability		
Balance, beginning of year	**138,930**	265,063
Deferred tax on depreciation of property, plant and equipment	**(194,248)**	(17,636)
Deferred tax on revaluation of available-for-sale investment securities	**(71,315)**	(108,497)
Balance at end of year (asset) liability	**(126,633)**	138,930

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

	2011 $	2010 $
Deferred tax on depreciation of property, plant and equipment	**(156,833)**	37,415
Deferred tax on revaluation of available-for-sale investment securities	**30,200**	101,515
Deferred income tax (asset) liability	**(126,633)**	138,930

The deferred tax credit in the consolidated statement of income is comprised of the following:

	2011 $	2010 $
Deferred tax on depreciation of property, plant and equipment	**(194,248)**	(17,636)

(expressed in Eastern Caribbean dollars)

16 Provision for income tax (continued)

	2011 $	2010 $
Income tax payable		
Income tax payable net, beginning of year	**729,498**	851,424
Payments made during year, net of refunds	**(790,522)**	(888,717)
Current tax expense	**930,090**	778,120
Reversal of prior year tax expense	**-**	(11,329)
Income tax payable, at end of year	**869,066**	729,498
Income tax expense		
Operating income/(loss) for the year	**6,772,277**	5,031,816
Income tax expense at standard rate of 35% (2010: 35%)	**2,370,297**	1,761,136
Non-deductible expenses	**625,224**	733,924
Untaxed interest income	**(773,844)**	(647,479)
Untaxed dividend income	**(13,773)**	(273,977)
Effect of lower tax rate in subsidiary bank	**(1,119,720)**	(648,264)
Prior year income tax adjustment	**-**	(11,329)
Effect of movement in deferred taxes	**(194,248)**	(17,636)
Effect of tax losses and capital cost allowances (utilised) and carried forward (net)	**(158,094)**	(147,220)
Actual income tax expense	**735,842**	749,155

The Bank's subsidiary Bank of Nevis International Limited has carried forward income tax losses of $8,035,267 at June 30, 2011 (2010: $8,853,655). 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 $200,882 (2010: $201,372) which has not been recognised in the consolidated financial statements due to the uncertainty of its recovery. The losses incurred were as follows:

Year of loss	2011 $	2010 $
2009	**8,035,267**	8,853,655

(expressed in Eastern Caribbean dollars)

16 Provision for income tax (continued)

Capital cost allowances

The additions and claims for capital cost allowances during the current year have not been confirmed by the tax authorities. 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.

	2011 $	2010 $
Balance at beginning of year	–	–
Additions during the year	**408,871**	402,612
Claims during the year	**(408,871)**	(402,612)
Balance at end of year	–	–

17 Share capital

	2011 $	2010 $
Authorised share capital		
50,000,000 shares at $1 each	**50,000,000**	50,000,000
Issued and fully paid		
9,347,687 shares (2010: 7,478,150 shares) of $1 each	**9,347,687**	7,478,150

On October 21, 2010 shareholders of the Bank approved a Bonus Share Issue (Share Dividend) of one share for every four shares held. This action resulted in the issue of $1,869,537 new ordinary shares at $1 per share.

(expressed in Eastern Caribbean dollars)

18 Revaluation reserves

	2011 $	2010 $
Balance, beginning of year	**10,914,712**	9,619,680
Transfer net gains/losses on investment securities to income, (net of tax)	**(644,569)**	-
Appreciation/(depreciation) in market value of investment securities, (net of tax)	**476,367**	1,295,032
Balance, end of year	**10,746,510**	10,914,712
Represented by revaluation reserves attributable to:		
Available-for-sale investment securities	**91,182**	259,384
Property	**10,655,328**	10,655,328
	10,746,510	10,914,712

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:

	2011 $	2010 $
Appreciation in market value	**547,682**	1,403,529
Less: deferred tax	**(71,315)**	(108,497)
	476,367	1,295,032

(expressed in Eastern Caribbean dollars)

19 Other reserves

	2011 $	2010 $
Other reserves:		
Balance at beginning of year	**15,357,723**	12,380,088
Reserve for loan impairment	**(21,505)**	76,636
Reserve for interest on non-performing loans	**664,413**	1,310,837
Reserve for items in-transit on correspondent bank accounts	**(413)**	1,590,162
Transfer to reserve fund	**1,059,313**	–
Total other reserves	**17,059,531**	15,357,723
Other reserves is represented by:		
Reserve fund	**9,737,462**	8,678,148
Reserve for loan impairment	**1,361,186**	1,382,691
Reserve for interest on non-performing loans	**4,371,135**	3,706,722
Reserve for items in-transit on correspondent bank accounts	**1,589,748**	1,590,162
	17,059,531	15,357,723

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)

20 Interest income

	2011 $	2010 $
Loans and advances	**16,420,997**	17,045,472
Deposits with banks and other financial institutions	**2,385,302**	3,049,984
Treasury bills	**3,140,377**	2,926,602
Other investment securities	**1,744,562**	2,078,518
Total interest income	**23,691,238**	25,100,576

21 Interest expense

	2011 $	2010 $
Time deposits	**8,303,619**	8,106,572
Savings deposits	**2,755,455**	2,620,021
Demand deposits	**524,822**	543,383
Other	**337,504**	249,311
Total interest expense	**11,921,400**	11,519,287

22 Other operating income

	2011 $	2010 $
Fees and commissions	**2,445,861**	1,894,430
Foreign exchange gain/(loss)	**1,318,119**	(326,866)
Card services fees and commissions	**1,019,146**	926,822
Dividend income on available-for-sale investments	**646,740**	1,297,959
Bad debts recovered	**107,062**	399,143
Miscellaneous revenue	**37,535**	130,538
Write-back of items in-transit	**(414)**	1,590,162
Total other operating income	**5,574,049**	5,912,188

23 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.

(expressed in Eastern Caribbean dollars)

23 Related party transactions (continued)

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

	2011 $	2010 $
Loans to Directors and key members of management		
Loans outstanding at beginning of year	**9,354,200**	4,881,443
Loans disbursed during the year	**12,173,482**	12,976,238
Loan repayments during the year	**(12,962,794)**	(8,503,481)
Loans outstanding at end of year	**8,564,888**	9,354,200

Interest income earned on loans and advances to directors and key members of management during the year is $805,039 (2010: $629,808). 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 $360,889 (2010: $293,430).

	2011 $	2010 $
Deposits by Directors and key members of management		
Deposits at beginning of year	**6,627,239**	5,461,768
Deposits received during the year	**12,215,538**	12,529,848
Deposits withdrawn during the year	**(16,845,465)**	(11,364,377)
Deposits at end of year	**1,997,312**	6,627,239

Interest expense paid on deposits to directors and key members of management during the year is $64,558 (2010: $339,644). Interest rates on deposits to directors and key members of management range from 2% to 6.75%.

During the year, salaries and related benefits of $2,015,748 (2010: $2,315,792) were paid to key members of management and were allocated as follows:

	2011 $	2010 $
Salaries and wages	**1,581,982**	1,774,069
Other staff costs	**202,631**	330,981
Social security costs	**109,754**	126,623
Pension costs	**78,181**	84,119
Gratuity	**43,200**	–
	2,015,748	2,315,792

24 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.

	2011 $	2010 $
Net profit attributable to shareholders	**6,036,435**	4,282,662
Weighted average number of ordinary shares in issue	**9,347,687**	9,347,687
Basic earnings per share	**0.65**	0.46

(expressed in Eastern Caribbean dollars)

25 Contingencies and commitments

Credit related and capital commitments

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

	2011 $	2010 $
Undrawn commitments to extend advances	**17,081,102**	18,327,560
Capital commitments	**2,007,346**	3,532,692
Financial guarantees	**483,582**	507,155
	19,572,030	22,367,407

Included in the amount of undrawn commitments to extend advances above are credit card commitments totalling $5,289,321 (2010: $5,003,733) at the year end.

26 Dividends

During the year, a share dividend of one share for every four shares held, was paid for a total value of $1,869,537.In 2010, a cash dividend of $0.05 per share amounting to $373,908 was paid.

Subsequent to the year end, a dividend of $0.10 per share, amounting to $934,769 was proposed by the Board of Directors. The financial statements for the year ended June 30, 2011 do not reflect this proposed dividend which if ratified, will be accounted for in equity as an appropriation of retained earnings in the year ended June 30, 2012.

27 Cash and cash equivalents

	2011 $	2010 $
Cash and balances due from banks and other financial institutions (note 7)	**64,657,822**	50,635,543
Investment securities (note 8)	**42,785,842**	40,660,357
Total cash and cash equivalents	**107,443,664**	91,295,900

(expressed in Eastern Caribbean dollars)

28 General and administrative expenses

	2011 $	2010 $
Salaries and related costs (note 28)	**5,413,261**	5,700,300
Card processing expenses	**959,634**	1,030,560
Professional fees	**500,698**	115,670
Equipment repairs	**477,416**	468,780
Stationery and supplies	**353,522**	365,462
Utilities	**220,385**	193,531
Insurance expense	**214,218**	282,095
Advertisement and promotion	**196,051**	203,712
Telephone, telex and cables	**193,007**	218,605
Legal fees	**77,786**	46,548
Rent	**77,101**	74,619
Taxes and licences	**73,682**	92,355
Security services	**73,471**	63,299
Administrative fees	**66,884**	104,730
Miscellaneous expenses	**57,060**	33,796
Stamps and postage	**52,510**	52,592
Annual report expense	**47,206**	30,629
ECSE fees and expenses	**45,509**	37,578
Subscriptions and fees	**44,449**	51,899
Repairs and maintenance	**37,055**	50,134
Cleaning	**36,972**	39,688
Travel and entertainment	**26,806**	23,736
Credit card chargeback losses	**20,987**	3,573
Cash shorts	**8,340**	1,950
Secretarial fees	**6,468**	6,468
Total general and administrative expenses	**9,280,478**	9,292,309

29 Salaries and related costs

	2011 $	2010 $
Salaries and wages	**3,995,837**	4,122,218
Other staff costs	**871,635**	1,049,341
Social security costs	**346,211**	370,493
Pension costs	**199,578**	158,248
Total salaries and related costs	**5,413,261**	5,700,300

In 2003 the Bank introduced a pension plan for its employees. Contributions to the pension plan for the year ended June 30, 2011 amounted to $199,578 (2010: $158,248).

The Bank of Nevis Limited

Non-Consolidated Financial Statements
June 30, 2011
Expressed in Eastern Caribbean Dollars

The Bank of Nevis Limited

Non-consolidated Statement of Financial Position

As of June 30, 2011

(expressed in Eastern Caribbean dollars)

	2011 $	2010 $
Assets		
Cash and balances with the Central Bank	**15,653,749**	15,650,656
Due from other banks and other financial institutions	**37,435,971**	23,370,587
Investment securities	**33,176,476**	32,433,539
Loans and advances	**188,228,883**	178,781,586
Other assets	**1,705,231**	1,422,574
Investment in subsidiaries	**2,350,000**	2,350,000
Property, plant and equipment	**20,919,361**	16,717,047
Intangible assets	**303,870**	281,946
Deferred tax asset	**126,633**	-
Due from related parties	**2,712,246**	15,327
Total assets	**302,612,420**	271,023,262
Liabilities		
Customers' deposits	**250,721,468**	220,134,412
Other liabilities and accrued expenses	**5,281,188**	9,345,425
Income tax payable	**858,143**	708,649
Deferred tax liability	**-**	138,930
Due to related parties	**-**	108,351
Total liabilities	**256,860,799**	230,435,767
Shareholders' Equity		
Share capital	**9,347,687**	7,478,150
Revaluation reserve	**10,711,415**	10,843,855
Other reserves	**13,578,785**	12,011,111
Retained earnings	**12,113,734**	10,254,379
Total shareholders' equity	**45,751,621**	40,587,495
Total liabilities and shareholders' equity	**302,612,420**	271,023,262

Approved for issue by the Board of Directors on December 15, 2011

Chairman

Director

The Bank of Nevis Limited

Non-consolidated Statement of Income

For the year ended June 30, 2011

(expressed in Eastern Caribbean dollars)

	2011 $	2010 $
Interest income	**18,200,544**	18,800,630
Interest expense	**(10,037,660)**	(9,740,656)
Net interest income	**8,162,884**	9,059,974
Impairment provision on investment securities	**–**	(1,347,450)
Other operating income	**7,449,931**	5,151,422
	15,612,815	12,863,946
Operating expenses		
General and administrative expenses	**8,024,023**	7,973,717
Depreciation	**298,745**	311,275
Amortisation	**157,765**	126,294
Directors' fees and expenses	**267,773**	290,542
Audit fees	**327,600**	228,000
Provision for loan impairment	**282,350**	737,654
Correspondent bank charges	**244,686**	200,014
	9,602,942	9,867,496
Operating profit before tax for the year	**6,009,873**	2,996,450
Taxation		
Current tax expense	**(907,555)**	(758,061)
Deferred tax credit	**194,248**	17,636
	(713,307)	(740,425)
Net profit for the year	**5,296,566**	2,256,025
Net profit attributable to shareholders of the company	**5,296,566**	2,256,025
Earnings per share	**0.57**	0.24

The Bank of Nevis Limited
Non-consolidated Statement of Comprehensive Income
For the year ended June 30, 2011

(expressed in Eastern Caribbean dollars)

	2011 $	2010 $
Net profit for the year	**5,296,566**	2,256,025
Other comprehensive loss for the year:		
Net change in market value of investment securities, net of tax	**(132,440)**	(201,495)
Total comprehensive income for the year	**5,164,126**	2,054,530

The Bank of Nevis Limited
Non-conolidated Statement of Cash Flows
For the year ended June 30, 2011

(expressed in Eastern Caribbean dollars)

	2011 $	2010 $
Cash flows from operating activities		
Operating profit before tax for the year	**6,009,873**	2,996,450
Items not affecting cash		
Provision for loan impairment	**282,350**	737,654
Depreciation	**298,745**	311,275
Amortisation	**157,765**	126,294
Impairment provision on investment securities	**-**	1,347,450
Share dividend received	**-**	(741,040)
Dividend income receivable	**(2,694,900)**	-
Interest income	**(18,200,544)**	(18,800,630)
Interest expense	**10,037,660**	9,740,656
Cash flows from operating income before changes in operating assets and liabilities	**(4,109,051)**	(4,281,891)
Changes in operating assets and liabilities		
(Increase)/decrease in mandatory and restricted deposits held with Central Bank	**(641,659)**	10,543,631
(Increase)/decrease in other assets	**(282,657)**	405,687
Increase in loans and advances, net of repayments received	**(9,256,770)**	(7,467,726)
Increase/(decrease) in customers' deposits	**30,167,463**	(8,879,942)
(Decrease)/increase in other liabilities and accrued expenses	**(4,064,237)**	3,635,654
Cash from/(used in) operations before interest and tax	**11,813,089**	(6,044,587)
Interest paid	**(9,618,067)**	(9,542,803)
Interest received	**17,791,329**	17,759,916
Income tax paid	**(758,061)**	(888,717)
Net cash from operating activities	**19,228,290**	1,283,809
Cash flows from investing activities		
Purchase of property, plant and equipment	**(4,501,059)**	(310,865)
Purchase of intangible assets	**(179,689)**	(30,899)
Increase in investment securities	**(49,920)**	(48,320)
Decrease in fixed deposits	**830,155**	163,839
Net cash used in investing activities	**(3,900,513)**	(226,245)
Cash flows from financing activities		
Dividends paid	–	(373,908)
Advances to related parties	**(110,370)**	(1,187,770)
Net cash (used in) financing activities	**(110,370)**	(1,561,678)
Increase/(decrease) in cash and cash equivalents	**15,217,407**	(504,114)
Cash and cash equivalents, beginning of year	**46,461,603**	46,965,717
Cash and cash equivalents, end of year	**61,679,010**	46,461,603

The Bank of Nevis Limited

Non-consolidated Statement of Changes in Equity

For the year ended June 30, 2011

(expressed in Eastern Caribbean dollars)

	Share capital $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
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)
Total comprehensive income for the year	**–**	**(201,495)**	**-**	**2,256,025**	**2,054,530**
Transaction with owners					
Dividends	–	–	–	(373,908)	(373,908)
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)	–
Balance June 30, 2010	**7,478,150**	**10,843,855**	**12,011,111**	**10,254,379**	**40,587,495**

The Bank of Nevis Limited
Non-consolidated Statement of Changes in Equity
June 30, 2011

(expressed in Eastern Caribbean dollars)

	Share capital $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance June 30, 2010	7,478,150	10,843,855	12,011,111	10,254,379	40,587,495
Comprehensive income					
Net profit for the year	–	–	–	5,296,566	5,296,566
Other comprehensive income					
Net change in market value of investment securities	–	(132,440)	–	–	(132,440)
Total comprehensive income for the year	**–**	**(132,440)**	**-**	**5,296,566**	**5,164,126**
Transaction with owners					
Share dividend (bonus shares)	1,869,537	–	–	(1,869,537)	–
Reserve for loan impairment	–	–	(21,869)	21,869	–
Reserve for interest on non-performing loans	–	–	530,644	(530,644)	–
Reserve for items in transit on correspondent bank accounts	–	–	(414)	414	–
Transfer to reserve fund	–	–	1,059,313	(1,059,313)	–
Balance June 30, 2011	**9,347,687**	**10,711,415**	**13,578,785**	**12,113,734**	**45,751,621**

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The Bank of Nevis Limited

Improving the Quality of Life

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