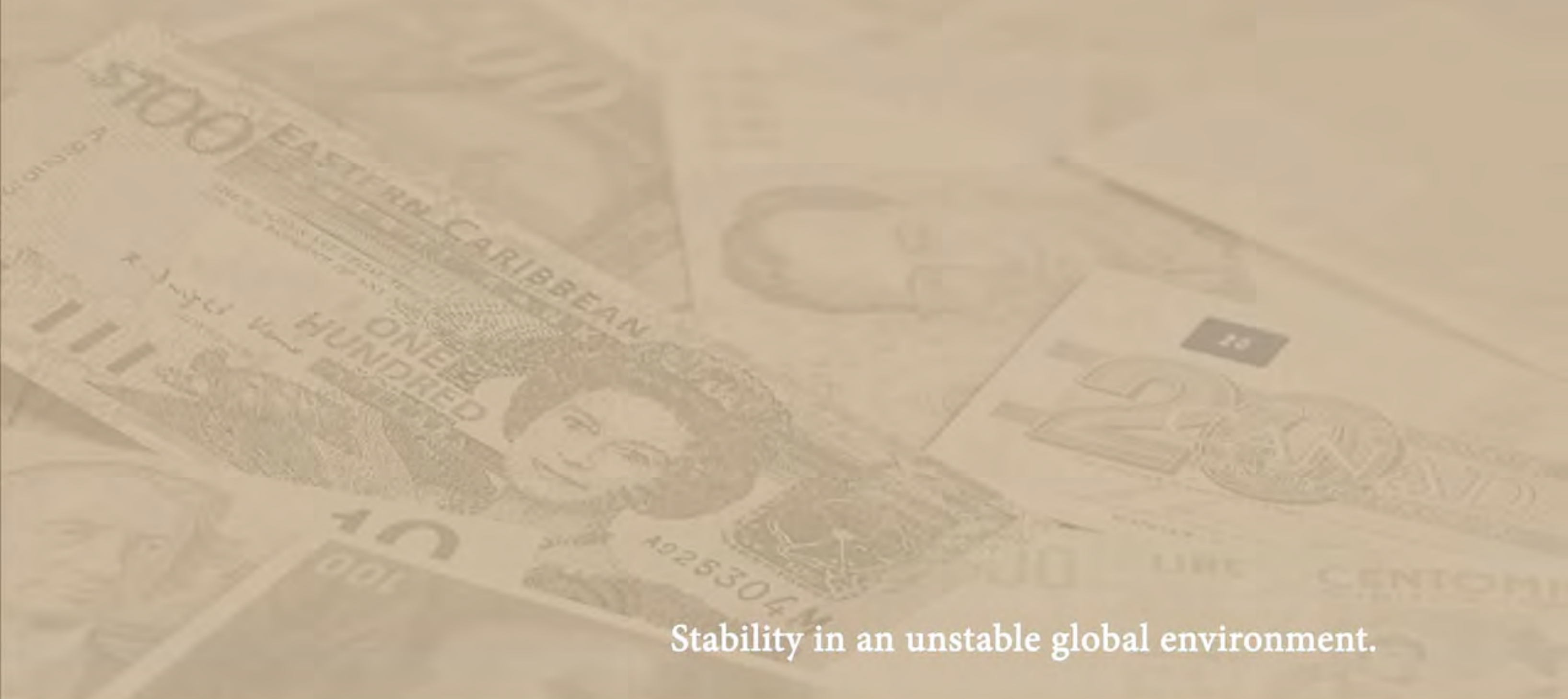
WORKING HARDER TODAY FOR A BRIGHTER TOMORROW

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED



Stability in an unstable global environment.

# Annual Report 2011

Member - Caribbean Association of Indigenous Banks

# VISION

To be recognised internationally as the premier financial institution through advanced technology, strategic alliances and superior products and services.

# MISSION

To be an efficient, profitable and growth-oriented financial institution, promoting social and economic development in the national and regional community by providing high quality financial services and products at competitive prices.

## Customers' Charter

- To keep the Bank a customer friendly institution.
- To treat customers as an integral part of the Bank and serve them with the highest levels of integrity, fairness and goodwill.
- To provide customers with the products and services they need, in the form and variety they demand them, at the time they require them, and at prices they can afford.
- To give our customers good value for the prices they pay.

## Policy Statement

- To mobilise domestic and foreign financial resources and allocate them to efficient productive uses to gain the highest levels of economic development and social benefits.
- To promote and encourage the development of entrepreneurship for the profitable employment of available resources.
- To exercise sound judgment, due diligence, professional expertise and moral excellence in managing our corporate business and advising our customers and clients.
- To maintain the highest standard of confidentiality, integrity, fairness and goodwill in all dealing with customers, clients and the general public.
- To create a harmonious and stimulating work environment in which our employees can experience career fulfillment, job satisfaction and personal accomplishment; to provide job security; to pay fair and adequate compensation based on performance, and to recognize and reward individual achievements.
- To promote initiative, dynamism and a keen sense of responsibility in our Managers; to hold them accountable personally for achieving performance targets and to require of them sustained loyalty and integrity.
- To provide our shareholders with a satisfactory return on their capital and thus preserve and increase the value of their investment.
- To be an exemplary corporate citizen providing managerial, organizational and ethical leadership to the business community.

The polices set out above inform and inspire our customer relationships, staff interactions and public communication; guide our corporate decision making process; influence the manner in which we perform our daily tasks and direct our recruitment, organizational, operational and development policies, plans and programmes.

Our Directors, Management and Staff are unreservedly committed to the observance of the duties and responsibilities stated above for the fulfillment of our Mission.

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# NOTICE OF MEETING

Notice is hereby given that the **FORTY-FIRST ANNUAL GENERAL MEETING of St. Kitts-Nevis-Anguilla National Bank Limited** will be held at the Ball Room of the St. Kitts Marriott Beach Resort, Frigate Bay, on Thursday 16th February, 2012 at 5.00pm for the following purposes:-

1 To read and confirm the Minutes of the Meeting held on 13th September, 2011

2 To consider matters arising from the Minutes

3 To receive the Directors' Report

4 To receive the Auditors' Report

5 To receive and consider the Accounts for the year ended 30th June, 2011

6 To declare a final dividend

7 To elect Directors

8 To reconfirm the appointment of Auditors for the year ending 30th June, 2012.

9 To discuss any other business for which notice in writing is delivered to the Company's Secretary three clear banking days prior to the meeting.

By Order of the Board

Yvonne Merchant-Charles
Secretary

## SHAREHOLDERS OF RECORD

All shareholders of record as at 31st January 2012 will be entitled to receive a final dividend in respect of the financial year ended 30th June 2011.

## PROXY

A member of the Company who is entitled to attend and vote at this meeting is entitled to appoint a proxy to vote in his stead. No person shall be appointed a proxy who is not entitled to vote at the meeting for which the proxy is given. The proxy form must be delivered to the Company Secretary 48 hours before the meeting.

# ARTICLES GOVERNING MEETINGS

*ARTICLE 42*

At any meeting, unless a poll is demanded as hereinafter provided, every resolution shall be decided by a majority of the Shareholders or their proxies present and voting, either by show of hands or by secret ballot, and in case there shall be an equality of votes, the Chairman of such meeting shall have a casting vote in addition to the vote to which he may be entitled as a member.

*ARTICLE 43*

If at any meeting a poll is demanded by ten members present in person or by proxy and entitled to vote, the poll shall be taken in every such manner as the Chairman shall direct; and in such case every member present at the taking of the poll, either personally or by proxy, shall have a number of votes, to which he may be entitled as hereinafter provided; and in case at any such poll there shall be an equality of votes, the Chairman of the meeting at which such poll shall be taken shall be entitled to a casting vote in addition to any votes to which he may be entitled as a member and proxy.

*ARTICLE 45*

Every member shall on a poll have one vote for every dollar of the capital in the Company held by him.

*ARTICLE 56*

At every ordinary meeting one-third of the Directors shall retire from office. If the number of Directors be not divisible by three, then the nearest to one-third of the number of Directors shall retire from office. The Directors to retire shall be those who have been longest in office since their last election. As between Directors of equal seniority in office the Directors to retire shall be selected from amongst them by lot. A retiring Director shall be immediately, or at any future time, if still qualified, eligible for re-election.

*ARTICLE 59*

No one (other than a retiring Director) shall be eligible to be a Director, unless notice in writing that he is a candidate for such office shall have been given to the Company by two other members of the Company at least seven days before the day of holding the meeting at which the election is to take place.

# FINANCIAL HIGHLIGHTS

| | 2011<br>$'000 | 2010<br>$'000 | 2009<br>$'000 | 2008<br>$`000 | 2007<br>$`000 |
|---|---|---|---|---|---|
| **BALANCE SHEET INFORMATION** | | | | | |
| Total assets | 2,513,484 | 2,297,155 | 2,103,072 | 2,265,767 | 1,951,665 |
| Total customers' deposits | 1,527,180 | 1,350,902 | 1,253,224 | 1,278,428 | 1,218,845 |
| Loans and advances (gross) | 1,185,035 | 1,112,185 | 1,004,935 | 946,661 | 979,441 |
| Investments | 484,298 | 516,265 | 454,758 | 501,059 | 212,415 |
| Cash and money at call | 403,495 | 284,668 | 354,149 | 567,309 | 500,534 |
| **OPERATING RESULTS** | | | | | |
| Gross operating income | 202,044 | 168,598 | 179,641 | 290,703 | 177,116 |
| Interest Income | 108,570 | 111,618 | 113,733 | 126,898 | 108,318 |
| Interest expense | 74,919 | 72,781 | 67,596 | 65,952 | 53,638 |
| Earnings before income tax | 52,875 | 36,941 | 48,582 | 166,239 | 83,369 |
| Net income | 48,611 | 34,562 | 41,579 | 113,544 | 57,781 |
| Operating expenses/provisions | 67,599 | 58,876 | 63,463 | 58,512 | 38,704 |
| Number of employees | 242 | 241 | 240 | 237 | 229 |
| Gross revenue per employee | 835 | 700 | 749 | 1,227 | 773 |
| Total assets per employee | 10,386 | 9,536 | 8,763 | 9,560 | 8,523 |
| **SHARE CAPITAL & DIVIDEND INFORMATION** | | | | | |
| Common shares issued and outstanding | 135,000 | 135,000 | 135,000 | 81,000 | 81,000 |
| Total shareholders' equity | 536,701 | 495,348 | 445,968 | 464,611 | 272,083 |
| Dividend paid | 6,885 | 8,100 | 14,985 | 14,985 | 14,175 |
| Number of shareholders | 5,357 | 5,340 | 5,271 | 5,218 | 5,150 |
| Earnings per share | $0.36 | $0.26 | $0.31 | $1.40 | $0.71 |
| Dividends per share | $0.09 | $0.10 | $0.11 | $0.19 | $0.18 |
| Book value per common share | $3.98 | $3.67 | $3.30 | $5.74 | $3.36 |
| **BALANCE SHEET AND OPERATING RESULTS RATIOS** | % | % | % | % | % |
| Loans and advances to deposits | 77.6 | 82.3 | 80.2 | 73.5 | 80.4 |
| Staff cost/total cost | 17.4 | 18.9 | 18.7 | 19.4 | 21.2 |
| Staff cost/total revenue | 12.9 | 15.0 | 13.7 | 8.3 | 11.2 |
| Efficiency ratios | 56.1 | 61.4 | 56.6 | 26.0 | 32.4 |
| Return on average shareholders' equity | 9.4 | 7.3 | 9.1 | 30.8 | 23.2 |
| Return on average assets | 2.0 | 1.6 | 1.9 | 5.3 | 3.2 |
| Asset utilization | 8.4 | 7.7 | 8.2 | 13.8 | 9.9 |
| Yield on earning assets | 5.3 | 5.9 | 5.9 | 6.9 | 6.7 |
| Cost to Fund earning assets | 4.0 | 3.8 | 3.5 | 3.6 | 3.3 |
| Net interest margin | 1.3 | 2.1 | 2.4 | 3.3 | 3.4 |

# CORPORATE INFORMATION

| | | |
|---|---|---|
| **BOARD OF DIRECTORS** | Walford V. Gumbs | Chairperson |
| | Mitchell Gumbs | 1st Vice Chairperson |
| | Dr Mervyn Laws | 2nd Vice Chairperson |
| | Yvonne Merchant-Charles | Secretary |
| | Linkon Willcove Maynard | Director |
| | Halva Maurice Hendrickson | Director |
| | Elsie Eudorah Mills | Director |
| | Sharylle V I Richardson | Director |
| | Eugenie J Condor | Director |
| | Sir Edmund W Lawrence | Managing Director |

**CORPORATE SECRETARY**

Yvonne Merchant-Charles

**SOLICITORS**

Kelsick, Wilkin & Ferdinand
Chambers
South Independence Square
BASSETERRE

**AUDITORS**

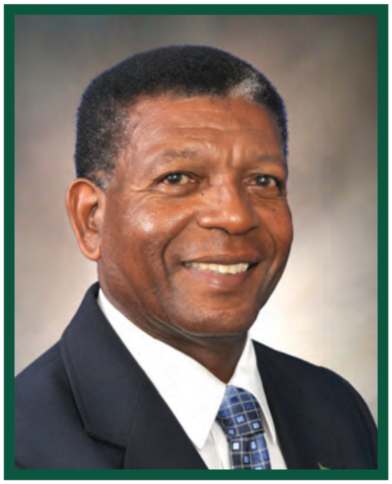
Deliotte & Touche
The Phoenix Centre
George Street
St Michael
BARBADOS

PKF
Independence House
North Independence Square
BASSETERRE

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

| | |
|---|---|
| **BRANCHES** | Nevis Branch<br>Charlestown, Nevis |
| | Sandy Point Branch<br>Main Street, Sandy Point, St. Kitts |
| | Saddlers Branch<br>Main Street, Saddlers, St. Kitts |
| | Pelican Mall Branch<br>Bay Road, Basseterre, St. Kitts |
| | Airport Branch<br>RLB International Airport |
| **ATMS** | Old Road<br>St. Paul's<br>Cayon<br>Lodge<br>St. Peter's<br>CAP Southwell Industrial Park<br>Vance W Amory International Airport<br>Nevis Branch<br>Sandy Point Branch<br>Saddlers Branch<br>RLB International Airport<br>Pelican Mall<br>Basseterre Branch<br>Camps<br>Port Zante<br>Tabernacle<br>Frigate Bay |
| **SUBSIDIARIES CONSOLIDATED** | National Bank Trust Company<br>(St. Kitts-Nevis-Anguilla) Limited<br>Rosemary Lane, BASSETERRE, St. Kitts |
| | National Caribbean Insurance Company Limited<br>Church Street, BASSETERRE, St. Kitts |
| | St. Kitts and Nevis Mortgage and Investment<br>Company Limited<br>Central Street, BASSETERRE, St. Kitts |
| **REGISTERED OFFICE OF THE PARENT COMPANY** | St. Kitts-Nevis-Anguilla National Bank Limited<br>Central Street, BASSETERRE, St. Kitts |

# LETTER FROM THE CHAIRMAN



Greetings!

We have just about drawn the curtain on the year long celebrations that marked the 40th Anniversary of the St Kitts-Nevis-Anguilla National Bank Ltd under the theme "Vision, Resilience, Stability…. Hallmarks of our Journey."

The celebrations covered a wide array of activities, many of which will have a long and lasting effect on citizens and communities in both St. Kitts and Nevis.

In our last report, I stated that we would work assiduously to hold this AGM before the end of 2011. I regret that we did not quite make it, but we are not far off. The circumstances were beyond management's control as our audited accounts were published on the Bank's website months ago. Nothing should now prevent the holding of the next AGM before the end of 2012.

As we now embark on the 41st year of operations, National Bank is still impacted by the global financial crisis that has been affecting economies on every continent. It was hoped that by now some significant recovery would have been experienced. However, according to the Organization for Economic Cooperation and Development (OECD), leading indicators all point to a slowdown in economic activity in the Worlds' major developed economies. This is certainly not good news for us in small developing economies in the Caribbean that suffer fallout from downturns in the developed countries.

Notwithstanding, I am pleased to report that National Bank's performance resulted in greater returns than in the previous year. I am pleased to report that total assets grew from $2.27 billion as at 30th June 2010 to $2.48 billion as at 30th June 2011. Net income before tax increased by $12.9 million from $33.8 million at the end of June 2010 to $46.7 million at the end of June 2011. Net income after tax increased by $11.6 million from $33.2 million at the end of June 2010 to $44.8 million at the end of June 2011.

Later in the report a fuller and more detailed financial analysis is given, but the achievement by National Bank over the last year is commendable and I wish on behalf of the Directors to thank the staff for their contribution to the success of the Bank.

During the year, National will continue to develop new products. It will continue its staff training policy. It will continue to increase its customer share. It will continue to improve customer service and staff efficiency. These measures are necessary to enable the Bank to stay on course and stem the tide of uncertainty brought about by a worldwide financial crisis.

National will continue to assist in community and youth programmes that are geared to the holistic development of young people.

I thank my fellow Directors for their cooperation and support during the year. As this AGM is being held early in the new year, I take the opportunity to wish all our customers, shareholders, staff and Directors a blessed, healthy and successful 2012 while we strive to continue to make National the leading financial institution in the federation.

Walford Gumbs
*Chairman*

# MANAGING DIRECTOR'S REPORT

St. Kitts-Nevis-Anguilla National Bank Limited (**NATIONAL**) had a good year in 2010/2011.

**NATIONAL** is anchored to the solid rock of institutional excellence and public confidence and our anchor held fast during the financial crisis in the United States and Europe that followed the Lehman Brothers collapse in 2008.

In 2010/2011 financial year **ASSETS** increased by $209.1 million, **LOANS** increased by $68.8 million and **DEPOSITS** grew by $186.9 million. **PROFIT** after tax for the same year increased by $11 million, **LIQUIDITY** improved by $111.8 million, and **EARNINGS PER SHARE** increased by 8 cents over 2009/2010.

At the end of financial year 2010/2011 **NATIONAL** had assets per capita of $49,338, deposits per capita of $33,202, loans per capita of $24,147, equity per capita of $10,012.

At the end of the financial year under review NATIONAL had a loans-to-deposits ratio of 72.7% and a loans-to-total assets ratio of 48.9%. Liquidity was 54.6% of deposits and 36.8% of assets.

In 2010/2011 financial year **NATIONAL** average operating interest rate margin was 2.84%, and its operating costs averaged about 1.2% of total assets.

No country or company was immune from the effects of the crisis. However **NATIONAL** had the system and the strength to withstand the unprecedented rigours and avoid the dreadful ravages of the worst banking and broader financial crisis in modern times.

What is urgently needed to cure the pandemic banking anemia and prevent a near-term relapse is a clear diagrammatical understanding of the multidimensional causation of financial transactions and activities by, between and among central banks, commercial banks, businesses, consumers and governments.

Using the faculty of foresight to discern the unintended consequences of contemplated actions **NATIONAL** perceived the three vital Cs of commercial banking, namely: Cash (liquidity or real money to operate with); Capacity (board governance); and Competency (management resourcefulness). These three conjoint factors are indispensable requirements for successful banking. Different weights are assigned to these factors: Cash 30%, Capacity 33%, and Competency 37%.

**NATIONAL** maintains a laser-like focus on these three strategic and enabling Cs to maximize their combined power for the achievement of efficient and profitable performance.

**NATIONAL** recognizes that its Cash stock will not influence the quality of the board Capacity or the efficacy of the management Competency, but that together or separately Capacity and Competency will influence the quantity of the Cash stock.

**NATIONAL** also recognizes that its inventory (money) does not belong to the owners of the Bank but belongs to the customers. **NATIONAL** understands and accepts the dire implications and consequences of that sobering fact and seeks always to conduct its business and affairs in total conformity with that unchanging, unrelenting and unforgiving fact.

**NATIONAL** is fully aware of the fact also that even if the board has excellent Capacity and makes good decisions but the management has a Competency deficit and does a bad execution of the good decisions, the bank will be exposed to an existential risk. Similarly without competent management, an ample Cash stock soon becomes insufficient. In recognition of this immutable reality, **NATIONAL** remains steadfast and unyielding in its endeavour to combine effective governance with efficient management.

**NATIONAL** holds the view that the global financial and economic environment will continue to be unstable and unpredictable into the short-to medium-term. Accordingly **NATIONAL** continually strengthens and improves two dynamic leadership strategies that it previously developed and implemented to manage the present and prepare for the future. The first strategy is to manage Talents, Targets, Technologies and Trends, the second strategy is to manage Resources, Relationships, Situations and Time. These strategies are separate but inseparable. By this means **NATIONAL** manages present risks effectively in order that it does not have to manage future crises after the risks have become realities.

**NATIONAL** future is sustainable and certain whatever challenges and threats the future may present.

Sir Edmund W. Lawrence
*Managing Director*

# DIRECTORS' REPORT

The Directors have pleasure in submitting their Report for the financial year ended June 30, 2011.

## DIRECTORS

In accordance with the Bank's Articles of Association one third of the Directors shall retire by rotation at every Annual General Meeting. Retiring Directors shall be eligible for re-election.

The retiring Directors by rotation are:

Mitchell Gumbs
Dr. Mervyn Laws
Sharylle V. I. Richardson

The retiring Directors, being eligible, offer themselves for re-appointment.

## BOARD COMMITTEES

In keeping with its management function and fiduciary duties, the Board of Directors operates through seven (7) committees namely Asset/Liability Management, Audit, Budget, Corporate Governance, Credit, Executive and Investment.

All committees work closely with management to deal with the many challenges facing the financial services industry and the Bank in particular.

## FINANCIAL RESULTS AND DIVIDENDS

Activities of the Bank are focused on increasing shareholders value by providing them with a reasonable return on their investments. During the 10-year period, June 30, 2001 to June 30, 2011, shareholders' equity increased by 619.03%; moving from $86.7 million to $536.7 million.

The Directors report that profit after taxation for the year ended June 30, 2011 amounted to $48.6 million, with earnings per common share of $0.36.

Further discussion of the performance of the Company can be found in the Management Discussion and Analysis presented in a separate section of this Annual Report.

The Directors have decided to recommend a final dividend of 5% for the financial year ended June 30, 2011. This recommendation, if approved by the Annual General Meeting, will mean that, together with the interim dividend of 6.5% or $8.775 million paid on December 8, 2011, a total dividend of $15.525 million will be paid for the financial year 2011.

## AUDITORS

The retiring auditors, Deloitte & Touche and PKF, have expressed their willingness to be re-appointed and a resolution to the effect will be proposed at the Annual General Meeting.

By Order of the Board of Directors

Yvonne Merchant-Charles
Secretary

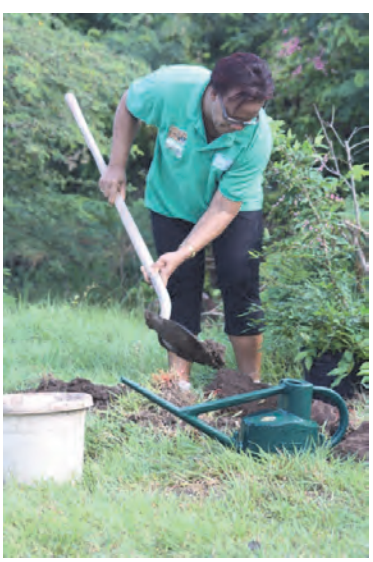
# SPONSORSHIP PROGRAMMES

**Year in Review**

National Bank's (National) commitment to national interests canvassed our entire community. Our all-inclusive Social Outreach Programme was an affirmation of who we say we are – an exemplary corporate citizen with a social conscience that is in harmony with the hearts and minds of the people of St. Kitts and Nevis. We are pleased to share with you a snapshot of our 2010 - 2011 programmes and we urge our shareholders and customers to continue to partner with us as we work harder to support you. For regular updates on our work in the community visit us on FaceBook and YouTube.


**Education**

National believes that education is the key to success and accordingly, we have continued to honour our commitment to transform our public schools libraries into state of the art reading and research centres. Our most recent library enhancement project was at the Saddlers Secondary School, the newest high school in the Federation. We are acutely aware of the benefits that accrue to children who are lauded for their academic and athletic achievements. Indeed, two of our most important school commitments are Sports Day and Speech Day – the principal events on the schools' calendar for recognition and reward.



**Environmental Projects**

In our quest to lead by example, we have partnered with the Department of Parks and Beaches to provide both financial and human resources in our mission to keep our beaches, parks and highways, fresh, clean and appealing for ourselves and our visitors. We are extremely proud of being environmentally conscious.

## National Pride

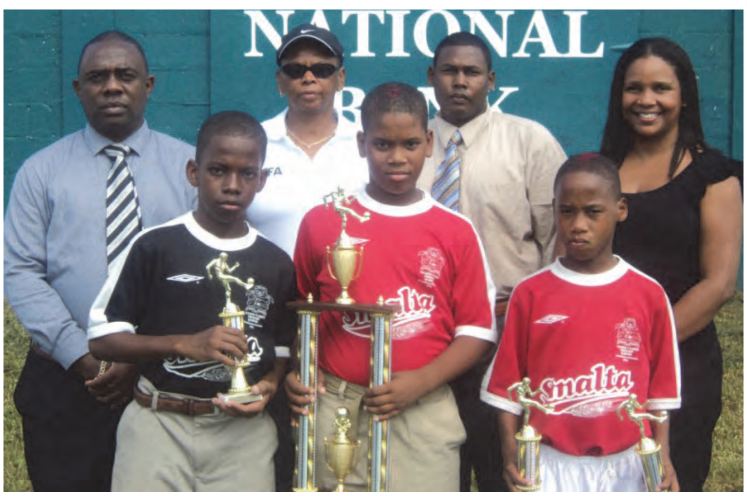
National continues to be a major sponsor of the St. Kitts Music Festival, National Carnival and other community festivals. Our sponsorship gives us the opportunity to express our national pride as we reflect on our rich heritage, share in the celebration of our culture and renew our hope for even greater prospects as a people.

The success of Carnival is contingent upon a high level of participation by all stakeholders – revelers, masqueraders, actors, calypsonians, pageant contestants and of course, the corporate sponsors such as National.

## Sports

Invariably, experts agree that "the evidence supporting sports participation for young people is that sports have the power to combat everything from racism, to low self esteem, to the high school delinquency rate". National has subscribed to this philosophy and recognized that sports aptly illustrate the difference between winning and striving for excellence; a principle we are proud to impart.

The National Bank School Football League, St. Kitts Netball Association, St. Kitts Basketball Association, and the St. Kitts Football Association are a few of the 2010-2011 beneficiaries of National's commitment to the development of sports in our Federation.




## Youth Empowerment

In selecting programmes for the empowerment of youth, we engage organizations that seek to build self esteem while teaching life skills that are educational, technical or vocational. It is therefore no surprise that included in this category of sponsorship are the Advancement of Children Foundation, the Junior Achievement Programme and, the Clarence Fitzroy Bryant Debating Society. These organizations have redirected our support to successful programmes such as Diamonds in the Rough which focuses on building self esteem in our youth and the Innovative Company Programme which focuses on entrepreneurial skills.

As an exemplary corporate citizen, National continues to embrace its social responsibility in its quest to inculcate a national mindset that agitates for the holistic development of every segment of our society.

# MANAGEMENT'S DISCUSSION AND ANALYSIS
of Financial Condition and Results of Operations

## Overview

Economic outlook for the global economies continues to show signs of weakness. Many economies are faced with unsustainable debt, high unemployment and weak demand for goods and services. The solutions for these financial problems have evaded even the greatest of minds globally. While many approaches are being tried, individually and collaboratively, to return the world's economies to a path of positive economic growth, economic cracks and financial setbacks have been developing in various economies globally, especially within the European economies. These retrogressive circumstances give energy to the lack of confidence being experienced in many corners and strength to speculations that the global economy will once again slip into recession.

This is the economic and financial environment in which the St. Kitts-Nevis-Anguilla National Bank Group of Companies ('Group') finds itself again in fiscal year 2011. The results of operations in a number of areas highlight the challenges faced by the Group during the fiscal year – weak markets as a result of reduced economic and financial activities in both the local and overseas economies.

## Performance Highlights

In fiscal year 2011 total revenue increased $33.45 million, or 19.8 percent, to $202.04 million. Net Income (profit after tax) for the year, which totaled $48.61 million or $0.36 per common share, increased 40.6 percent and 38.5 percent from $34.56 million or $0.26 per common share in 2010. Driving this increase were increases in other income and gains on sale of investments.

***<u>Net Interest Income</u>***

Reported interest income decreased $3.05 million or 2.7 percent from $111.62 million in 2010. Driving this decrease was an increase in up-front taxes paid on the public sector Special term loans. Looking behind the payment of up-front taxes and adjusting for the tax effect, adjusted interest income in 2011 totaled $168.38 million or an increase of $11.32 million or 7.2 percent over 2010 adjusted interest income.

Increases in interest expense totaled $2.14 million, or 2.9 percent above the $72.78 million reported in 2010. The drivers of the increase were a combination of increases totaling $2.60 in savings and call accounts of $0.81 million and $1.79 million, respectively.

As a result of the forgoing, reported net interest income decreased $5.19 or 13.35 percent from $38.84 reported in 2010. However, adjusted net interest income increased $9.18 or 10.89 percent over 2010 adjusted net interest income.

***Net fees and commission income***

In fiscal year 2011 fees and commission income decreased $9.80 million or 40.38 percent from $24.26 million reported in 2010. The decrease was due mainly to the sudden collapse of a valued provider of one of the Group's major products and the weak demands internationally for the product.

Fee expenses increased $7.88 million over the $1.96 million reported in 2010. The increase in fee expenses resulted from a product withdrawal and the securing of the Group's interest in any reintroduction of the said product.

Net fees and commission income decreased a further $17.68 million, or 79.3 percent, to $4.62 million in the year under review.

The implementation of revenue generating initiatives with a view to returning this category of income to its prominent position in the statement of income is ongoing.

***Other income***

This category of income increased $39.64 million or 121.2 percent over the 2010 figure of $32.72 million. Driving this increase were the gains made on sale of securities. The Group took the decision to secure all gains made on certain equity securities in the wake of the Greek debt crisis. These funds are set aside and are made available to support any liquidity pressure in the Group's operations.

***Operating expenses***

Operating expenses increased $3.16 million or 5.8 percent to $57.76 million over 2010. The increase was attributed mainly to the creation of a provision for impairment on investment securities of $1.35 million – five hundred thousand (500,000) TCI Bank Limited shares at U.S$1.00 per share.

## Financial condition

***Assets***

Total assets grew $216.33 million, or 9.4 percent, to $2.51 billion as at June 30, 2011. The increase is found in cash and balances with Central Bank, deposits with other financial institutions, loans and advances to customers and other assets.

The largest increase in assets for the period came from cash and balances with Central Bank. That category increased by $113.06 million, or 110 percent, to $215.53 million. The main support for this increase was the increases in customers' deposits. Loans and advances to customers took the second spot for largest increase in assets over 2010 with an increase of $72.97 million. This increase is directly related to the increases in special term loans (tax-free loans) of $83.64 million.

***Liabilities***

Total liabilities increased by $174.98 million, or 9.7 percent, to $1.98 billion in 2011. Driving this increase was growth in customers' deposits with an increase over 2010 of $176.28 million or 13 percent. Also, this increase contributed significantly to the improved liquid position of the Group at June 30, 2011 and highlights the ever increasing confidence placed in the Group by its customers.

***Shareholders' Equity***

Total shareholders' equity at June 30, 2011 stood at $0.54 billion. Such a position speaks volumes to the strength of the Group in light of the many challenges faced both locally and internationally.

## Liquidity

Financial assets and financial liabilities maturing within a twelve-month period increased $0.17 billion and $0.03 billion, or 14.5 percent and 2 percent, to $1.34 billion and $1.59 billion, respectively, in 2011. Although the Group continues to be highly liquid, certain initiatives are being implemented to increase core deposits and to reduce the concentration risk of large deposits.

## Capital

Total regulatory capital increased $41.35 million, or 8 percent, to $575.77 million in 2011. Driving this increase were increases in retained earnings and reserves for the year. Total risk-weighted assets increased as well by $171.15 million, or 22 percent in 2011. Due to the large percentage of zero risk assets on the balance sheet, the Group's capital adequacy ratio at June 30, 2011 was well above the minimum level required by the Basel Capital Accord.

- Tier 1 Capital ratio: The Accord recommends a minimum ratio of 4%. The Group's Tier 1 Capital ratio as at June 30, 2011 was 49% (2010 – 55%).

- Total Capital ratio: Total Capital ratio decreased 8 percent to 60% in 2011. Again, this position is well above the 8% minimum required by the Basel Capital Accord.

## Risk Management

Governance in our management structure enables the Group to manage major aspects of its business through an integrated planning and review process that is financial and customer oriented. Revenue in the form of reward is derived from our management of risk. Qualitative and quantitative measures are used in the management of risk in order to achieve financial objectives, asset growth targets and to minimize unexpected losses.

An analysis of the Group's financial risk management processes can be found in Note 4 of the financial statements.

Strategic risk is the risk that adverse business decisions, ineffective and inappropriate business plans or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, execution and/or other intrinsic risks of business will impact the Group's ability to meet its objectives. Liquidity risk is the inability to accommodate liability maturities and deposit withdrawals, fund asset growth and meet contractual obligations through unconstrained access to funding at reasonable market rates. Credit risk is the risk of loss arising from borrowers or counterparties inability to meet their obligations. Market risk is the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions, such as interest rate movements. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external event.

## Corporate Governance

The Directors continue to monitor the business affairs of the Group to ensure compliance with relevant statutes, regulations, rules, established policies and procedures. They are charged with the oversight responsibility for increasing operational efficiency, strengthening shareholder and customer confidence, and the investment attractiveness of the Group. Directors review material development in governance practices, issues and requirements, and where necessary, policy and strategic actions are taken to safeguard the welfare of the Group.

## Other

This discussion and analysis include forward-looking statements about objectives, strategies and expected financial results and positions. These statements are based on the Group's current plans, expectations and beliefs about future events. They are inherently subject to risks and uncertainties beyond the Group's control including, but not limited to, economic and financial conditions globally, technological development, competition, and regulatory development both at home and abroad. These and other factors may cause actual experience to be different from expectations and beliefs reflected in the forward-looking statements. The reader is therefore cautioned not to place undue reliance on these statements.

Deloitte.

PKF

**Independent auditors' report**
To the shareholders of St Kitts-Nevis-Anguilla National Bank Limited

We have audited the accompanying financial statements of St Kitts-Nevis-Anguilla National Bank Limited and its subsidiaries which comprise the consolidated balance sheet as of June 30, 2011 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the 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 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**
To the shareholders of St Kitts-Nevis-Anguilla National Bank Limited (continued)

## Opinion

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

Deloitte & Touche

The Phoenix Centre
George Street
St Michael
Barbados

PKF

Independence House
North Independence Square
Basseterre
St Kitts

December 22, 2011

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

## Consolidated balance sheet

As of June 30, 2011

*(expressed in thousands of Eastern Caribbean dollars)*

| | Notes | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Central Bank | 6 | 215,526 | 102,463 |
| Treasury bills | 7 | 89,291 | 93,893 |
| Deposits with other financial institutions | 8 | 360,267 | 333,647 |
| Loans and receivable – loans and advances to customers | 9 | 1,206,050 | 1,133,077 |
| - originated debts | 10 | 126,012 | 130,075 |
| Investment securities – available-for-sale | 11 | 347,969 | 375,449 |
| Investment in properties | 12 | 10,317 | 10,741 |
| Income tax asset | | 6,024 | 7,927 |
| Property, plant and equipment | 13 | 31,474 | 31,391 |
| Other assets | 5(c) & 14 | 120,554 | 78,492 |
| **TOTAL ASSETS** | | **2,513,484** | **2,297,155** |
| **LIABILITIES** | | | |
| Due to customers | 15 | 1,527,180 | 1,350,902 |
| Other borrowed funds | 16 | 241,522 | 207,358 |
| Income tax liability | | 2,061 | 874 |
| Accumulated provisions, creditors and accruals | 17 | 178,290 | 214,771 |
| Deferred tax liability | 18 | 27,730 | 27,902 |
| **TOTAL LIABILITIES** | | 1,976,783 | 1,801,807 |
| **SHAREHOLDERS' EQUITY** | | | |
| Issued share capital | 19 | 135,000 | 135,000 |
| Share premium | | 3,877 | 3,877 |
| Retained earnings | | 49,062 | 36,681 |
| Reserves | 20 | 348,762 | 319,790 |
| **TOTAL SHAREHOLDERS' EQUITY** | | 536,701 | 495,348 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **2,513,484** | **2,297,155** |

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

Approved by the Board of Directors on November 30, 2011

Director — Walford V. Gumbs

Director — Sir Edmund W. Lawrence

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

## Consolidated statement of income

For the year ended June 30, 2011

*(expressed in thousands of Eastern Caribbean dollars)*

| | Notes | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| **Interest income** | | 108,570 | 111,618 |
| **Interest expense** | | (74,919) | (72,781) |
| Net interest income | 21 | 33,651 | 38,837 |
| Provision for credit impairment losses | 23 | - | (2,316) |
| **Net interest revenue** | | 33,651 | 36,521 |
| Fees and commissions income | | 14,463 | 24,260 |
| Fee expense | | (9,842) | (1,960) |
| **Net fees and commission income** | 22 | 4,621 | 22,300 |
| Other income | 24 | 72,360 | 32,720 |
| **Operating income** | | 110,632 | 91,541 |
| **Non-interest expenses** | | | |
| Administration and general expenses | 25 | 37,654 | 35,982 |
| Other expenses | 26 | 20,103 | 18,618 |
| **Total operating expenses** | | 57,757 | 54,600 |
| **Net income before tax** | | 52,875 | 36,941 |
| **Income tax expense** | 18 | (4,264) | (2,379) |
| **Net income for the year** | | 48,611 | 34,562 |
| **Earnings per share** | 27 | **0.36** | **0.26** |

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

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

## Consolidated statement of comprehensive income

For the year ended June 30, 2011

*(expressed in thousands of Eastern Caribbean dollars)*

| | Notes | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| **Net income for the year** | | 48,611 | 34,562 |
| **Other comprehensive income:** | | | |
| Available-for-sale financial assets: | | | |
| Net unrealised gains on investment securities, net of tax | | 25,335 | 21,527 |
| Reclassification adjustments for gains/(losses) included in income | | (25,708) | 1,391 |
| **Total other comprehensive (loss)/income** | 20 | (373) | 22,918 |
| **Total comprehensive income for the year** | | 48,238 | 57,480 |

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

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

## Consolidated statement of changes in equity

For the year ended June 30, 2011

*(expressed in thousands of Eastern Caribbean dollars)*

| | Notes | Share Capital $ | Share Premium $ | Statutory Reserve $ | Other Reserve $ | Revaluation Reserve $ | Retained Earnings $ | Total Shareholders' Equity $ |
|---|---|---|---|---|---|---|---|---|
| **Balance at June 30, 2009** | | 81,000 | 3,877, | 81,000 | 211,153 | 37,293 | 31,645 | 445,968 |
| Total comprehensive income for the year | | - | - | - | - | 22,918 | 34,562 | 57,480 |
| Increase share capital | 20 | 54,000 | - | - | (54,000) | - | - | - |
| Transfer to reserves | 20 | - | - | 6,640 | 14,786 | - | (21,426) | - |
| Dividends | 28 | - | - | - | - | - | (8,100) | (8,100) |
| **Balance at June 30, 2010** | | 135,000 | 3,877 | 87,640 | 171,939 | 60,211 | 36,681 | 495,348 |
| Total comprehensive income for the year | | - | - | - | - | (373) | 48,611 | 48,238 |
| Transfer to reserves | 20 | - | - | 8,970 | 20,375 | - | (29,345) | - |
| Dividends | 28 | - | - | - | - | - | (6,885) | (6,885) |
| **Balance at June 30, 2011** | | 135,000 | 3,877 | 96,610 | 192,314 | 59,838 | 49,062 | 536,701 |

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

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

## Consolidated statements of cash flows

For the year ended June 30, 2011

*(expressed in thousands of Eastern Caribbean dollars)*

| | Notes | 2011 $ | 2010 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income before tax | | 52,875 | 36,941 |
| Adjustments for: | | | |
| Interest income | | (108,570) | (111,618) |
| Interest expense | | 74,919 | 72,781 |
| Depreciation and amortisation | | 3,354 | 2,862 |
| Provision for impairment, net | | 1,349 | 2,316 |
| Gain on disposal of premises and equipment | | (17) | - |
| Operating income before changes in operating assets and liabilities | | 23,910 | 3,282 |
| *(Increase)/decrease in operating assets:* | | | |
| Loans and advances to customers | | (72,852) | (111,071) |
| Mandatory deposit with the Central Bank | | (6,871) | (7,189) |
| Other accounts | | (40,561) | 3,370 |
| *Increase/(decrease) in operating liabilities:* | | | |
| Customers' deposits | | 175,411 | 102,465 |
| Due to other financial institutions | | 6,899 | (623) |
| Accumulated provisions, creditors and accruals | | (36,507) | 9,750 |
| Cash generated from (used in) operations | | 49,429 | (16) |
| Interest received | | 106,105 | 105,583 |
| Interest paid | | (73,318) | (72,843) |
| Income tax paid | | (1,131) | (10,983) |
| ***Net cash generated from operating activities*** | | 81,085 | 21,741 |
| **Cash flows from investing activities** | | | |
| Purchase of equipment and intangible assets | | (4,189) | (1,932) |
| Proceeds from disposal of equipment | | 17 | 2 |
| (Increase)/decrease in special term deposits | | (1,074) | (36,317) |
| Increase in restricted term deposits and treasury bills | | (98,674) | (15,534) |
| Proceeds from disposal of investment securities | | 284,222 | 180,371 |
| Purchase of investment securities | | (254,787) | (213,198) |
| ***Net (cash used) in investing activities*** | | (74,485) | (86,608) |
| **Cash flows from financing activities:** | | | |
| Other borrowed funds | | 28,185 | 25,561 |
| Dividend paid | | (6,885) | (8,100) |
| ***Net cash generated from financing activities*** | | 21,300 | 17,461 |
| **Net increase (decrease) in cash and cash equivalents** | | 27,900 | (47,406) |
| **Cash and cash equivalents at beginning of year** | | 227,976 | 275,382 |
| **Cash and cash equivalents at end of year** | 31 | 255,876 | 227,976 |

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

### 1. General information

St. Kitts-Nevis-Anguilla National Bank Limited (the Bank) was incorporated on the 15th day of February 1971 under the Companies Act chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on the 14th day of April 1999. The Bank operates in both St. Kitts and Nevis and is subject to the provisions of the Banking Act of 1991.

The Bank is a limited liability company and is incorporated and domiciled in St. Kitts. The address of its registered office is as follows: Central Street, Basseterre, St. Kitts. It is listed on the Eastern Caribbean Securities Exchange.

The principal activities of the Bank and its subsidiaries ("the Group") are described below.

The Bank is principally involved in the provision of financial services.

- The Bank's subsidiaries and their activities are as follows:

- *National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited ("Trust Company")*

The Trust Company was incorporated on the 26th day of January, 1972 under the Companies Act chapter 335, but was re-registered under the new Companies Act No. 22 of 1996 on the 14th day of April 1999.

The principal activity of the Trust Company is the provision of long-term mortgage financing, raising long-term investment funds, real estate development, property management and the provision of trustee services.

- *National Caribbean Insurance Company Limited ("Insurance Company")*

The Insurance Company was incorporated on the 20th day of June, 1973 under the Companies Act chapter 335, but was re-registered under the new Companies Act No. 22 of 1996 on the 14th day of April 1999. Its immediate parent company is National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited.

The Insurance Company provides coverage of life assurance, non life assurance and pension schemes.

- *St. Kitts and Nevis Mortgage and Investment Company Limited ("MICO")*

MICO was incorporated on the 25th day of May, 2001 under the Companies Act No. 22 of 1996 and commenced operations on the 13th day of May, 2002.

MICO acts as the real estate arm of the Bank with its main operating activities being the acquisition and sale of properties.

### 2. Adoption and amendments of published standards and interpretations

#### 2.1 Adoption of standards during the year

- *IFRIC 19, 'Extinguishing financial liabilities with equity instruments.*
- *IAS 32, 'Financial instruments: Presentation', 'Classification of rights issues'.*
- *IFRS 2, 'Share-based payment'.*

Adoption of these new and amended standards has had no impact on the disclosures or reported results.

## 2. Adoption and amendments of published standards and interpretations (continued)

### 2.2 Amendments and published standards issued but not yet effective

- *IFRS 9, (Amendment), 'Financial instruments', issued in October 2010.* The amendment to this standard added to the step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. This standard introduces new requirements for classification and measurement of financial liabilities and is likely to affect the Bank accounting for its financial liabilities. The standard is not applicable until January 1, 2013 but is available for early adoption.

- *IFRS 7, (Amendment), 'Financial instruments: Disclosures', issued in October 2010.* This standard added to the requirements for disclosure of transfers of financial assets with a continuing involvement. The amendment is effective for periods beginning January 1, 2011. This amendment will have no impact on the financial statements.

- *Revised IAS 24 (Revised), 'Related party disclosures',* issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. This revised standard is mandatory for periods beginning on or after January 1, 2011. Systems are being put in place to capture the necessary information. It is not possible, at this stage, to disclose the impact, if any, of the revised standard on related party disclosure.

The directors anticipate that the above amendments will be adopted in the Group's consolidated financial statements and the adoption will have no material impact on the consolidated financial statements of the Group in the period of initial application, except as noted herein.

## 3. Summary of significant accounting policies

### 3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

### 3.2 Basis of preparation

The financial statements have been prepared on the historical cost convention except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

## 3. Summary of significant accounting policies (continued)

### 3.4 Foreign currency transaction

***Functional and presentation currency***

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates.

The consolidated financial statements are presented in thousands of Eastern Caribbean Dollars, which is the Group functional and presentation currency.

Foreign currency transactions are accounted for at the mid-rate of exchange prevailing at the date of the transaction. Financial assets and financial liabilities denominated in foreign currencies at the balance sheet date are converted to Eastern Caribbean Currency at the mid-rate of exchange ruling on that day. Gains and losses resulting from such transactions and from the translation of financial assets and/or financial liabilities denominated in foreign currencies are recognised in the statement of income.

### 3.5 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

**(a)** ***Financial assets at fair value through profit or loss***

Certain investments, such as equity investments, principal protected investments and others, that are managed and evaluated on a fair value basis in accordance with a documented investment strategy and reported to management on that basis are designated at fair value through profit or loss. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the Statement of income in the period in which they arise.

**(b)** ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than : (1) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss; (2) those that the Group upon initial recognition designates as available for sale; or (3) those for which the holder may not receive substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are recognised when cash or the right to cash is advanced to a borrower and are carried at amortised cost using the effective interest method.

**(c)** ***Held-to-maturity financial assets***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale. Held-to-maturity financial assets are carried at amortised cost using the effective interest method.

## 3. Summary of significant accounting policies (continued)

### 3.5 Financial assets (continued)

**(d) *Available-for-sale financial assets***

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

Available-for-sale financial assets are initially recognised at fair value being the transaction price less transaction cost. Available-for-sale financial assets subsequently measured at fair value based on the current bid prices of quoted investments in active markets. If the market for available-for-sale financial assets is not active (such as investments in unlisted entities) and the fair value cannot be reliably measured, they are measured at cost. Gains and losses arising from the fair value of available-for-sale financial assets are recognised through other comprehensive income until the financial assets are derecognised or impaired, at which time, the cumulative gain or loss previously recognised through other comprehensive income is removed and recognised in profit or loss.

Interest calculated using the effective interest method, dividend income and foreign currency gains and losses on financial assets classified as available for sale are recognised in the Statement of income. Dividends on available-for-sale equity instruments are recognised in the Statement of income when the right to receive payment is established.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

### 3.6 Financial liabilities

Financial liabilities are classified as “other liabilities” and are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. Other liabilities include due to customers, due to other financial institutions, other borrowed funds and accumulated provisions, creditors and accruals.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

### 3.7 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within “interest income” and “interest expense” in the statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

## 3. Summary of significant accounting policies (continued)

### 3.7 Interest income and expense (continued)

When calculating the effective interest rate, estimates of cash flows that consider all contractual terms of the financial instrument are included (for example, repayment options), except future credit losses. The calculation includes all fees and points 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 impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

In the current year the Group discontinued the accrual of interest on non-performing loans and advances. This change was applied prospectively and did not have a significant impact on the reported financial position or performance.

### 3.8 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of business – are recognised on completion of the underlying transaction.

### 3.9 Dividend income

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

### 3.10 Impairment of financial assets

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred 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 the loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

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

- Cash flow difficulties experienced by the borrower;
- Delinquency in contractual payments of principal and interest;
- Breach of loan covenants or conditions;
- Deterioration in the value of collateral;
- Deterioration of the borrower's competitive position; and
- Initiation of bankruptcy proceedings.

## 3. Summary of significant accounting policies (continued)

### 3.10 Impairment of financial assets (continued)

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

The Group 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables and or held-to-maturity investments carried at amortised cost has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discounted rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the "Bad Debt Recovered" income account which is then used to decrease the amount of the provision for the loan impairment in the Statement of income.

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 loss is recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Statement of income.

## 3. Summary of significant accounting policies (continued)

**(b)** ***Assets classified as available-for-sale***

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

**(c)** ***Renegotiated loans***

Loans and advances 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.

### 3.11 Property, plant and equipment

Land and buildings held for use in the production and supply of services, or for administrative purposes, are stated in the balance sheet 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 values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in income, in which case the increase is credited to income to the extent of the decrease previously charged.

A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to income to the extent that it exceeds the balance, if any, held in the fixed asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, any revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the fixed asset revaluation reserve to retained earnings except when an asset is derecognised.

## 3. Summary of significant accounting policies (continued)

### 3.11 Property, plant and equipment (continued)

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on the following basis:

| | |
|---|---|
| Building: | 25 – 45 years |
| Leasehold improvements: | 25 years, or over period of lease if less than 25 years |
| Equipment, fixtures and motor vehicles: | 3 – 10 years |

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

All repairs and maintenance are charged to income during the financial period in which they are incurred.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

### 3.12 Intangible assets – computer software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and to bring into use the specific software. These costs are amortised over the estimated useful life of such software of three to five years using the straight-line method. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of the intangible asset, the amortisation is revised prospectively to reflect the new expectations.

### 3.13 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash flows (cash-generating units).

### 3.14 Leases

The leases entered into by the Group are operating leases. The total payments made under the operating leases are charged to income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

## 3. Summary of significant accounting policies (continued)

### 3.15 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with the Central Bank, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and other financial institutions and short-term government securities.

### 3.16 Employee benefits

**(a)** ***Pension plan***
The Group contributes to a number of defined contribution and a defined benefit pension plans. The amount recognised in the accounts is determined as the present value of the defined benefit obligation adjusted for the unrecognised actuarial gains or losses and less any past service costs not yet recognised and the fair value of any plan assets.

Where the pension calculation results in a net surplus, the recognised assets should not exceed the net total of any recognised actuarial losses and past service costs and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contribution to the plan. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations carried out at least every three years.

Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise amortised on a straight-line basis over the average period until the benefits become vested.

**(b)** ***Gratuity***
The Group provides a gratuity plan to its employees after 15 years of employment. The amount of the gratuity payment to eligible employees at retirement is computed with reference to final salary and calibrated percentage rates based on the number of years of service.

### 3.17 Current and deferred income tax

Income tax payable on profits, based on applicable tax law is recognised as an expense in the period in which profits arise, except to the extent that it relates to items recognised directly in other comprehensive income. In such cases, the tax effect is recognised in a deferred tax liability account. The tax expense for the period comprises current and deferred tax.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or deferred tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment and revaluation of certain financial assets. However, deferred tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

## 3. Summary of significant accounting policies (continued)

### 3.17 Current and deferred income tax (continued)

Deferred tax asset is recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax related to fair value re-measurement of available-for-sale investments, which is included in other comprehensive income net of tax, is credited or charged directly to deferred tax liability and subsequently recognised in the statement of income together with the deferred gain or loss.

### 3.18 Borrowings

Borrowings are recognised initially at fair value (which is their issue proceeds and fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any differences between proceeds net of transaction costs and the redemption value is recognised in the statement of income over the period of the borrowing using the effective interest method.

### 3.19 Guarantees and letters of credit

Guarantees and letters of credit comprise undertaking by the Group to pay bills of exchange drawn on customers. The Group expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers.

### 3.20 Share capital

**(a)** ***Share issue costs***
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

**(b)** ***Dividends on ordinary shares***
Dividends on ordinary shares are recognised in the Statement of changes in equity in the period in which they are approved by the Group's shareholders.

Dividends for the year that are declared after the balance sheet date are dealt with in (Note 28).

### 3.21 Insurance business

***Life insurance***

The determination of life actuarial liabilities polices is based on an approximation of the policy premium method, using annualised premiums. These liabilities consist of amounts that together with future premiums and investment income are required to provide for policy benefits, expenses and taxes on life insurance contracts. The process of calculating actuarial liabilities for future policy benefits involves the use of estimates concerning factors such as mortality and morbidity rates, future investment yields and future expense levels and persistency.

## 3. Summary of significant accounting policies (continued)

### 3.21 Insurance business (continued)

***Health insurance***

Health insurance contracts are generally one year renewable contracts issued by the Insurance Company covering insurance risks for medical expenses of insured persons. The liabilities of health insurance policies are estimated in respect of claims that have been incurred but not reported and claims that have been reported but not yet paid, due to the time taken to process the claim.

***Property and casualty insurance***

Property and casualty insurance contracts are generally one year renewable contracts issued by the Insurance Company covering insurance risks over property, motor, accident and marine. Claim reserves are established for both reported and un-reported claims and they represent estimates of future payments of claims and related expenses less anticipated recoveries with respect to insured events that have occurred up to the balance sheet date. Reserving involves uncertainty and the use of statistical techniques of estimation. These techniques generally involve projecting from past experience, the development of claims over time to form a view of the likely ultimate claims to be experienced, having regard for the variations in business written and the underlying terms and conditions. The claim reserve is not discounted and is included in insurance contract liabilities.

***Reinsurance***

The Insurance Company obtains reinsurance contracts coverage for insurance risks underwritten. The Insurance Company cedes insurance premiums and risk related to property and casualty contracts in the normal course of business in order to limit the potential for losses arising from its exposures. Reinsurance does not relieve the Insurance Company of its liability. The benefits to which the Insurance Company is entitled under reinsurance contracts held are recognized as reinsurance assets. Reinsurance assets are assessed for impairment and if evidence that the asset is impaired, the impairment is recorded in the statement of income. The obligations of the Insurance Company under reinsurance contracts held are included under insurance contract liabilities.

## 4. Financial risk management

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

Group companies' risk management policies are designed to identify and analyse risks, to set appropriate levels and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. Each Group company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

(expressed in thousands of Eastern Caribbean dollars)

## 4. Financial risk management (continued)

Risk management is carried out by the Credit Division, Comptroller Division and Underwriting Department under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the Bank operating units. The Board provides principles for overall risk management, as well as approved policies covering specific areas, such as foreign exchange, interest rate and credit risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate risk and other price risk.

### 4.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparties will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. Credit exposures arises principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and reinsurer's share of insurance liabilities. The credit risk management and control are centralised. These activities are reported to the Board of Directors.

The Group's exposure to credit risk is managed through regular analysis of the ability of its borrowers and potential borrowers to meet interest and capital repayment obligations. Credit risk is managed also in part by the taking of collateral and corporate and personal guarantees as securities on advances.

#### 4.1.1 Maximum exposure to credit risk before collateral held or other credit enhancements

| | Maximum exposure | |
|---|---|---|
| ***Credit risk exposures relating to on-balance sheet assets are as follows:*** | **2011 $** | **2010 $** |
| Treasury bills | 89,291 | 93,893 |
| Deposits with other financial institutions | 360,267 | 333,647 |
| Loans and advances: | | |
| • Overdrafts | 157,451 | 153,996 |
| • Corporate customers | 67,064 | 135,080 |
| • Term loans | 866,378 | 735,338 |
| • Mortgages (personal) | 115,157 | 108,663 |
| • Originated debts | 126,012 | 130,075 |
| Available-for-sale investments | 97,605 | 120,468 |
| Other assets | 116,433 | 33,096 |
| ***Credit risk exposures relating to off-balance sheet assets are as follows*:** | | |
| Loan commitments and financial guarantees | 75,089 | 53,693 |
| **Total** | **2,070,747** | **1,897,949** |

*(expressed in thousands of Eastern Caribbean dollars)*

## 4. Financial risk management (continued)

The above table represents a worst case scenario of credit risk exposure to the Group 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 balance sheet. As shown above, 58% (2010 – 60%) of the total maximum exposure is derived from loans and advances to customers; 6% (2010 – 6%) represents investments in debt securities.

### 4.1.2 Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at June 30, 2011, based on Standard & Poor's ratings or equivalent:

| | Treasury bills $ | Investment securities $ | Loans and receivables - notes & bonds $ | Total $ |
|---|---|---|---|---|
| A- to A+ | - | 66,018 | - | **66,018** |
| Unrated/internally rated | 89,291 | 43,163 | 126,012 | **258,466** |
| **Total** | **89,291** | **109,181** | **126,012** | **324,484** |

### 4.1.3 Sectoral analysis of the loans and advances portfolio

The table below gives a break-down of concentration of credit risk by sector in the loans and advances portfolio:

| | 2011 $ | 2010 $ |
|---|---|---|
| Consumers | 138,237 | 130,258 |
| Agriculture, fisheries and manufacturing | 5,250 | 5,276 |
| Construction and land development | 55,754 | 40,774 |
| Distributive trade, transportation and storage | 11,654 | 10,527 |
| Tourism, entertainment and catering | 53,254 | 20,751 |
| Financial institutions | 923 | 11,758 |
| State, statutory bodies and public utilities | 900,134 | 879,404 |
| Professional and other services | 19,829 | 13,437 |
| Gross | **1,185,035** | **1,112,185** |

*(expressed in thousands of Eastern Caribbean dollars)*

## 4. Financial risk management (continued)

### 4.1.4 Concentration of risks of financial assets with credit exposure

The following tables break down the main credit exposures at their carrying amounts, as categorised by industry sectors of our counterparties:

| June 30, 2011 | Public Sector | Construction | Tourism | Financial Institutions | Individuals | Other Industries | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| Treasury bills | 89,291 | - | - | - | - | - | 89,291 |
| Deposit with financial institutions | - | - | - | 360,267 | - | - | 360,267 |
| Loans and receivables: | | | | | | | |
| - Originated debts | 117,692 | - | - | 1,300 | - | 7,020 | 126,012 |
| - Loans & advances | 900,181 | 59,312 | 63,611 | 924 | 142,853 | 39,169 | 1,206,050 |
| Investments – available-for-sale | - | - | - | 97,605 | - | - | 97,605 |
| Other assets | - | - | - | 46,447 | 73 | 70,892 | 117,412 |
| **Total** | **1,107,164** | **59,312** | **63,611** | **506,543** | **142,926** | **117,081** | **1,996,637** |

| June 30, 2010 | Public Sector | Construction | Tourism | Financial Institutions | Individuals | Other Industries | Total |
|---|---|---|---|---|---|---|---|
| Treasury Bills | 93,893 | - | - | - | - | - | 93,893 |
| Deposit with financial institutions | - | - | - | 333,647 | - | - | 333,647 |
| Loans and receivables: | | | | | | | |
| - Originated debts | 120,675 | - | - | 1,300 | - | 8,100 | 130,075 |
| - Loans & advances | 879,449 | 44,332 | 31,108 | 11,759 | 134,873 | 31,556 | 1,133,077 |
| Investments – available-for-sale | 9,535 | - | - | 106,132 | - | 4,801 | 120,468 |
| Other assets | - | - | - | 2,035 | 586 | 69,067 | 71,688 |
| **Total** | **1,103,552** | **44,332** | **31,108** | **454,873** | **135,459** | **113,524** | **1,882,848** |

## 4. Financial risk management (continued)

**4.2 Market risk**

The Group is exposed 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 and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of the market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group's main exposures to market risks arise from its non-trading part of the investment portfolio. Non-trading portfolios primarily arise from the interest rate management of the Group's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arising from the Group's available-for-sale investments.

**4.2.1 Price risk**

The Group is exposed to equities price risk because of investments held by the Group and classified on the balance sheet as available-for-sale. To manage this price risk arising from investments in equity securities, the Group diversifies its investment portfolio.

**4.2.2 Foreign exchange risk**

The Group is exposed to foreign exchange risk through fluctuation in certain prevailing foreign exchange rates on its financial position and cash flows. The Board of Directors limits the level of exposure by currency and in total which are monitored daily. The Group's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The Group uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollars (EC$). The Group has set the mid-rate of exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) at EC$2.7026 = US$1.00 since 1976. The following table summarises the Group's exposure to foreign currency exchange rate risk at June 30, 2011. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

## Notes to consolidated financial statements

For the year ended June 30, 2011

*(expressed in thousands of Eastern Caribbean dollars)*

# 4. Financial risk management (continued)

### 4.2.2 Foreign exchange risk (continued)

### Concentration of currency risk – on and off balance sheet financial instruments

| As at June 30, 2011 | ECD $ | USD $ | EURO $ | GBP $ | CAN $ | BDS $ | GUY $ | TOTAL $ |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash & balances with Central Bank | 212,597 | 2,822 | 20 | 55 | 16 | 16 | - | 215,526 |
| Treasury bills | 89,291 | - | - | - | - | - | - | 89,291 |
| Deposits with other financial bodies | 56,316 | 298,971 | 1,769 | 489 | 2,081 | 626 | 15 | 360,267 |
| Loans and receivables: | | | | | | | | |
| - Loans and advances to customers | 1,173,125 | 32,925 | - | - | - | - | - | 1,206,050 |
| - Originated debts | 124,515 | 1,497 | - | - | - | - | - | 126,012 |
| Investments | | | | | | | | |
| - available-for-sale | 14,710 | 333,259 | - | - | - | - | - | 347,969 |
| Other assets | 63,971 | 53,295 | - | - | - | - | - | 117,266 |
| Total financial assets | 1,734,525 | 722,769 | 1,789 | 544 | 2,097 | 642 | 15 | 2,462,381 |
| **Liabilities** | | | | | | | | |
| Due to Customers | 1,287,635 | 235,322 | 77 | 440 | 3,706 | - | - | 1,527,180 |
| Due to other financial institutions | - | 6,899 | - | - | - | - | - | 6,899 |
| Other borrowed funds | - | 230,497 | - | - | - | - | - | 230,497 |
| Other liabilities | 164,821 | 15,781 | 42 | 384 | 151 | 58 | - | 181,237 |
| Total financial liabilities | 1,452,456 | 488,499 | 119 | 824 | 3,857 | 58 | - | 1,945,813 |
| **Net on-balance sheet positions** | **282,069** | **234,270** | **1,670** | **(280)** | **(1,760)** | **584** | **15** | **516,568** |
| **Credit commitments** | **70,962** | **-** | **-** | **-** | **-** | **-** | **-** | **70,962** |

| As at June 30, 2010 | ECD $ | USD $ | EURO $ | GBP $ | CAN $ | BDS $ | GUY $ | TOTAL $ |
|---|---|---|---|---|---|---|---|---|
| Total financial assets | 1,562,992 | 670,588 | 1,063 | 833 | 4,178 | 625 | 13 | 2,240,292 |
| Total financial liabilities | 1,249,632 | 507,522 | 600 | 905 | 3,774 | 58 | - | 1,762,491 |
| **Net on-balance sheet positions** | **313,360** | **163,066** | **463** | **(72)** | **404** | **567** | **13** | **477,801** |
| **Credit commitments** | **48,647** | **-** | **-** | **-** | **-** | **-** | **-** | **48,647** |

### 4.2.3 Interest rate risk

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

(expressed in thousands of Eastern Caribbean dollars)

## 4. Financial risk management (continued)

### 4.2.3 Interest rate risk (continued)

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

| As at June 30, 2011 | Up to 1 Month $ | 1 to 3 Months $ | 3 to 12 Months $ | 1 to 5 Years $ | Over 5 Years $ | Non-interest Bearing $ | Total $ |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash & balances with Central Bank | - | - | - | - | - | 215,526 | 215,526 |
| Treasury bills | - | 3,406 | 85,885 | - | - | - | 89,291 |
| Deposits with other financial institutions | 203,457 | 14,757 | 111,114 | - | - | 30,939 | 360,267 |
| Loans and receivables: | | | | | | | |
| - Loans and advances to customers | 227,670 | 2,231 | 35,248 | 150,093 | 790,746 | 62 | 1,206,050 |
| - Originated debts | 8,064 | 4,117 | 8,801 | 59,238 | 45,792 | - | 126,012 |
| Investments – Available-for-sale | 95,595 | - | - | - | 2,990 | 249,384 | 347,969 |
| Other assets | 2,715 | 12,749 | 6,580 | 71,705 | 324 | 23,193 | 117,266 |
| Total assets | **537,501** | **37,260** | **247,628** | **281,036** | **839,852** | **519,104** | **2,462,381** |
| **Liabilities** | | | | | | | |
| Due to customers | 597,335 | 62,535 | 593,580 | - | - | 273,730 | 1,527,180 |
| Due to other financial institutions | 6,899 | - | - | - | - | - | 6,899 |
| Other borrowed funds | 270 | 541 | 2,432 | 132,850 | 93,540 | 864 | 230,497 |
| Other liabilities | 322 | - | 30 | - | - | 44,800 | 45,152 |
| Total liabilities | **604,826** | **63,076** | **596,042** | **132,850** | **93,540** | **319,394** | **1,809,728** |
| **Total Interest repricing gap** | **(67,325)** | **(25,816)** | **(348,414)** | **148,186** | **746,312** | | |

| As at June 30, 2010 | Up to 1 Month $ | 1 to 3 Months $ | 3 to 12 Months $ | 1 to 5 Years $ | Over 5 Years $ | Non interest Bearing $ | Total $ |
|---|---|---|---|---|---|---|---|
| Total financial assets | 376,235 | 113,061 | 137,193 | 197,529 | 913,831 | 502,443 | 2,240,292 |
| Total financial liabilities | 572,841 | 56,516 | 556,732 | 9,729 | 188,746 | 377,927 | 1,762,491 |
| **Total Interest repricing gap** | **(196,606)** | **56,545** | **(419,539)** | **187,800** | **725,085** | | |

The Group fair value interest rate risk arises from debt securities classified as available-for-sale. At June 30, 2011 if market interest rates had been 100 basis points higher/lower with all variables held constant, equity for the year would have been $2.013 million lower/higher as a result of the decrease/increase in fair value of available-for-sale debt securities.

Cash flow interest rate risk arises from loans and advances to customers at available rates. At June 30, 2011 if variable rates had been 100 basis points higher/lower with all other variables held constant, post-tax profits for the year would have been $7.515 million higher/lower; mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

## 4. Financial risk management (continued)

### 4.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors, fulfill commitments to lend and make claim payments as a result of catastrophic events.

#### 4.3.1 Liquidity risk management

Group liquidity is managed and monitored by the Comptroller Division and the Underwriting Department with guidance, where necessary, by an executive director. This includes:

- Daily monitoring of the Group's liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers. The Group ensures that sufficient funds are held to meet its obligations by not converting into loans demand deposits, reserves, provision for interest, provision for loan losses, and other net financial assets and liabilities.

- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, industry, product, currency and term.

- Daily monitoring of the balance sheet liquidity ratios against internal and regulatory requirements.

- Managing the concentration and profile of debt maturities.

- Formalised arrangements with non-regional financial institutions to fund any liquidity needs that may arise.

#### 4.3.2 Funding approach

The principal sources of funding are equity, core deposits from retail and commercial customers and lines of credit from certain valuable overseas partners. Liquidity sources are regularly reviewed to maintain a wide diversification of geography, currency, provider, product and term.

*(expressed in thousands of Eastern Caribbean dollars)*

## 4. Financial risk management (continued)

### 4.3.3 Cash flows

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

| As at June 30, 2011 | Up to 1 month $ | 1 – 3 months $ | 3 – 12 months $ | 1 – 5 years $ | Over 5 years $ | Total $ |
|---|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | | |
| Due to customers | 863,338 | 64,616 | 599,226 | - | - | 1,527,180 |
| Due to other financial institutions | 6,899 | - | - | - | - | 6,899 |
| Other borrowed funds | 270 | 541 | 3,296 | 132,850 | 93,540 | 230,497 |
| Other liabilities | 33,703 | 3,354 | 14,497 | 21,867 | 1,922 | 75,343 |
| **Total financial liabilities** | **904,210** | **68,511** | **617,019** | **154,717** | **95,462** | **1,839,919** |
| **Total financial assets** | **1,031,926** | **36,566** | **268,677** | **290,229** | **839,655** | **2,467,053** |
| **As at June 30, 2010** | | | | | | |
| **Total financial liabilities** | **889,965** | **60,730** | **609,169** | **13,881** | **188,746** | **1,762,491** |
| **Total financial assets** | **902,176** | **113,934** | **153,955** | **179,570** | **890,657** | **2,240,292** |

### 4.3.4 Off-balance sheet items

(a) Loan commitments – the dates of the contractual amounts of the Group off-balance sheet financial instruments that commit it to extend credit to customers and other facilities.

(b) Guarantees and standby letters of credit – assurances given that payments will be made on behalf of customers to third parties if the customers default. The Bank has recourse against its customers for any such advanced funds. These amounts (Note 32) are summarised in the table below:

| As at June 30, 2011 | Up to 1 year $ | 1 – 3 years $ | Over 3 years $ | Total $ |
|---|---|---|---|---|
| Loan commitments | 60,668 | 895 | 9,399 | 70,962 |
| Guarantees and standby letters of credit | 30 | - | 4,096 | 4,126 |
| Total | **60,698** | **895** | **13,495** | **75,088** |
| **As at June 30, 2010** | | | | |
| Loan commitments | 39,217 | 3,053 | 6,377 | 48,647 |
| Guarantees and standby letters of credit | 950 | - | 4,096 | 5,046 |
| Total | **40,167** | **3,053** | **10,473** | **53,693** |

## 4. Financial risk management (continued)

**4.4 Fair values of financial assets and liabilities**

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. The following methods and assumptions were used to estimate the fair value of financial instruments.

The fair values of cash resources, other assets and liabilities, items in transit are assumed to approximate their carrying values due to their short term nature. The fair values of off balance sheet commitments are also assumed to approximate the amount disclosed in Note 32.

*(a) Treasury bills*

Treasury bills are assumed to approximate their carrying value due to their short term nature.

*(b) Deposits with other financial institutions*

Deposits with other financial institutions include cash on operating accounts and interest and non-interest bearing fixed deposits both with a maturity period under 90 days and over 90 days. These deposits are estimated to approximate their carrying values because they are another form of cash resources.

*(c) Loans and advances to customers*

Loans and advances are net of provisions for impairment. The estimated fair values of loans and advances represent the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rate to determine fair value.

*(d) Originated debt*

Originated debt securities include only interest bearing assets; assets classified as available for sale are measured at fair value. Where market prices or broker/dealer price quotations are not available, fair value is estimated using quoted market prices for securities with similar credit maturity and yield characteristics.

*(e) Due to customers*

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. Deposits payable on a fixed date are at rates, which reflect market conditions, are assumed to have fair values which approximate carrying values.

*(f) Due to financial institutions*

The estimated fair value of “due to financial institutions” is the amount payable on demand which is the amount recorded.

*(g) Other borrowed funds*

Other borrowed funds are all interest bearing financial liabilities with amounts payable on demand and at a fixed maturity date. Fair value in this category is estimated to approximate carrying value.

*(expressed in thousands of Eastern Caribbean dollars)*

## 4. Financial risk management (continued)

### 4.4 Fair values of financial assets and liabilities (continued)

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

| Financial assets | Carrying Value 2011 $ | Carrying Value 2010 $ | Fair Value 2011 $ | Fair Value 2010 $ |
|---|---|---|---|---|
| Treasury bills | 89,291 | 93,893 | 89,291 | 93,893 |
| Deposits with other financial institutions | 360,267 | 333,647 | 360,267 | 333,647 |
| Loans and receivables: | | | | |
| Overdraft | 157,449 | 153,996 | 169,992 | 164,460 |
| Corporate | 67,064 | 197,482 | 228,635 | 326,405 |
| Mortgage | 115,157 | 108,664 | 220,600 | 213,885 |
| Term | 866,380 | 672,935 | 987,472 | 802,196 |
| Originated debts | 126,012 | 130,075 | 126,012 | 130,075 |
| AFS - debt | 2,010 | 2,010 | 2,010 | 2,010 |
| AFS - equity | 14,850 | 9,412 | 14,850 | 9,412 |

| Financial liabilities | Carrying Value 2011 $ | Carrying Value 2010 $ | Fair Value 2011 $ | Fair Value 2010 $ |
|---|---|---|---|---|
| Due to customers | 1,527,180 | 1,350,902 | 1,527,180 | 1,350,902 |
| Due to financial institutions | 6,899 | - | 6,899 | - |
| Other borrowed funds | 230,497 | 202,312 | 230,497 | 202,312 |

#### 4.4.1 Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observed.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair values measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

*(expressed in thousands of Eastern Caribbean dollars)*

## 4. Financial risk management (continued)

| **Available-for-sale financial assets** | **Level 1** $ | **Total** $ |
|---|---|---|
| **June 30, 2011** | | |
| Debt securities | 95,595 | **95,595** |
| Equities | 236,865 | **236,865** |
| Total | 332,460 | **332,460** |
| **June 30, 2010** | | |
| Debt securities | 118,639 | **118,639** |
| Equities | 245,388 | **245,388** |
| Total | 364,027 | **364,027** |

There were no transfers from Level 1 to Level 2 in the period.

### 4.5 Capital management

The Group'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 Banking Act and the Insurance Act;
- To safeguard the Group'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 Group management. For the Bank, techniques are employed based on guidelines developed by the Eastern Caribbean Central Bank ("the Authority") for supervisory purposes.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of $5,000,000 and (b) maintain a ratio of total regulatory capital to the risk-weighted asset ("the Basel ratio") at or above the international agreed minimum of 8%.

The Bank regulatory capital as managed by management is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriation of retained earnings.

- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowance and unrealised gains arising from the fair valuation of security instruments 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.

*(expressed in thousands of Eastern Caribbean dollars)*

## 4. Financial risk management (continued)

### 4.5 Capital management (continued)

The table below summarises the composition of regulatory capital and calculated capital ratios of the Bank for the years ended June 30, 2011 and 2010. During those two years, the Bank complied with all of the externally imposed capital requirements to which it must comply.

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital | 135,000 | 135,000 |
| Bonus shares from capitalization of unrealised asset revaluation gain reserve | (4,500) | (4,500) |
| Reserves | 292,801 | 263,456 |
| Retained earnings | 49,062 | 36,681 |
| **Total qualifying Tier 1 capital** | **472,363** | **430,637** |
| **Tier 2 capital** | | |
| Revaluation reserve – available-for-sale investments | 50,172 | 50,545 |
| Revaluation reserve – property, plant and equipment | 9,666 | 9,666 |
| Bonus shares capitalization | 4,500 | 4,500 |
| Accumulated impairment allowance | 39,073 | 39,075 |
| **Total qualifying Tier 2 capital** | **103,411** | **103,786** |
| **Total regulatory capital** | **575,774** | **534,423** |
| **Risk-weighted assets:** | | |
| On-balance sheet | 928,871 | 770,768 |
| Off-balance sheet | 25,531 | 12,483 |
| **Total risk-weighted assets** | **954,402** | **783,251** |
| **Tier 1 capital ratio** | **49%** | **55%** |
| **Total capital ratio** | **60%** | **68%** |

## 5. Critical accounting estimates and judgments

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

*(expressed in thousands of Eastern Caribbean dollars)*

## 5. Critical accounting estimates and judgments (continued)

***(a) Impairment losses on loans and advances***

The Group reviews its loan portfolio of assets impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgment 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 in a group, or local economic conditions that correlate with defaults on assets in the group. 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 estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated $1.475 million lower or $1.690 million higher.

***(b) Impairment of available-for-sale equity investments***

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, when there is evidence of deterioration in the financial health of the investee industry and sector performance, changes in technology and operational and financing cash flows. There were no declines in fair value below cost considered significant or prolonged as at June 30, 2011.

***(b) Insurance contract liabilities, actuarial liabilities and pension obligation***

Estimations of the ultimate liability arising from claims made under insurance contracts and the pension obligation are critical accounting estimates. An Actuary is contracted to regularly assess the adequacy of the reported amounts.

***(c) ePassporte receivable***

It is the opinion of management that the ePassporte Software Collateral has a value in excess of the receivable shown in these financial statements (see Note 14).

## 6. Cash and balances with Central Bank

| | 2011<br>$ | 2010<br>$ |
|---|---:|---:|
| Cash in hand | 7,873 | 8,589 |
| Balances with Central Bank other than mandatory deposits | 114,825 | 7,917 |
| Included in cash and cash equivalents (Note 31) | **122,698** | **16,506** |
| Mandatory deposits with Central Bank | 92,828 | 85,957 |
| **Total** | **215,526** | **102,463** |

As regards mandatory deposits with Central Bank, Commercial banks are required under Section 17 of the Banking Act, 1991 to maintain a reserve deposit with the Central Bank equivalent to 6 percent of their total customer deposits. This reserve deposit is not available to finance the Bank's day-to-day operations. All cash and balances with Central Bank including mandatory deposits do not receive interest payments.

## Notes to consolidated financial statements

For the year ended June 30, 2011

*(expressed in thousands of Eastern Caribbean dollars)*

### 7. Treasury bills

| | 2011 $ | 2010 $ |
|---|---|---|
| Government of St. Kitts and Nevis: | | |
| - maturing May 16, 2012 at 6.75% interest | 85,885 | - |
| - maturing August 16, 2011 at 6.5% interest | 2,409 | 93,893 |
| Government of Nevis | | |
| - maturing July 19, 2011 at 6.5% interest | 997 | - |
| **Total** | **89,291** | **93,893** |

Treasury bills are debt securities issued by a sovereign government. Included in treasury bills are bills totaling $3.406 million (2010 - $3.177 million) that are used as collateral for the Group's pension plans.

Two million dollars worth of these treasury bills are being held by the Eastern Caribbean Central Bank (ECCB) as collateral for the bank clearing facility.

### 8. Deposits with other financial institutions

| | 2011 $ | 2010 $ |
|---|---|---|
| Operating cash balances | 106,654 | 94,618 |
| Items in the course of collection | 3,908 | 3,054 |
| Interest bearing term deposits | 22,616 | 19,905 |
| **Included in cash and cash equivalents (Note 31)** | **133,178** | **117,577** |
| Special term deposits * | 52,136 | 51,062 |
| Restricted term deposits ** | 168,761 | 159,378 |
| Interest receivable | 6,192 | 5,630 |
| **Total** | **360,267** | **333,647** |

* Special term deposits are interest bearing fixed deposits with a maturity period longer than 3 months.

** Restricted term deposits are interest bearing fixed deposits collateral used in the Group's international business operations. These deposits are not available for use in the day-to-day operations of the Group.

Interest earned on both "Special term deposits" and "Restricted term deposits" is credited to income. The effective interest rate on "Deposits with other financial institutions" at June 30, 2011 was 2.39% (2010 – 3.13%).

*(expressed in thousands of Eastern Caribbean dollars)*

## 9. Loans and advances to customers

| | 2011 $ | 2010 $ |
|---|---|---|
| Overdrafts | 144,785 | 141,675 |
| Mortgages | 73,543 | 73,366 |
| Demand | 187,005 | 210,512 |
| Special term | 693,615 | 609,979 |
| Other secured | 18,942 | 15,901 |
| Consumer | 5,743 | 6,385 |
| **Productive loans and advances** | **1,123,633** | **1,057,818** |
| Non-productive loans and advances | 61,402 | 54,367 |
| Less allowance for credit impairment (Note 23) | (39,073) | (39,075) |
| Interest receivable | 60,088 | 59,967 |
| **Net loans and advances** | **1,206,050** | **1,133,077** |

The weighted average effective interest rate on productive loans and advances at amortized cost at June 30, 2011 was 7.32% (2010 – 8.19%) and productive overdraft stated at amortized cost was 10.9% (2010 – 11.8%)

| **Loans and advances to customers** | 2011 $ | 2010 $ |
|---|---|---|
| Neither past due nor impaired | 1,105,343 | 975,655 |
| Impaired | 61,402 | 54,367 |
| Past due but not impaired | 18,290 | 82,163 |
| | **1,185,035** | **1,112,185** |
| Interest receivable | 60,088 | 59,967 |
| Less allowance for credit impairment (Note 23) | (39,073) | (39,075) |
| **Net** | **1,206,050** | **1,133,077** |

*(expressed in thousands of Eastern Caribbean dollars)*

## 9. Loans and advances to customers (continued)

The total allowance for impairment losses on loans and advances is $39,073 million (2010 - $39,075 million). Further information of the allowance for impairment losses on loans and advances to customers is provided in Note 23.

**(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 rating system utilised by the Bank.

| **June 30, 2011** | **Overdrafts $** | **Term loans $** | **Mortgages $** | **Corporate customers $** | **Total Loans and advances to customers $** |
|---|---|---|---|---|---|
| **Loans and advances to customers** | | | | | |
| **Classifications:** | | | | | |
| 1. Pass | 80,793 | 762,878 | 72,445 | 42,558 | 958,674 |
| 2. Special mention | 63,993 | 80,332 | 2,344 | - | 146,669 |
| **Gross** | **144,786** | **843,210** | **74,789** | **42,558** | **1,105,343** |
| **June 30, 2010** | | | | | |
| **Loans and advances to customers** | | | | | |
| **Classifications:** | | | | | |
| 1. Pass | 94,482 | 648,103 | 65,315 | 42,854 | 850,754 |
| 2. Special mention | 47,193 | 902 | 4,929 | 71,877 | 124,901 |
| **Gross** | **141,675** | **649,005** | **70,244** | **114,731** | **975,655** |

**(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 amount of loans and advances by class to customers that were past due but not impaired were as follows:

(expressed in thousands of Eastern Caribbean dollars)

## 9. Loans and advances to customers (continued)

| At June 30, 2011 | Term loans $ | Mortgages $ | Corporate customers $ | Total $ |
|---|---|---|---|---|
| Past due up to 30 days | 2,174 | 9,149 | 54 | 11,377 |
| Past due 30 – 60 days | 360 | 2,573 | - | 2,933 |
| Past due 60 – 90 days | 578 | 1,545 | 783 | 2,906 |
| Over 90 days | 695 | 379 | - | 1,074 |
| **Gross** | **3,807** | **13,646** | **837** | **18,290** |
| Fair value of collateral | 15,647 | 26,603 | 3,115 | 45,365 |
| **At June 30, 2010** | | | | |
| Past due up to 30 days | 1,726 | 8,995 | 530 | 11,251 |
| Past due 30 – 60 days | 659 | 3,492 | - | 4,151 |
| Past due 60 – 90 days | 62,915 | 1,855 | - | 64,770 |
| Over 90 days | 587 | 1,404 | - | 1,991 |
| **Gross** | **65,887** | **15,746** | **530** | **82,163** |
| Fair value of collateral | 86,796 | 29,845 | 840 | 117,481 |

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets sales in the same geographical area.

**(c) *Loans and advances individually impaired***

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $61.402 million (2010 - $54.367 million).

The breakdown of the gross amount of individually impaired loans and advances by class is as follows:

| June 30, 2011 | Overdrafts $ | Term loans $ | Mortgages $ | Corporate customers $ | Total Loans and advances to customers $ |
|---|---|---|---|---|---|
| **Individually impaired** | **6,487** | **5,592** | **22,103** | **27,220** | **61,402** |
| Fair value collateral | 15,317 | 20,008 | 51,295 | 136,023 | **222,643** |

*(expressed in thousands of Eastern Caribbean dollars)*

## 9. Loans and advances to customers (continued)

**(c)** ***Loans and advances individually impaired...****continued*

| June 30, 2010 | Overdrafts $ | Term loans $ | Mortgages $ | Corporate customers $ | Total Loans and advances to customers $ |
|---|---|---|---|---|---|
| **Individually impaired** | 6,145 | 6,799 | 18,055 | 23,368 | **54,367** |
| Fair value of collateral | 10,819 | 19,586 | 34,024 | 135,852 | **200,281** |

**(d)** ***Loans and advances renegotiated***

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment 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.

## 10. Originated debt

| | 2011 $ | 2010 $ |
|---|---|---|
| Government of St. Kitts and Nevis bonds maturing March 03, 2020 at 8.25 % interest | 69,925 | 75,000 |
| Eastern Caribbean Home Mortgage Bank Long-term bond maturing July 01, 2013 at 6% interest | 1,000 | 1,000 |
| Government of Antigua 7-year long-term note Maturing April 30, 2017 at 6.7% interest | 41,270 | 39,178 |
| Antigua Commercial Bank 10% interest rate Series A bond maturing December 31, 2016 | 1,497 | 1,497 |
| Government of St. Vincent & The Grenadines 10-year bond maturing December 17, 2019 at 7.5% interest | 5,000 | 5,000 |
| Grenada Electricity Services Limited 10-year 7 % bond maturing December 18, 2017 | 7,020 | 8,100 |
| Caribbean Credit Card Corporation unsecured loan at 10 % interest with no specific terms of repayment | 300 | 300 |
| **Total** | **126,012** | **130,075** |

Included in originated debt are restricted assets which are used as collateral for the pension plans.

(expressed in thousands of Eastern Caribbean dollars)

## 11. Investment securities

| | 2011 | 2010 |
|---|---|---|
| | $ | $ |
| ***Available-for-sale securities*** | | |
| Securities | | |
| -- Unlisted securities – at cost | 16,860 | 11,421 |
| -- Listed securities – at fair value | 332,460 | 363,846 |
| -- Interest receivable | - | 182 |
| -- Less provision for impairment | (1,351) | - |
| **Sub-total** | **347,969** | **375,449** |

An impairment provision of EC$1,351 (US$500) was set up for the possible loss on investment made in TCI Bank Limited as a result of that bank being placed into regulatory liquidation. The St. Kitts-Nevis-Anguilla National Bank holds 500,000 TCI Bank Limited shares at US$1.00 (EC$2.7026) per share.

The movements in available-for-sale and loans and receivables – originated debt financial assets during the year are as follows:

| **June 30, 2011** | **Available-for-sale** | **Loans and receivable-originated debts** | **Total** |
|---|---|---|---|
| | **$** | **$** | **$** |
| **Balance as at June 30, 2010** | **375,449** | **130,075** | **505,524** |
| Additions | 252,119 | 2,668 | **254,787** |
| Disposal (sales/redemption) | (277,674) | (6,731) | **(284,405)** |
| Fair value gains (losses) | (574) | **-** | **(574)** |
| Provision for impairment (Note 26) | (1,351) | **-** | **(1,351)** |
| **Balance as at June 30, 2011** | **347,969** | **126,012** | **473,981** |

| **June 30, 2010** | **Available-for-sale** | **Loans and receivable-originated debts** | **Total** |
|---|---|---|---|
| | **$** | **$** | **$** |
| **Balance as at June 30, 2009** | **350,727** | **86,977** | **437,704** |
| Additions | 169,020 | 44,178 | **213,198** |
| Disposal (sales/redemption) | (179,738) | (1,080) | **(180,818)** |
| Fair value gains (losses) | 35,258 | **-** | **35,258** |
| Interest receivable | 182 | **-** | **182** |
| **Balance as at June 30, 2010** | **375,449** | **130,075** | **505,524** |

*(expressed in thousands of Eastern Caribbean dollars)*

## 12. Investment in properties

| | 2011 $ | 2010 $ |
|---|---|---|
| Balance at beginning of the year | **10,741** | **17,054** |
| Disposals | (424) | (6,313) |
| **Total** | **10,317** | **10,741** |

Investment in properties, relates mainly to land and buildings held for sale by certain companies within the Group and, is measured at the lower of cost and net realisable value.

## 13. Property, plant and equipment

| | Total $ | Properties $ | Equipment Furniture & Fittings $ | Motor Vehicles $ | Reference Books $ | Projects Ongoing $ |
|---|---|---|---|---|---|---|
| **Balance at June 30, 2010** | **47,068** | **27,081** | **16,054** | **835** | **160** | **2,938** |
| Additions | 3,268 | 383 | 2,702 | 183 | - | - |
| Transfers | (972) | - | - | - | - | (972) |
| Disposal | (84) | - | - | (84) | - | - |
| **June 30, 2011** | **49,280** | **27,464** | **18,756** | **934** | **160** | **1,966** |
| **Accumulated depreciation** | | | | | | |
| **Balance at June 30, 2010** | **15,676** | **2,713** | **12,220** | **598** | **145** | **-** |
| Charge for year | 2,214 | 753 | 1,381 | 75 | 5 | - |
| Disposals | (84) | - | - | (84) | - | - |
| **June 30, 2011** | **17,806** | **3,466** | **13,601** | **589** | **150** | **-** |
| **Net book value June 30, 2011** | **31,474** | **23,998** | **5,155** | **345** | **10** | **1,966** |
| **Net book value June 30, 2010** | **31,391** | **24,367** | **3,833** | **238** | **15** | **2,938** |

## 14. Other assets

| | 2011 $ | 2010 $ |
|---|---|---|
| Prepayments | 14,190 | 30,036 |
| Stationery and card stock | 841 | 658 |
| Customers' liability under acceptances, guarantees and letters of credit | 4,126 | 5,046 |
| Intangible assets | 1,957 | 1,204 |
| Deferred tax asset | 344 | 358 |
| ePassport receivable | 53,032 | - |
| Insurance and other receivables | 46,064 | 41,190 |
| **Total** | **120,554** | **78,492** |

EPassporte receivable, which was set-up in November 2010, is secured by a software platform whose value is estimated to be in excess of U.S$21 million/E.C$56.755 million. During the year under review U.S$2 million/E.C$5.405 million was paid to the Group by the debtor. It is believed that this debt will be realised in accordance with signed agreements - see Note 5(c).

*(expressed in thousands of Eastern Caribbean dollars)*

## 14. Other assets (continued)

Section 23 (1) of the St Christopher and Nevis Insurance Act, No. 8 of 2009 and Section 8 (2) of the Anguilla Insurance Act 2004, require all registered insurance companies to maintain statutory deposits. Statutory deposits represent cash deposits held with the Accountant General of St Kitts and Nevis and the Financial Services Commission of Anguilla. These deposits form part of the amount carried as 'Insurance and other receivables'.

## 15. Due to customers

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Consumers | 364,480 | 378,787 |
| Private businesses and subsidiaries | 158,913 | 161,529 |
| State, statutory bodies and non-financial bodies | 776,674 | 692,553 |
| Others | 217,126 | 108,913 |
| Interest payable | 9,987 | 9,120 |
| **Total** | **1,527,180** | **1,350,902** |

Due to customers represents all types of deposit accounts held within the Group on behalf of customers. The deposits include demand deposit accounts, call accounts, savings accounts and fixed deposits.

The Group pays interest on all categories of customers' deposits. In 2011 total interest paid and payable on deposit accounts amounted to $71.930 million (2010 - $66.457 million). The average effective rate of interest paid on customers' deposits was 5% (2010 – 5.59%).

## 16. Other borrowed funds

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Credit line | 136,093 | 107,908 |
| Bonds issued | 93,540 | 93,540 |
| Due to other financial institutions | 6,899 | - |
| Acceptances, guarantees and letters of credit | 4,126 | 5,046 |
| Interest payable | 864 | 864 |
| **Total** | **241,522** | **207,358** |

The rate of interest charged on the line-of-credit was 3-mth LIBOR plus 75 (2010: – 3-mth LIBOR plus 50). This credit line is secured by investment securities under management.

Bonds issued represent monies raised for the sole purpose of providing funds to borrowers of major island developmental projects.

Total interest paid and payable in this category was $9.640 million (2010 - $8.431 million).

## Notes to consolidated financial statements

For the year ended June 30, 2011

*(expressed in thousands of Eastern Caribbean dollars)*

### 17. Accumulated provisions, creditors and accruals

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Other interest payable on customers' deposits | 11,292 | 11,266 |
| Managers cheques and bankers payments | 1,177 | 1,542 |
| Unpaid drafts on other banks | 1,532 | 1,431 |
| E-commerce payables | 4,925 | 48,958 |
| Pension obligation | 24,108 | 32,882 |
| Insurance liabilities and other payables | 135,256 | 118,692 |
| **Total** | **178,290** | **214,771** |

#### 17.1 Insurance liabilities

Insurance liabilities consist of actuarial liabilities in the amount of $63.9 million (2010 - $58.6 million) and insurance contract liabilities of $37 million (2010 - $34 million). Actuarial liabilities are based on the life insurance business, while insurance contract liabilities relate to non-life business.

#### 17.2 Pension plan

The Group operates a number of pension plans for eligible employees, the assets of which are held in a fund, which is required to be trustee-administered. The pension plans are funded by the relevant group companies, taking account of the recommendations of independent qualified actuaries.

Principal actuarial assumptions used are as follows:

| | 2011 | 2010 |
|---|---|---|
| Discount rate | 4.0% | 4.5% |
| Expected return on plan assets | 6.0% | 6.0% |
| Expected rate of salary increase | 3.5% | 3.0% |

The Insurance Company administers the plan assets on behalf of eligible employees in the Group. The present value of the funded obligations which these assets support amounts to $24.108 million (2010 - $32.882 million). Fair value of the plan assets are $42.57 million (2010 - $37.302 million).

Amounts recognised in the statement of income are as follows:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Current service costs | 2,007 | 1,901 |

## Notes to consolidated financial statements

For the year ended June 30, 2011

*(expressed in thousands of Eastern Caribbean dollars)*

## 18. Taxation

| Tax expense | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Current tax | 4,250 | 2,593 |
| Deferred tax | 14 | (157) |
| Overprovision in prior year | - | (57) |
| **Total** | **4,264** | **2,379** |
| Income for the year before tax | **52,875** | **36,941** |
| Income tax at the applicable tax rate of 35% | 18,506 | 12,929 |
| Other applicable tax differences | 240 | 724 |
| Non-deductible expenses | 3,971 | 2,940 |
| Deferred tax over/(under) provided | 29 | (11) |
| Income not subject to tax | (18,482) | (14,146) |
| Overprovision in prior year | - | (57) |
| **Total** | **4,264** | **2,379** |

**Deferred income tax**

The movement on deferred income tax assets and liabilities during the year, without taking into consideration any offsetting balances is as follows:

| Deferred tax asset | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Balance brought forward (capital allowance) | 358 | 201 |
| Deferred taxes (recovered) charged during the year, net | (14) | 157 |
| **(Note 14)** | **344** | **358** |
| **Deferred tax liability** | | |
| Accelerated depreciation | 714 | 686 |
| Available-for-sale securities | 27,016 | 27,216 |
| **Total** | **27,730** | **27,902** |

## 19. Share Capital

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| **Authorised: -** | | |
| 270,000,000 Ordinary Shares of $1 each | **270,000** | **270,000** |
| **Issued and fully paid: -** | | |
| 135,000,000 Ordinary Shares of $1 each | **135,000** | **135,000** |

*(expressed in thousands of Eastern Caribbean dollars)*

## 20. Reserves

### 20.1 Statutory reserve

| | 2011 $ | 2010 $ |
|---|---|---|
| Balance brought forward | 87,640 | 81,000 |
| Addition for year | 8,970 | 6,640 |
| **Total** | **96,610** | **87,640** |

In accordance with Section 14 (1) of Saint Christopher and Nevis Banking Act No. 6 of 1991, the St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain a reserve fund into which it shall transfer not less than 20% of its net profit of each year whenever the reserve fund is less than the Bank paid-up capital.

### 20.2 Revaluation reserve

| | 2011 $ | 2010 $ |
|---|---|---|
| Balance brought forward | 60,211 | 37,293 |
| Movement in market value of investments (net of tax) | (373) | 22,918 |
| **Balance as at year end** | **59,838** | **60,211** |
| **Revaluation reserve is represented by:** | | |
| Available for sale investment securities | 50,172 | 50,545 |
| Properties | 9,666 | 9,666 |
| **Total** | **59,838** | **60,211** |

### 20.3 Other reserve

| | 2011 $ | 2010 $ |
|---|---|---|
| Balance brought forward | 171,939 | 211,153 |
| Transfer from retained earnings | 20,375 | 12,322 |
| Reserve for interest on non-performing loans | - | 2,464 |
| Transfer to share capital | - | (54,000) |
| **Balance as at year end** | **192,314** | **171,939** |
| **Other reserve is represented by:** | | |
| Insurance and claims equalization reserves | 16,808 | 16,433 |
| Reserve for interest on non-performing loans | 16,497 | 16,497 |
| General reserve | 159,009 | 139,009 |
| **Total** | **192,314** | **171,939** |

***Other reserve***

Included in this reserve are the following individual reserves:

***General reserve***

General reserve is used from time to time to transfer profits from retained earnings. There is no policy of regular transfer.

*(expressed in thousands of Eastern Caribbean dollars)*

## 20. Reserves (continued)

### 20.3 Other reserve

***Reserve for interest accrued on non-performing loans***

This reserve is created to set aside interest accrued on non-performing loans where certain conditions are met in accordance with paragraph AG93 of International Accounting Standard (IAS) 39. The prudential guidelines of the Eastern Caribbean Central Bank do not allow for the accrual of such interest. As a result, the interest is set aside in a reserve and it is not available for distribution to shareholders until received.

***Loan loss reserve***

The Eastern Caribbean Central Bank requires all banks within its jurisdiction to establish a special reserve for the amount by which the regulatory requirement for loan loss provisioning exceeds that computed under IAS 39. This reserve is non-distributable and forms part of Tier 2 Capital.

## 21. Net interest income

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| **Interest income** | | |
| Loans and advances | 79,864 | 82,409 |
| Deposits with other financial institutions | 8,282 | 10,576 |
| Originated debts and available for sale investments | 20,424 | 18,633 |
| | 108,570 | 111,618 |
| **Interest expense** | | |
| Savings accounts | 11,009 | 10,204 |
| Call accounts | 6,127 | 4,335 |
| Fixed deposits | 35,728 | 39,175 |
| Current and other deposit accounts | 12,415 | 10,636 |
| Debt and other related accounts | 9,640 | 8,431 |
| | 74,919 | 72,781 |
| **Total** | **33,651** | **38,837** |

## 22. Net fees and commission income

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Credit related fees and commission | 3,223 | 3,105 |
| International business and foreign exchange | 9,550 | 19,888 |
| Brokerage and other fees and commission | 1,690 | 1,267 |
| **Fees and commission income** | **14,463** | **24,260** |

*(expressed in thousands of Eastern Caribbean dollars)*

## 22. Net fees and commission income (continued)

**Fee expenses**

| | 2011 $ | 2010 $ |
|---|---|---|
| Brokerage and other related fee expenses | 98 | 131 |
| International business and foreign exchange | 9,369 | 1,329 |
| Other fee expenses | 375 | 500 |
| **Fee expenses** | **9,842** | **1,960** |
| **Net fees and commission income** | **4,621** | **22,300** |

Income earned from international business includes commission and fees on customer debit and credit card transactions worldwide. The banking arm of the Group is a partner with major credit card companies and provides card services worldwide.

## 23. Provision for credit impairment

| | 2011 $ | 2010 $ |
|---|---|---|
| Balance brought forward | 39,075 | 36,810 |
| Charge-offs and write-offs | (2) | (51) |
| Provision for impairment losses | - | 2,322 |
| Recoveries during the year | - | (6) |
| **Total** | **39,073** | **39,075** |

Under International Financial Reporting Standards (IFRS) the measurement of impaired financial assets (including loans and advances) reflects the fair value of their collaterals.

According to the Eastern Caribbean Central Bank (ECCB) loans provisioning guidelines, the computed allowance for credit impairment at June 30, 2011 amounted to $14.931 million (2010 - $11.901 million).

## 24. Other income

| | 2011 $ | 2010 $ |
|---|---|---|
| Dividend income | 550 | 842 |
| Net gain in special sale of securities | 37,547 | - |
| Net gain on sale of other securities | 8,006 | 1,391 |
| Foreign exchange gain | 3,128 | 2,956 |
| Net Insurance premiums | 18,854 | 20,903 |
| Other operating income | 4,275 | 6,628 |
| **Total** | **72,360** | **32,720** |

## Notes to consolidated financial statements

For the year ended June 30, 2011

*(expressed in thousands of Eastern Caribbean dollars)*

### 25. Administration and general expenses

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Staff employment | 26,028 | 25,320 |
| Repairs and maintenance | 2,708 | 2,893 |
| Other general expenses | 1,452 | 1,477 |
| Utilities | 1,238 | 923 |
| Legal expenses | 1,046 | 621 |
| Stationery and supplies | 948 | 993 |
| Rent and occupancy expenses | 789 | 629 |
| Insurance | 775 | 690 |
| Communication | 661 | 643 |
| Advertisement and marketing | 581 | 616 |
| Security services | 573 | 432 |
| Taxes and licences | 307 | 333 |
| Property management | 240 | 235 |
| Shareholders' expenses | 174 | 6 |
| Premises upkeep | 134 | 171 |
| **Total** | **37,654** | **35,982** |

### 26. Other expenses

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Insurance claims and benefits | 13,877 | 14,623 |
| Depreciation and amortisation | 3,354 | 2,862 |
| Impairment expense (investment securities) | 1,351 | - |
| Audit fees and expenses | 967 | 560 |
| Directors fees and expenses | 554 | 573 |
| **Total** | **20,103** | **18,618** |

### 27. Earnings per share

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

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Net income attributable to shareholders | **48,611** | **34,562** |
| Weighted average number of ordinary shares in issue | 135,000 | 135,000 |
| **Basic earnings per share** | **$0.36** | **$0.26** |

## 28. Dividend

The financial statements reflect a final dividend of $6.885 million for the 2009 financial year (which, together with the interim dividend of $8.1 million paid in February 2010, equals the dividend paid in 2008 - $14.985 million). This final dividend was approved at the Thirty-ninth Annual General Meeting held on November 30, 2010 and subsequently paid.

## 29. Other events

**Litigation**

**Lynn Bass** (Appellant) and **St. Kitts-Nevis-Anguilla National Bank Limited** (Respondent) High Court, Civil Appeal No. 4 of 2009. Lynn Bass, a former employee, filed a claim for wrongful dismissal against the Group for special and general damages. The Group was successful in Judgment received on March 23, 2009 (with costs). The above decision was appealed in the High Court by way of Civil Appeal No. 4 of 2009 filed on April 28, 2009. A high likelihood of success on the same grounds as the initial claim is expected. The judge gave a detailed precise judgment.

## 30. Related Parties

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

Transactions between the Bank and its subsidiaries and subsidiary with other subsidiary, which are related parties, have been eliminated in consolidation.

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

***Government of St. Kitts and Nevis***

The Government of St. Kitts and Nevis holds 51% of the Group issued share capital. The remaining 49% of the issued share capital is widely held by individuals and other institutions (over 5,200 shareholders). The Group is the main banker to the government and, as such, undertakes commercial banking transactions on behalf of the government on commercial terms and conditions at market rates.

Public sector net indebtedness to the Group as at June 30, 2011 (advances and other debt instruments less deposits) was $321 million (2010 - $416 million).

Interest charged to the public sector during the year was $71 million (2010 - $72 million).

Interest paid and payable to the public sector was $39 million (2010 - $36 million).

***Directors and Associates***

Advances outstanding as at June 30, 2011 amounted to $1.156 million (2010 - $0.688 million).

Deposits balances as at June 30, 2011 amounted to $1.052 million (2010 - $0.992 million).

*(expressed in thousands of Eastern Caribbean dollars)*

## 30. Related Parties (continued)

**Senior Management**

At the end of June 2011 the following amounts were in place:

- Gross salaries, allowances and bonus payments amounted to $1.907 million (2010 - $2.001 million);
- Loans and advances amounted to $3.372 million (2010 - $2.092 million);
- Deposit balances were $2.251 million (2010 - $1.886 million); and
- Total St. Kitts-Nevis-Anguilla National Bank Limited shares held were 1,159,241 (2010 – 1,152,417).

## 31. Cash and cash equivalents

| | 2011 $ | 2010 $ |
|---|---|---|
| Cash and balances with Central Bank (Note 6) | 122,698 | 16,506 |
| Treasury bills | - | 93,893 |
| Deposits with other financial institutions (Note 8) | 133,178 | 117,577 |
| **Total** | **255,876** | **227,976** |

Treasury bills are no longer classified as cash equivalents as some are restricted while others now carry maturity periods longer than three months.

## 32. Contingent liabilities and commitments

At June 30, 2011 the Group had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

| | 2011 $ | 2010 $ |
|---|---|---|
| Loan commitments | 70,962 | 48,647 |
| Guarantees and standby letters of credit | 4,126 | 5,046 |
| **Total** | **75,088** | **53,693** |

## 33. Subsidiaries

| | Percentage of equity interest held | |
|---|---|---|
| | **2011** | **2010** |
| National Bank Trust Company (St. Kitts-Nevis Anguilla) Limited | 100% | 100% |
| National Caribbean Insurance Company Limited | 90% | 90% |
| St. Kitts and Nevis Mortgage and Investment Company Limited (MICO) | 100% | 100% |

In 2010, the Bank increased its equity investment in the National Caribbean Insurance Company Limited from 0% to 90%. The remaining 10% equity interest is held by the National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited – a wholly-owned subsidiary of the Bank.

## 34. Business segments

As at June 30, 2011 the operating segments of the Group were as follows:

1. Commercial and retail banking incorporating deposit accounts, loans and advances, investment brokerage services and debit, prepaid and gift cards;

2. Real estate, investment, mutual funds and coverage of life assurance, non-life assurance and pension schemes; and

3. Long-term mortgage financing, raising long-term investment funds, property management and the provision of trustee services.

Transactions between the business segments are carried out on normal commercial terms and conditions, at market rates.

*(expressed in thousands of Eastern Caribbean dollars)*

## 34. Business segments (continued)

The table below gives the results and balances of those transactions:

| June 30, 2011 | Commercial and retail banking $ | Insurance, real estate and investments $ | Long-term financing and trust services $ | Consolidation and other adjustments $ | Total $ |
|---|---|---|---|---|---|
| Revenue for the year | 170,826 | 48,379 | 809 | (17,970) | **202,044** |
| Cost of revenue generation | (124,056) | (42,346) | (737) | 17,970 | **(149,169)** |
| Income tax expense | (1,917) | (2,282) | (65) | - | **(4,264)** |
| | **44,853** | **3,751** | **7** | **-** | **48,611** |
| Property, plant, equipment and intangibles | 26,758 | 6,666 | 7 | - | **33,431** |
| Depreciation and amortisation | 3,037 | 310 | 7 | - | **3,354** |
| Segment assets | 2,481,741 | 198,369 | 8,542 | (175,168) | **2,513,484** |
| Segment liablities | 1,978,106 | 152,685 | 2,148 | (156,156) | **1,976,783** |

*(expressed in thousands of Eastern Caribbean dollars)*

## 34. Business segments (continued)

| June 30, 2010 | Commercial and retail banking $ | Insurance, real estate and investments $ | Long-term financing and trust services $ | Consolidation and other adjustments $ | Total $ |
|---|---|---|---|---|---|
| Revenue for the year | 140,683 | 51,254 | 836 | (24,175) | **168,598** |
| Cost of revenue generation | (106,850) | (48,122) | (860) | 24,175 | **(131,657)** |
| Income tax expense | (633) | (1,651) | (95) | - | **(2,379)** |
| | **33,200** | **1,481** | **(119)** | **-** | **34,562** |
| Property, plant, equipment and intangibles | 26,053 | 6,528 | 14 | - | **32,595** |
| Depreciation and amortisation | 2,547 | 309 | 6 | - | **2,862** |
| Segment assets | 2,272,620 | 194,763 | 8,490 | (178,718) | **2,297,155** |
| Segment liablities | 1,806,594 | 144,618 | 2,102 | (151,507) | **1,801,807** |

Segment information is based on internal reporting about the results of operating segments, such as revenue, expenses, profits or losses, assets, liabilities and other information on operations that are regularly reviewed by the Boards of Directors of the various Group companies.

## 35. Subsequent event

**(a)** At the Fortieth Annual General meeting held on September 13, 2011, a dividend of $15.525 million was approved for the financial year ended June 30, 2010 and subsequently paid.

**(b)** The Government of St. Kitts and Nevis has taken the decision not to make the 18th interest payment due November 25, 2011 on its 10-year bond. The Bank holds no interest in these bonds, but has a net exposure to the public sector of $321 million (see Note 30).

**Deloitte.** **PKF**

## Independent auditors' report

To the shareholders of St Kitts-Nevis-Anguilla National Bank Limited

We have audited the non-consolidated financial statements of St. Kitts-Nevis-Anguilla National Bank Limited ("the Bank") for the year ended June 30, 2011, from which the accompanying summarised non-consolidated financial statements were derived, in accordance with International Standards on Auditing. In our report dated October 31, 2011 we expressed an unqualified opinion on the financial statements from which these summarised non-consolidated financial statements were derived.

In our opinion, the accompanying summarised non-consolidated financial statements are consistent, in all material respects, with the financial statements from which they were derived.

For a better understanding of the Bank's financial position and the results of its operations for the period and of the scope of our audit, the summarised non-consolidated financial statements should be read in conjunction with the financial statements from which the summarised non-consolidated financial statements were derived and our audit report thereon.

Deloitte & Touche

PKF

The Phoenix Centre
George Street
St Michael
Barbados

Independence House
North Independence Square
Basseterre
St Kitts

October 31, 2011

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
## NON-CONSOLIDATED BALANCE SHEET
## As at June 30, 2011

| *(in Eastern Caribbean Dollars)* | 2011 | 2010 |
|---|---|---|
| **Assets** | $ | $ |
| Cash and balances with Central Bank | 215,522,678 | 102,459,955 |
| Treasury bills | 85,884,649 | 90,715,601 |
| Deposits with other financial institutions | 357,554,842 | 331,347,078 |
| Loans and receivables - loans and advances to customers | 1,214,606,192 | 1,145,755,171 |
| - originated debts | 126,011,764 | 130,074,490 |
| Investment securities - available-for-sale | 346,989,343 | 374,448,905 |
| Investment in subsidiaries | 26,750,000 | 26,750,000 |
| Customers' liability under acceptances, guarantees and letters of credit | 4,126,100 | 5,046,100 |
| Income tax recoverable | 6,024,227 | 7,927,397 |
| Property, plant and equipment | 24,814,194 | 24,859,436 |
| Intangible assets | 1,944,577 | 1,194,997 |
| Other assets | 71,168,647 | 31,683,460 |
| Deferred tax asset | 344,097 | 357,786 |
| **Total Assets** | **2,481,741,310** | **2,272,620,376** |
| **Liabilities** | | |
| Due to customers | 1,670,099,137 | 1,483,165,330 |
| Due to other financial institutions | 6,898,981 | - |
| Other borrowed funds | 230,497,083 | 202,311,769 |
| Acceptances, guarantees and letters of credit | 4,126,100 | 5,046,100 |
| Accumulated provisions, creditors and accruals | 39,672,946 | 89,064,483 |
| Deferred tax liability | 26,811,780 | 27,005,824 |
| **Total liabilities** | **1,978,106,027** | **1,806,593,506** |
| **Shareholders' equity** | | |
| Issued share capital | 135,000,000 | 135,000,000 |
| Share premium | 3,877,424 | 3,877,424 |
| Retained earnings | 35,979,556 | 26,981,532 |
| Reserves | 328,778,303 | 300,167,914 |
| **Total shareholders' equity** | **503,635,283** | **466,026,870** |
| **Total liabilities and shareholders' equity** | **2,481,741,310** | **2,272,620,376** |

**Approved by the Board of Directors on September 09, 2011.**

Director ____________________ Walford V. Gumbs

Director ____________________ Sir Edmund W. Lawrence

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
## NON-CONSOLIDATED STATEMENT OF INCOME
## For the year ended June 30, 2011

| *(in Eastern Caribbean Dollars)* | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Interest income | 108,027,312 | 111,726,602 |
| Interest expense | (83,109,317) | (74,888,287) |
| Net interest income | 24,917,995 | 36,838,315 |
| Provision for credit Impairment losses | - | (2,315,888) |
| **Sub-total - interest revenue** | **24,917,995** | **34,522,427** |
| Fees and commission income | 13,501,219 | 23,457,669 |
| Fee expense | (9,841,970) | (1,959,939) |
| **Net fees and commission income** | **3,659,249** | **21,497,730** |
| Dividend income | 487,102 | 786,871 |
| Net gains less (losses) from investments | 45,553,036 | 1,391,045 |
| Gain on foreign exchange | 3,127,890 | 2,955,976 |
| Other operating income | 130,287 | 364,924 |
| **Other Income/(losses)** | **49,298,315** | **5,498,816** |
| **Operating income** | **77,875,559** | **61,518,973** |
| **Operating expenses** | | |
| Administration and general expenses | 26,020,672 | 24,515,467 |
| Directors fees and expenses | 322,122 | 330,679 |
| Audit fees and expenses | 374,253 | 292,691 |
| Depreciation and amortisation | 3,036,573 | 2,546,956 |
| Provision for impairment on investments | 1,351,300 | - |
| **Total operating expenses** | **31,104,920** | **27,685,793** |
| **Income before tax** | **46,770,639** | **33,833,180** |
| **Income tax expense** | (1,916,859) | (633,009) |
| **Net income for the year** | **44,853,780** | **33,200,171** |
| **Earnings per share (Basic)** | **0.33** | **0.25** |

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
## NON-CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## For the year ended June 30, 2011

| *(in Eastern Caribbean Dollars)* | 2011<br>$ | 2010<br>$ |
|---|---|---|
| **Net income for the year** | **44,853,780** | **33,200,171** |
| **Other comprehensive income:** | | |
| Available-for-sale financial assets: | | |
| Unrealised gains on investment securities, net of tax | 25,347,732 | 21,561,504 |
| Less: Reclassification adjustments for gains/losses included in income | (25,708,099) | 1,390,599 |
| **Total other comprehensive (loss)/income** | **(360,367)** | **22,952,103** |
| **Total comprehensive income for the year** | **44,493,413** | **56,152,274** |

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
## NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
### For the year ended June 30, 2011

*(in Eastern Caribbean Dollars)*

| | Share Capital $ | Share Premium $ | Statutory Reserve $ | Other Reserve $ | Investment Reserves $ | Property Revaluation Reserves $ | Retained Earnings $ | Total Shareholders' Equity $ |
|---|---|---|---|---|---|---|---|---|
| **Balance at June 30, 2009** | **81,000,000** | **3,877,424** | **81,000,000** | **193,867,237** | **27,201,570** | **7,720,621** | **23,307,744** | **417,974,596** |
| Total comprehensive income for the year | - | - | - | - | 22,952,103 | - | 33,200,171 | **56,152,274** |
| Transfer to Reserves | - | - | 6,640,034 | 14,786,349 | - | - | (21,426,383) | **-** |
| Increase share capital | 54,000,000 | - | - | (54,000,000) | - | - | **-** | **-** |
| Dividends | - | - | - | - | - | - | (8,100,000) | **(8,100,000)** |
| **Balance at June 30, 2010** | **135,000,000** | **3,877,424** | **87,640,034** | **154,653,586** | **50,153,673** | **7,720,621** | **26,981,532** | **466,026,870** |
| Total comprehensive income for the year | - | - | - | - | (360,367) | - | 44,853,780 | **44,493,413** |
| Transfer to Reserves | - | - | 8,970,756 | 20,000,000 | - | - | (28,970,756) | **-** |
| Dividends | - | - | - | - | - | - | (6,885,000) | **(6,885,000)** |
| **Balance at June 30, 2011** | **135,000,000** | **3,877,424** | **96,610,790** | **174,653,586** | **49,793,306** | **7,720,621** | **35,979,556** | **503,635,283** |

# ST. KITTS-NEVIS ANGUILLA NATIONAL BANK LIMITED
## NON-CONSOLIDATED STATEMENT OF CASH FLOWS
## For the year ended June 30, 2011

| *(in Eastern Caribbean Dollars)* | 2011 | 2010 |
|---|---|---|
| | $ | $ |
| **Cash flows from operating activities:** | | |
| Income before taxation | 46,770,639 | 33,833,180 |
| Adjustments for: | | |
| Interest income | (108,027,312) | (111,726,602) |
| Interest expense | 83,109,317 | 74,888,287 |
| Depreciation and amortisation | 3,036,573 | 2,546,956 |
| Provision for credit/investment impairment, net | 1,348,641 | 2,315,888 |
| Gain on disposal of premises and equipment | - | (363) |
| Operating income before changes in operating assets and liabilities | 26,237,858 | 1,857,346 |
| *(Increase)/decrease in operating assets:* | | |
| Loans and advances to customers | (68,727,657) | (111,251,894) |
| Mandatory deposit with the Central Bank | (6,871,445) | (7,189,502) |
| Other accounts | (37,802,819) | 519,655 |
| *Increase/(decrease) in operating liabilities:* | | |
| Customers' deposits | 186,066,527 | 124,104,087 |
| Due to other financial institutions | 6,898,981 | (623,102) |
| Accumulated provisions, creditors, and accruals | (49,417,266) | 1,473,852 |
| Cash generated from operations | 56,384,179 | 8,890,442 |
| Interest received | 105,844,022 | 105,692,376 |
| Interest paid | (82,216,309) | (74,950,157) |
| Income tax paid | - | (9,675,284) |
| ***Net cash generated from operating activities*** | **80,011,892** | **29,957,377** |
| **Cash flows from investing activities:** | | |
| Purchase of equipment and intangible assets | (3,740,911) | (1,789,344) |
| Proceeds from desposal of equipment | - | 1,690 |
| (Increase) in special term deposits | (1,773,877) | (36,260,609) |
| (Increase) in restricted term deposits and treasury bills | (95,266,100) | (15,533,593) |
| (Increase) investment in subsidiaries | - | (9,000,000) |
| Proceeds from disposal of investment securities | 284,222,154 | 180,371,216 |
| Purchase of investment securities | (254,787,324) | (213,065,866) |
| ***Net cash used in investing activities*** | **(71,346,058)** | **(95,276,506)** |
| **Cash flows from financing activities:** | | |
| Other borrowed funds | 28,185,314 | 25,561,148 |
| Dividend paid | (6,885,000) | (8,100,000) |
| ***Net cash generated from financing activities*** | **21,300,314** | **17,461,148** |
| **Net increase /(decrease) in cash and cash equivalents** | **29,966,148** | **(47,857,981)** |
| **Cash and cash equivalents at beginning of year** | **223,196,234** | **271,054,215** |
| **Cash and cash equivalents at end of year** | **253,162,382** | **223,196,234** |