The Bank of Nevis Limited

Non-consolidated Financial Statements
June 30, 2012
(expressed in Eastern Caribbean dollars)

The Bank of Nevis Limited

Contents

December 31, 2012

Independent auditors' report

To the Shareholders of The Bank of Nevis Limited

We have audited the accompanying non-consolidated financial statements of The Bank of Nevis Limited which comprise the non-consolidated statement of financial position as at June 30, 2012, and the non-consolidated statement of income, non-consolidated statement of comprehensive income, non-consolidated statement of cash flows and non-consolidated statement of changes in equity 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 non-consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Independent auditors' report (continued)

To the Shareholders of The Bank of Nevis Limited

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of The Bank of Nevis Limited as of June 30, 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

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

Deloitte & Touche

The Phoenix Centre
George Street
Belleville
St Michael
Barbados

PKF

Independence House
North Independence Square
Basseterre
St Kitts

January 24, 2013

The Bank of Nevis Limited

Non-consolidated Statement of Financial Position

As at June 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Assets		
Cash and balances with the Central Bank (note 6)	**17,661,612**	15,653,749
Due from other banks and other financial institutions (note 7)	**32,215,151**	37,435,971
Investment securities (note 8)	**36,120,538**	33,176,476
Loans and advances (note 9)	**185,899,845**	188,228,883
Other assets (note 10)	**2,018,664**	1,705,231
Investment in subsidiaries (note 11)	**2,350,000**	2,350,000
Property, plant and equipment (note 12)	**22,490,725**	20,919,361
Intangible assets (note 13)	**294,707**	303,870
Deferred tax asset (note 17)	**-**	126,633
Due from related parties (note 18)	**-**	2,712,246
Total assets	**299,051,242**	302,612,420
Liabilities		
Customers' deposits (note 14)	**246,528,413**	250,721,468
Other liabilities and accrued expenses (note 15)	**4,611,120**	5,281,188
Income tax payable (note 17)	**203,762**	858,143
Due to related parties (note 18)	**58,583**	-
Deferred tax liability	**400,363**	-
Total liabilities	**251,802,241**	256,860,799
Shareholders' Equity		
Share capital (note 19)	**9,347,687**	9,347,687
Statutory reserve (note 20)	**9,007,847**	8,537,463
Revaluation reserve (note 21)	**10,791,645**	10,711,415
Other reserves (note 22)	**4,878,043**	5,041,322
Retained earnings	**13,223,779**	12,113,734
Total shareholders' equity	**47,249,001**	45,751,621
Total liabilities and shareholders' equity	**299,051,242**	302,612,420

The notes on pages 8 to 62 are an integral part of these Non-consolidated financial statements.

Approved for issue by the Board of Directors on January 24, 2013

_______________ Chairman _______________ Director

The Bank of Nevis Limited

Non-consolidated Statement of Income

For the year ended June 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Interest income (note 23)	**19,735,192**	18,200,544
Interest expense (note 24)	**(10,450,585)**	(10,037,660)
Net interest income	**9,284,607**	8,162,884
Impairment provision on investment securities (note 8)	**(851,733)**	-
Other operating income (note 25)	**5,137,329**	7,449,931
	13,570,203	15,612,815
Operating expenses		
General and administrative expenses (note 30)	**8,442,168**	8,024,023
Depreciation (note 12)	**545,169**	298,745
Amortisation (note 13)	**174,069**	157,765
Directors' fees and expenses	**263,852**	267,773
Audit fees	**327,600**	327,600
Provision for loan impairment (note 9)	**66,881**	282,350
Correspondent bank charges	**210,344**	244,686
	10,030,083	9,602,942
Operating profit before tax for the year	**3,540,120**	6,009,873
Taxation (note 17)		
Current tax expense	**(681,952)**	(907,555)
Prior year tax expense	**(22,452)**	-
Deferred tax credit	**(483,796)**	194,248
	(1,188,200)	(713,307)
Net profit for the year	**2,351,920**	5,296,566
Net profit attributable to shareholders of the company	**2,351,920**	5,296,566
Earnings per share (note 26)	**0.25**	0.57

The notes on pages 8 to 62 are an integral part of these Non-consolidated financial statements.

The Bank of Nevis Limited
Non-consolidated Statement of Comprehensive Income
For the year ended June 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Net profit for the year	**2,351,920**	5,296,566
Other comprehensive loss for the year:		
Net change in market value of investment securities, net of tax (note 21)	**80,230**	(132,440)
Total comprehensive income for the year	**2,432,150**	5,164,126

The notes on pages 8 to 62 are an integral part of these Non-consolidated financial statements.

The Bank of Nevis Limited

Non-conolidated Statement of Cash Flows

For the year ended June 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Cash flows from operating activities		
Operating profit before tax for the year	**3,540,120**	6,009,873
Items not affecting cash		
Provision for loan impairment	**66,881**	282,350
Depreciation	**545,169**	298,745
Amortisation	**174,069**	157,765
Impairment provision on investment securities	**851,733**	-
Net loss on disposal of fixed assets	**12,908**	-
Dividend income receivable	**-**	(2,694,900)
Interest income	**(19,735,192)**	(18,200,544)
Interest expense	**10,450,585**	10,037,660
Cash flows from operating income before changes in operating assets and liabilities	**(4,093,727)**	(4,109,051)
Changes in operating assets and liabilities		
Increase in mandatory and restricted deposits held with Central Bank	**(2,149,790)**	(641,659)
Increase in other assets	**(313,433)**	(282,657)
Decrease/(increase) in loans and advances, net of repayments received	**3,101,892**	(9,256,770)
(Decrease)/increase in customers' deposits	**(4,301,315)**	30,167,463
Decrease in other liabilities and accrued expenses	**(670,068)**	(4,064,237)
Cash (used in)/from operations before interest and tax	**(8,426,441)**	11,813,089
Interest paid	**(10,342,325)**	(9,618,067)
Interest received	**18,169,964**	17,791,329
Income tax paid	**(1,358,785)**	(758,061)
Net cash (used in)/from operating activities	**(1,957,587)**	19,228,290
Cash flows from investing activities		
Purchase of property, plant and equipment	**(2,132,076)**	(4,501,059)
Sale of property, plant and equipment	**2,635**	-
Purchase of intangible assets	**(164,906)**	(179,689)
Increase in investment securities	**(9,849,273)**	(49,920)
Decrease in fixed deposits	**345,455**	830,155
Net cash used in investing activities	**(11,798,165)**	(3,900,513)
Cash flows from financing activities		
Dividends paid	**(934,770)**	-
Advances to related parties	**2,770,829**	(110,370)
Net cash from/(used in) financing activities	**1,836,059**	(110,370)
(Decrease)/Increase in cash and cash equivalents	**(11,919,693)**	15,217,407
Cash and cash equivalents, beginning of year	**61,679,010**	46,461,603
Cash and cash equivalents, end of year (note 29)	**49,759,317**	61,679,010

The notes on pages 8 to 62 are an integral part of these Non-consolidated financial statements.

The Bank of Nevis Limited
Non-consolidated Statement of Changes in Equity
For the year ended June 30, 2012

(expressed in Eastern Caribbean dollars)

	Share capital $	Statutory reserves $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance June 30, 2010	7,478,150	7,478,150	10,843,855	4,532,961	10,254,379	40,587,495
Total comprehensive income for the year	–	–	(132,440)	–	5,296,566	5,164,126
Transfers to reserves (notes 20 and 22)	–	1,059,313	–	508,361	(1,567,674)	–
Dividends (note 16)	1,869,537	–	–	–	(1,869,537)	–
Balance June 30, 2011	**9,347,687**	**8,537,463**	**10,711,415**	**5,041,322**	**12,113,734**	**45,751,621**
Total comprehensive income for the year	–	–	80,230	–	2,351,920	2,432,150
Transfers to reserves (notes 20 and 22)	–	470,384	–	(163,279)	(307,105)	–
Dividends (note 16)	–	–	–	–	(934,770)	(934,770)
Balance June 30, 2012	**9,347,687**	**9,007,847**	**10,791,645**	**4,878,043**	**13,223,779**	**47,249,001**

The notes on pages 8 to 62 are an integral part of these Non-consolidated financial statements.

(expressed in Eastern Caribbean dollars)

1 Incorporation and principal activity

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

The principal activity of the Bank is the provision of financial services, and its registered office is: Main Street, Charlestown, Nevis.

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

2 Adoption and amendments of published accounting standards and interpretations

Standards, amendments and interpretations effective on or after January 1, 2011

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

- IAS 1 – Presentation of Financial Statements (effective January 01, 2011)
- IAS 24 – Related Party Disclosures (effective January 01, 2011)
- IFRS 7 – Financial Instruments: Disclosures (effective January 01, 2011)

Standards and interpretations issued but not yet effective

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

- IAS 1 – Presentation of Financial Statements (effective July 01, 2012)
- IAS 12 – Income Taxes (effective January 01, 2012)
- IAS 19 – Employee Benefits (effective January 01, 2013)
- IAS 27 – Consolidated and Non-consolidated Financial Statements (effective January 01, 2013)
- IAS 28 – Investments in Associates and Joint Ventures (effective January 01, 2013
- IFRS 9 – Financial Instruments – Classification and Measurement (effective January 01, 2013)
- IFRS 10 – Consolidated Financial Statements (effective January 01, 2013)
- IFRS 12 – Disclosures of Interest in Other Entities (effective January 01, 2013)
- IFRS13 – Fair Value Measurement (effective January 01, 2013)

3 Significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

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

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

The Bank also prepares consolidated financial statements in which the subsidiaries Bank of Nevis International Limited, Bank of Nevis Mutual Fund Limited and Bank of Nevis Fund Managers Limited are consolidated.

The principal accounting policies applied in the preparation of these financial statements are set out below.

3.3 Foreign currency translation

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

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

3.4 Financial Assets

The Bank classifies its financial assets into the following specified categories: 'loans and receivables' and 'available-for-sale'. Management determines the classification of its financial instruments at initial recognition.

(a) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including cash and bank balances, loans and advances, investment securities and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment.

Interest income on loans and receivables is recognized by applying the effective interest rate, and is included in the statement of income.

(b) Available-for-sale financial assets
Available-for-sale instruments are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or that are not classified as loans and receivables.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value. Changes in the carrying amount of available-for-sale financial assets relating to changes in foreign currency rates are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of 'revaluation reserves'. Where the financial asset is disposed of or determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.4 Financial Assets (continued)

Available-for-sale financial assets that do not have a quoted market price, and whose fair value cannot be reliably measured, are measured at cost less any impairment losses at the end of each reporting period.

(b) Available-for-sale financial assets
Dividends on available-for-sale financial assets are recorded in the statement of income when the Bank's right to receive the dividends is established. Interest income on available-for-sale financial assets is calculated using the effective interest method, and recognized in the statement of income.

3.4.1 Impairment of financial assets

At the end of each reporting period, the Bank's financial assets are assessed for indicators of impairment. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- the Bank granting to the issuer or counterparty, for economic or legal reasons related to the issuer's/counterparty's financial difficulty, a concession that the Bank would not otherwise consider
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties

(a) *Assets carried at amortised cost*
Loans and receivables are assessed on both individual and collective bases. Objective evidence of impairment of a portfolio of loans and receivable could include the Bank's past experience of payment within the portfolio, as well as observable changes in national or local economic conditions that correlate with defaults on loans and receivables.

If there is objective evidence that an impairment loss on as asset carried at amortised cost exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a 'provision for loan loss' account and the amount of the loss is recognised in the statement of income. If an asset carried at amortised cost has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. Statutory and other regulatory loan loss reserve requirements that exceed these amounts are recognised in other reserves as an appropriation of retained earnings.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.4.1 Impairment of financial assets (continued)

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

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

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

(b) *Assets classified as available-for-sale*
When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of "revaluation reserves".

In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

3.4.2 Derecognition of financial assets

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

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

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.4.2 Derecognition of financial assets (continued)

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

3.5 Financial Liabilities

3.5.1 Other financial liabilities

Financial liabilities are classified as 'other financial liabilities', and are initially recognized at cost. Other financial liabilities (including borrowings) are subsequently recognized at amortised cost using the effective interest method.

3.5.2 Derecognition of financial liabilities

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

3.6 Interest income and expense

Interest income and expenses are recognised in the statement of income for all interest bearing financial assets and liabilities using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability on initial recognition. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

3.7 Fees and commissions

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

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

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.8 Dividend income

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

3.9 Property, plant and equipment and depreciation

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

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

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

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

Furniture, fixtures, vehicles and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

Land is not depreciated.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.9 Property, plant and equipment and depreciation (continued)

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

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

3.10 Intangible assets – computer software

Acquired computer software is carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the estimated useful lives of the computer software, which is three to five years, using the straight line method. The estimated useful lives and method of amortization are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

3.11 Impairment of Property, Plant, Equipment and Intangible Assets

Property, plant, equipment and intangible assets are periodically reviewed for impairment. An impairment loss is recognized for the amount by which the carrying amount of the asset is greater than its estimated recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell, and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.12 Provisions

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

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

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.12 Provisions (continued)

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

3.13 Investment in subsidiaries

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

3.14 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition. These include cash, unrestricted balances with banks and other financial institutions, treasury bills, and other short term highlight liquid investment securities.

3.15 Share capital

3.15.1 Ordinary shares
Ordinary shares are classified in the financial statements as equity.

3.15.2 Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year which are approved after the date of the statement of financial position are disclosed in the notes to the financial statements.

3.16 Pension costs

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

3.17 Taxation

a) Current income tax
Income tax payable is calculated on taxable profit for the year, based on the enacted tax rates within the Federation of St. Christopher and Nevis. Taxable profit differs from net profit as reported in the statement of income because of items of income or expense that are taxable or deductible in other years and items that are not taxable or deductible.

a) Deferred income tax
Deferred income tax recognized 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 the enacted tax rates by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

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

4 Financial risk management

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

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

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

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

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

4.1 Credit risk

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

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

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

4.1.1 Credit risk measurement

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.1 Credit risk measurement (continued)

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

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

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

4.1.2 Risk limit control and mitigation policies

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

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

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

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.2 Risk limit control and mitigation policies (continued)

Some other specific control and mitigation measures are outlined below:

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

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

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

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

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

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

4.1.3 Impairment and provisioning policies

The internal rating system described in Note 4.1.1 focuses on expected credit losses – that is, taking in to account the risk of future events giving rise to loss. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position, based on the objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.3 Impairment and provisioning policies (continued)

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

	2012		2011	
Bank's rating	**Loans and advances (%)**	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
Pass	69.5	–	84.2	–
Special mention	18.4	–	7.2	–
Sub standard	10.5	41.5	6.6	33.4
Doubtful	1.5	55.7	1.8	51.0
Loss	0.1	2.8	0.2	15.6
Total	**100.0**	**100.0**	**100.0**	**100.0**

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

	2012 $	2011 $
Credit risk exposures relating to on-balance sheet assets:		
Deposits with banks	**18,323,238**	23,151,925
Deposits with non bank financial institutions	**13,083,443**	13,475,576
Investment securities:		
- Treasury bills	**27,800,660**	24,350,903
- Bonds and other debt instruments	**5,745,116**	5,522,510
Loans and advances	**185,899,845**	188,228,883
Other assets	**258,714**	224,871
Pledged assets	**808,470**	808,470
Due from subsidiaries	**-**	2,712,246
	251,919,486	258,475,384
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	**-**	483,582
Loan commitments and other credit related facilities	**16,155,290**	17,075,712
Total	**268,074,776**	276,034,678

The above table represents a worst case scenario of credit risk exposure to the Bank at June 30, 2012 and 2011, 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 statement of financial position.

As shown above, 69.3% of the total maximum exposure is derived from loans and advances to customers (2011: 68.2%); 12.5% represents investment securities (2011: 10.8%).

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

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

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

- 87.9% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2011: 91.4%);
- 80.6% of the loans and advances portfolio are considered to be neither past due nor impaired (2011: 85.7%);
- 13.8% of loans and advances are considered impaired (2011: 9.9%);
- The provision for impairment is $3.4 million (2011: $3.3 million)
- Treasury bills are held with the Nevis Island Administration, the St. Christopher and Nevis Federal Government and the Government of St. Vincent and the Grenadines
- The debt investment securities in the Bank's investment portfolio apart from the Treasury Bills are held with non-bank financial institutions in the Eastern Caribbean region, which have a relatively low risk profile.

4.1.5 Credit quality of loans and advances

Loans and advances are summarised as follows:

	2012		2011	
	Loans and advances to customers $	Loans and advances to financial institutions $	Loans and advances to customers $	Loans and advances to financial institutions $
Neither past due nor impaired	149,313,858	3,167,175	155,959,115	8,232,773
Past due but not impaired	10,630,686	-	8,300,980	–
Impaired	26,172,220	-	19,053,228	–
Gross	**186,116,764**	**3,167,175**	**183,313,323**	**8,232,773**
Less: allowance for impairment	(3,376,176)	(7,918)	(3,317,213)	–
Net	**182,740,588**	**3,159,257**	**179,996,110**	**8,232,773**
Specific provision	2,067,754	-	2,101,542	–
Portfolio provision	1,308,422	7,918	1,215,671	–
Total	**3,376,176**	**7,918**	**3,317,213**	–

The total impairment provision for loans and advances is $3,384,094 (2011: $3,317,213) of which $2,067,754 (2011: $2,101,542) represents the specific provision on individually impaired loans, and the remaining amount of $1,316,340 (2011: $1,215,671) represents the portfolio provision. Further information on the impairment provision for loans and advances to banks and to customers is provided in Note 9.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances

(a) Loans and advances neither past due nor impaired

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

As at June 30, 2012

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Grades:					
Pass	4,129,865	49,343,768	36,052,996	43,050,242	132,576,871
Special mention	19,361,209	542,953	-	-	19,904,162
	23,491,074	**49,886,721**	**36,052,996**	**43,050,242**	**152,481,033**

As at June 30, 2011

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Grades:					
Pass	14,098,800	47,882,451	40,809,568	50,754,510	153,545,329
Special mention	10,494,823	151,736	–	–	10,646,559
Total	**24,593,623**	**48,034,187**	**40,809,568**	**50,754,510**	**164,191,888**

(b) Loans and advances past due but not impaired

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

	Personal $	Commercial $	Total $
As at June 30, 2012			
Past due up to 30 days	4,374,978	2,173,555	6,548,533
Past due 31 – 60 days	341,041	446,638	787,679
Past due 61 – 89 days	2,353,239	941,235	3,294,474
Total	**7,069,258**	**3,561,428**	**10,630,686**

	Personal $	Commercial $	Total $
As at June 30, 2011			
Past due up to 30 days	4,577,421	1,365,029	5,942,450
Past due 31 – 60 days	306,259	–	306,259
Past due 61 – 89 days	2,052,271	–	2,052,271
Total	**6,935,951**	**1,365,029**	**8,300,980**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances (continued)

(c) Loans and advances individually impaired
The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $26,172,220 (2011: $19,053,228).

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

	Over draft $	Personal $	Commercial $	Public Sector $	Total $
As at June 30, 2012					
Individual impaired loans and advances	810,207	12,183,436	9,580,373	3,598,204	26,172,220
Fair value of collateral	**453,917**	**28,620,285**	**27,071,252**	**-**	**56,145,454**

	Over draft $	Personal $	Commercial $		Total $
As at June 30, 2011					
Individual impaired loans and advances	864,260	11,617,077	6,571,891	-	19,053,228
Fair value of collateral	**503,917**	**26,244,064**	**29,679,430**	**-**	**56,427,411**

(d) Loans and advances renegotiated
Restructuring activities include extended payment arrangements, approved external management plans, modification and deferred payments. Following restructuring, a previously overdue account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators of criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled $3,037,613 at June 30, 2012 (2011: $596,875).

4.1.6 Debt securities, treasury bills and other eligible bills

The tables below present an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at June 30, 2012 and 2011, based on Standard & Poor's rating or their equivalent:

	Treasury bills $	Other debt instruments $	Available-for-sale $	Total $
Aa1--Baa3	-	2,676,932	146,440	2,823,372
Unrated	27,800,660	3,068,184	2,428,322	33,297,166
As June 30, 2012	**27,800,660**	**5,745,116**	**2,574,762**	**36,120,538**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

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

	Treasury bills $	Other debt instruments $	Available-for-sale $	Total $
Aa1--Baa3	–	2,676,932	146,440	2,823,372
Unrated	24,350,903	2,845,578	3,156,623	30,353,104
As June 30, 2011	**24,350,903**	**5,522,510**	**3,303,063**	**33,176,476**

4.1.7 Repossessed collateral

During the year ended June 30, 2012, the Bank took possession of collateral securing facilities with carrying value of $137,965 (2011: $141,955)

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.8 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors
The following table breaks down the Bank's main credit exposure at their carrying amounts, (without taking into account any collateral held or other credit support) as categorised by geographical region as at June 30, 2011 and 2012. For all classes of assets, the Bank has allocated exposures to regions based on country of domicile of the counterparties.

	St. Christophe & Nevis $	Other Caribbean $	North America $	Europe $	Total $
Credit risk exposures relating to on-balance sheet assets:					
Deposits with banks	2,071,940	6,697,018	5,660,582	3,893,698	**18,323,238**
Deposits with non bank financial institutions	158,536	12,924,907	-	-	**13,083,443**
Investment securities:					
– Treasury bills and other eligible bills	26,304,208	1,496,452	-	-	**27,800,660**
– Bonds and other debt instruments	2,826,932	2,918,184	-	-	**5,745,116**
Loans and advances	170,868,632	4,087,362	7,650,989	3,292,862	**185,899,845**
Other assets	186,827	5,179	65,748	960	**258,714**
Pledged assets	808,470	-	-	-	**808,470**
	203,225,545	28,129,102	13,377,319	7,187,520	**251,919,486**
Credit exposures relating to off-balance sheet items:					
– Loan commitments and other credit related facilities	15,283,658	-	871,632	-	**16,155,290**
As at June 30, 2012	**218,509,203**	**28,129,102**	**14,248,951**	**7,187,520**	**268,074,776**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

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

(a) Geographical sectors (continued)

	St Christopher & Nevis $	Other Caribbean $	North America $	Europe $	Total $
Credit risk exposures relating to on-balance sheet assets:					
Deposits with banks	4,929,323	6,813,787	7,328,375	4,080,440	**23,151,925**
Deposits with non bank financial institutions	49,897	13,425,679	–	–	**13,475,576**
Investment securities:					
– Treasury bills and other eligible bills	23,855,527	495,376	–	–	**24,350,903**
– Bonds and other debt instruments	2,826,932	2,695,578	–	–	**5,522,510**
Loans and advances	172,921,703	5,035,878	6,973,866	3,297,436	**188,228,883**
Other assets	138,858	2,806	82,247	960	**224,871**
Pledged assets	808,470	–	–	–	**808,470**
Due from related parties	2,712,246	–	–	–	**2,712,246**
	208,242,956	28,469,104	14,384,488	7,378,836	**258,475,384**
Credit exposures relating to off-balance sheet items:					
– Financial guarantees	483,582	–	–	–	**483,582**
– Loan commitments and other credit related facilities	13,340,326	105,888	3,576,889	52,609	**17,075,712**
As at June 30, 2011	**222,066,864**	**28,574,992**	**17,961,377**	**7,431,445**	**276,034,678**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

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

(b) Economic sectors

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

	2012 $	%	2011 $	%
Personal	**79,445,921**	**42.0**	76,850,020	40.1
Public sector	**55,626,392**	**29.4**	61,415,609	32.1
Construction & land development	**23,496,287**	**12.4**	23,760,481	12.4
Distributive trades, transportation, storage	**13,699,626**	**7.2**	13,972,660	7.3
Professional & other services	**7,034,440**	**3.7**	6,374,953	3.3
Tourism, entertainment & catering	**5,844,295**	**3.1**	5,126,210	2.7
Agriculture and manufacturing	**4,136,978**	**2.2**	4,046,163	2.1
Total	**189,283,939**	**100.0**	191,546,096	100.0

4.2 Market risk

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

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

4.2.1 Price risk

The Bank is exposed to equity securities price risk because of equity investments held by the Bank and classified in the Non-consolidated statement of financial position as available-for-sale. The Bank's portfolio includes securities that are quoted on the Eastern Caribbean Securities Exchange, and its exposure to equity securities price risk is minimal because the total of these securities is insignificant in relation to its Non-consolidated statement of financial position and because of the limited volatility in this market. The Bank does not hold equity securities that are quoted on the world's major securities markets. The Bank is not exposed to commodity price risk.

If market rates at June 30, 2012 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $4,716 (2011: 4,314) lower/ higher as a result of the increase/decrease in the fair value of available-for-sale investment securities.

	2012 $	2011 $
Available for sale		
Equity securities quoted	**1,451,223**	1,327,791

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign exchange risk

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

Most of the Bank's assets and liabilities in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar (XCD$) to the United States dollar (US$) has been formally pegged at XCD$2.7 = US$1.00 since 1974.

The following table summarises the Bank's exposure to foreign currency risk at June 30, 2012. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

	XCD $	USD $	EUR $	GBP $$	CDN $	Other $	Total $
As at June 30, 2012							
Assets							
Cash and balances with the Central Bank	17,040,570	411,891	129,132	21,449	55,577	2,993	**17,661,612**
Deposits with banks	5,200,258	10,553,583	402,232	1,551,689	533,844	81,632	**18,323,238**
Deposits with non-bank financial institutions	1,169,983	11,913,460	-	-	-	-	**13,083,443**
Investment securities:							
- Treasury bills and other eligible bills	20,195,865	7,604,795	-	-	-	-	**27,800,660**
- Bonds and other debt instruments	2,826,932	2,918,184	-	-	-	-	**5,745,116**
- Available for sale investment - unquoted	271,806	851,733	-	-	-	-	**1,123,539**
- Available for sale securities- quoted	1,451,223	-	-	-	-	-	**1,451,223**
Loans and advances	159,991,433	25,908,412	-	-	-	-	**185,899,845**
Other assets	191,683	65,205	-	960	866	-	**258,714**
Pledged assets	-	808,470	-	-	-	-	**808,470**
Total financial assets	**208,339,753**	**61,065,733**	**531,364**	**1,574,098**	**590,287**	**84,625**	**272,155,860**
Liabilities							
Customer deposits	199,946,481	46,581,932	-	-	-	-	**246,528,413**
Other liabilities and accrued expenses	1,661,711	546,667	-	7,292	2,434	827	**2,218,931**
Due to related parties	-	58,583	-	-	-	-	**58,583**
Total financial liabilities	**201,608,192**	**47,187,182**	**-**	**7,292**	**2,434**	**827**	**248,805,927**
Net on balance sheet position	**6,731,561**	**13,848,551**	**531,364**	**1,566,806**	**587,853**	**83,798**	**23,349,933**
Credit and capital commitments	**9,722,568**	**7,963,738**	**-**	**-**	**-**	**-**	**17,686,306**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

	XCD $	USD $	EUR $	GBP $	CDN $	Other $	Total $
As at June 30, 2011							
Assets							
Cash and balances with the Central Bank	15,018,265	447,445	117,896	18,647	45,301	6,195	**15,653,749**
Deposits with banks	7,339,636	13,446,390	306,517	1,353,403	606,300	99,679	**23,151,925**
Deposits with non-bank financial institutions	2,100,479	11,375,097	–	–	–	–	**13,475,576**
Investment securities:							
- Treasury bills and other eligible bills	17,231,052	7,119,851	–	–	–	–	**24,350,903**
- Bonds and other debt instruments	2,826,932	2,695,578	–	–	–	–	**5,522,510**
- Available for sale investment - unquoted	271,806	1,703,466	–	–	–	–	**1,975,272**
- Available for sale securities- quoted	1,327,791	–	–	–	–	–	**1,327,791**
Loans and advances	164,707,752	23,521,131	–	–	–	–	**188,228,883**
Other assets	141,341	81,704	–	960	866	–	**224,871**
Pledged assets	–	808,470	–	–	–	–	**808,470**
Due from related parties	–	2,712,246	–	–	–	–	**2,712,246**
Total financial assets	**210,965,054**	**63,911,378**	**424,413**	**1,373,010**	**652,467**	**105,874**	**277,432,196**
Liabilities							
Customer deposits	167,838,986	82,882,482	–	-–	–	–	**250,721,468**
Other liabilities and accrued expenses	1,584,487	1,016,332	97,662	224,172	2,630	759	**2,926,042**
Total financial liabilities	**169,423,473**	**83,898,814**	**97,662**	**224,172**	**2,630**	**759**	**253,647,510**
Net on balance sheet position	**41,541,581**	**(19,987,436)**	**326,751**	**1,148,838**	**649,837**	**105,115**	**23,784,686**
Credit and capital commitments	**11,347,502**	**8,219,138**	**-**	**-**	**-**	**-**	**19,566,640**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

At June 30, 2012, if the Eastern Caribbean dollar had strengthened/weakened by 10% against the Euro, with all other variables held constant, post-tax net income for the year would have been $34,538 (2011: $21,239) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro denominated financial assets.

The contribution to net income before taxation of foreign exchange gains on assets and liabilities held and transactions denominated in Euro currency was a gain of $8,079 (2011: loss of $182,670).

At June 30, 2012, if the Eastern Caribbean dollar had strengthened/weakened by 10% against Pounds Sterling with all other variables held constant, post-tax net income for the year would have been $101,843 (2011: $74,675) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Pounds Sterling denominated financial assets.

The contribution to net income before taxation of foreign exchange gains on assets and liabilities held and transactions denominated in Pound Sterling currency was a gain of $40,418 (2011: $191,993).

At June 30, 2012, if the Eastern Caribbean dollar had weakened/strengthened by 10% against the Canadian dollar, post tax net income for the year would have been $38,210 (2011: $101) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Canadian dollar denominated trade receivables, and debt securities classified as available-for-sale.

The contribution to net income before taxation of foreign exchange gains on assets and liabilities held and transactions denominated in Canadian currency was a loss of $10,473 (2011: $32,608).

Because all other equity and debt investments are denominated either in United States dollars, or in Eastern Caribbean dollars to which the US dollar is pegged, there would have been no impact on equity, if at June 30, 2012, the Eastern Caribbean Dollar had weakened against other currencies.

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

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 Interest rate risk (continued)

	Under 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-Interest bearing $	Total $
As at June 30, 2012							
Assets							
Cash and balances with Central Bank	2,000	-	-	-	-	17,659,612	17,661,612
Deposits with banks	1,257,771	5,065,328	-			12,000,139	18,323,238
Deposits with non bank financial institutions	11,924,411	1,015,944	101,222	-	-	41,866	13,083,443
Investment securities:							
- Treasury bills and other eligible bills	16,911,746	10,888,914	-	-	-	-	27,800,660
- Bonds and other debt instruments	76,932	619,604	2,298,580	2,600,000	150,000	-	5,745,116
- Available for sale investment – unquoted	-	-	-	-	-	1,123,539	1,123,539
- Available for sale securities- quoted	-	-	-	-	-	1,451,223	1,451,223
Loans and advances	41,184,281	1,478,511	8,256,688	22,839,600	105,090,130	7,050,635	185,899,845
Other assets	-	-	-	-	-	258,714	258,714
Pledged assets	-	-	808,470	-	-	-	808,470
Total financial assets	**71,357,141**	**19,068,301**	**11,464,960**	**25,439,600**	**105,240,130**	**39,585,728**	**272,155,860**
Liabilities							
Customer deposits	116,177,188	13,186,862	95,661,726	7,175,327	-	14,327,310	246,528,413
Other liabilities and accrued expenses	157,572	-	-	-	-	2,061,359	2,218,931
Due to related parties	58,583	-	-	-	-	-	58,583
Total financial liabilities	**116,393,343**	**13,186,862**	**95,661,726**	**7,175,327**	**-**	**16,388,669**	**248,805,927**
Total interest repricing gap	**(45,036,202)**	**5,881,439**	**(84,196,766)**	**18,264,273**	**105,240,130**	**23,197,059**	**23,349,933**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 Interest rate risk (continued)

	Under 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
As at June 30, 2011							
Assets							
Cash and balances with central Bank	2,000	–	–	–	–	15,651,749	15,653,749
Deposits with banks	1,213,912	4,864,220	–	–	–	17,073,793	23,151,925
Deposits with non bank financial institutions	12,995,010	–	445,455	–	–	35,111	13,475,576
Investment securities							
- Treasury bills and other eligible bills	15,425,349	8,925,554	–	–	–	–	24,350,903
- Bonds and other debt instruments	678	–	–	5,371,832	150,000	–	5,522,510
- Available for sale investment – unquoted	–	–	–	–	–	1,975,272	1,975,272
- Available for sale securities- quoted	–	–	–	–	–	1,327,791	1,327,791
Loans and advances	46,186,511	1,884,680	6,564,285	23,794,178	109,799,229	–	188,228,883
Other assets	–	–	–	–	–	224,871	224,871
Pledge assets	–	–	808,470	–	–	–	808,470
Due from subsidiaries	2,712,246	–	–	–	–	–	2,712,246
Total financial assets	**78,535,706**	**15,674,454**	**7,818,210**	**29,166,010**	**109,949,229**	**36,288,587**	**277,432,196**
Liabilities							
Customer deposits	119,413,302	20,078,705	91,532,144	3,833,987	-	15,863,330	250,721,468
Other liabilities and accrued expenses	110,847	-	-	-	-	2,815,195	2,926,042
Total financial liabilities	**119,524,149**	**20,078,705**	**91,532,144**	**3,833,987**	**-**	**18,678,525**	**253,647,510**
Total interest repricing gap	**(40,988,443)**	**(4,404,251)**	**(83,713,934)**	**25,332,023**	**109,949,229**	**17,610,062**	**23,784,686**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 Interest rate risk (continued)

Because of limited volatility in the securities markets in which the Bank's investments are held, the Bank is not unduly exposed to fair value interest rate risk.

Cash flow interest rate risk arises from loans and advances to customers, and other interest bearing assets at variable rates. If at June 30, 2012 variable interest rates on loans and advances to customers and other interest bearing assets had been 0.5% higher/lower, with all other variables held constant, post tax profit for the year would have been $646,154 higher/lower (2011: $684,760), mainly as a result of higher/lower interest income. Cash flow interest rate risk also arises from customers' deposits, at variable interest rates. If at June 30, 2012 variable interest rates on customers' deposits had been 0.5% higher/lower, with all other variables held constant, post tax profit for the year would have been $745,497 lower/higher (2011: $753,907), mainly as a result of higher/lower interest expense.

4.3 Liquidity risk

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

4.3.1 Liquidity risk management process

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
- Monitoring liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

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

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.3 Liquidity risk (continued)

4.3.2. Funding approach

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

4.3.3 Non derivative cash flows

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

	Under 1 month $	1-3 months $	3-12 months $	1-5 years $	Over 5 years $	Total $
As at June 30, 2012						
Deposits from customers	130,566,118	13,417,435	98,876,444	7,617,726	-	250,477,723
Other liabilities and accrued expenses	2,085,551	133,380	-	-	-	2,218,931
Due to related parties	58,583	-	-	-	-	58,583
Total financial liabilities (contractual maturity dates)	**132,710,252**	**13,550,815**	**98,876,444**	**7,617,726**	**-**	**252,755,237**
Assets held for managing liquidity Risk (contractual maturity dates)	**102,509,981**	**19,068,301**	**10,656,490**	**25,439,600**	**112,290,765**	**269,965,137**
As at June 30, 2011						
Deposits from customers	136,235,336	19,759,719	96,140,198	2,223,288	–	254,358,541
Other liabilities and accrued expenses	2,686,192	239,850	–	–	–	2,926,042
Total financial liabilities (contractual maturity dates)	**138,921,528**	**19,999,569**	**96,140,198**	**2,223,288**	**–**	**257,284,583**
Assets held for managing liquidity Risk (contractual maturity dates)	**110,006,182**	**15,674,454**	**9,704,640**	**26,394,178**	**109,949,229**	**271,728,683**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.3 Liquidity risk

4.3.4 Assets held for managing liquidity risk

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

- Cash and balances with central banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

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

	Up to 1 year $	1 to 5 years $	Total $
As at June 30, 2012			
Capital commitments	1,531,016	-	**1,531,016**
Loan commitments	16,155,290	-	**16,155,290**
	17,686,306	**-**	**17,686,306**
As at June 30, 2011			
Financial guarantees	483,582	–	**483,582**
Capital commitments	2,007,346	–	**2,007,346**
Loan commitments	17,075,712	–	**17,075,712**
	19,566,640	–	**19,566,640**

(b) Financial guarantees and other financial facilities
The Bank had no financial guarantees at June 30, 2012 (2011: $483,582).

(c) Operating Lease Commitments
The Bank had no operating lease commitments at June 30, 2012 (2011: $Nil).

(d) Capital commitments
The Bank had contractual capital commitments totalling $1,531,016 at June 30, 2012 (2011: $2,007,346). These commitments relate to the Bank's building construction and refurbishment project which commenced in June 2010.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.4. Fair value of financial assets and liabilities

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

	Carrying value		Fair value	
	2012	2011	2012	2011
	$	$	$	$
Financial assets				
Cash and balances with the Central Bank	17,661,612	15,653,749	17,661,612	15,653,749
Deposits with other banks	18,323,238	23,151,925	18,323,238	23,151,925
Deposits with non bank financial institutions	13,083,443	13,475,576	13,083,443	13,475,576
Investment securities:				
- Treasury bills and other eligible bills	27,800,660	24,350,903	27,800,660	24,350,903
- Bonds and other debt instruments	5,745,116	5,522,510	5,745,116	5,522,510
- Available for sale investment – unquoted	1,123,539	1,975,272	1,123,539	1,975,272
- Available for sale securities- quoted	1,451,223	1,327,791	1,451,223	1,327,791
Loans and advances	185,899,845	188,228,883	184,844,412	187,267,717
Other assets	258,714	224,871	258,714	224,871
Pledged assets	808,470	808,470	808,470	808,470
Due from related parties	-	2,712,246	-	2,712,246
	272,155,860	**277,432,196**	**271,100,427**	**276,471,030**
Financial liabilities				
Customer deposits	246,528,413	250,721,468	246,528,413	250,721,468
Other liabilities and accrued expenses	2,218,931	2,926,042	2,218,931	2,926,042
Due to related parties	58,583	–	58,583	–
	248,805,927	**253,647,510**	**248,805,927**	**253,647,510**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

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

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

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

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

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

4.4.1 Fair value hierarchy

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

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

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

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

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.4 Fair value of financial assets and liabilities (continued)

4.4.1 Fair value hierarchy (continued)

	Level 1 $
Financial assets	
Investment securities	
– Available-for-sale securities – quoted	1,451,223
Total as at June 30, 2012	**1,451,223**

	Level 1 $
Financial assets	
Investment securities	
– Available-for-sale securities – quoted	1,327,791
Total as at June 2011	**1,327,791**

4.5 Capital management

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

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

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

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

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

- Tier 1 capital: share capital (net of any book values of treasury shares), retained earnings and reserves created by appropriations of retained earnings.
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of securities held as available-for-sale.

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.5 Capital management (continued)

The following table summarises the composition of the regulatory capital and the ratios of the Bank for the years ended June 30, 2012 and June 30, 2011. During those two years, the Bank and its subsidiaries complied with all the externally imposed capital requirements to which they are subject.

	2012 $	2011 $
Tier 1 capital		
Share capital	9,347,687	9,347,687
Statutory reserve	9,007,847	8,537,463
Retained earnings	13,223,779	12,113,734
Total qualifying Tier 1 capital	**31,579,313**	**29,998,884**
Tier 2 capital		
Revaluation reserve	10,791,645	10,711,415
Reserve for loan impairment	205,539	1,190,289
Reserve for interest on non-performing loans	3,787,582	3,062,101
Reserve for items in transit on correspondent bank accounts	884,922	788,932
Total qualifying Tier 2 capital	**15,669,688**	**15,752,737**
Total regulatory capital	**47,249,001**	**45,751,621**
Risk weighted assets		
On-balance sheet	157,320,238	151,115,833
Off-balance sheet	17,686,306	19,566,640
Total risk weighted assets	**175,006,544**	**170,682,473**
Basel ratio	**27.0%**	**26.8%**

(expressed in Eastern Caribbean dollars)

4 Financial Risk Management (continued)

4.6 Financial assets and liabilities by category

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

	Loans and receivables $	Available-for-sale $	Total $
As at June 30, 2012			
Assets			
Cash and deposits with the Central Bank	17,661,612	-	17,661,612
Due from banks and other financial institutions	32,215,151	-	32,215,151
Investment securities	33,545,776	2,574,762	36,120,538
Loans and advances	185,899,845	-	185,899,845
Other assets	258,714	-	258,714
Total financial assets	**269,581,098**	**2,574,762**	**272,155,860**

	Other financial liabilities $	Total $
Liabilities		
Customer deposits	246,528,413	246,528,413
Other liabilities and accrued expenses	2,218,931	2,218,931
Due to related parties	58,583	58,583
Total financial liabilities	**248,805,927**	**248,805,927**

(expressed in Eastern Caribbean dollars)

4 Financial Risk Management (continued)

4.6 Financial assets and liabilities by category (continued)

	Loans and receivables $	Available-for-sale $	Total $
As at June 30, 2011			
Assets			
Cash and deposits with the Central Bank	15,653,749	–	15,653,749
Due from banks and other financial institutions	37,435,971	–	37,435,971
Investment securities	29,873,413	3,303,063	33,176,476
Loans and advances	188,228,883	–	188,228,883
Other assets	224,871	–	224,871
Due from related parties	2,712,246	–	2,712,246
Total financial assets	**274,129,133**	**3,303,063**	**277,432,196**
Liabilities			
Customer deposits		250,721,468	250,721,468
Other liabilities and accrued expenses		2,926,042	2,926,042
Total financial liabilities		**253,647,510**	**253,647,510**

(expressed in Eastern Caribbean dollars)

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

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

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

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

(a) Impairment losses on loans and advances
The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be estimated $129,929 lower or $171,846 higher respectively.

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

There were no declines in fair value of available-for-sale equity investments below cost which were considered significant or prolonged as at June 30, 2012.

(expressed in Eastern Caribbean dollars)

6 Cash and balances with the Central Bank

	2012 $	2011 $
Cash on hand	**1,277,813**	1,419,740
Balances with the Eastern Caribbean Central Bank (ECCB) other than mandatory reserve deposits	**2,000**	2,000
Included in cash and cash equivalents (note 29)	**1,279,813**	1,421,740
Dormant account reserve	**261,235**	230,641
Mandatory reserve deposits with the ECCB	**16,120,564**	14,001,368
Total cash and balances with the Central Bank	**17,661,612**	15,653,749
Current	**1,279,813**	1,421,740
Non-current	**16,381,799**	14,232,009
	17,661,612	15,653,749

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

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

(expressed in Eastern Caribbean dollars)

7 Due from other banks and other financial institutions

	2012 $	2011 $
Operating accounts with other banks	**11,186,696**	14,047,391
Short term fixed deposits	**19,068,830**	18,893,411
Items in the course of collection from other banks	**1,041,770**	3,235,649
Included in cash and cash equivalents (note 29)	**31,297,296**	36,176,451
Fixed deposits	**100,000**	445,455
Restricted deposits	**808,470**	808,470
Interest receivable	**9,385**	5,595
Total due from other banks	**32,215,151**	37,435,971
Current	**31,406,681**	36,627,501
Non-current	**808,470**	808,470
	32,215,151	37,435,971

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

	2012 $	2011 $
First Citizens Investment Services, maturing July 30, 2012 and August 10, 2012 with interest of 2.5% and 2.75% per annum	**4,653,979**	4,820,499
Bank of St. Lucia Limited, maturing on August 22, 2012 and September 17, 2012 with interest of 4.0% per annum (2011:5.0% per annum)	**5,059,710**	4,860,329
Caribbean Commercial Bank (Anguilla) Limited, maturing July 05, 2012 with interest of 3.0% per annum (2011: 5.0% per annum)	**1,086,490**	1,054,475
Trinidad and Tobago Unit Trust Corporation call account, with interest of 1.05% per annum (2011: 1.80% per annum)	**8,268,651**	8,158,108
Total short-term deposits	**19,068,830**	18,893,411

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

	2012 $	2011 $
St Kitts Nevis Finance Company Limited maturing April 11, 2013 with interest of 5.50% per annum	**100,000**	-
Colonial Life Insurance Company (Trinidad) Limited,	**-**	445,455
Total fixed deposits	**100,000**	445,455

(expressed in Eastern Caribbean dollars)

7 Due from other banks and other financial institutions

The restricted deposits are comprised of deposits held with *Caribbean Credit Card Corporation* in the amount of $808,470 (2011: $808,470) bearing interest at a rate of 4.50% per annum (2011: 4.50% per annum). These deposits are not available for use in the Bank's day-to-day operations, and are primarily used as security for the credit card operations.

8 Investment securities

	2012 $	2011 $
Available-for-sale – unquoted		
Caribbean Credit Card Corporation Limited		
275 shares of $1,000 each	**275,000**	275,000
Impairment provision	**(149,644)**	(149,644)
	125,356	125,356
TCI Bank Limited (see below)		
500,000 shares of US$1.00 (EC $2.69) each	**1,347,450**	1,347,450
Impairment provision	**(1,347,450)**	(1,347,450)
	-	-
ECIC Holdings Limited		
632,200 ordinary shares of US$1.00 (EC $2.69) each	**1,703,466**	1,703,466
Impairment provision	**(851,733)**	-
	851,733	1,703,466
Eastern Caribbean Securities Exchange Limited		
7,500 Class 'C' shares at fair value (7,500 shares of $10 each)	**75,000**	75,000
Impairment provision	**(74,990)**	(74,990)
	10	10
Eastern Caribbean Home Mortgage Bank		
482 shares of $100 each	**48,200**	48,200
614 shares of $160 each	**98,240**	98,240
Equity securities, unquoted	**1,123,539**	1,975,272
Available-for-sale – quoted		
St. Kitts-Nevis-Anguilla National Bank		
617,409 ordinary shares, at market value of $2.35 per share, (2011: $2.15 per share)	**1,450,911**	1,327,429
Cable and Wireless (St Kitts and Nevis) Limited:		
63 Ordinary shares, at market value of $4.95 per share, (2011: $5.75 per share)	**312**	362
Equity securities, quoted	**1,451,223**	1,327,791
Total available-for-sale securities	**2,574,762**	3,303,063

(expressed in Eastern Caribbean dollars)

8 Investment securities (continued)

	2012 $	2011 $
Loans and receivables		
Treasury bills		
Government of Saint Christopher and Nevis, maturing August 16, 2011 with interest rate of 6.50% per annum	**-**	8,361,875
Nevis Island Administration, maturing July 17, 2012, with interest rate of 6.50% per annum (2011: 6.50%).	**15,699,533**	15,223,619
Government of Grenada maturing July 13, 2012, with interest rate of 6.0% per annum	**492,521**	-
Government of St. Vincent and the Grenadines, maturing July 11, 2012, and August 07, 2012, with interest rate of 3.90% and 4.00% per annum (2011: 3.75% per annum)	**990,154**	495,325
Included in cash and cash equivalents (note 29)	**17,182,208**	24,080,819
Treasury bills		
Government of Saint Christopher and Nevis, maturing August 14, 2012, with interest rate of 6.75% per annum	**8,499,271**	-
Nevis Island Administration, maturing October 22, 2012, with interest rate of 6.75% per annum	**1,350,000**	-
Bonds and other debt instruments		
Antigua and Barbuda Airport Authority, Commercial paper (see below)	**2,694,900**	2,694,900
Caribbean Credit Card Corporation Limited unsecured loan with interest rate of 10% (2011: 10%) per annum, with no specific terms of repayment.	**150,000**	150,000
Eastern Caribbean Home Mortgage Bank bond, Bond maturing July 01, 2013, with interest rate of 6.0% (2011:5.50%)	**2,600,000**	2,600,000
Total loans and receivables	**32,476,379**	29,525,719
Total investment securities before interest receivable	**35,051,141**	32,828,782
Interest receivable on loans and receivables	**1,069,397**	347,694
Total investment securities	**36,120,538**	33,176,476
Current	**28,100,876**	24,428,513
Non-current	**8,019,662**	8,747,963
	36,120,538	33,176,476

(expressed in Eastern Caribbean dollars)

8 Investment securities (continued)

Equity Investment held in TCI Bank Limited

On April 09, 2010, by petition of the Financial Services Commission (FSC) in the Turks and Caicos Islands to the Supreme Court, TCI Bank Limited was placed in liquidation and joint liquidators were appointed. After consideration of the foregoing, and other details available at that time, a provision for impairment of 100% of the value of the share capital in TCI Bank Limited in the amount of $1,347,450 was made in the financial statements as at June 30, 2010. This provision has been maintained in the financial statements at June 30, 2012.

Equity Investment held in ECIC Holdings Limited

Due to financial difficulties encountered by its major subsidiary, the ECIC Holdings Limited has realized significant declines in its assets, earnings and shareholders' equity, thereby creating uncertainties regarding its going concern ability. The Management of ECIC Holdings Limited are exploring several options aimed at bringing about significant improvements in the Company's financial position. In light of the foregoing, the Management of the Bank has taken a decision to record a provision for impairment of 50% of the value (amounting to $851,733), thereby resulting in a net book value of $851,733.

Antigua and Barbuda Airport Authority (ABAA) Commercial Paper

On September 07, 2008, the Bank participated in a one-year commercial paper issued by the Antigua and Barbuda Airport Authority (ABAA). Due to repeated failure of the arrangers to meet commitments to repay the sum invested, the Bank initiated legal proceedings against the ABAA and the guarantors for the full repayment of all amounts outstanding. The Courts granted judgment in the Bank's favour in March 2012.

Subsequent to the year end, the Bank entered into a formal agreement with the judgment debtors for the repayment of the outstanding amounts. At the date of the approval of these financial statements, all payments under the agreement have been received.

The movement in investment securities may be summarised as follows:

	Loans and receivables $	Available-for-sale $	Total $
Balance at June 30, 2011	29,525,719	3,303,063	32,828,782
Additions (purchases)	5,918,563	-	5,918,563
Disposals (sale and redemption)	(2,967,903)	-	(2,967,903)
Gain from change in fair value, net	-	123,432	123,432
Impairment provision	-	(851,733)	(851,733)
Balance at June 30, 2012	**32,476,379**	**2,574,762**	**35,051,141**

	Loans and receivables $	Available-for-sale $	Total $
Balance at June 30, 2010	28,584,669	3,456,898	32,041,567
Additions (purchases)	1,435,877	49,920	1,485,797
Disposals (sale and redemption)	(494,827)	-	(494,827)
(Loss) from change in fair value, net	-	(203,755)	(203,755)
Balance at June 30, 2011	**29,525,719**	**3,303,063**	**32,828,782**

(expressed in Eastern Caribbean dollars)

9 Loans and advances

	2012 $	2011 $
Reducing balance loans	**156,969,392**	158,960,876
Overdrafts	**24,185,108**	25,344,131
Credit card advances	**3,253,237**	3,204,622
	184,407,737	187,509,629
Interest receivable	**4,876,202**	4,036,467
	189,283,939	191,546,096
Allowance for loan impairment	**(3,384,094)**	(3,317,213)
Total loans and advances	**185,899,845**	188,228,883
Current	**79,114,803**	54,635,476
Non-current	**106,785,042**	133,593,407
	185,899,845	188,228,883

Allowance for loan impairment
The movement in allowance for loan impairment is as follows:

	2012 $	2011 $
Balance, beginning of year	**3,317,213**	3,046,439
Provision for the year	**66,881**	282,350
Loans written off during the year as uncollectible	**-**	(11,576)
Balance, end of year	**3,384,094**	3,317,213

According to the Eastern Caribbean Central Bank loan provisioning guidelines, the calculated allowance for loan impairment amounts to $3,589,633 (2011: $4,507,502) (see note 22).

Included in interest income is an amount for interest on non-productive loans of $725,841 (2011: $806,511), in accordance with the provisions of International Accounting Standards (IAS) 39. The recognition of interest on non-productive loans is however not in accordance with the prudential guidelines of the Eastern Caribbean Central Bank (ECCB). The total value of non-productive loans and advances at the end of the year amounted to $22,275,605 (2011: $15,888,941). The interest accrued on non-productive loans and advances but not recorded in these financial statements amounted to $2,865,035 (2011: $2,264,603).

Included in loans and advances is an amount due from other financial institutions of $3,167,174 (2011: $8,232,773).

(expressed in Eastern Caribbean dollars)

10 Other assets

	2012 $	2011 $
Items in transit	**199,130**	148,344
Prepaid employee benefit	**1,055,924**	961,166
Prepayments	**629,703**	439,448
Accounts receivable	**65,081**	79,630
Credit card and stationery stock	**68,826**	76,643
Total other assets	**2,018,664**	1,705,231
Current	**893,914**	667,422
Non-current	**1,124,750**	1,037,809
	2,018,664	1,705,231

11 Investment in subsidiaries

	2012 $	2011 $
Bank of Nevis International Limited (100% owned) 100,000 shares at $10 each	**1,000,000**	1,000,000
Bank of Nevis Mutual Fund Limited (73% owned)	**1,100,000**	1,100,000
Bank of Nevis Fund Managers Limited (100% owned)	**250,000**	250,000
Total investment in subsidiaries	**2,350,000**	2,350,000

(expressed in Eastern Caribbean dollars)

12 Property, plant and equipment

	Land $	Buildings $	Furniture and fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Capital work in Progress $	Total $
Year ended June 30, 2011								
Opening net book amount	13,020,000	2,745,500	121,871	205,910	103,864	35,600	484,302	16,717,047
Additions	–	–	–	6,643	93,099	-	4,401,317	4,501,059
Depreciation charge	–	(72,250)	(47,152)	(72,113)	(71,630)	(35,600)	-	(298,745)
Closing net book amount	**13,020,000**	**2,673,250**	**74,719**	**140,440**	**125,333**	**–**	**4,885,619**	**20,919,361**
At June 30, 2011								
Cost or valuation	13,020,000	2,883,822	866,188	794,944	737,108	178,000	4,885,619	23,365,681
Accumulated depreciation	–	(210,572)	(791,469)	(654,504)	(611,775)	(178,000)	–	(2,446,320)
Net book amount	**13,020,000**	**2,673,250**	**74,719**	**140,440**	**125,333**	**–**	**4,885,619**	**20,919,361**

(expressed in Eastern Caribbean dollars)

12 Property, plant and equipment (continued)

	Land $	Buildings $	Furniture and fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Capital work in progress $	Total $
Year ended June 30, 2012								
Opening net book amount	13,020,000	2,673,250	74,719	140,440	125,333	-	4,885,619	20,919,361
Additions	-	-	10,850	162,692	101,559	-	1,856,975	2,132,076
Transfers	-	5,385,424	610,844	291,395	-	-	(6,287,663)	-
Disposals	-	-	(179,520)	(184,686)	(178,805)	-	-	(543,011)
Depreciation charge	-	(206,886)	(135,130)	(129,176)	(73,977)	-	-	(545,169)
Depreciation eliminated on disposal	-	-	173,820	174,843	178,805	-	-	527,468
Closing net book amount	**13,020,000**	**7,851,788**	**555,583**	**455,508**	**152,915**	**-**	**454,931**	**22,490,725**
At June 30, 2012								
Cost or valuation	13,020,000	8,269,246	1,308,362	1,064,345	659,862	178,000	454,931	24,954,746
Accumulated depreciation	-	(417,458)	(752,779)	(608,837)	(506,947)	(178,000)	-	(2,464,021)
Net book amount	**13,020,000**	**7,851,788**	**555,583**	**455,508**	**152,915**	**-**	**454,931**	**22,490,725**

(expressed in Eastern Caribbean dollars)

12 Property, plant and equipment (continued)

During 2008, the land and buildings were revalued to reflect fair value based on current market values by an independent property appraiser. The effective date of the valuation was June 30, 2008. The surplus on revaluation at that date was taken to the revaluation reserve account (See Note 21).

The following is the historical cost carrying amount of land and buildings carried at re-valued amounts:

At June 30, 2012

	Land $	Building $	Total $
Cost	2,307,737	7,693,161	10,000,898
Accumulated depreciation	–	(1,360,939)	(1,360,939)
Net book values	**2,307,737**	**6,332,222**	**8,639,959**

At June 30, 2011

	Land $	Building $	Total $
Cost	2,307,737	4,382,913	6,690,650
Accumulated depreciation	–	(1,154,053)	(1,154,053)
Net book values	**2,307,737**	**3,228,860**	**5,536,597**

(expressed in Eastern Caribbean dollars)

13 Intangible assets

	Computer software $
At June 30, 2011	
Cost	2,586,810
Accumulated Amortisation	(2,282,940)
Net book amount	**303,870**
Year ended June 30, 2011	
Opening net book amount	281,946
Additions	179,689
Amortisation charge	(157,765)
Closing net book amount	**303,870**
At June 30, 2012	
Cost	2,751,717
Accumulated Amortisation	(2,457,010)
Net book amount	**294,707**
Year ended June 30, 2012	
Opening net book amount	303,870
Additions	164,906
Amortisation charge	(174,069)
Closing net book amount	**294,707**

(expressed in Eastern Caribbean dollars)

14 Customers' deposits

	2012 $	2011 $
Time deposits	**133,252,133**	129,493,975
Savings accounts	**87,443,708**	93,782,017
Current accounts	**22,798,798**	24,519,962
	243,494,639	247,795,954
Interest payable	**3,033,774**	2,925,514
Total customers' deposits	**246,528,413**	250,721,468
Current	**239,353,086**	246,887,481
Non-current	**7,175,327**	3,833,987
	246,528,413	250,721,468

Included in customers' deposits at year end are balances for related companies amounting to $2,108,970 (2011: $2,125,995).

Included in the customers' deposits at year end are balances for other financial institutions amounting to $37,339,168 (2011: $32,714,375).

15 Other liabilities and accrued expenses

	2012 $	2011 $
Items-in-transit	**675,033**	1,406,499
Deferred commission on loans and overdrafts	**1,053,740**	1,165,752
Accounts payable and accrued expenses	**1,232,687**	1,023,962
Fair value adjustment on employee loans	**1,055,433**	961,166
Manager's cheques	**273,108**	504,881
Government stamp duty and VAT payable	**157,572**	110,847
Advance deposits for credit cards	**163,547**	108,081
Total other liabilities and accrued expenses	**4,611,120**	5,281,188
Current	**2,501,947**	3,154,270
Non-current	**2,109,173**	2,126,918
	4,611,120	5,281,188

(expressed in Eastern Caribbean dollars)

16 Dividends

During the year, a cash dividend of $0.10 per share amounting to $934,770 was paid. In 2011 a share dividend of one share for every four shares held, was paid for a total value of $1,869,537.

17 Taxation

	2012 $	2011 $
Deferred income tax (asset) liability		
Balance, beginning of year	**(126,633)**	138,930
Deferred tax on depreciation of property, plant and equipment	**483,796**	(194,248)
Deferred tax on revaluation of available-for-sale investment securities	**43,200**	(71,315)
Balance, end of year	**400,363**	(126,633)

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

	2012 $	2011 $
Deferred tax on depreciation of property, plant and equipment	**326,963**	(156,833)
Deferred tax on revaluation of available-for-sale investment securities	**73,400**	30,200
Deferred income tax (asset)/ liability	**400,363**	(126,633)

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

	2012 $	2011 $
Deferred tax on depreciation of property, plant and equipment	**483,796**	(194,248)

	2012 $	2011 $
Income tax payable		
Income tax payable beginning of year	**858,143**	708,649
Payments made during year	**(1,358,785)**	(758,061)
Current tax expense	**681,952**	907,555
Prior year tax expense	**22,452**	-
Income tax payable at end of year	**203,762**	858,143
Taxation expense		
Operating profit for the year	**3,540,120**	6,009,873
Income tax expense at standard rate of 35%	**1,239,042**	2,103,456
Untaxed dividend	**(53,542)**	(956,988)
Untaxed interest income	**(636,832)**	(722,803)
Non-deductible expenses	**815,236**	618,926
Effect of capital cost allowances utilised	**(681,952)**	(135,036)
Effect of movement in deferred taxes	**483,796**	(194,248)
Prior year tax expense	**22,452**	0
Taxation expense	**1,188,200**	713,307

(expressed in Eastern Caribbean dollars)

17 Taxation (continued)

Capital cost allowances

The additions and claims for capital cost allowances during the current year have not been confirmed by the tax authorities. Unclaimed capital cost allowances may be carried forward indefinitely and deducted against future taxable income. The amount claimed is restricted to 50% of the taxable income in any one year.

	2012 $	2011 $
Balance at beginning of year	–	–
Additions during the year	**2,114,435**	385,818
Claims during the year	**(1,948,436)**	(385,818)
Balance end of year	**165,999**	–

18 Due from/to related parties and related party transactions

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

A number of banking transactions were entered into with related parties. These include loans, deposits and other transactions. The details of related party transactions, outstanding balances at the year end and relating expenses and income for the year are as follows:

Subsidiaries:

	2012 $	2011 $
Balances at June 30		
Dividends due from subsidiary	**-**	2,694,900
Other amounts due from subsidiary	**-**	17,346
Deposits held for subsidiaries	**2,108,970**	2,125,995
Other amounts due to subsidiary	**58,583**	-

The other amounts due to and from subsidiaries are unsecured and have no fixed terms of repayment. The interest rate on other amounts due from subsidiary is 6.0% per annum. The interest rate on deposits and other amounts due to subsidiaries range from 0% - 6% per annum.

During the year ended June 30, 2012, the Bank charged its wholly owned subsidiary, Bank of Nevis International Limited, a management fee of $538,980 (2011: 538,980) in respect of management, accounting, informational technology and other services rendered.

	2012 $	2011 $
Transactions for the year ended June 30		
Management fee income	**538,980**	538,980
Interest earned on other amounts due from subsidiary	**7,136**	46,507
Interest expense incurred on deposits and other amounts due to subsidiaries	**39,093**	34,199
Dividends received from subsidiary	**2,694,900**	-
Net deposits (paid) / received (to) / from subsidiaries	**(17,025)**	308,754
Net advances from / (to) subsidiary	**75,929**	(2,019)

(expressed in Eastern Caribbean dollars)

18 Due from/to related parties and related party transactions (continued)

Directors, key management personnel, and related entities

	2012 $	2011 $
Balances at June 30		
Loans and advances outstanding	**10,349,684**	9,770,710
Undrawn credit commitments	**829,996**	608,046
Collateral held on balances outstanding	**27,726,814**	25,707,654
Deposits held	**37,079,328**	34,309,362
Transactions for the year ended June 30		
Net loans and advances extended	**578,974**	307,571
Net deposits received (repaid)	**2,769,966**	(4,419,184)
Interest income earned on loans and advances	**1,077,368**	917,383
Interest expense incurred on deposits held	**2,150,318**	2,150,465
Interest rates on loans and advances	**5.0% - 19.5%**	5.0% - 19.5%
Interest rates on deposits held	**0.0% - 6.5%**	0.0% - 6.75%

Loans and advances to directors are granted on commercial terms and are secured by cash and/or mortgages over real estate.

Loans and advances to key management personnel are granted on terms outlined in the Bank's Staff Advances Policy, which provides for the application of certain preferential terms, including interest rates and collateral arrangements. Collateral arrangements for loans and advances to key management personnel include cash and/or mortgages over properties.

During the year salaries and related benefits of $1,889,178 (2011: $1,681,343) were paid to key members of management, allocated as follows:

	2012 $	2011 $
Salaries and wages	**1,531,673**	1,292,326
Other	**191,021**	191,307
Social Security/Social Services Levy	**97,992**	90,768
Pension	**68,492**	63,742
Gratuity	**-**	43,200
	1,889,178	1,681,343

19 Share capital

	2012 $	2011 $
Authorised share capital 50,000,000 shares of $1 each	**50,000,000**	50,000,000
Issued and fully paid 9,347,687 shares of $1 each	**9,347,687**	**9,347,687**

(expressed in Eastern Caribbean dollars)

20 Statutory Reserve

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

During the year $470,384 was transferred to the statutory reserve (2011:$1,059,313).

21 Revaluation reserve

	2012 $	2011 $
Revaluation reserve – property, plant and equipment	**10,655,328**	10,655,328
Revaluation reserve – available-for-sale investments	**136,317**	56,087
Balance, end of year	**10,791,645**	10,711,415

The movement in the revaluation reserves may be summarised as follows:

	2012 $	2011 $
Balance, beginning of year	**10,711,415**	10,843,855
Depreciation in market value of investment securities, (net of tax)	**80,230**	(132,440)
Balance, end of year	**10,791,645**	10,711,415

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

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

	2012 $	2011 $
Appreciation/ (depreciation) in market value	**123,430**	(203,755)
Less deferred tax credit	**(43,200)**	71,315
Balance, end of year	**80,230**	(132,440)

22 Other reserves

	2012 $	2011 $
Balance at beginning of year	**5,041,322**	4,532,961
Reserve for loan impairment	**(984,750)**	(21,869)
Reserve for interest on non-performing loans	**725,481**	530,644
Reserve for items in transit on correspondent bank accounts	**95,990**	(414)
Total other reserves	**4,878,043**	5,041,322

(expressed in Eastern Caribbean dollars)

22 Other reserves (continued)

	2012 $	2011 $
Other reserves is represented by:		
Reserve for loan impairment	**205,539**	1,190,289
Reserve for interest on non-performing loans	**3,787,582**	3,062,101
Reserve for items in transit on correspondent bank accounts	**884,922**	788,932
	4,878,043	5,041,322

Reserve for loan impairment

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

Reserve for interest on non-performing loans

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

Reserve for items in transit on correspondent bank accounts

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

23 Interest income

	2012 $	2011 $
Loans and advances	**17,134,212**	15,647,571
Treasury bills	**1,686,835**	1,555,153
Deposits with other banks and financial institutions	**493,427**	536,539
Other investment securities	**413,582**	414,774
Deposits with related companies	**7,136**	46,507
Total interest income	**19,735,192**	18,200,544

24 Interest expense

	2012 $	2011 $
Time deposits	**7,693,995**	7,507,047
Savings deposits	**2,322,992**	2,094,814
Demand deposits	**426,404**	401,600
Deposits of related companies	**7,194**	34,199
Total interest expense	**10,450,585**	10,037,660

(expressed in Eastern Caribbean dollars)

25 Other operating income

	2012 $	2011 $
Other fees and commissions	**2,363,038**	1,994,686
Card services fees and commissions	**1,159,853**	1,019,146
Foreign exchange gain	**685,606**	1,018,686
Management fee income (note 18)	**538,980**	538,980
Dividend income	**152,977**	2,734,250
Miscellaneous	**129,838**	37,535
Write back of items in transit	**95,990**	(414)
Bad debts recovered	**11,047**	107,062
Total other operating income	**5,137,329**	7,449,931

Included in dividend income for 2011 is an amount $2,694,900 from the subsidiary company, Bank of Nevis International Limited. The remaining amounts in dividend income relate to available-for-sale investment securities.

26 Earnings per share

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

	2012 $	2011 $
Net profit attributable to shareholders	**2,351,920**	5,296,566
Weighted average number of ordinary shares in issue	**9,347,687**	9,347,687
Basic earnings per share	**0.25**	0.57

27 Pension plan

The Bank maintains a pension plan for its employees. Contributions to the pension plan for the year ended June 30, 2012 amounted to $174,844 (2011: $214,694).

28 Commitments

Credit related and capital commitments

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

	2012 $	2011 $
Undrawn commitments to extend advances	**16,155,290**	17,075,712
Capital commitments	**1,531,016**	2,007,346
Financial guarantees	**-**	483,582
	17,686,306	19,566,640

Included in the amount of undrawn commitments to extend advances above are credit card commitments totalling $5,318,801 (2011: $5,289,321) at the year end.

(expressed in Eastern Caribbean dollars)

29 Cash and cash equivalents

	2012 $	2011 $
Cash and balances with the Central Bank (note 6)	**1,279,813**	1,421,740
Due from banks and other financial institutions (note 7)	**31,297,296**	36,176,451
Investment securities (note 8)	**17,182,208**	24,080,819
Total cash and cash equivalents	**49,759,317**	61,679,010

30 General and administrative expenses

	2012 $	2011 $
Salaries and related costs (note 31)	**5,153,227**	4,691,297
Card processing expense	**991,107**	959,634
Stationery and supplies	**377,674**	333,944
Equipment repairs	**338,100**	266,241
Utilities	**237,269**	186,009
Advertising and promotion	**213,296**	184,530
Insurance expense	**201,047**	203,438
Professional fees	**178,781**	464,567
Telephone costs	**87,413**	93,141
Legal fees	**84,964**	66,583
Security services	**78,534**	72,900
Miscellaneous expenses	**73,974**	24,874
Charge for annual report	**44,613**	47,206
Credit card chargeback losses	**43,912**	20,987
Administrative fees	**41,146**	66,884
ECSE expenses	**41,228**	45,509
Subscriptions and fees	**40,570**	42,937
Taxes and licences	**40,380**	40,100
Stamps and postage	**33,367**	45,746
Repairs and maintenance	**33,584**	37,055
Cables and telexes	**28,428**	31,240
Travel and entertainment	**27,103**	26,378
Cleaning	**24,574**	33,935
Net loss on disposal of fixed assets	**12,908**	-
Annual general meeting	**11,705**	30,548
Cash shorts	**3,264**	8,340
Total general and administrative expenses	**8,442,168**	8,024,023

(expressed in Eastern Caribbean dollars)

31 Salaries and related costs

	2012 $	2011 $
Wages and Salaries	**3,524,102**	3,398,273
Other staff costs	**1,138,039**	778,242
Social Security costs	**316,242**	300,088
Pension costs	**174,844**	214,694
Total salaries and related costs	**5,153,227**	4,691,297