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ST KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Independent Auditors' Report and
Consolidated Financial Statements
For the year ended June 30, 2010

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Contents

June 30, 2010

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Independent auditors' report

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

We have audited the accompanying financial statements of St Kitts-Nevis-Anguilla National Bank Limited and its subsidiaries, which comprise the consolidated balance sheet as of June 30, 2010 and the consolidated statement of income, consolidated statement of comprehensive income (loss) consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes ("the financial statements").

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatements, 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.

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Independent auditors' report (continued)

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of St Kitts-Nevis-Anguilla National Bank Limited and its subsidiaries as of June 30, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to the pension plan disclosure in Note 3, which indicates that the determination of benefit plan obligations involves significant judgement by management, since formal valuations by the Group's actuary were not performed.

Deloitte & Touche

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George Street
St Michael
Barbados

Independence House
North Independence Square
Basseterre
St Kitts

June 30, 2011

ST.KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Consolidated Balance Sheet
As at June 30, 2010

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2010	2009
		$	$
Assets			
Cash and balances with Central Bank	6	102,463	80,710
Treasury bills	7	93,893	93,676
Deposits with other financial institutions	8	333,647	342,249
Loans and receivables - loans and advances to customers	9	1,133,077	1,023,392
- originated debts	10	130,075	86,977
Investment securities - available-for-sale	11	375,449	350,727
Investment in properties	12	10,741	17,054
Income tax asset		7,927	-
Property, plant and equipment	13	31,391	31,931
Other assets	14	78,492	76,356
Total Assets		**2,297,155**	**2,103,072**
Liabilities			
Due to customers	15	1,350,902	1,252,601
Other borrowed funds	16	207,358	182,560
Income tax liability		874	1,422
Accumulated provisions, creditors and accruals	17	214,771	204,928
Deferred tax liability	18	27,902	15,593
Total liabilities		**1,801,807**	**1,657,104**
Shareholders' equity			
Issued share capital	19	135,000	81,000
Share premium		3,877	3,877
Retained earnings		36,681	31,645
Total reserves	20	319,790	329,446
Total shareholders' equity		495,348	445,968
Total liabilities and shareholders' equity		**2,297,155**	**2,103,072**

Approved by the Board of directors on June 14, 2011.

Director ______________________ Director ______________________
Walford V. Gumbs Edmund W. Lawrence

The attached notes form part of these Financial Statements

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Consolidated Statement of Income
For the year ended June 30, 2010

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2010 $	2009 $
Interest income		111,618	113,733
Interest expense		(72,781)	(67,596)
Net interest income	21	38,837	46,137
Provision for credit impairment losses	23	(2,316)	(5,877)
Net interest revenue		**36,521**	**40,260**
Fees and commission income		24,260	46,502
Fee expense		(1,960)	(3,571)
Net fees and commission income	22	**22,300**	**42,931**
Other income	24	32,720	19,406
Operating income		**91,541**	**102,597**
Non-interest expenses			
Administration and general expenses	25	35,982	35,073
Other expenses	26	18,618	18,942
		54,600	54,015
Net income before tax		**36,941**	**48,582**
Income tax expense	18	(2,379)	(7,003)
Net income for the year		**34,562**	**41,579**
Earnings per share	27	**0.26**	**0.31**

The attached notes form part of these Financial Statements.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Consolidated Statement of Comprehensive Income (Loss)

For the year ended June 30, 2010

(expressed in thousands of Eastern Caribbean dollars)

	Note	2010 $	2009 $
Net income for the year		**34,562**	**41,579**
Other comprehensive income:			
Available-for-sale financial assets:			
Unrealised gains (losses) on investment securities		33,118	(73,336)
Tax effect		(11,591)	25,668
Reclassification adjustments for gains included in income		1,391	2,431
Total other comprehensive income (loss)	20	**22,918**	**(45,237)**
Total comprehensive income (loss) for the year	20	**57,480**	**(3,658)**

The attached notes form part of these Financial Statements.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK
Consolidated Statement of Changes in Shareholders' Equity
For the year ended June 30, 2010

(expressed in thousands of Eastern Caribbean dollars)

	Notes	Share Capital	Share Premium	Statutory Reserve	Other Reserve	Revaluation Reserve	Retained Earnings	Total Shareholders' Equity
		$	$	$	$	$	$	$
Balance at June 30, 2008 as restated		**81,000**	**3,877**	**81,000**	**177,286**	**82,530**	**38,918**	**464,611**
Total comprehensive loss for the year	20	-	-	-	-	(45,237)	41,579	**(3,658)**
Reserves for loan impairment	20	-	-	-	(20,000)	-	20,000	-
Transfer to Reserves	20	-	-	-	53,867	-	(53,867)	-
Dividends	28	-	-	-	-	-	(14,985)	**(14,985)**
Balance at June 30, 2009		**81,000**	**3,877**	**81,000**	**211,153**	**37,293**	**31,645**	**445,968**
Total comprehensive income for the year	20	-	-	-	-	22,918	34,562	**57,480**
Transfer to Reserves	20	-	-	6,640	14,786	-	(21,426)	-
Increase in share capital	20	54,000	-	-	(54,000)	-	-	-
Dividends	28	-	-	-	-	-	(8,100)	**(8,100)**
Balance at June 30, 2010		**135,000**	**3,877**	**87,640**	**171,939**	**60,211**	**36,681**	**495,348**

The attached notes form part of these Financial Statements.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Consolidated Statement of Cash Flows

For the year ended June 30, 2010

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2010	2009
Cash flows from operating activities:		**$**	**$**
Net income before tax			
Adjustments for:		36,941	48,582
Interest income			
Interest expense		(111,618)	(113,733)
Depreciation & amortisation		72,781	67,596
Provision for credit impairment losses		2,862	2,354
Gain on disposal of property, plant and equipment		2,316	5,877
Operating income before changes in operating assets and liabilities		-	(84)
(Increase)/decrease in operating assets:		3,282	10,592
Loans and advances to customers			
Mandatory deposit with the Central Bank		(111,071)	(70,115)
Other accounts		(7,189)	(8,674)
Increase/(decrease) in operating liabilities:		3,370	(14,625)
Customers' deposits			
Due to other financial institutions		102,465	(13,525)
Accumulated provisions, creditors, and accruals		(623)	(12,351)
Cash used in operations		9,750	(39,399)
Interest received		(16)	(148,097)
Interest paid		105,583	110,624
Income tax paid		(72,843)	(79,763)
Net cash generated from/(used in) operating activities		(10,983)	(53,112)
Cash flows from investing activities:		**21,741**	**(170,348)**
Purchase plant, equipment and intangible assets			
Proceeds from disposal of plant and equipment		(1,932)	(6,391)
(Increase)/decrease in special term deposits		2	185
(Increase) in restricted term deposits		(36,317)	14,018
Proceeds from disposal of investment securities		(15,534)	(13,265)
Purchase of investment securities		180,371	147,780
Net cash used in investing activities		(213,198)	(182,736)
Cash flows from financing activities:		**(86,608)**	**(40,409)**
Other borrowed funds			
Dividend paid		25,561	3,908
Net cash generated from/(used in) financing activities		(8,100)	(14,985)
		17,461	**(11,077)**
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of year		**(47,406)**	**(221,834)**
Cash and cash equivalents at end of year		**275,382**	**497,216**
	31	**227,976**	**275,382**

The attached notes form part of these Financial Statements.

(expressed in thousands of Eastern Caribbean dollars)

1. General information

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

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

The principal activities of the Bank and its subsidiaries ("the Group) are described below. The Bank is principally involved in the provision of financial services.

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

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

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

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

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

The Insurance Company was incorporated on the 20th day of June, 1973 under the Companies Act chapter 335, but was re-registered under the new Companies Act No. 22 of 1996 on the 14th day of April 1999. The Trust Company has a minority shareholding interest in the Insurance Company.

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

2. Adoption and amendments of published standards and interpretations

2.1 Amendments and published standards adopted in current period

- *IAS 19 (Amendment), 'Employee benefits'* (effective for annual periods beginning on or after January 1, 2009). This amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment; an amendment that changes benefit attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short-term and long-term employee benefits is based on whether benefits are due to be settled within or after 12 months of employee service being rendered. IAS 37, „Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed not recognised. IAS 19 has been amended to be consistent in this regard.

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

- *IAS 1 (Amendment), 'Presentation of financial statements'* (effective for annual periods beginning on or after January 1, 2009). This amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, „Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. IAS 39 (Amendment) has had no impact on the Group financial statements.

- *IAS 36 (Amendment), 'Impairment of assets'* (effective for annual periods beginning on or after January 1, 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

(expressed in thousands of Eastern Caribbean dollars)

2. Adoption and amendments of published standards and interpretations…*continued*

2.1 Amendments and published standards adopted in current period….*continued*

- *IAS 38 (Amendment), 'Intangible assets'* (effective for annual periods beginning on or after January 1, 2009). Prepayments may only be recognized in the event that those payments have been made in advance of obtaining right of access to goods or receipt of services. The amendment deletes the wording that states that there is „rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment does not have an impact on the Group's operations as all intangible assets are amortised using the straight line method.

- *IFRS 7 (Amendments), 'financial instruments: Disclosures'* (effective from March 1, 2009). The amendment requires enhanced disclosure about fair value measurements and liquidity risk. Also, the amendment requires disclosure of fair value measurements by level in a fair value hierarchy. This enhanced disclosure is found in Note 4.

- *IFRS 8, 'Operating segments',* replaces IAS 14, „Segment reporting' (effective for annual periods beginning on or after January 1, 2009). The new standard requires that segment reporting be based on the internal reporting to the Board of Directors (in its function as chief operating decision-maker), which makes decisions on the allocation of resources and assesses the performance of each reportable segment. Application of this standard has no material effect on the Group.

- *IAS 37, 'Provisions, contingent liabilities and contingent assets'*, requires contingent liabilities to be disclosed, not recognized. As a result, IAS 19 has been amended to be consistent.

- *IAS 27 (Amendment), 'Consolidated and separate financial statements'* (effective for annual periods beginning on or after January 1, 2009). Where an investment in a subsidiary that is accounted for under IAS 39, „Financial instruments: Recognition and measurement' is classified as held for sale under IFRS 5, „Non-current assets held for sale and discontinued operations', IAS 39 continues to be applied. The amendment has no impact on the Group.

2.2 Standards and amendments to existing standards not yet effective and have not been early adopted

- *IFRS 1 (Amendment), 'First-time adoption of international financial reporting standards'* - Additional exemptions for first-time adopters (effective for annual periods beginning on or after January 1, 2010).

- *IFRS 1, 'First-time adoption of international financial reporting standards'* – Limited exemption from comparative IFRS 7 „Disclosures for first-time adopters' (effective for annual periods beginning on or after July 1, 2010).

(expressed in thousands of Eastern Caribbean dollars)

2. Adoption and amendments of published standards and interpretations…*continued*

2.2 Standards and amendments to existing standards not yet effective and have not been early adopted ….*continued*

- *IAS 32 (Amendment), 'Financial instruments: Presentation – Classification of rights issues' (*effective for annual periods beginning on or after February 1, 2010).

- *IFRS 9, 'Financial instrument: Classification and measurement'* (effective for annual periods beginning on or after January 1, 2013).

- *IAS 24 (Revised), 'Related party disclosure'* (effective for annual periods beginning on or after January 1, 2011).

The following amendments became effective for annual periods beginning on or after January 1, 2010:

- *IAS 1, 'Presentation of financial statements current/non-current classification of convertible instruments'*
- *IAS 7, 'Statement of cash flows classification of expenditures on unrecognized assets'*
- *IAS 17, 'Leases classification of land and buildings'*
- *IAS 36, 'Impairment of assets unit of accounting for goodwill impairment testing'*
- *IAS 38, 'Intangible assets consequential amendments arising from IFRS 3 – Measuring fair value'*
- *IAS 39, 'Financial instruments: recognition and measurement assessment of loan prepayment penalties as embedded derivatives. Scope exemption for business combination contract. Cash flow hedge accounting'*
- *IFRS 5, 'Non- current assets held for sale and discontinued operation disclosure'*
- *IFRIC 9, 'Reassessment of embedded derivatives Scope IFRIC 9 and IFRS 3'*
- *IFRIC 14 (Amendment), 'Prepayment of a minimum funding requirement'* (effective for annual periods beginning on or after January 1, 2011)
- *IFRIC 16 (Amendment), 'Hedges of a net investment in a foreign operation – restriction on entities that can hold hedging instruments'*
- *IFRIC 19, 'Extinguishing financial liabilities with equity instruments'* (effective for annual periods beginning on or after July 1, 2010).

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

3. Summary of significant accounting policies

3.1 Statement of compliance

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

(expressed in thousands of Eastern Caribbean dollars)

3. Summary of significant accounting policies…..*continued*

3.2 Basis of preparation

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

3.3 Basis of consolidation

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

3.4 Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in „Eastern Caribbean dollars’, which is the functional currency of the Bank and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognised at the mid-rate of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the mid-rate of exchange at that date. Non-monetary items are not retranslated. The resultant exchange differences are recognised in the statement of income in the period they arise.

3.5 Financial assets

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

(a) ***Financial assets at fair value through profit or loss***
Certain investments, such as equity investments, principal protected investments and others, that are managed and evaluated on a fair value basis in accordance with a documented investment strategy and reported to management on that basis are designated at fair value through profit or loss.

(expressed in thousands of Eastern Caribbean dollars)

3. Summary of significant accounting policies…..*continued*

3.5 Financial assets……………………………..*continued*

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised when cash or the right to cash is advanced to a borrower with no intention of trading the receivable.

Loans and advances to customers are carried at amortised cost using the effective interest method.

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

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

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

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

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date, the date on which the Group commits to purchase or sell an asset.

Financial assets are initially recognised at fair value plus transaction cost for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

Available-for-sale financial assets and financial assets at fair value through profit or loss are substantially carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the „financial assets at fair value through profit or loss' category are included in the statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial assets are derecognised or impaired, at which time, the cumulative gain or loss previously recognised in other comprehensive income is then recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in the statement of income when the right to receive payment is established.

(expressed in thousands of Eastern Caribbean dollars)

3. Summary of significant accounting policies…..*continued*

3.5 Financial assets……………………………..*continued*

The fair values of quoted investments in active markets are based on the current bid prices. If the market for a financial asset is not active (such as investments in unlisted entities) and the fair value cannot be reliably measured, these assets are measured at cost.

3.6 Financial liabilities

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

3.7 Interest income and expense

Interest income and interest expense on all interest-bearing financial instruments are recognised within "interest income" and "interest expense", respectively, in the statement of income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, estimates of cash flows that consider all contractual terms of the financial instrument are included (for example, repayment options), except future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

3.8 Fee and commission income

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

(expressed in thousands of Eastern Caribbean dollars)

3. Summary of significant accounting policies…..*continued*

3.9 Other income

Other income is recognised in the statement of income on an accrual basis when the service is measurable and the income is earned. Included in other income are dividend income and insurance premiums.

3.10 Impairment of financial assets

(a) *Assets carried at amortised cost*

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

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

3. Summary of significant accounting policies…..*continued*

3.10 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 or may not result from foreclosure less cost for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

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

(c) *Renegotiated loans*

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

3.11 Property, plant and equipment

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

(expressed in thousands of Eastern Caribbean dollars)

3. Summary of significant accounting policies…..*continued*

3.11 Property, plant and equipment...………*continued*

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

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

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

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

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

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

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

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

3.12 Intangible assets – computer software

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

(expressed in thousands of Eastern Caribbean dollars)

3. Summary of significant accounting policies…..*continued*

3.13 Impairment of non-financial assets

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

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

3.14 Leases

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

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

3.15 Cash and cash equivalents

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

3.16 Employee benefits

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

Where the pension calculation results in a net surplus, the recognised assets should not exceed the net total of any recognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise amortised on a straight-line basis over the average period until the benefits become vested.

(expressed in thousands of Eastern Caribbean dollars)

3. Summary of significant accounting policies…..*continued*

3.16 Employee benefits………………………...*continued*

(a) *Pension plan*……………………………….*continued*
The Group did not utilize an actuary in the determination of the defined benefit obligation so this was based on management's judgement. No formal valuations were completed, with the benefit obligation based on management's accumulated experience and knowledge of the business and therefore involved significant sources of estimation uncertainty. The Group however believes that the obligations benefit is sufficient but intend to implement a formal valuation process going forward, utilizing an actuarial specialist.

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

3.17 Current and deferred income tax

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

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

3. Summary of significant accounting policies…..*continued*

3.18 Borrowings

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

3.19 Guarantees and letters of credit

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

3.20 Share capital

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

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

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

3.21 Insurance business

Life insurance

The determination of life actuarial liabilities policies is based on the Net Level Premium ("NLP") reserve method. This reserve method uses net premiums as opposed to calculating reserves on a first principles gross premium valuation. The NLP reserve method does not use lapse rates or expenses and takes into consideration only the bonus additions allocated to the policy to date. Future bonus additions are not considered in the valuation. The Group utilizes an actuary for the determination of the actuarial liabilities. These liabilities consists of amounts that together with future premiums and investment income are required to provide for policy benefits, expenses and taxes on life insurance contracts. The process of calculating actuarial liabilities for future policy benefits involves the use of estimates concerning factors such as mortality and morbidity rates, future investment yields and future expense levels and persistency.

(expressed in thousands of Eastern Caribbean dollars)

3. Summary of significant accounting policies…..*continued*

3.21 Insurance business………………………..*continued*

Health insurance

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

Property and casualty insurance

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

Reinsurance

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

4. Financial risk management

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

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management……………………*continued*

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

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

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

4.1 Credit risk

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

The Group's exposure to credit risk is managed through regular analysis of the ability of its borrowers and potential borrowers to meet interest and capital repayment obligations. Credit risk is managed also in part by the taking of collateral and corporate and personal guarantees as securities on advances and by dealing with reinsures with S&P ratings of AA- to A- or better.

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management……………………*continued*

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

	Maximum exposure	
Credit risk exposures relating to on-balance sheet assets are as follows:	**2010** **$**	**2009** **$**
Treasury bills	93,893	93,676
Deposits with other financial institutions	333,647	342,249
Loans and advances:		
• Overdrafts	153,996	264,205
• Corporate customers	135,080	73,019
• Term loans	735,338	585,727
• Mortgages (personal)	108,663	100,441
• Originated debts	130,075	86,977
• Available-for-sale investments	120,468	67,997
Other assets	33,096	31,656
Credit risk exposures relating to on-balance sheet assets are as follows:		
• Loan commitments and financial guarantees	53,693	20,745
Total	**1,897,949**	**1,666,692**

The above table represents a worst case scenario of credit risk exposure to the Group at June 30, 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet. As shown above, 60% (2009 – 62%) of the total maximum exposure is derived from loans and advances to customers; 6% (2009 – 9%) represents investments in debt securities.

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…….*continued*

4.1.2 Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at June 30, 2010, based on Standard & Poor's ratings or equivalent:

	Treasury bills $	Investment securities $	Loans and receivables - notes & bonds $	Total $
AAA	-	6,118	-	**6,118**
AA- to AA+	-	3,589	-	**3,589**
A- to A+	-	35,881	-	**35,881**
Lower than A-	-	19,547	-	**19,547**
Unrated/internally rated	93,893	187,523	130,075	**411,491**
Total	**93,893**	**252,658**	**130,075**	**476,626**

4.1.3 Sectoral analysis of the loans and advances portfolio

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

	2010 $	2009 $
Consumers	130,258	117,474
Agriculture, fisheries and manufacturing	5,276	5,463
Construction and land development	40,774	42,268
Distributive trade, transportation and storage	10,527	10,986
Tourism, entertainment and catering	20,751	22,896
Financial institutions	11,758	12,292
State, statutory bodies and public utilities	879,403	779,758
Professional and other services	13,437	13,798
Gross	**1,112,184**	**1,004,935**

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…….*continued*

4.1.4 Concentration of risks of financial assets with credit exposure

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

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

June 30, 2009	Public Sector	Construction	Tourism	Financial Institutions	Individuals	Other Industries	Total
Treasury Bills	93,676	-	-	-	-	-	93,676
Deposit with financial institutions	-	-	-	342,249	-	-	342,249
Loans and receivables:							
- Originated debts	76,497	-	-	1,300	-	9,180	86,977
- Loans & Advances	779,758	46,309	31,350	12,197	121,641	32,137	1,023,392
Investments – available-for-sale	-	-	-	-	-	67,997	67,997
Other assets	-	-	-	-	22	68,337	68,359
Total	**949,931**	**46,309**	**31,350**	**355,746**	**121,663**	**177,651**	**1,682,650**

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…….*continued*

4.2 Market risk

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

The Group is also exposed to market risk associated with events arising from catastrophic occurrences. This risk is managed by adequate reinsurance and the maintenance of a claims equalization reserve.

4.2.1 Price risk

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

4.2.2 Foreign exchange risk

The Group is exposed to foreign exchange risk through fluctuation in certain prevailing foreign exchange rates on its financial position and cash flows. The Board of Directors limits the level of exposure by currency and in total which are monitored daily. The Group's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The Group uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollars (EC$). The Group has set the mid-rate of exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) at EC$2.7026 = US$1.00 since 1976. The following table summarises the Group's exposure to foreign currency exchange rate risk at June 30, 2010. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…….*continued*

4.2.2 Foreign exchange risk…….*continued*

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

As at June 30, 2010	ECD	USD	EURO	GBP	CAN	BDS	GUY	TOTAL
	$	$	$	$	$	$	$	$
Assets								
Cash & balances with Central Bank	99,614	2,668	41	75	41	24	-	102,463
Treasury bills	93,893	-	-	-	-	-	-	93,893
Deposits with other financial bodies	53,908	273,208	1,022	758	4,137	601	13	333,647
Loans and receivables:								
- Loans and advances to customers	1,133,077	-	-	-	-	-	-	1,133,077
- Originated debts	128,578	1,497	-	-	-	-	-	130,075
Investments	-	-	-	-	-	-	-	-
- Available-for-sale	9,947	365,502	-	-	-	-	-	375,449
- Held to maturity	-	-	-	-	-	-	-	-
Other assets	43,975	27,713	-	-	-	-	-	71,688
Total financial assets	**1,562,992**	**670,588**	**1,063**	**833**	**4,178**	**625**	**13**	**2,240,292**
Liabilities								
Due to Customers	1,109,734	236,457	558	526	3,627	-	-	1,350,902
Other borrowed funds	-	202,312	-	-	-	-	-	202,312
Other liabilities	139,898	68,753	42	379	147	58	-	209,277
Total financial liabilities	1,249,632	507,522	600	905	3,774	58	-	1,762,491
Net on-balance sheet positions	**313,360**	**163,066**	**463**	**(72)**	**404**	**567**	**13**	**477,801**
Credit commitments	**48,647**	-	-	-	-	-	-	**48,647**

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(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…….*continued*

4.2.2 Foreign exchange risk…….*continued*

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

As at June 30, 2009	**ECD**	**USD**	**EURO**	**GBP**	**CAN**	**BDS**	**GUY**	**TOTAL**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Total financial assets	1,425,329	629,434	613	913	700	886	5	2,057,880
Total financial liabilities	1,176,145	448,261	632	983	1,254	58	-	1,627,333
Net on-balance sheet positions	**249,184**	**181,173**	**(19)**	**(70)**	**(554)**	**828**	**5**	**430,547**
Credit commitments	**15,559**	-	-	-	-	-	-	**15,559**

4.2.3 Interest rate risk

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

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…….*continued*

4.2.3 Interest rate risk………….*continued*

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

As at June 30, 2010	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Non-interest Bearing $	Total $
Assets							
Cash & balances with Central Bank	-	-	-	-	-	102,463	102,463
Treasury bills	-	93,893	-	-	-	-	93,893
Deposits with other financial institutions	156,632	14,757	97,047	-	-	65,211	333,647
Loans and advances - Customers	214,983	1,744	32,746	103,203	772,301	8,100	1,133,077
- Originated debts	1,152	1,422	5,994	32,968	88,539	-	130,075
Investments – Available-for-sale	3,468	1,245	1,406	61,358	52,991	254,981	375,449
Other assets	-	-	-	-	-	71,688	71,688
Total assets	**376,235**	**113,061**	**137,193**	**197,529**	**913,831**	**502,443**	**2,240,292**
Liabilities							
Due to customers	572,571	56,246	553,349	-	-	168,736	1,350,902
Other borrowed funds	270	270	2,433	9,729	188,746	864	202,312
Other liabilities	-	-	950	-	-	208,327	209,277
Total liabilities	**572,841**	**56,516**	**556,732**	**9,729**	**188,746**	**377,927**	**1,762,491**
Total Interest repricing gap	**(196,606)**	**56,545**	**(419,539)**	**187,800**	**725,085**		

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…….*continued*

4.2.3 Interest rate risk…………*continued*

As at June 30, 2009	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Non interest Bearing $	Total $
Total financial assets	475,661	164,318	95,059	85,916	735,203	519,361	2,075,518
Total financial liabilities	487,157	66,150	517,374	7,791	170,449	387,455	1,636,376
Total Interest repricing gap	**(11,496)**	**98,168**	**(422,315)**	**78,125**	**564,754**		

The Group fair value interest rate risk arises from debt securities classified as available-for-sale. At June 30, 2010 if market interest rates had been 100 basis points higher/lower with all variables held constant, equity for the year would have been $1.085 million lower/higher as a result of the decrease/increase in fair value of available-for-sale debt securities.

Cash flow interest rate risk arises from loans and advances to customers at available rates. At June 30, 2010 if variable rates had been 100 basis points higher/lower with all other variables held constant, post-tax profits for the year would have been $10.782 million higher/lower; mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

4.3 Liquidity risk

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

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…….*continued*

4.3 Liquidity risk………………..*continued*

4.3.1 Liquidity risk management

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

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

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

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

- Managing the concentration and profile of debt maturities.

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

4.3.2 Funding approach

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

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…….*continued*

4.3.3 Financial assets and liabilities cash flows

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

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
As at June 30, 2010	$	$	$	$	$	$
Financial Liabilities						
Due to customers	734,344	57,980	558,578	-	-	1,350,902
Other borrowed funds	270	270	3,296	9,730	188,746	202,312
Other liabilities	155,351	2,480	47,295	4,151	-	209,277
Total financial liabilities	**889,965**	**60,730**	**609,169**	**13,881**	**188,746**	**1,762,491**
Total financial assets	**902,176**	**113,934**	**153,955**	**179,570**	**890,657**	**2,240,292**
As at June 30, 2009						
Total financial liabilities	**740,680**	**71,481**	**641,822**	**11,944**	**170,449**	**1,636,376**
Total financial assets	**651,338**	**161,120**	**94,854**	**141,649**	**1,026,557**	**2,075,518**

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…….*continued*

4.3.4 Off-balance sheet items

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

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

As at June 30, 2010	Up to 1 year $	1 – 3 years $	Over 3 years $	Total $
Loan commitments	39,217	3,053	6,377	48,647
Guarantees and standby letters of credit	950	-	4,096	5,046
Total	**40,167**	**3,053**	**10,473**	**53,693**
As at June 30, 2009				
Loan commitments	6,747	2,934	5,878	15,559
Guarantees and standby letters of credit	1,090	-	4,096	5,186
Total	**7,837**	**2,934**	**9,974**	**20,745**

4.4 Fair values of financial assets and liabilities

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

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

(a) Treasury bills

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

(b) Deposits with other financial institutions

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

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…....*continued*

4.4 Fair values of financial assets and liabilities…..*continued*

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

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

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

(f) Due to financial institutions
The estimated fair value of „due to financial institutions' is the amount payable on demand which is the amount recorded.

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

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

	Carrying Value		**Fair Value**	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Treasury bills	**93,893**	93,676	**93,893**	93,676
Deposits with other financial institutions	**333,647**	342,249	**333,647**	342,249
Loans and receivables:				
Overdraft	**153,996**	264,205	**164,460**	267,174
Corporate	**197,482**	73,019	**326,405**	203,700
Mortgage	**108,664**	100,441	**213,885**	184,552
Term	**672,935**	585,727	**802,196**	737,698
Originated debts	**130,075**	86,980	**130,075**	86,980

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…………………….....*continued*

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

	Carrying Value		Fair Value	
	2010	2009	2010	2009
	$	$	$	$
Due to customers	**1,350,902**	1,252,601	**1,350,902**	1,252,601
Due to financial institutions	-	623	-	623
Other borrowed funds	**202,312**	176,751	**202,312**	176,751

4.4.1 Fair value measurements recognised in the balance sheet

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair values measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Available-for-sale financial assets				
Debt securities	119,639	-	-	**119,639**
Equities	244,603	-	-	**244,603**
Unquoted equities	-	-	11,207	**11,207**
	364,242	**-**	**11,207**	**375,449**

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

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management……………………….....*continued*

4.4.1 Fair value measurements recognised in the balance sheet…..*continued*

Reconciliation of Level 3 fair value measurements of financial assets

Available-for-sale financial assets

	Equities $
Opening balance	11,062
Additions	145
Disposals	-
	11,207

The table above includes financial assets only.

4.5 Capital management

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

- To comply with the capital requirements set by the Banking Act and the Insurance Act;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group management. For the Bank, techniques are employed based on guidelines developed by the Eastern Caribbean Central Bank ("the Authority") for supervisory purposes.

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

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

- Tier 1 capital: share capital, retained earnings and reserves created by appropriation of retained earnings.
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowance and unrealised gains arising from the fair valuation of security instruments held as available for sale.

(expressed in thousands of Eastern Caribbean dollars)

4. Financial risk management…….*continued*

4.5 Capital management………..*continued*

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

The table below summarises the composition of regulatory capital and calculated capital ratios of the Bank for the years ended June 30, 2010 and 2009. During those two years, the Bank complied with all of the externally imposed capital requirements to which it must comply.

	2010 $	2009 $
Tier 1 capital		
Share capital	135,000	81,000
Bonus shares from capitalization of unrealised asset revaluation gain reserve	(4,500)	(4,500)
Reserves	263,456	296,030
Retained earnings	36,681	31,645
Total qualifying Tier 1 capital	**430,637**	**404,175**
Tier 2 capital		
Revaluation reserve – available-for-sale investments	50,545	27,627
Revaluation reserve – property, plant and equipment	9,666	9,666
Bonus shares capitalization	4,500	4,500
Accumulated impairment allowance	39,075	36,810
Total qualifying Tier 2 capital	**103,786**	**78,603**
Total regulatory capital	**534,423**	**482,778**
Risk-weighted assets:		
On-balance sheet	770,768	727,600
Off-balance sheet	12,483	11,527
Total risk-weighted assets	**783,251**	**739,127**
Tier 1 capital ratio	**55%**	**55%**
Total capital ratio	**68%**	**65%**

(expressed in thousands of Eastern Caribbean dollars)

5. Critical accounting estimates and judgments

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

(a) Impairment losses on loans and advances
The Group reviews its loan portfolio of assets impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with a individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated $1,475,905 lower or $1,690,238 higher.

(b) Impairment of available-for-sale equity investments
The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, when there is evidence of deterioration in the financial health of the investee industry and sector performance, changes in technology and operational and financing cash flows. There were no declines in fair value below cost considered significant or prolonged as at June 30, 2010.

(c) *Insurance contract liabilities, actuarial liabilities and pension obligation*
The estimation of the ultimate liability arising from claims made under insurance contracts and the pension plan is a critical accounting estimate. An actuary is contracted to regularly assess the adequacy of the reported reserves.

(d) Pension obligation
The determination of the plan obligations involves significant judgment by management, since formal valuations by the Group’s actuary were not completed.

(expressed in thousands of Eastern Caribbean dollars)

6. Cash and balances with Central Bank

	2010 $	2009 $
Cash in hand	8,589	8,345
Balances with Central Bank other than mandatory deposits	7,917	(6,402)
Included in cash and cash equivalent (Note 31)	**16,506**	**1,943**
Mandatory deposits with Central Bank	85,957	78,767
	102,463	**80,710**

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

7. Treasury bills

	2010 $	2009 $
Government of St. Kitts and Nevis maturing August 17, 2010 at 6.5% interest	**93,893**	**93,676**

Treasury bills are debt securities issued by a sovereign government. They also form part of cash and cash equivalents (Note 31). Treasury bills include restricted assets which are used as collateral for the Group's pension plans.

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

8. Deposits with other financial institutions

	2010 $	2009 $
Operating cash balances	94,618	123,306
Items in the course of collection	3,054	5,569
Interest bearing term deposits	19,905	50,888
Included in cash and cash equivalent (Note 31)	**117,577**	**179,763**
Special term deposits *	51,062	14,101
Restricted term deposits **	159,378	144,355
Interest receivable	5,630	4,030
	333,647	**342,249**

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

(expressed in thousands of Eastern Caribbean dollars)

8. Deposits with other financial institutions………..*continued*

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

Interest earned on both „Special term deposits' and „Restricted term deposits' is credited to income. The effective interest rate on „Deposits with other financial institutions at June 30, 2010 was 3.13% (2009 – 2.34%).

9. Loans and advances to customers

	2010 $	2009 $
Overdrafts	141,675	250,684
Mortgages	73,366	68,974
Demand	210,512	225,459
Special term	609,979	387,500
Other secured	15,901	16,375
Consumer	6,385	6,433
Productive loans and advances	**1,057,818**	**955,425**
Non-productive loans and advances	54,367	49,510
Less allowance for credit impairment (Note 23)	(39,075)	(36,810)
Interest receivable	59,967	55,267
Net loans and advances	**1,133,077**	**1,023,392**

The weighted average effective interest rate on productive loans and advances at amortized cost at June 30, 2010 was 8.19% (2009 – 8.15%) and on productive overdraft stated at amortized cost was 11.8% (2009 – 10.22%).

	2010	2009
Loans and advances to customers	**$**	**$**
Neither past due nor impaired	975,655	851,876
Past due but not impaired	82,163	103,549
Impaired	54,367	49,510
	1,112,185	**1,004,935**
Interest receivable	59,967	55,267
Less allowance for credit impairment (Note 23)	(39,075)	(36,810)
Net	**1,133,077**	**1,023,392**

(expressed in thousands of Eastern Caribbean dollars)

9. Loans and advances to customers…*continued*

The total allowance for impairment losses on loans and advances is $39,074,583 (2009 - $36,810,947). Further information of the allowance for impairment losses on loans and advances to customers is provided in Note 23.

(a) *Loans and advances neither past due nor impaired*

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

June 30, 2010	**Overdrafts $**	**Term loans $**	**Mortgages $**	**Corporate customers $**	**Total Loans and advances to customers $**
Loans and advances to customers					
Classifications:					
1. Pass	94,482	648,103	65,315	42,854	850,754
2. Special monitoring	47,193	902	4,929	71,877	124,901
Gross	**141,675**	**649,005**	**70,244**	**114,731**	**975,655**

June 30, 2009	**Overdrafts $**	**Term loans $**	**Mortgages $**	**Corporate customers $**	**Total Loans and advances to customers $**
Loans and advances to customers					
Classifications:					
1. Pass	164,992	357,549	65,237	107,622	695,400
2. Special monitoring	85,692	1,370	4,004	65,410	156,476
Gross	**250,684**	**358,919**	**69,241**	**173,032**	**851,876**

(b) *Loans and advances past due but not impaired*

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

(expressed in thousands of Eastern Caribbean dollars)

9. Loans and advances to customers………………………*continued*

(b) *Loans and advances past due but not impaired…* *continued*

At June 30, 2010	Term loans $	Mortgages $	Corporate customers $	Total $
Past due up to 30 days	1,726	8,995	530	11,251
Past due 30 – 60 days	659	3,492	-	4,151
Past due 60 – 90 days	62,915	1,855	-	64,770
Over 90 days	587	1,404	-	1,991
Gross	**65,887**	**15,746**	**530**	**82,163**
Fair value of collateral	88,796	29,845	840	117,481
At June 30, 2009				
Past due up to 30 days	65,324	7,693	5,940	78,957
Past due 30 – 60 days	486	2,492	18,789	21,767
Past due 60 – 90 days	518	423	-	941
Over 90 days	174	1,710	-	1,884
Gross	**66,502**	**12,318**	**24,729**	**103,549**
Fair value of collateral	77,767	26,846	91,681	196,294

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

(c) *Loans and advances individually impaired*

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $54,366,608 (2009 - $49,510,163).

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

June 30, 2010	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total loans and advances to customers $
Pass	-	95	146	-	241
Special mention	-	94	353	-	447
Substandard	2,144	3,591	13,267	20,219	39,221
Doubtful	3,834	3,019	4,289	3,149	14,291
Loss	167	-	-	-	167
Total	**6,145**	**6,799**	**18,055**	**23,368**	**54,367**
Fair value of collateral	10,819	19,586	34,024	135,852	200,281

(expressed in thousands of Eastern Caribbean dollars)

9. Loans and advances to customers…*continued*

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

June 30, 2009	**Overdrafts $**	**Term loans $**	**Mortgages $**	**Corporate customers $**	**Total Loans and advances to customers $**
Pass	-	27	36	-	63
Special mention	-	91	-	96	187
Substandard	2,441	1,453	11,537	18,665	34,096
Doubtful	4,133	1,307	4,647	4,908	14,995
Loss	166	2	-	1	169
Total	**6,740**	**2,880**	**16,220**	**23,670**	**49,510**
Fair value of collateral	13,632	16,275	27,865	132,388	190,160

(d) *Loans and advances renegotiated*

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

10. Originated debt

	2010 $	**2009 $**
Government of St. Kitts and Nevis bonds maturing March 03, 2020 at 8.25 % interest	75,000	75,000
Eastern Caribbean Home Mortgage Bank Long-term bond maturing July 01, 2010 at 5.5 % interest	1,000	1,000
Government of Antigua 7-year long-term note maturing April 30, 2017 at 6.7% interest	39,178	-
Antigua Commercial Bank 10% interest rate series A bond maturing December 31, 2016	1,497	1,497
Balance carried forward	**116,675**	**77,497**

(expressed in thousands of Eastern Caribbean dollars)

10. Originated debt*…continued*

	2010 $	2009 $
Balance brought forward	**116,675**	**77,497**
Government of St. Vincent & The Grenadines 10-year bond maturing December 17, 2019 at 7.5% interest	5,000	-
Grenada Electricity Services Limited 10-year 7 % bond maturing December 18, 2017	8,100	9,180
Caribbean Credit Card Corporation unsecured loan at 10 % interest with no specific terms of repayment	300	300
Total	**130,075**	**86,977**

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

11. Investment securities

	2010 $	2009 $
Available-for-sale securities		
Securities at fair value:		
-- Unlisted securities	11,421	11,144
-- Listed securities	363,846	339,136
-- Interest receivable	182	447
Sub-total	**375,449**	**350,727**

The movement in held-to-maturity, available-for-sale, fair value through profit or loss and loans and receivables – originated debt financial assets during the year is as follows:

June 30, 2010

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

(expressed in thousands of Eastern Caribbean dollars)

11. Investment securities…………*continued*

June 30, 2009

	Held-to maturity	Available-for-sale	Loans and receivable-originated debts	Total
	$	$	$	$
Balance - June 30, 2008	**1,000**	**380,558**	**90,760**	**472,318**
Additions	-	182,736	-	**182,736**
Disposal (sales/redemption)	(1,000)	(134,670)	(3,783)	**(139,453)**
Fair value gains (losses)	-	(78,344)	-	**(78,344)**
Interest receivable	-	447	-	**447**
Total as at June 30, 2009	**-**	**350,727**	**86,977**	**437,704**

12. Investment in properties

	2010	2009
	$	$
Balance at beginning of the year	**17,054**	**28,741**
Adjustment to purchase price	**-**	(11,474)
Disposals	(6,313)	(213)
Total	**10,741**	**17,054**

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

(expressed in thousands of Eastern Caribbean dollars)

13. Property, plant and equipment

	2010 $	2009 $
Land	4,593	4,593
Buildings	19,774	20,556
Equipment, furniture and fittings	3,833	3,786
Motor vehicles	238	322
Reference books	15	13
Projects ongoing	2,938	2,661
Net book value	**31,391**	**31,931**

14. Other assets

	2010 $	2009 $
Prepayments	30,036	31,190
Stationery and card stock	658	540
Customers' liability under acceptances, guarantees and letters of credit	5,046	5,186
Intangible assets	1,204	1,598
Deferred tax asset	358	201
Insurance and other receivables	41,190	37,641
Total	**78,492**	**76,356**

Section 23 (1) of the St. Christopher and Nevis Insurance Act, No. 8 of 2009 and Section 8 (2) of the Anguilla Insurance Act 2004, require all registered insurance companies to maintain statutory deposits. Cash deposits of $2,490,140 (2009 - $2,110,876), which form part of the Insurance Company required statutory deposit are being held with the Accountant General of St. Kitts and Nevis and the Financial Services Commission of Anguilla. These cash deposits form part of the above caption – „Insurance and other receivables'. Other amounts are being held with the Bank as restricted deposits and form part of Note 8 - „Deposits with other financial institutions'.

15. Due to customers

	2010 $	2009 $
Consumers	378,787	364,568
Private businesses and subsidiaries	161,529	196,521
State, statutory bodies and non-financial bodies	692,553	609,333
Others	108,913	72,655
Interest payable	9,120	9,524
Total	**1,350,902**	**1,252,601**

(expressed in thousands of Eastern Caribbean dollars)

15. Due to customers…………*continued*

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

The Group pays interest on all categories of customers' deposits. In 2010 total interest paid and payable on deposit accounts amounted to $66.457 million (2009 - $58.793 million). The average effective rate of interest paid on customers' deposits was 5.59% (2009 – 4.36%).

16. Other borrowed funds

	2010 $	2009 $
Credit line	107,908	82,347
Bonds issued	93,540	93,540
Due to other financial institutions	-	623
Acceptances, guarantees and letters of credit	5,046	5,186
Interest payable	864	864
Total	**207,358**	**182,560**

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

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

Total interest paid and payable in this category was $8.431 million (2009 - $10.331 million).

17. Accumulated provisions, creditors and accruals

	2010 $	2009 $
Other interest payable on customers' deposits	11,266	10,924
Managers cheques and bankers payments	1,542	1,305
Unpaid drafts on other banks	1,431	1,278
E-commerce payables	48,958	24,270
Pension obligation	32,882	24,554
Insurance liabilities and other payables	118,692	142,597
Total	**214,771**	**204,928**

17.1 Insurance liabilities

Insurance liabilities consist of actuarial liabilities in the amount of $58.6 million (2009 - $52.6 million) and insurance contract liabilities of $34 million (2009 - $36.3 million). Actuarial liabilities are based on the non-life insurance business, while insurance contract liabilities relate to non-life business.

(expressed in thousands of Eastern Caribbean dollars)

17. Accumulated provisions, creditors and accruals…*continued*

17.2 Pension plan

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

Principal actuarial assumptions used are as follows:

	2010	2009
Discount rate	4.5%	4.5%
Expected return on plan assets	6.0%	6.0%
Expected rate of salary increase	3.0%	3.0%

The Insurance Company administers the plan assets on behalf of eligible employees in the Group. The present value of the funded obligations which these assets support amounts to $32.882 million (2009 - $24.554 million). Fair value of the plan assets are $37.302 million (2009 - $32.560 million).

Amounts recognised in the statement of income are as follows:

	2010 $	2009 $
Current service costs	1,901	1,079
Net actuarial gains	-	(469)
Total included in staff employment	1,901	610

18. Taxation

Tax expense	2010 $	2009 $
Current tax	2,593	7,607
Deferred tax	(157)	181
Prior year income tax expense	(57)	(785)
Total	**2,379**	**7,003**
Income for the year before tax	**36,941**	**48,582**
Income tax at the applicable tax rate of 35%	12,929	17,004
Other applicable tax differences	724	126
Non-deductible expenses	2,940	3,595
Deferred tax over provided	(11)	76
Income not subject to tax	(14,146)	(13,038)
Prior year income tax expense	(57)	(785)
Other prior year adjustments	-	25
Total	**2,379**	**7,003**

(expressed in thousands of Eastern Caribbean dollars)

18. Taxation…………………..*continued*

Deferred income tax

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

Deferred tax asset	**2010**	**2009**
	$	**$**
Balance brought forward (capital allowance)	201	382
Deferred taxes (recovered) during the year, net	157	(181)
(Note 14)	**358**	**201**

Deferred tax liability		
Accelerated depreciation	686	717
Available-for-sale securities	27,216	14,876
	27,902	**15,593**

19. Share Capital

	2010	**2009**
	$	**$**
Authorised: -		
270 million (2009 – 135 million) Ordinary Shares of $1 each	**270,000**	**135,000**
Issued and fully paid: -		
135 million (2009 – 81 million) Ordinary Shares of $1 each	**135,000**	**81,000**

Approval to increase Share Capital to $270 million and issued Share Capital to $135 million were given by shareholders at the 38th Annual General Meeting held on March 26, 2009, (see also Note 28).

20. Reserves

20.1 Statutory reserve	87,640	81,000

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

(expressed in thousands of Eastern Caribbean dollars)

20. Reserves……………………………*continued*

20.2 Revaluation reserve

	2010 $	2009 $
Balance brought forward	37,293	82,530
Movement in market value of investments, net	22,918	(45,237)
Balance as at year end	**60,211**	**37,293**

Revaluation reserve is represented by:

Available for sale investment securities	50,545	27,627
Properties	9,666	9,666
	60,211	**37,293**

20.3 Other reserves

	2010 $	2009 $
Balance brought forward	211,153	177,286
Transfer from retained earnings	12,322	48,200
Reserve for interest on non-performing loans	2,464	5,667
Transfer to share capital	(54,000)	-
Reserve for credit impairment	-	(20,000)
Balance as at year end	**171,939**	**211,153**

'Other reserves' is represented by:

Insurance and claims equalization reserves	16,433	16,433
Reserve for interest on non-performing loans	16,497	14,032
General reserve	139,009	180,688
	171,939	**211,153**

Other reserve
Included in this reserve are the following individual reserves:

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

(expressed in thousands of Eastern Caribbean dollars)

20. Reserves……………………………*continued*

20.3 Other reserves…………..…*continued*

Reserve for interest collected on non-performing loans

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

Loan loss reserve

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

21. Net interest income

	2010	2009
Interest income	**$**	**$**
Loans and advances	82,409	81,316
Deposits with other financial institutions	10,576	9,888
Investments	18,633	22,529
Total interest income	111,618	113,733
Interest expense		
Savings accounts	10,204	9,713
Call accounts	4,335	1,266
Fixed deposits	39,175	36,511
Current and other deposit accounts	10,636	9,775
Debt and other related accounts	8,431	10,331
Total interest expense	72,781	67,596
Total net	**38,837**	**46,137**

(expressed in thousands of Eastern Caribbean dollars)

22. Net fees and commission income

	2010 $	2009 $
Credit related fees and commission	3,105	2,990
International business and foreign exchange	19,888	42,121
Brokerage and other fees and commission	1,267	1,391
Fees and commission income	**24,260**	**46,502**
Fee expenses		
Brokerage and other related fee expenses	131	146
International business and foreign exchange	1,329	3,249
Other fee expenses	500	176
Fee expenses	**1,960**	**3,571**
Total net	**22,300**	**42,931**

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

23. Provision for credit impairment

	2010 $	2009 $
Balance brought forward	36,810	44,835
Charge-offs and write-offs	(51)	(13,902)
Provision for impairment losses	2,322	5,902
Recoveries during the year	(6)	(25)
Total	**39,075**	**36,810**

According to the Eastern Caribbean Central Bank loan (ECCB) provisioning guidelines, the computed allowance for credit impairment at June 30, 2010 amounted to $11.901 million (2009 - $13.724 million).

(expressed in thousands of Eastern Caribbean dollars)

24. Other income

	2010 $	2009 $
Dividend income	842	1,071
Net investment gain (loss)	1391	(9,145)
Foreign exchange gain	2,956	1,505
Net Insurance premiums	20,903	18,259
Other operating income	6,628	7,716
Total	**32,720**	**19,406**

25. Administration and general expenses

	2010 $	2009 $
Staff employment	25,320	24,558
Other general expenses	1,477	1,297
Repairs and maintenance	2,893	2,592
Legal expenses	621	1,310
Utilities	923	1,008
Stationery and supplies	993	889
Advertisement and marketing	616	703
Communication	643	594
Insurance	690	564
Security services	432	409
Rent and occupancy expenses	629	473
Shareholders’ expenses	6	128
Taxes and licences	333	143
Premises upkeep	171	176
Property management	235	229
Total	**35,982**	**35,073**

26. Other expenses

	2010 $	2009 $
Insurance claims and benefits	14,623	15,562
Directors fees and expenses	573	569
Audit fees and expenses	560	457
Depreciation	2,115	1,922
Amortization	747	432
Total	**18,618**	**18,942**

(expressed in thousands of Eastern Caribbean dollars)

27. Earnings per share

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

	2010	2009
Net income attributable to shareholders	34,562	41,579
Weighted average number of ordinary shares in issue	135,000	135,000
Basic earnings per share	**$0.26**	**$0.31**

28. Dividend

The financial statements reflect an interim cash dividend of $8.1 million (full dividend paid in 2008 - $14.985 million) for the year ended June 30, 2009, which was approved by the Board of Directors (2008 – by at the Thirty-eighth Annual General Meeting held on March 26, 2009) and subsequently paid.

Bonus share dividend

On 11th September 2009, shareholders received a total of 53,998,883 shares as bonus shares based on their holdings of shares at 31st August 2009. The remaining 1,117 shares (arising from fractional allocations) were sold on the open market with the cash proceeds subsequently distributed to the shareholders in the same proportion of their fractional share holdings.

29. Other events

Litigation

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

- **TCI Bank Limited**

  TCI Bank Limited, a bank in which the St. Kitts-Nevis-Anguilla National Bank Limited (Bank) holds investments, has been placed into regulatory liquidation. The Bank holds 500,000 shares of TCI Bank Limited shares at a cost of $1.3 million. It has also advanced monies to TCI Bank Limited all of which are covered by security holdings of the Government of Antigua, which continues to pay down the debt, and bonds issued by the Government of the Turks and Caicos Islands.

(expressed in thousands of Eastern Caribbean dollars)

29. Subsequent events…………….*continued*

Litigation……………………….*continued*

- **Solar Haze Limited (a Marshall Islands Company) and Strata Services Limited (as an assignee of JB Media Ltd's rights)** (Plaintiffs) vs. **St. Kitts-Nevis-Anguilla National Bank Limited** (Defendant).

The plaintiffs alleged several claims against the Bank. On or about April 30 2010 the Plaintiffs and the Bank entered into a Settlement Agreement whereby the Bank agreed to return the Plaintiffs' reserves (less any residual charges and fees) over a period of time – as prescribed by the merchant agreement – ending April 2011.

Following this settlement the Plaintiffs dismissed the Bank with prejudice from the lawsuit and amended their complaint to name VISA as a defendant in order to recoup the fines assessed upon them by, and paid by the Bank to, Visa. Visa has requested that the Bank indemnify them and pay their defense costs in this matter. The Bank contends that without affecting the Bank's obligations under the liabilities and indemnification section of the VISA International Operating Regulations, it would seem inappropriate for the Bank to be responsible to VISA in this matter in view of the fact that the Bank collected and paid to VISA the amounts of the fines that are the subject of the matter.

These defense costs have not yet been quantified or determined and the Bank has not accepted liability regarding any amounts which may arise in this matter.

- **St. Kitts-Nevis-Anguilla National Bank Limited** vs. **CardSytems Solutions Inc.**

The Bank has filed a claim against CardSystems Solutions Inc. as debtor in a bankruptcy matter before the Bankruptcy court for the District of Arizona (Case No. 4:06-bk-00515-JMM) in the amount of US$1,700,395. The Bank is carrying a net receivable of approximately US $740,000 from CardSystems Solutions Inc.

This matter is on-going and the Bank anticipates that it will realise the full amount of its claim. Consequently no provision has been made in the financial statements for this receivable.

30. Related Parties

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

30. Related Parties…………….*continued*

Government of St. Kitts and Nevis

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

Public sector net indebtedness to the Group as at June 30, 2010 (advances and other debt instruments less deposits) was $416 million (2009 - $363 million).

Interest charged to the public sector during the year was $72 million (2009 - $69 million).

Interest paid and payable to the public sector as at June 30, 2010 was $36 million (2009 - $33 million).

Directors and Associates

Advances outstanding as at June 30, 2010 amounted to $0.688 million (2009 - $1.257 million).

Deposits balances as at June 30, 2010 amount to $0.992 million (2009 - $1.485 million).

Senior Management

At the end of June 2010 the following amounts were in place:

- Gross salaries, allowances and bonus payments amounted to $2.001 million (2009 - $1.787 million);
- Loans and advances amounted to $2.092 million (2009 - $2.084 million);
- Deposit amounts were $1.886 million (2009 - $2.33 million); and
- Total St. Kitts-Nevis-Anguilla National Bank Limited shares held were 1,152,417 (2009 – 697,750).

31. Cash and cash equivalents

	2010 $	2009 $
Cash and balances with Central Bank (Note 6)	16,506	1,943
Treasury bills (Note 7)	93,893	93,676
Deposits with other financial institutions (Note 8)	117,577	179,763
	227,976	**275,382**

(expressed in thousands of Eastern Caribbean dollars)

32. Contingent liabilities and commitments

At June 30, 2009 the Group had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	2010 $	2009 $
Loan commitments	48,647	15,559
Guarantees and standby letters of credit	5,046	5,186
	53,693	**20,745**

33. Subsidiaries

	Percentage of equity interest held	
	2010	**2009**
National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited	100%	100%
National Caribbean Insurance Company Limited	90%	-
St. Kitts and Nevis Mortgage and Investment Company Limited (MICO)	100%	100%

In 2009 the National Caribbean Insurance Company Limited was a wholly-owned subsidiary of the National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited.

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

34. Business segments

As at June 30, 2010 the operating segments of the Group were as follows:

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

34. Business segments……………*continued*

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

	Commercial and retail banking	Insurance, real estate and investments	Long-term financing and trust services	Consolidation and other adjustments	Total
June 30, 2010					
Revenue for the year	140,683	51,254	836	(23,624)	**169,149**
Cost of revenue generation	(106,850)	(48,122)	(860)	23,624	**(132,208)**
Income tax expense	(633)	(1,651)	(95)	-	**(2,379)**
	33,200	**1,481**	**(119)**	**-**	**34,562**
Property, plant, equipment and intangibles	26,054	6,528	14	-	**33,596**
Depreciation and amortisation	2,547	309	6	-	**2,862**
Segment assets	2,272,620	194,763	8,490	(177,710)	**2,298,163**
Segment liabilities	1,806,594	144,618	2,102	(149,960)	**1,803,354**
June 30, 2009					
Revenue for the year	153,880	41,706	1,000	(16,945)	**179,641**
Cost of revenue generation	(107,419)	(39,754)	(831)	16,945	**(131,059)**
Income tax expense	(6,791)	(69)	(143)	-	**(7,003)**
	39,670	**1,883**	**26**	**-**	**41,579**
Property, plant, equipment and intangibles	26,814	6,712	3	-	**33,529**
Depreciation and amortisation	2,018	323	13	-	**2,354**
Segment assets	2,062,853	182,481	12,980	(155,242)	**2,103,072**
Segment liabilities	1,644,878	137,844	6,473	(132,091)	**1,657,104**

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