Deloitte.

PKF

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Non-consolidated financial statements

June 30, 2011

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Contents

June 30, 2011

Independent auditors’ report

To the Shareholders of St. Kitts-Nevis-Anguilla National Bank Limited

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

Management’s responsibility for the financial statements

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

Auditors’ responsibility

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

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

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

Independent auditors' report (continued)

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

Opinion

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

Deloitte & Touche

PKF

The Phoenix Centre
George Street
St Michael
Barbados

Independence House
North Independence Square
Basseterre
St Kitts

October 31, 2011

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Non-consolidated balance sheet

As of June 30, 2011

(expressed in Eastern Caribbean dollars)

	Notes	2011 $	2010 $
ASSETS			
Cash and balances with Central Bank	6	215,522,678	102,459,955
Treasury bills	7	85,884,649	90,715,601
Deposits with other financial institutions	8	357,554,842	331,347,078
Loans and receivable – loans and advances to customers	9	1,214,606,192	1,145,755,171
- originated debts	10	126,011,764	130,074,490
Investment securities – available-for-sale	11	346,989,343	374,448,905
Investment in subsidiaries	12	26,750,000	26,750,000
Customers' liability under acceptances, guarantees and letters of credit	13	4,126,100	5,046,100
Income tax recoverable		6,024,227	7,927,397
Property, plant and equipment	14	24,814,194	24,859,436
Intangible assets	15	1,944,577	1,194,997
Other assets	5(c) & 16	71,168,647	31,683,460
Deferred tax asset	20	344,097	357,786
TOTAL ASSETS		2,481,741,310	2,272,620,376
LIABILITIES			
Due to customers	17	1,670,099,137	1,483,165,330
Due to other financial institutions		6,898,981	-
Other borrowed funds	18	230,497,083	202,311,769
Acceptances, guarantees and letters of credit	13	4,126,100	5,046,100
Accumulated provisions, creditors and accruals	19	39,672,946	89,064,483
Deferred tax liability	20	26,811,780	27,005,824
TOTAL LIABILITIES		1,978,106,027	1,806,593,506
SHAREHOLDERS' EQUITY			
Issued share capital	21	135,000,000	135,000,000
Share premium		3,877,424	3,877,424
Retained earnings		35,979,556	26,981,532
Total reserves	22	328,778,303	300,167,914
TOTAL SHAREHOLDERS' EQUITY		503,635,283	466,026,870
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,481,741,310**	**2,272,620,376**

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

Approved by the Board of Directors on September 9, 2011.

Director Walford V. Gumbs   Director Sir Edmund W. Lawrence

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Non-consolidated statement of income

For the year ended June 30, 2011

(expressed in Eastern Caribbean dollars)

	Notes	2011 $	2010 $
Interest income		108,027,312	111,726,602
Interest expense		(83,109,317)	(74,888,287)
Net interest income	23	24,917,995	36,838,315
Provision for credit impairment losses	26	-	(2,315,888)
Sub-total-interest revenue		24,917,995	34,522,427
Fees and commissions income		13,501,219	23,457,669
Fee expense		(9,841,970)	(1,959,939)
Net fees and commission income	24	3,659,249	21,497,730
Dividend income		487,102	786,871
Net gains less (losses) from investments	25	45,553,036	1,391,045
Gain on foreign exchange		3,127,890	2,955,976
Other operating income		130,287	364,924
Other income		49,298,315	5,498,816
Operating income		77,875,559	61,518,973
Operating expenses			
Administration and general expenses	27	26,020,672	24,515,467
Directors fees and expenses		322,122	330,679
Audit fees and expenses		374,253	292,691
Depreciation and amortisation		3,036,573	2,546,956
Provision for impairment of investments	11	1,351,300	-
Total operating expenses		31,104,920	27,685,793
Operating income before tax		46,770,639	33,833,180
Income tax expense	20	(1,916,859)	(633,009)
Net income for the year		44,853,780	33,200,171
Earnings per share	28	**0.33**	**0.25**

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Non-consolidated statement of comprehensive income

For the year ended June 30, 2011

(expressed in Eastern Caribbean dollars)

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Non-consolidated statement of changes in equity

For the year ended June 30, 2011

(expressed in Eastern Caribbean dollars)

	Notes	Share Capital $	Share Premium $	Statutory Reserve $	Other Reserve $	Investment Reserves $	Property Revaluation Reserves $	Retained Earnings $	Total Shareholders' Equity $
Balance at June 30, 2009		81,000,000	3,877,424	81,000,000	193,867,237	27,201,570	7,720,621	23,307,744	417,974,596
Total comprehensive income for the year		-	-	-	-	22,952,103	-	33,200,171	56,152,274
Transfer to reserves	22	-	-	6,640,034	14,786,349	-	-	(21,426,383)	-
Increase share capital	21	54,000,000	-	-	(54,000,000)	-	-	-	-
Dividends	29	-	-	-	-	-	-	(8,100,000)	(8,100,000)
Balance at June 30, 2010		135,000,000	3,877,424	87,640,034	154,653,586	50,153,673	7,720,621	26,981,532	466,026,870
Total comprehensive income for the year		-	-	-	-	(360,367)	-	44,853,780	44,493,413
Transfer to reserves	22	-	-	8,970,756	20,000,000	-	-	(28,970,756)	-
Dividends	29	-	-	-	-	-	-	(6,885,000)	(6,885,000)
Balance at June 30, 2011		135,000,000	3,877,424	96,610,790	174,653,586	49,793,306	7,720,621	35,979,556	503,635,283

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Non-consolidated statements of cash flows

For the year ended June 30, 2011

(expressed in Eastern Caribbean dollars)

	Notes	2011 $	2010 $
Cash flows from operating activities			
Operating income before tax		46,770,639	33,833,180
Adjustments for:			
Interest income		(108,027,312)	(111,726,602)
Interest expense		83,109,317	74,888,287
Depreciation and amortisation		3,036,573	2,546,956
Provision for credit/investment impairment, net		1,348,641	2,315,888
Gain on disposal of premises and equipment		-	(363)
Operating income before changes in operating assets and liabilities		26,237,858	1,857,346
(Increase)/decrease in operating assets:			
Loans and advances to customers		(68,727,657)	(111,251,894)
Mandatory deposit with the Central Bank		(6,871,445)	(7,189,502)
Other accounts		(37,802,819)	519,655
Increase/(decrease) in operating liabilities:			
Customers' deposits		186,066,527	124,104,087
Due to other financial institutions		6,898,981	(623,102)
Accumulated provisions, creditors and accruals		(49,417,266)	1,473,852
Cash generated from operations		56,384,180	8,890,442
Interest received		105,844,022	105,692,376
Interest paid		(82,216,309)	(74,950,157)
Income tax paid		-	(9,675,284)
Net cash generated from operating activities		80,011,892	29,957,377
Cash flows from investing activities			
Purchase of equipment and intangible assets		(3,740,911)	(1,789,344)
Proceeds from disposal of equipment		-	1,690
Increase in special term deposits		(1,773,877)	(36,260,609)
Increase in restricted term deposits and treasury bills		(95,266,100)	(15,533,593)
Investment in subsidiaries		-	(9,000,000)
Proceeds from disposal of investment securities		284,222,154	180,371,216
Purchase of investment securities		(254,787,324)	(213,065,866)
Net cash (used in) investing activities		(71,346,058)	(95,276,506)
Cash flows from financing activities:			
Other borrowed funds		28,185,314	25,561,148
Dividend paid		(6,885,000)	(8,100,000)
Net cash generated from financing activities		21,300,314	17,461,148
Net increase/(decrease) in cash and cash equivalents		29,966,148	(47,857,981)
Cash and cash equivalents at beginning of year		223,196,234	271,054,215
Cash and cash equivalents at end of year	32	253,162,382	223,196,234

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

1. General information

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

The Bank is a limited liability company and is incorporated and domiciled in St. Kitts. The address of its registered office is as follows: Central Street, Basseterre, St. Kitts.

The principal activity of the Bank is the provision of financial services.

The Bank is listed on the Eastern Caribbean Securities Exchange.

2. Adoption and amendments of published standards and interpretations

2.1 Adoption of standards during the year

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

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

2.2 Amendments and published standards issued but not yet effective

New standards, revisions issued but not yet effective for the non-consolidated financial statements beginning July 1, 2010 and not early adopted.

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

- *IFRS 7, (Amendment), 'Financial instruments: Disclosures', issued in October 2010.* This standard added to the requirements for disclosure of transfers of financial assets with a continuing involvement. The amendment is effective for periods beginning January 01, 2011. This amendment will have no impact on the financial statements.

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

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

3. Summary of significant accounting policies

3.1 Statement of compliance

The non-consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

3.2 Basis of preparation

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

3.3 Foreign currency transaction

Functional and presentation currency
Items included in the non-consolidated financial statements are measured using the currency of the primary economic environment in which the Bank operates.

The non-consolidated financial statements are presented in Eastern Caribbean Dollars, which is the Bank functional and presentation currency.

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

3.4 Financial assets

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

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

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

3. Summary of significant accounting policies (continued)

3.4 Financial assets (continued)

(b) Loans and receivables (continued)

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

(c) Bonus share dividend

Bonus share dividend is paid by the Board of Directors with the authority and approval from the shareholders of the Bank. These amounts are taken from reserves.

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

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

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

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

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

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

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

3.5 Financial liabilities

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

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

3. Summary of significant accounting policies (continued)

3.6 Interest income and expense

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

When calculating the effective interest rate, estimates of cash flows that consider all contractual terms of the financial instrument are included (for example, repayment options), except future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

3.7 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 Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of business – are recognised on completion of the underlying transaction.

3.8 Dividend income

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

3.9 Impairment of financial assets

(a) *Assets carried at amortised cost*

The Bank 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.

3. Summary of significant accounting policies (continued)

3.9 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

The criteria that the Bank 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 Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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 Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

3. Summary of significant accounting policies (continued)

(b) Assets classified as available-for-sale

The Bank 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. Management continuously reviews these accounts to ensure that all criteria are met and that future payments are likely to occur.

3.10 Property, plant and equipment

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

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

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

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 the period of lease, if less than 25 years
Equipment, fixtures and motor vehicles	3 – 10 years

3. Summary of significant accounting policies (continued)

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.

3.11 Intangible assets – computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and to bring into use the specific software. These costs are amortised on the basis of the expected useful life of such software which is three to five years.

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

3.12 Impairment of non-financial assets

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).

3.13 Investment in subsidiaries

The investment in subsidiaries is accounted for using the cost method and therefore the assets, liabilities and results of operations of the entities have not been reflected in these accounts. A subsidiary is an entity in which the Bank holds controlling interest (50% plus 1 share or more) of the voting shares of that entity.

3.14 Leases

The leases entered into by the Bank are primarily 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. Summary of significant accounting policies (continued)

3.16 Employee benefits

(a) *Pension plan*
The Bank participates in a multi-employer defined benefit plan. The administration of the plan is conducted by National Caribbean Insurance Company Limited, a subsidiary of the Bank. The actuarial valuation relating to the plan for the Bank and subsidiaries (the "Group") is typically not completed in time for the issuance of the non-consolidated financial statements and therefore this plan is accounted for as if it were a defined contribution plan.

As a Group in the prior year the fair value of the plan assets was greater than the benefit obligation and the directors expect this situation to be the same for the current period based on discussions with the administrator."

(b) *Gratuity*
The Bank 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. Provisions for these amounts are included in the Statement of income.

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 equity. In such cases, the tax 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 non-consolidated 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 realised or deferred tax liability is settled.

The principal temporary differences arise from depreciation of 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 utilised.

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

3.18 Borrowings

Borrowings are recognised initially at fair value (which is their issue proceeds and fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference 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. Summary of significant accounting policies (continued)

3.19 Guarantees and letters of credit

Guarantees and letters of credit comprise undertakings 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 equity in the period in which they are paid by the Board of Directors and or approved by the Bank's shareholders.

Dividends for the year are dealt with in Note 29.

4. Financial risk management

The Bank'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 business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

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 Bank 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 and Comptroller Division 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 Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank 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 Bank'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 exposure arises principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised and reported to the Board of Directors.

4. Financial risk management (continued)

4.1 Credit risk (continued)

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

4.1.1 Credit risk measurement

(a) ***Loans and advances***
The prudential guidelines of the Bank's regulators are included in the daily credit operational management of the Bank. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model').

The Bank assesses the probability of default of individual borrowers using internal rating tools tailored to the various categories of borrowers. These rating tools are fashioned from the guidelines of the Bank regulators. Advances made by the Bank are segmented into five rating classes that reflect the range of default probabilities for each rating class. The rating tools are kept under review and upgraded as necessary.

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

(b) ***Debt securities and other bills***
For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by the Bank Treasury/Fund Managers for managing the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

4.1.2 Risk limit control and mitigation policies

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

The Bank structures the levels of credit risks it undertakes by placing limits on the amount of risk acceptable in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review, when considered necessary by the Board of Directors.

The exposure to any one borrower, including banks and other financial institutions, is further restricted by sub-limits covering on-balance sheet and off-balance sheet exposures. Actual exposures against limits are monitored. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other specific controls and mitigation measures are outlined below:

4. Financial risk management (continued)

4.1.2 Risk limit control and mitigation policies (continued)

(a) *Collateral*

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

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

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

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

(b) *Credit-related commitments*

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans and advances, guarantees or letters of credit. With respect to credit risk, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

4.1.3 Impairment and provisioning

The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating grades. The table below shows the percentage of the Bank's on-balance sheet and off-balance sheet items relating to loans and advances and associated impairment provision for each of the Bank internal categories:

4. Financial risk management (continued)

4.1.3 Impairment and provisioning (continued)

	2011		2010	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
Bank rating				
1 Pass	82.34	-	83.70	-
2 Special mention	12.54	0.02	11.53	0.02
3 Sub-standard	3.76	30.25	3.49	30.25
4 Doubtful	1.32	68.66	1.27	68.66
5 Loss	0.04	1.07	0.01	1.07
	100.00	100.00	100.00	100.00

The rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria:

Loans

- Cash flow difficulties experienced by the borrower;
- Delinquency in contractual payments of principal and interest;
- Breach of loan covenants or conditions; and
- Deterioration in the value of collateral.

Advances (overdrafts)

- Approval limit has been exceeded for three months;
- Interest charges for three months or more have not been covered by deposits; and
- Account has developed a hardcore which was not converted.

The Bank requires the review of individual financial assets that are above materiality thresholds on an annual basis or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis and are applied where necessary. Assessments take into account collateral held and anticipated cash receipts for individually assessed accounts.

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

	Maximum exposure	
***Credit risk exposures relating to on-balance sheet assets are as follows*:**	**2011**	**2010**
Treasury bills	85,884,649	90,715,601
Deposits with other financial institutions	357,554,842	331,347,078
Loans and advances:		
- Overdrafts	167,340,846	168,488,332
- Corporate customers	67,064,319	135,079,860
- Term loans	866,378,456	735,337,536
- Mortgages (personal)	113,822,571	106,849,444
- Originated debts	126,011,764	130,074,490
Available-for-sale investments	97,604,714	120,467,552
Other assets	70,316,468	31,025,378
Loan commitments and financial guarantees	75,088,588	53,693,153
Total	2,027,067,217	1,903,078,424

4. Financial risk management (continued)

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

The above table represents a worse case scenario of credit risk exposure to the Bank at June 30, 2011 and 2010, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet. As shown above, 60% (2010 – 60%) of the total maximum exposure is derived from loans and advances to customers; 11% (2010 – 13%) represents investments in debt securities.

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

- 95% (2010 – 95%) of the loans and advances portfolio are categorised in the top two grades of the internal rating system;
- Term loans, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees;
- 93% (2010 – 88%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines; and
- A number of issuers and debt instruments in the region are not rated; consequently 27% of these investments are not rated (Government securities – treasury bills, etc.).

4.1.5 Loans and advances

Loans and advances are summarised as follows:

	2011 $	2010 $
Loans and advances to customers		
Neither past due nor impaired	1,113,899,032	988,784,854
Past due but not impaired	18,289,610	81,710,843
Impaired	61,402,264	54,366,608
	1,193,590,906	1,124,862,305
Interest receivable	60,088,154	59,967,449
Less allowance for impairment losses	(39,072,868)	(39,074,583)
Net	1,214,606,192	1,145,755,171

The total allowance for impairment losses on loans and advances is $39,072,868 (2010 - $39,074,583). Further information of the allowance for impairment losses on loans and advances to customers is provided in Note 26.

(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.

4. Financial risk management (continued)

4.1.5 Loans and advances (continued)

June 30, 2011	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total loans and advances to customers $
Loans and advances to customers					
Classifications:					
1. Pass	90,682,630	762,877,908	71,111,012	42,558,291	967,229,841
2. Special mention	63,992,485	80,332,442	2,344,264	-	146,669,191
Gross	154,675,115	843,210,350	73,455,276	42,558,291	1,113,899,032

June 30, 2010	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total loans and advances to customers $
Loans and advances to customers					
Classifications:					
1. Pass	108,973,418	648,102,621	63,953,268	42,854,274	863,883,581
2. Special mention	47,193,453	901,624	4,928,883	71,877,313	124,901,273
Gross	156,166,871	649,004,245	68,882,151	114,731,587	988,784,854

(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:

	Term loans $	Mortgages $	Corporate customers $	Total $
At June 30, 2011				
Past due up to 30 days	2,173,880	9,148,815	53,076	11,375,771
Past due 30 – 60 days	360,096	2,573,369	-	2,933,465
Past due 60 – 90 days	577,993	1,545,179	783,439	2,906,611
Over 90 days	695,077	378,686	-	1,073,763
Gross	3,807,046	13,646,049	836,515	18,289,610
Fair value of collateral	15,647,059	26,602,576	3,115,000	45,364,635

	Term loans $	Mortgages $	Corporate customers $	Total $
At June 30, 2010				
Past due up to 30 days	1,725,913	8,995,294	530,401	11,251,608
Past due 30 – 60 days	659,019	3,465,238	-	4,124,257
Past due 60 – 90 days	62,914,456	1,854,557	-	64,769,013
Over 90 days	587,320	978,645	-	1,565,965
Gross	65,886,708	15,293,734	530,401	81,710,843
Fair value of collateral	86,796,432	29,844,878	840,000	117,481,310

4. Financial risk management (continued)

4.1.5 Loans and advances (continued)

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

(c) ***Loans and advances individually impaired***
The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $61,402,264 (2010 - $54,366,608).

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

June 30, 2011	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total loans and advances to customers $
Individually impaired	6,487,649	5,592,036	22,102,859	27,219,720	61,402,264
Fair value of collateral	15,316,582	20,008,434	51,295,302	136,022,691	222,643,009

June 30, 2010	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total loans and advances to customers $
Individually impaired	6,144,788	6,798,569	18,055,172	23,368,079	54,366,608
Fair value of collateral	10,819,271	19,586,128	34,023,874	135,851,757	200,281,030

(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.

4.1.6 Debt securities, treasury bills and other eligible bills

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

	Treasury Bills $	Investment Securities $	Loans and receivables notes & bonds $	Total $
A- To A+	-	66,017,780	-	66,017,780
Unrated/ Internally rated	85,884,649	43,162,780	126,011,764	255,059,193
Total	85,884,649	109,180,560	126,011,764	321,076,973

4. Financial risk management (continued)

4.1.7 Geographical concentrations of assets, liabilities, income, capital expenditure and off balance sheet items

The Bank operates only one business segment (commercial and retail banking) which is predominantly localised to St. Kitts and Nevis. Commercial banking activities, however, account for a significant portion of credit risk exposure. The credit risk exposure is, therefore, spread geographically and over a diversity of personal and commercial customers.

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean States $	Total $
As at June 30, 2011					
Treasury bills	85,884,649	-	-	-	85,884,649
Deposit with Fin. Inst.	40,983,568	199,819,652	12,226,242	104,525,380	357,554,842
Loans and advances to customers	1,169,220,896	31,374,213	2,094,194	11,916,889	1,214,606,192
Originated debts	71,225,172	-	-	54,786,592	126,011,764
Investments (AFS)	2,010,059	95,594,655	-	-	97,604,714
Other assets	3,231,678	67,084,790	-	-	70,316,468
	1,372,556,022	393,873,310	14,320,436	171,228,861	1,951,978,629

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean States $	Total $
As at June 30, 2010					
Treasury bills	90,715,601	-	-	-	90,715,601
Deposit with Fin. Inst.	40,927,492	149,254,476	14,833,192	126,331,918	331,347,078
Loans and advances to customers	1,099,559,570	31,674,079	2,291,224	12,230,298	1,145,755,171
Originated debts	76,300,000	-	-	53,774,490	130,074,490
Investments (AFS)	2,010,059	118,457,493	-	-	120,467,552
Other assets	31,025,378	-	-	-	31,025,378
	1,340,538,100	299,386,048	17,124,416	192,336,706	1,849,385,270

4.1.8 Sectoral analysis of the loans and advances portfolio

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

	2011 $	2010 $
Consumers	138,236,683	130,257,994
Agriculture, fisheries and manufacturing	5,250,425	5,275,998
Construction and land development	55,753,912	40,774,101
Distributive trade, transportation and storage	11,654,291	10,527,540
Tourism, entertainment and catering	53,253,983	20,751,091
Financial institutions	9,478,843	16,046,801
State, statutory bodies and public utilities	900,134,316	879,402,690
Professional and other services	19,828,453	21,826,090
Gross	1,193,590,906	1,124,862,305

4. Financial risk management (continued)

4.1.9 Concentration of risks of financial assets with credit exposure

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

June 30, 2011	Public Sector	Construction	Tourism	Financial Institutions	Individuals	Other Industries	Total
Treasury Bills	85,884,649	-	-	-	-	-	85,884,649
Deposit with financial institutions	-	-	-	357,554,842	-	-	357,554,842
Loans and receivables:							
- Originated debts	117,691,764	-	-	1,300,000	-	7,020,000	126,011,764
- Loans & Advances	900,180,949	59,311,650	63,610,692	9,480,564	142,852,999	39,169,338	1,214,606,192
Investments – available-for-sale	-	-	-	97,604,714	-	-	97,604,714
Other assets	-	-	-	447,524	72,688	69,796,256	70,316,468
Total	1,103,757,362	59,311,650	63,610,692	466,387,644	142,925,687	115,985,594	1,951,978,629

June 30, 2010	Public Sector	Construction	Tourism	Financial Institutions	Individuals	Other Industries	Total
Treasury Bills	90,715,601	-	-	-	-	-	90,715,601
Deposit with financial institutions	-	-	-	331,347,078	-	-	331,347,078
Loans and receivables:							
- Originated debts	120,674,490	-	-	1,300,000	-	8,100,000	130,074,490
- Loans & Advances	879,449,323	44,331,839	31,107,801	16,048,521	134,872,841	39,944,846	1,145,755,171
Investments – available-for-sale	9,534,899	-	-	106,131,752	-	4,800,901	120,467,552
Other assets	-	-	-	2,035,156	585,620	28,404,602	31,025,378
Total	1,100,374,313	44,331,839	31,107,801	456,862,507	135,458,461	81,250,349	1,849,385,270

4. Financial risk management (continued)

4.2 Market risk

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

4.2.1 Price risk

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

4.2.2 Foreign exchange risk

The Bank 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 Bank exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The Bank uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollars (EC$). The Bank has set the mid-rate of exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) at EC$2.7026 = US$1.00 since 1976. The following table summarises the Bank exposure to foreign currency exchange rate risk at June 30, 2011. Included in the table are the Bank financial instruments at carrying amounts, categorised by currency.

4. Financial risk management (continued)

4.2.2 Foreign exchange risk.......*continued*

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

As at June 30, 2011	ECD	USD	EURO	GBP	CAN	BDS	GUY	TOTAL
Assets								
Cash & balances with Central Bank	212,594,326	2,822,397	19,830	54,831	15,558	15,736	-	215,522,678
Treasury bills	85,884,649	-	-	-	-	-	-	85,884,649
Deposits with other financial bodies	53,603,007	298,971,020	1,769,275	488,907	2,080,972	626,406	15,255	357,554,842
Loans and receivables								
- Loans and advances to customers	1,181,681,253	32,924,939	-	-	-	-	-	1,214,606,192
- Originated debts	124,514,850	1,496,914	-	-	-	-	-	126,011,764
Investments								
- Available-for-sale	13,729,800	333,259,543	-	-	-	-	-	346,989,343
Other assets	21,147,621	53,294,847	-	-	-	-	-	74,442,468
Total financial assets	1,693,155,506	722,769,660	1,789,105	543,738	2,096,530	642,142	15,255	2,421,011,936
Liabilities								
Due to customers	1,430,553,786	235,322,306	76,704	440,542	3,705,799	-	-	1,670,099,137
Due to other financial bodies	-	6,898,981	-	-	-	-	-	6,898,981
Other borrowed funds	-	230,497,083	-	-	-	-	-	230,497,083
Other liabilities	24,603,735	15,780,578	42,179	384,138	150,656	58,262	-	41,019,548
Total financial liabilities	1,455,157,521	488,498,948	118,883	824,680	3,856,455	58,262	-	1,948,514,749
Net on-balance sheet positions	237,997,985	234,270,712	1,670,222	(280,942)	(1,759,925)	583,880	15,255	472,497,187
Credit commitment	70,962,488	-	-	-	-	-	-	70,962,488

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
Total financial assets	1,533,574,260	670,587,124	1,063,044	832,786	4,177,894	624,955	12,615	2,210,872,678
Total financial liabilities	1,266,692,857	507,521,568	599,905	904,774	3,773,528	58,155	-	1,779,550,787
Net on-balance sheet positions	266,881,403	163,065,556	463,139	(71,988)	404,366	566,800	12,615	431,321,891
Credit commitment	48,647,053	-	-	-	-	-	-	48,647,053

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 Bank 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.

4. Financial risk management (continued)

4.2.3 Interest rate risk (continued)

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

As at June 30, 2011	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Non-Interest Bearing $	Total $
Assets							
Cash & balances with Central Bank	-	-	-	-	-	215,522,678	215,522,678
Treasury bills	-	-	85,884,649	-	-	-	85,884,649
Deposits with other financial institutions	203,457,174	14,756,761	108,401,660	-	-	30,939,248	357,554,843
Loans and advances – Customers	237,559,722	2,230,851	35,247,613	150,093,073	789,412,783	62,150	1,214,606,192
- Originated debts	8,064,000	4,117,474	8,800,663	59,237,907	45,791,720	-	126,011,764
Investments – Available-for-sale	95,594,655	-	-	-	2,010,059	250,735,929	348,340,643
Other assets	-	2,702,600	2,702,600	45,944,200	-	23,093,068	74,442,468
Total assets	544,675,551	23,807,686	241,037,185	255,275,180	837,214,562	520,353,173	2,422,363,237
Liabilities							
Due to customers	597,335,463	62,534,902	736,498,508	-	-	273,730,264	1,670,099,137
Due to other financial institutions	6,898,981	-	-	-	-	-	6,898,981
Other borrowed funds	270,260	540,520	2,432,340	132,850,088	93,540,299	863,646	230,497,083
Other liabilities	322,202	-	29,535	-	-	44,800,229	45,151,966
Total liabilities	604,826,906	63,075,422	738,960,383	132,850,088	93,540,229	319,394,139	1,952,647,167
Total interest repricing gap	(60,151,355)	(39,267,736)	(497,923,198)	122,425,092	743,674,333		

4. Financial risk management (continued)

4.2.3 Interest rate risk (continued)

As at June 30, 2010	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Non-Interest Bearing $	Total $
Total financial assets	388,125,430	109,883,070	137,193,509	197,050,704	912,796,934	465,823,031	2,210,872,678
Total financial liabilities	581,065,919	56,526,697	680,758,993	9,729,360	188,745,904	262,723,914	1,779,550,787
Total interest repricing gap	(192,940,489)	53,356,373	(543,565,484)	187,321,344	724,051,030		

The Bank fair value interest rate risk arises from debt securities classified as available-for-sale. At June 30, 2011 if market interest rates had been 100 basis points higher/lower with all variables held constant, equity for the year would have been $2,012,807 lower/higher as a result of the decrease/increase in fair value of available-for-sale debt securities.

Cash flow interest rate risk arises from loans and advances to customers at available rates. At June 30, 2011 if variable rates had been 100 basis points higher/lower with all other variables held constant, post-tax profits for the year would have been $7,515,262 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 Bank 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 and fulfill commitments to lend.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

4.3.1 Liquidity risk management

The Bank liquidity is managed and monitored by the Comptroller Division with guidance, where necessary, by an executive director of the Board. This includes:

- Daily monitoring of the Bank 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 Bank ensures that sufficient funds are held to meet its obligations by not converting into loans foreign deposits, 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, 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

Sources of liquidity are regularly reviewed to maintain a wide diversification of geography, currency, provider, product and term.

4. Financial risk management (continued)

4.3.3 Cash flows

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

As at June 30, 2011	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Total $
Financial liabilities						
Due to customers	863,337,581	64,616,270	742,145,286	-	-	1,670,099,137
Due to other financial institutions	6,898,981	-	-	-	-	6,898,981
Other borrowed funds	270,260	540,520	3,295,986	132,850,088	93,540,229	230,497,083
Other liabilities	22,231,979	2,579,097	13,622,003	6,718,887	-	45,151,966
Total liabilities	892,738,801	67,735,887	759,063,275	139,568,975	93,540,229	1,952,647,167
Total assets	1,029,211,266	26,519,651	267,319,850	260,092,718	839,330,602	2,422,474,087
As at June 30, 2010						
Total financial liabilities	816,656,329	60,740,473	699,527,962	13,880,119	188,745,904	1,779,550,787
Total financial assets	890,425,900	113,934,366	145,288,837	170,567,166	890,656,409	2,210,872,678

4. Financial risk management (continued)

4.3.4 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 33), are summarised in the table below.

	Up to 1 year	1 – 3 years	Over 3 years	Total
As at June 30, 2011	**$**	**$**	**$**	**$**
Loan commitments	60,667,668	895,512	9,399,308	70,962,488
Guarantees and standby letters of credit	29,535	-	4,096,565	4,126,100
Total	60,697,203	895,512	13,495,873	75,088,588
As at June 30, 2010				
Loan commitments	39,217,488	3,052,861	6,376,744	48,647,053
Guarantees and standby letters of credit	949,535	-	4,096,565	5,046,100
Total	40,166,983	3,052,861	10,473,309	53,693,153

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 33. Fair values of financial assets and financial liabilities are also determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with pricing models based on discounted cash flow analysis using prices from observable current market transactions.

(a) Treasury bills

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

(b) Deposits with other financial institutions

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

(c) Loans and advances to customers

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

4. Financial risk management (continued)

(d) Originated debt
Originated debt securities include only interest bearing financial assets.

(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 and 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 Bank's balance sheet at their fair value.

	Carrying Value		Fair Value	
	2011	2010	2011	2010
Financial assets	$	$	$	$
Treasury bills	85,884,649	90,715,601	85,884,649	90,715,601
Deposits with other financial institutions	357,554,842	331,347,078	357,554,842	331,347,078
Loans and receivables				
Loans and advances:				
Overdraft	167,339,437	170,460,147	169,991,697	170,460,174
Corporate	67,064,319	326,405,300	228,634,843	326,405,300
Mortgage	113,822,571	213,884,781	220,599,932	213,884,781
Term	866,379,865	802,196,086	987,472,231	802,196,086
Originated debts	126,011,764	130,074,490	126,011,764	130,074,490
AFS - debt	2,010,059	2,010,059	2,010,059	2,010,059
AFS - equity	14,637,150	9,197,150	14,637,150	9,197,150
Financial liabilities				
Due to customers	1,670,099,137	1,483,165,330	1,670,099,137	1,483,165,330
Due to financial institutions	6,898,981	-	6,898,981	-
Other borrowed funds	230,497,083	202,311,769	230,497,083	202,311,769

Fair values of loans and advances are the fair values of the securities held.

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.

4. Financial risk management (continued)

4.4.1 Fair value measurements recognised in the balance sheet

- 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	Total
June 30, 2011	**$**	**$**
Available-for-sale financial assets		
Debt securities	95,594,655	95,594,655
Equities	236,098,779	244,602,456
Total	331,693,434	331,693,434
June 30, 2010		
Available-for-sale financial assets		
Debt securities	118,639,240	118,639,240
Equities	244,602,456	244,602,456
Total	363,241,696	363,241,696

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

4.5 Capital management

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank management, employing techniques based on the guidelines developed by the Eastern Caribbean Central Bank (‘the Authority’) for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

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%.

4. Financial risk management (continued)

4.5 Capital management (continued)

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 on the fair valuation of security instruments held as available for sale.

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

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

	2011 $	2010 $
Tier 1 capital		
Share capital	135,000,000	135,000,000
Bonus shares from capitalization of unrealised assets revaluation gain reserve	(4,500,000)	(4,500,000)
Reserves	275,141,800	246,171,044
Retained earnings	35,979,556	26,981,532
Total qualifying Tier 1 capital	**441,621,356**	**403,652,575**
Tier 2 capital		
Revaluation reserve – available-for-sale investments	49,793,306	50,153,673
Revaluation reserve – property, plant and equipment	7,720,621	7,720,621
Bonus shares capitalisation	4,500,000	4,500,000
Accumulated impairment allowance	39,072,868	39,074,583
Total qualifying Tier 2 capital	**101,086,795**	**101,448,877**
Investment in subsidiaries	(26,750,000)	(26,750,000)
Total regulatory capital	**515,958,151**	**478,351,453**
Risk-weighted assets:		
On-balance sheet	928,871,447	770,768,399
Off-balance sheet	25,531,021	12,483,399
Total risk-weighted assets	**954,402,468**	**783,251,798**
Tier 1 capital ratio	**46%**	51%
Basel ratio	**54%**	61%

5. Critical accounting estimates and judgements

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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 Bank 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 Bank makes judgement 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 Bank 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 judgement. In making this judgement, the Bank evaluates among other factors, when there is evidence of deterioration in the financial health of the investee industry and sector performance, changes in technology and operational and financing cash flows. There were no declines in fair value below cost considered significant or prolonged as at June 30, 2011.

(c) Epassporte receivable
It is the opinion of management that the ePassporte Software Collateral has a value in excess of the receivable shown in these financial statements (see Note 16).

6. Cash and balances with Central Bank

	2011 $	2010 $
Cash in hand	7,870,036	8,586,933
Balances with Central Bank other than mandatory deposits	114,824,822	7,916,647
Included in cash and cash equivalents (Note 32)	**122,694,858**	**16,503,580**
Mandatory deposits with Central Bank	92,827,820	85,956,375
Total	**215,522,678**	**102,459,955**

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

	2011 $	2010 $
Government of St. Kitts and Nevis maturing May 16, 2012 at 6.75% interest	85,884,649	90,715,601

Treasury bills are debt securities issued by a sovereign government. Two million dollars worth of these treasury bills are being held by the Eastern Caribbean Central Bank (ECCB) as collateral for the bank clearing facility.

8. Deposits with other financial institutions

	2011 $	2010 $
Operating cash balances	106,653,927	93,017,670
Items in the course of collection	3,908,243	3,054,029
Interest bearing term deposits	19,905,354	19,905,354
Included in cash and cash equivalents (Note 32)	130,467,524	115,977,053
Special term deposits	52,135,917	50,362,040
Restricted term deposits	168,759,718	159,378,267
Interest receivable	6,191,683	5,629,718
Total	357,554,842	331,347,078

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

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

Interest earned on both 'Special term deposits' and 'Restricted term deposits' is credited to income. The effective interest rate on 'Deposits with other financial institutions at June 30, 2011 was 2.4% (2010 – 3.15%).

9. Loans and advances to customers

	2011 $	2010 $
Overdrafts	154,833,765	156,166,871
Mortgages	72,208,653	71,551,831
Demand	187,005,341	210,511,948
Special Term	693,615,592	609,978,832
Other Secured	18,941,566	15,901,588
Consumer	5,742,376	6,384,627
Productive loans	1,132,347,293	1,070,495,697
Impaired loan and advances	61,243,613	54,366,608
Less allowance for impairment (Note 26)	(39,072,868)	(39,074,583)
	1,154,518,038	1,085,787,722
Interest receivable	60,088,154	59,967,449
Net loans and advances	**1,214,606,192**	**1,145,755,171**

9. Loans and advances to customers (continued)

The weighted average effective interest rate on productive loans and advances at amortised cost at June 30, 2011 was 7.02% (2010 – 7.66%) and productive overdraft stated at amortised cost was 10.01% (2010 – 10.90%).

10. Originated debt

	2011 $	2010 $
Government of St. Kitts and Nevis bonds maturing March 03, 2020 at 8.5% interest	69,925,172	75,000,000
Eastern Caribbean Home Mortgage Bank loan-term bond maturing July 01, 2013 at 6.0% interest	1,000,000	1,000,000
Antigua Commercial Bank 10% interest rate Series A bond maturing December 31, 2016	1,496,913	1,496,913
Grenada Electricity Services Limited 10 year 7% bond maturing December 18, 2017	7,020,000	8,100,000
Government of Antigua 7-year long-term notes maturing April 30, 2017 at 6.7% interest	41,269,679	39,177,577
Government of St. Vincent & The Grenadines 10 year bond maturing December 17, 2019 at 7.5% interest	5,000,000	5,000,000
Caribbean Credit Card Corporation unsecured loan at 10% interest with no specific terms of repayment	300,000	300,000
Total	**126,011,764**	**130,074,490**

11. Investment securities

(A)	2011 $	2010 $
Available-for-sale securities		
Securities at fair value		
-- Unlisted	16,647,209	11,207,209
-- Listed	331,693,434	363,059,949
-- Interest received	-	181,747
-- Less provision for impairment	(1,351,300)	-
Total	**346,989,343**	**374,448,905**

An impairment provision of EC$1,351,300 (US$500,000) was set up for the possible loss on investment made in TCI Bank Limited as a result of that bank being placed into regulatory liquidation. The St. Kitts-Nevis-Anguilla National Bank holds 500,000 TCI Bank Limited shares at US$1.00 (EC$2,706) per share.

11. Investment securities (continued)

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

	Available for sale $	Loans and receivable originated debts $	Total $
Balance – June 30, 2010	374,448,905	130,074,490	504,523,395
Additions	252,119,221	2,668,103	254,787,324
Disposal (sales/redemption)	(277,673,072)	(6,730,829)	(284,403,901)
Fair value gains (losses)	(554,411)	-	(554,411)
Provision for impairment	(1,351,300)	-	(1,351,300)
Total as at June 30, 2011	346,989,343	126,011,764	473,001,107
Balance – June 30, 2009	349,806,134	86,976,913	436,783,047
Additions	168,888,289	44,177,577	213,065,866
Disposal (sales/redemption)	(179,738,192)	(1,080,000)	(180,818,192)
Fair value gains (losses)	35,310,927	-	35,310,927
Interest receivable	181,747	-	181,747
Total as at June 30, 2010	**374,448,905**	**130,074,490**	**504,523,395**

Included available-for-sale financial assets are as follows:

(B)	2011 $	2010 $
Listed securities		
- Equity securities - UK	-	8,502,798
- Equity securities - US	229,693,279	229,218,633
- Equity securities - Caribbean	6,405,500	6,881,025
- Debt securities - UK	-	14,211,894
- Debt securities - US	95,594,655	104,245,599
- Interest receivable	-	181,747
Unlisted securities		
- Equity securities - Caribbean	14,637,150	9,197,150
- Debt securities - Caribbean	2,010,059	2,010,059
- Provision for impairment	(1,351,300)	-
Total available-for-sale securities	**346,989,343**	**374,448,905**

11. Investment securities (continued)

Available-for-sale securities are denominated in the following currencies:

(C)	2011 $	2010 $
Listed:		
US dollars	325,287,934	356,360,671
EC dollars	6,405,500	6,881,025
Total listed securities and interest	331,693,434	363,241,696
Unlisted:		
US dollars	9,322,909	9,322,909
Less provision for impairment	(1,351,300)	-
	7,971,609	9,322,909
EC dollars	7,324,300	1,884,300
Total unlisted securities	15,295,909	11,207,209
Total available-for-sale securities	**346,989,343**	**374,448,905**

12. Investment in subsidiaries

	2011 $	2010 $
National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited	5,750,000	5,750,000
National Caribbean Insurance Company Limited	9,000,000	9,000,000
St. Kitts and Nevis Mortgage and Investment Company Limited (MICO)	12,000,000	12,000,000
Total	**26,750,000**	**26,750,000**

The subsidiaries are wholly owned except National Caribbean Insurance Company Limited (NCIC) which is 90 percent owned. National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited which is a wholly owned subsidiary of the Bank owns the other 10 percent.

13. Customers' liability under acceptances, guarantees and letters of credit

	2011 $	2010 $
Letters of credit	29,535	949,535
Guarantees	4,096,565	4,096,565
Total	**4,126,100**	**5,046,100**

14. Property, plant and equipment

Cost/Valuation	Total $	Property $	Equipment $	Furniture And Equipment $	Motor Vehicles $	Reference Books $	Project Ongoing $
At June 30, 2010	37,339,785	20,474,781	11,183,756	2,125,663	477,000	140,367	2,938,217
Additions	2,827,408	358,258	1,694,529	774,621	-	-	-
Disposals	(972,052)	-	-	-	-	-	(972,052)
June 30, 2011	39,195,140	20,833,039	12,878,285	2,900,284	477,000	140,367	1,966,165
Accumulated Depreciation							
At June 30, 2010	12,480,349	2,245,392	8,324,486	1,536,436	242,497	131,538	-
Charge for year	1,900,597	595,307	1,057,925	176,183	68,399	2,783	-
Eliminated on disposal	-	-	-	-	-	-	-
June 30, 2011	14,380,946	2,840,699	9,382,411	1,712,619	310,896	134,321	-
Net book value							
At June 30, 2011	**24,814,194**	**17,992,340**	**3,495,874**	**1,187,665**	**166,104**	**6,046**	**1,966,165**
At June 30,2010	**24,859,436**	**18,229,389**	**2,859,271**	**589,227**	**234,503**	**8,829**	**2,938,217**

Included in Property is land at a carrying value of $3,286,073. This is made-up as follows:

Headquarters (Basseterre)	$ 1,575,900
Sandy Point (#1)	31,195
Sandy Point (#2)	17,360
Saddlers	20,210
Nevis	815,400
West Independence Square	674,658
Rosemary Lane (#1)	83,350
Rosemary Lane (#2)	68,000
Total	$ 3,286,073

15. Intangible assets

	2011 $	2010 $
Cost at June 30, 2010	5,036,353	4,682,787
Additions	1,885,555	353,566
Total at June 30, 2011	6,921,908	5,036,353
Accumulated amortisation		
At June 30, 2010	3,841,356	3,110,419
Charges for the year	1,135,975	730,937
Total at June 30, 2011	4,977,331	3,841,356
Net book value	**1,944,577**	**1,194,997**

Intangible assets represent computer software acquired for the Bank’s use.

16. Other assets

	2011 $	2010 $
Prepayments	14,189,110	30,035,884
Stationery and card stock	841,210	657,986
EPassporte receivable	53,031,768	-
Other receivables	3,106,559	989,590
Total	**71,168,647**	**31,683,460**

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

17. Due to customers

	2011 $	2010 $
Consumers	364,479,838	378,787,283
Private businesses and subsidiaries	301,831,746	293,791,937
State, statutory bodies and non-financial bodies	776,674,111	692,553,378
Others	217,126,172	108,912,742
Interest payable	9,987,270	9,119,990
Total	**1,670,099,137**	**1,483,165,330**

'Due to Customers' represents all types of deposit accounts held by the Bank on behalf of customers. The deposits include demand deposit accounts, call accounts, savings accounts and fixed deposits.

The Bank pays interest on all categories of customers' deposits. In 2011 total interest paid and payable on deposit accounts amounted to $73,469,302 (2010 - $66,457,526). The average effective rate of interest paid on customers' deposits was 4.66% (2010 – 4.68%).

18. Other borrowed funds

	2011 $	2010 $
Credit line	136,093,208	107,907,894
Bonds issued	93,540,229	93,540,229
Interest payable	863,646	863,646
Total	**230,497,083**	**202,311,769**

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

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

Total interest paid and payable in this category was $9,640,015 (2010 - $8,430,761).

19. Accumulated provisions, creditors and accruals

	2011 $	2010 $
Other interest payable on customers' deposits	11,292,256	11,266,528
Managers cheques and bankers payments	1,176,660	1,541,821
Unpaid draft on other banks	1,531,663	1,431,227
E-commerce payables	4,924,615	48,958,168
Other payables	20,747,752	25,866,739
Total	**39,672,946**	**89,064,483**

20. Taxation

	2011 $	2010 $
20.1 Tax expense		
Current tax	1,903,170	846,769
Deferred tax	13,689	(156,879)
Overprovision in prior year	-	(56,881)
Total	**1,916,859**	**633,009**
Income for the year before tax	46,770,639	33,833,180
Income tax at the applicable tax rate of 35%	16,369,724	11,841,613
Non-deductible expenses	2,587,559	2,359,029
Deferred tax over provided	-	20,347
Income not subject to tax	(17,040,424)	(13,531,099)
Overprovision in prior year	-	(56,881)
Total	**1,916,859**	**633,009**

20.2 Deferred income tax

The movements on the deferred tax asset/liability are as follows:

	2011 $	2010 $
Deferred tax asset		
Balance brought forward	357,786	200,907
Current year (recovery)/charge	(13,689)	156,879
Accelerated depreciation	**344,097**	**357,786**
Deferred tax liability		
Balance brought forward	27,005,824	14,646,767
Adjustments during the year	-	233
Net unrealised (loss)/gain for the year	(194,044)	12,358,824
Unrealised gain on available-for-sale securities	**26,811,780**	**27,005,824**
Movement is represented by:		
Unrealised gain/loss on AFS securities (Note 11)	(554,411)	35,310,927
Less amount recognised in equity (Note 22)	360,367	(22,952,103)
Current year (charge)/credit	**(194,044)**	**12,358,824**

21. Share Capital

	2011 $	2010 $
Authorised:		
270,000,000 Ordinary Shares of $1 each	**270,000,000**	**270,000,000**
Issued and fully paid:		
135,000,000 Ordinary Shares of $1 each (Note 28)	**135,000,000**	**135,000,000**

22. Reserves

	2011 $	2010 $
22.1 Statutory reserve		
Balance at beginning of year	87,640,034	81,000,000
Addition	8,970,756	6,640,034
	96,610,790	**87,640,034**

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 income of each year whenever the reserve fund is less than the Bank paid-up capital.

	2011 $	2010 $
22.2 Revaluation reserve		
Balance brought forward	57,874,294	34,922,191
Movement in market value of investments, net	(360,367)	22,952,103
Balance as at year end	**57,513,927**	**57,874,294**
Revaluation reserve is represented by:		
Available-for-sale investment securities	49,793,306	50,153,673
Properties	7,720,621	7,720,621
	57,513,927	**57,874,294**
22.3 Other reserves		
Balance at beginning of year	154,653,586	193,867,237
Transfer from retained earnings	20,000,000	12,321,785
Transfer to share capital	-	(54,000,000)
Reserve for interest on non-performing loans	-	2,464,564
Balance as at year ended	**174,653,586**	**154,653,586**
'Other reserves' is represented by:		
Reserve for interest on non-performing loans	16,496,753	16,496,753
General reserve	158,156,833	138,156,833
	174,653,586	**154,653,586**

22. Reserves (continued)

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.

Reserve for interest collected on non-performing loans

This reserve was created to set aside interest accrued on non-performing loans in accordance with International Accounting Standard (IAS) 39. The prudential guidelines of the Eastern Caribbean Central Bank 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.

23. Net interest income

	2011 $	2010 $
Interest income		
Loans and advances	79,321,424	82,517,754
Deposits with other financial institutions	8,282,246	10,575,733
Investments	20,423,642	18,633,115
	108,027,312	111,726,602
Interest expense		
Savings accounts	11,009,513	10,204,179
Call accounts	6,126,928	4,355,245
Fixed deposits	43,918,113	41,261,645
Current and other deposit accounts	12,414,748	10,636,457
Debt and other related accounts	9,640,015	8,430,761
	83,109,317	74,888,287
Total	**24,917,995**	**36,838,315**

24. Net fees and commission income

	2011 $	2010 $
Credit related fees and commission	3,222,983	3,105,479
International business and foreign exchange	9,550,173	19,887,888
Brokerage and other fees and commission	728,063	464,302
Fees and commission income	13,501,219	23,457,669
Fees expenses		
Brokerage and other related fee expenses	98,105	130,976
International business and foreign exchange fee exchange	9,368,875	1,329,162
Other fee expenses	374,990	499,801
Fee expenses	9,841,970	1,959,939
Total net	**3,659,249**	**21,497,730**

25. Net gains less (losses) from investments

	2011 $	2010 $
Net gain from special sale of securities	37,547,255	-
Other gains on sale of marketable securities	9,600,127	6,071,308
Less (losses) on sale of marketable securities	(1,594,346)	(4,680,263)
Total	**45,553,036**	1,391,045

26. Provision for credit impairment

	2011 $	2010 $
Balance brought forward	39,074,583	36,809,947
Charge-offs and write-offs	(1,715)	(51,252)
Provision for impairment losses	-	2,321,785
Recoveries during the year	-	(5,897)
Total	**39,072,868**	**39,074,583**

27. Administration and general expenses

	2011 $	2010 $
Staff employment	17,517,339	17,079,677
Repairs and maintenance	1,870,476	2,753,992
Legal fees and expenses	1,045,716	207,901
Utilities	838,110	695,045
Stationary and supplies	647,901	880,550
Other general expenses	1,129,463	464,336
Advertisement and marketing	380,791	385,476
Communication	660,508	567,355
Insurance	475,120	482,464
Security services	573,715	300,468
Rent and occupancy expenses	589,042	565,178
Shareholders’ expenses	174,295	5,545
Taxes and licences	84,430	78,379
Premises upkeep	33,766	49,101
Total	**26,020,672**	**24,515,467**

28. Earnings per share

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

	2011 $	2010 $
Net income attributable to shareholders	44,853,780	33,200,171
Weighted average number of ordinary shares in issue	135,000,000	135,000,000
Basic earnings per share	**$ 0.33**	**$ 0.25**

29. Dividend

The non-consolidated financial statements reflect a final dividend of $6,885,000 for the 2009 financial year (which, together with the interim dividend of $8,100,000 paid in February 2010, equals the dividend paid in 2008 - $14,985,000). This final dividend was approved at the Thirty-ninth Annual General Meeting held on November 30, 2010 and subsequently paid.

30. 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 Bank for special and general damages. The Bank 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.

31. 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.

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

Government of St. Kitts and Nevis
The Government of St. Kitts and Nevis holds 51% of the Bank issued share capital. The remaining 49% of the issued share capital is held by individuals and other institutions (over 5,200 shareholders). The government is a customer of the Bank and, as such, all transactions executed by the Bank are performed on strict commercial banking terms at existing market rates.

Public sector net position with the Bank as at June 30, 2011 (loans and advances less deposit) was $321 million in deficit (2010 - $416 million).

Interest charged to the public sector during the year was $71 million (2010 - $72 million). Interest paid and payable to the public sector as at June 30, 2011 was $39 million (2010 - $36 million).

Subsidiaries
Advances outstanding as at June 30, 2011 amounted to $9.439 million (2010 - $14.119 million).

Deposits balances as at June 30, 2011 amounted to $143.355 million (2010 - $133.408 million).

Directors and Associates
Advances outstanding as at June 30, 2011 amounted to $1,156,284 (2010 - $688,399).

Deposits balances as at June 30, 2011 amount to $1,051,593 (2010 - $992,162).

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

- Gross salaries, allowances and bonus payments amounted to $1.907 million (2010 - $2.001 million);
- Loans and advances amounted to $3.372 million (2010 - $2.092 million);
- Deposit amounts were $2,251 million (2010 - $1.886 million); and
- Total St. Kitts-Nevis-Anguilla National Bank Limited shares held were 1,159,241 (2010 – 1,152,417).

32. Cash and cash equivalents

	2011 $	2010 $
Cash and balances with Central Bank (Note 6)	122,694,858	16,503,580
Treasury bills (Note 7)	-	90,715,601
Deposits with other financial institutions (Note 8)	130,467,524	115,977,053
Total	253,162,382	223,196,234

Treasury bills with duration longer than three months are not included in cash and cash equivalents.

33. Contingent liabilities and commitments

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

	2011 $	2010 $
Loan commitments	70,962,488	48,647,053
Guarantees and standby letters of credit	4,126,100	5,046,100
	75,088,588	53,693,153

34. Subsequent event

At the Fortieth Annual General Meeting held on September 13, 2011 a dividend of $15,525,000 was approved for the financial year ended June 30, 2010 and subsequently paid.