

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2012

1. General information

The 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 effective and relevant

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.

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3. Summary of significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

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

3.3 Foreign currency transaction

Functional and presentation currency

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

The 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 recognized 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.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

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

3.4 Financial assetscontinued

(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.

Loans and receivables are recognized 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 of 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 recognized at fair value, being the transaction price less transaction costs. Available-for-sale financial assets are 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 recognized through other comprehensive income until the financial assets are derecognized or impaired, at which time, the cumulative gain or loss previously recognized through other comprehensive income is removed and recognized 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 recognized in the Statement of income. Dividends on available-for-sale equity instruments are recognized in the Statement of income when the right to receive payment is established.

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

3.4 Financial assetscontinued

(e) Available-for-sale financial assets.....continued

Financial assets are derecognized when the right 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 rated method. Other liabilities include due to customers, due to other financial institutions, other borrowed funds and accumulated provisions, creditors and accruals.

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

3.6 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized 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 for future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

In the previous financial 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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2012

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

3.7 Fee and commission income

Fees and commissions are generally recognized 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 recognized as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognized 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 recognized on completion of the underlying transaction.

3.8 Dividend income

Dividends are recognized 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.

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 recognized are not included in a collective assessment of impairment.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2012

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

3.9 Impairment of financial assets.....continued

(a) Assets carried at amortised cost.....continued

If there is objective evidence that an impairment loss on loans and receivable 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 recognized 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 collateralized 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 recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of income.

(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 recognized in the statement of income. Impairment losses recognized in the statement of income on equity instrument 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 recognized in profit or loss, the impairment loss is reversed through the statement of income.

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NOTES TO THE FINANCIAL STATEMENTS

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

3.9 Impairment of financial assets.....continued

(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 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 the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized 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 revaluation reserve is transferred directly to retained earnings. No transfer is made from the 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

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, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

3.10 Property, plant and equipment.....continued

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 sales proceeds and the carrying amount of the asset and is recognized in income.

3.11 Intangible assets – computer software

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

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

3.12 Impairment of non-financial assets

An impairment loss is recognized 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 the statement of 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 recognized 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.

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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 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.

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 recognized as an expense in the period in which profits arise, except to the extent that it relates to items recognized directly in equity. In such cases, the tax is recognized in a deferred tax liability account. The tax expense for the period comprises current and deferred tax.

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

The principal temporary differences arise from depreciation of 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 recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

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NOTES TO THE FINANCIAL STATEMENTS

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

3.18 Borrowings

Borrowings are recognized 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.

3.19 Guarantees and letters of credit

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

3.19 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 recognized in equity in the period in which they are declared by the Board of Directors and/or approved by the Bank's shareholders.

Dividends for the year are dealt with in 'Note 27'.

4. Financial risk management

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

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NOTES TO THE FINANCIAL STATEMENTS
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4. Financial risk management.....continued

The Bank 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 cooperation 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 risks 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 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 portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. Credit exposures arises principally in lending activities that lead to loans and advances, and investment activities that bring debt security and other bills into the Bank asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralized and reported to the Board of Directors.

The Bank 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 loans that have been incurred at the balance sheet date (the 'incurred loss model').

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4. Financial risk management.....continued

4.1.1 Credit risk measurement.....continued

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 of 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:

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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 advances, 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 minimize the 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 authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized 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 authorizations 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.

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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 on-balance sheet and off-balance sheet items relating to loans and advances and associated impairment provision for each of the Bank internal categories:

Bank rating

	Mar 2012		June 2011	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1 Pass	81.99	-	82.34	-
2 Special mention	12.92	0.02	12.54	0.02
3 Sub-standard	3.84	30.25	3.76	30.25
4 Doubtful	1.21	68.66	1.32	68.66
5 Loss	0.04	1.07	0.04	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.

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4. Financial risk management.....continued

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

	Maximum exposure	
	Mar 2012	June 2011
	\$	\$
<i>Credit risk exposures relating to on-balance sheet assets are as follows:</i>		
Treasury bills	85,884,649	85,884,649
Deposits with other financial institutions	480,638,016	357,554,842
Loans and advances:		
• Overdrafts	172,024,530	167,340,846
• Corporate customers	74,682,215	67,064,319
• Term loans	861,018,374	866,378,456
• Mortgages (personal)	114,539,489	113,822,571
• Originated debts	121,231,348	126,011,764
• Available-for-sale investments	106,615,808	97,604,714
• Other assets	60,037,370	70,316,468
• Loan commitments and financial guarantees	67,989,352	75,088,588
Total	2,144,661,151	2,027,067,217

The above table represents a worse case scenario of credit risk exposure to the Bank at March 31, 2012 and June 30, 2011, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 57% (June 2011 – 60%) of the total maximum exposure is derived from loans and advances to banks and customers; 11% (June 2011 – 11%) 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% (June 2011 – 95%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;

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FOR THE PERIOD ENDED MARCH 31, 2012

4. Financial risk management.....continued

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

- Term loans, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees.
- 93% (June 2011 – 93%) 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;
- A number of issuers and debt instruments in the region are not rated; consequently 27% (June 2011 - 27%) of these investments are not rated (Government securities – treasury bills, etc.).

4.1.5 Loans and advances

	<u>Mar</u> <u>2012</u> \$	<u>June</u> <u>2011</u> \$
Loans and advances are summarized as follows:		
Loans and advances to customers		
Neither past due nor impaired	1,120,360,646	1,113,899,032
Past due but not impaired	21,614,281	18,289,610
Impaired	<u>59,190,333</u>	<u>61,402,264</u>
	<u>1,201,165,260</u>	<u>1,193,590,906</u>
Interest receivable	60,172,216	60,088,154
Less allowance for impairment losses (Note 25)	(39,072,868)	(39,072,868)
Net	<u>1,222,264,608</u>	<u>1,214,606,192</u>

The total allowance for impairment losses on loans and advances is \$39,072,868 (June 2011-\$39,072,868). Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 25.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

4. Financial risk management.....continued

4.1.5 Loans and advances.....continued

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

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

Mar 31, 2012

	Overdrafts \$	Term loans \$	Mortgages \$	Corporate customers \$	Total Loans and advances to customers \$
Loans and advances to customers					
Classifications:					
1. Pass	92,690,212	753,593,487	72,382,317	46,917,748	965,583,764
2. Special mention	64,876,199	85,631,959	1,333,549	673,795	152,515,502
3. Substandard	1,966,534	14,343	280,503	-	2,261,380
	-----	-----	-----	-----	-----
Gross	159,532,945	839,239,789	73,996,369	47,591,543	1,120,360,646
	=====				

June 30, 2011

	Overdrafts \$	Term loans \$	Mortgages \$	Corporate customers \$	Total Loans and advances to customers \$
Loans and advances to customers					
Classifications:					
4. Pass	90,682,630	762,877,908	71,111,012	42,558,291	967,229,841
5. 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
	=====				

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

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

4.1.5 Loans and advances.....continued

(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 Mar 31, 2012				
Past due up to 30 days	1,811,297	10,936,009	2,472,258	15,219,564
Past due 30 – 60 days	492,325	1,282,984	-	1,775,309
Past due 60 – 90 days	319,086	2,129,920	-	2,449,006
Over 90 days	1,164,054	760,229	246,119	2,170,402
	-----	-----	-----	-----
Gross	3,786,762	15,109,142	2,718,377	21,614,281
	=====	=====	=====	=====
Fair value of collateral	16,039,890	27,987,861	4,760,000	48,787,751

	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

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 same geographical area.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2012

4. Financial risk management.....continued

4.1.5 Loans and advances.....continued

(c) *Loans and advances individually impaired*

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is \$59,190,333 (June 2011 - \$61,402,264).

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

	Overdrafts	Term loans	Mortgages	Corporate customers	Total Loans and advances to customers
	\$	\$	\$	\$	\$
Mar 31, 2012					
Individually impaired	6,313,503	4,138,737	20,815,591	27,922,502	59,190,333
	-----	-----	-----	-----	-----
	6,313,503	4,138,737	20,815,591	27,922,502	59,190,333
	-----	-----	-----	-----	-----
Fair value of collateral	14,246,617	15,049,542	52,529,680	110,539,221	192,365,060

	Overdrafts	Term loans	Mortgages	Corporate customers	Total Loans and advances to customers
	\$	\$	\$	\$	\$
June 30, 2011					
Individually Impaired	6,487,649	5,592,036	22,102,859	27,219,720	61,402,264
	-----	-----	-----	-----	-----
	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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2012

4. Financial risk management.....continued

4.1.5 Loans and advances.....continued

(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 March 31, 2012, based on Standard & Poor's ratings or equivalent:

	Treasury Bills \$	Investment Securities \$	Loans and receivables - notes & bonds \$	Total \$
A- to A+		59,058,842		59,058,842
B- to B+		1,618,182		1,618,182
BB to BBB-		6,948,225		6,948,225
Unrated/ Internally rated	85,884,649	38,990,559	121,231,348	246,106,556
Total	85,884,649	106,615,808	121,231,348	313,731,805

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2012

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 services) which is predominantly localized to St. Kitts and Nevis. Commercial banking activities, however, accounts 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:

	<u>St. Kitts & Nevis</u> \$	<u>United States & Canada</u> \$	<u>Europe</u> \$	<u>Other Caribbean States</u> \$	<u>Total</u> \$
Mar 31, 2012					
Treasury bills	85,884,649				85,884,649
Deposits with Fin. Inst.	46,592,908	312,038,005	14,807,425	107,199,678	480,638,016
Loans and advances	1,174,437,135	30,928,068	2,176,971	14,722,434	1,222,264,608
Originated debts	65,723,035			55,508,313	121,231,348
Investments (AFS)	2,010,059	104,605,749			106,615,808
Other assets	400,308	59,637,062			60,037,370
	1,375,048,094	507,208,884	16,984,396	177,430,425	2,076,671,799

June 30, 2011

Treasury bills	85,884,649				85,884,649
Deposits with Fin. Inst.	40,983,568	199,819,652	12,226,242	104,525,380	357,554,842
Loans and advances	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-ANGUILLA NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2012

4. Financial risk management.....continued

4.1.8 Sectoral analysis of the loans and advances portfolio

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

	<u>Mar</u> <u>2012</u> \$	<u>June</u> <u>2011</u> \$
Consumers	137,941,316	138,236,683
Agriculture, fisheries and manufacturing	4,445,615	5,250,425
Construction and land development	64,887,007	55,753,912
Distributive trade, transportation and storage	10,133,184	11,654,291
Tourism, entertainment and catering	55,591,014	53,253,983
Financial institutions	11,557,625	9,478,843
State, statutory bodies and public utilities	897,085,275	900,134,316
Professional and other services	19,524,224	19,828,453
Total	1,201,165,260	1,193,590,906

4.19 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:

	Public Sector	Construction	Tourism	Financial Inst.	Individuals	Other Industries	TOTAL
	\$	\$	\$	\$	\$	\$	\$
Mar 31, 2012							
Treasury Bills	85,884,649	-	-	-	-	-	85,884,649
Deposits with financial institutions	-	-	-	480,638,016	-	-	480,638,016
Originated Debt	112,224,435	-	-	2,796,913	-	6,210,000	121,231,348
Investment securities - Debt securities	-	-	-	106,615,808	-	-	106,615,808
Loans & Advances to customers	897,131,907	68,256,917	65,947,725	11,050,727	142,830,310	37,047,022	1,222,264,608
Other Assets	-	-	-	3,279	34,126	59,999,965	60,037,370
Total	1,095,240,991	68,256,917	65,947,725	601,104,743	142,864,436	103,256,987	2,076,671,799
June 30, 2011	1,103,757,362	59,311,650	63,610,692	466,387,644	142,925,687	115,985,594	1,951,978,629

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

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 dollar (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 March 31, 2012. Included in the table are the Bank financial instruments at carrying amounts, categorized by currency.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2012

4. Financial risk management.....continued

4.2.2 Foreign exchange risk.....continued

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

March 31, 2012	EC\$	US\$	EURO	GBP	CAN	BDS	GUY	TOTAL
Assets								
Cash & Balances with Central Bank	240,671,074	3,775,689	44,955	85,737	27,227	23,188	-	244,627,870
Treasury Bills	85,884,649	-	-	-	-	-	-	85,884,649
Deposits with other financial Institution	59,591,008	419,080,556	760,263	469,923	527,105	187,696	21,465	480,638,016
<i>Loans and receivables</i>								
- Loans and advances to customers	1,186,809,287	35,455,321	-	-	-	-	-	1,222,264,608
- Originated Debt	119,734,435	1,496,913	-	-	-	-	-	121,231,348
Investment Securities - avail for sale	13,729,800	262,304,633	-	-	-	-	-	276,034,433
Other Assets	403,587	59,633,783	-	-	-	-	-	60,037,370
Total financial Assets	1,706,823,840	781,746,895	805,218	555,660	554,332	210,884	21,465	2,490,718,294
Liabilities								
Due to customers	1,524,263,445	260,307,776	122,581	383,489	3,622,627	-	-	1,788,699,918
Due to other financial institutions	-	1,979,346	-	-	-	-	-	1,979,346
Other borrowed funds	-	218,076,992	-	-	-	-	-	218,076,992
Other liabilities	16,185,862	4,961,445	42,179	385,488	151,884	58,800	-	21,785,658
Total financial Liabilities	1,540,449,307	485,325,559	164,760	768,977	3,774,511	58,800	-	2,030,541,914
Net on-balance sheet positions	166,374,533	296,421,336	640,458	(213,317)	(3,220,179)	152,084	21,465	460,176,380
Credit Commitments	59,797,437							
June 30, 2011	EC\$	US\$	EURO	GBP	CAN	BDS	OTHER	TOTAL
Total Financial Assets	1,693,155,507	724,120,960	1,789,105	543,738	2,096,530	642,142	15,255	2,422,363,237
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	237,997,986	235,622,012	1,670,222	(280,942)	(1,759,925)	583,880	15,255	473,848,488
Credit Commitments	70,962,488							70,962,488

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.

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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:

Interest Sensitivity of Assets and Liabilities

	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	\$	\$	\$	\$	\$	\$	\$
As at Mar 31, 2012							
Financial Assets							
Cash & balances with Central Bank	-	-	-	-	-	244,627,870	244,627,870
Treasury Bills	-	85,884,649	-	-	-	-	85,884,649
Deposits with other financial Inst.	272,449,161	-	55,387,295	83,791,655	-	69,009,905	480,638,016
Loans & Advances to customers	271,993,019	1,293,379	3,953,043	190,904,464	753,405,819	714,884	1,222,264,608
- Originated Debts	-	270,000	1,962,000	46,969,400	72,029,948	-	121,231,348
Investment securities	104,605,749	-	-	-	2,010,059	169,418,626	276,034,434
Other Assets	-	-	-	51,349,400	-	8,687,970	60,037,370
Total Financial Assets	649,047,929	87,448,028	61,302,338	373,014,919	827,445,826	492,459,255	2,490,718,295
Financial Liabilities							
Due to Customers	902,615,214	109,195,231	585,288,023	-	-	191,601,450	1,788,699,918
Due to Other financial Inst.	1,979,346	-	-	-	-	-	1,979,346
Other Borrowed funds	405,390	810,780	6,080,850	114,538,609	93,540,229	2,701,134	218,076,992
Other Liabilities	356,933	-	-	-	-	21,428,725	21,785,658
Total Financial Liabilities	905,356,883	110,006,011	591,368,873	114,538,609	93,540,229	215,731,309	2,030,541,914
Total Interest repricing gap	(256,308,954)	(22,557,983)	(530,066,535)	258,476,310	733,905,597		
As at June 30, 2011							
Total Financial Assets	544,675,551	23,807,686	241,037,185	255,275,180	837,214,562	520,353,073	2,422,363,237
Total Financial 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		

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4. Financial risk management.....continued

4.2.3 Interest rate risk.....continued

The Bank fair value arises from debt securities classified as available-for-sale. Cash flow interest rate risk arises from loans and advances to customers at available rates.

4.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with financial liabilities when they fall due and to replace funds when they are withdrawn. The consequences may be failure to meet obligations to repay depositors and fulfill commitments to lend.

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 obligation by not converting into foreign deposits, demand deposits, reserve, 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.

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4. Financial risk management.....continued

4.3.3 Non-derivative 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.

Analysis of Assets and Liabilities into relevant maturity grouping

	Up to 1 Month \$	1 - 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
As at Mar 31, 2012						
Financial Liabilities						
Due to Customers	1,085,841,210	113,504,702	589,354,006	-	-	1,788,699,918
Due to other financial Inst.	1,979,346	-	-	-	-	1,979,346
Other Borrowed funds	405,390	3,511,914	6,080,850	114,538,609	93,540,229	218,076,992
Other Liabilities	7,788,692	5,231,396	8,765,570	-	-	21,785,658
Total Financial Liabilities	1,096,014,638	122,248,012	604,200,426	114,538,609	93,540,229	2,030,541,914
Total Financial Assets	1,104,609,342	94,608,462	92,773,861	373,290,862	825,435,768	2,490,718,295
As at June 30, 2011						
Total Financial Liabilities	892,738,801	67,735,887	759,063,275	139,568,975	93,540,229	1,952,647,167
Total Financial Assets	1,029,211,166	26,519,651	267,209,100	260,092,718	839,330,602	2,422,363,237

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NOTES TO THE FINANCIAL STATEMENTS
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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 31), are summarized in the table below.

	<u>Up to 1 year</u>	<u>1 – 3 years</u>	<u>Over 3 years</u>	<u>Total</u>
	\$	\$	\$	\$
As at March 31, 2012				
Loan commitments	51,796,901	1,536,040	6,464,496	59,797,437
Guarantees and standby letters of credit	4,095,350	-	4,096,565	8,191,915
Total	55,892,251	1,536,040	10,561,061	67,989,352
<hr/>				
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
<hr/>				

4.4 Fair values of financial assets and financial liabilities

Fair value amounts represent estimates of the consideration that would 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 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 31.

(a) Treasury bills

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

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4. Financial risk management.....continued

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

(b) Deposits with other financial institutions

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

(c) Loans and advances to customers

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

(d) Originated debt

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

(e) Due to customers

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

(f) Due to financial institutions

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

(g) Other borrowed funds

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

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4. Financial risk management.....continued

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

The table below summarises the carrying amounts and fair values of the financial assets and financial liabilities

	Carrying Value		Fair Value	
	Mar 2012	June 2011	Mar 2012	June 2011
	\$	\$	\$	\$
Financial assets				
Treasury bills	85,884,649	85,884,649	85,884,649	85,884,649
Deposits with other financial institutions	480,638,016	357,554,842	480,638,016	357,554,842
Loans and receivables:				
Loans and advances				
Overdrafts	172,024,530	167,339,437	173,541,520	169,991,697
Corporate	74,682,215	67,064,319	228,972,985	228,634,843
Mortgage	114,539,489	113,822,571	221,192,196	220,599,932
Term	861,018,374	866,379,865	921,796,878	987,472,231
Originated debts	121,231,348	126,011,764	121,231,348	126,011,764
AFS – debt	2,010,059	2,010,059	2,010,059	2,010,059
AFS – equity	14,637,150	14,637,150	14,637,150	14,637,150
Financial Liabilities				
Due to customers	1,788,699,918	1,670,099,137	1,788,699,918	1,670,099,137
Due to financial institutions	1,979,346	6,898,981	1,979,346	6,898,981
Other borrowed funds	218,076,992	230,497,083	218,076,992	230,497,083

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

4.4.1 Fair Value measurements recognized in the balance sheet

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value 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 from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

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

4.4 Fair value measurements recognized in the balance sheet.....*continued*

Mar 31, 2012	<u>Level 1</u>	<u>Total</u>
	\$	\$
Available-for-sale financial assets		
Debt securities	104,605,749	104,605,749
Equities	<u>156,132,776</u>	<u>156,132,776</u>
Total	<u>260,738,525</u>	<u>260,738,525</u>

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

June 30, 2011	<u>Level 1</u>	<u>Total</u>
	\$	\$
Available-for-sale financial assets		
Debt securities	95,594,655	95,594,655
Equities	<u>236,098,779</u>	<u>236,098,779</u>
Total	<u>331,693,434</u>	<u>331,693,434</u>

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

4. Financial risk management.....continued

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%.

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 unrealized gains arising on the fair valuation of equity 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 same 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 period ended March 31, 2012 and June 30, 2011. During these two periods, the Bank complied with all the externally imposed capital requirements to which it is subject.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

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

4.5 Capital management.....continued

	<u>Mar</u> <u>2012</u> \$	<u>June</u> <u>2011</u> \$
Tier 1 capital		
Share Capital	135,000,000	135,000,000
Bonus shares from capitalization of unrealized asset revaluation reserve	(4,500,000)	(4,500,000)
Reserves	275,141,800	275,141,800
Retained earnings	<u>36,759,269</u>	<u>35,979,556</u>
Total qualifying Tier 1 capital	<u>442,401,069</u>	<u>441,621,356</u>
Tier 2 capital		
Revaluation reserve – available-for-sale investments	(11,393,690)	49,793,306
Revaluation reserve – property, plant and equipment	7,720,621	7,720,621
Bonus shares capitalization	4,500,000	4,500,000
Accumulated impairment allowance	39,072,868	39,072,868
Total qualifying Tier 2 capital	<u>39,899,799</u>	<u>101,086,795</u>
Investment in subsidiaries	(26,750,000)	(26,750,000)
Total regulatory capital	<u>455,550,868</u>	<u>515,958,151</u>
Risk-weighted assets		
On-balance sheet	954,686,303	928,871,447
Off-balance sheet	12,579,598	25,531,021
Total risk-weighted assets	967,265,901	954,402,468
Tier 1 capital ratio	46%	46%
Basel ratio	47%	54%

5. **Critical accounting estimates and judgments**

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2012

5. Critical accounting estimates and judgments.....continued

(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 judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences in estimates and actual loss experienced.

(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 judgment. In making this judgment, 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 March 31, 2012.

(c) Epassport 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.

6. Cash and balances with Central Bank

	<u>Mar</u>	<u>June</u>
	<u>2012</u>	<u>2011</u>
	\$	\$
Cash in hand	9,540,840	7,870,036
Balances with Central Bank other than mandatory deposits	135,185,178	114,824,822
	-----	-----
Included in cash and cash equivalent (Note 30)	144,726,018	122,694,858
Mandatory deposits with Central Bank	99,901,852	92,827,820
	-----	-----
Total	<u>244,627,870</u>	<u>215,522,678</u>
	=====	=====

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 deposit of customers. This reserve deposit is not available to finance the Bank's day-to-day operations. Cash and balances with Central Bank do not receive interest payments.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2012

7. Treasury bills	Mar 2012 \$	June 2011 \$
Government of St. Kitts and Nevis maturing May 15, 2012 at 6.75% interest	85,884,649 =====	85,884,649 =====

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	Mar 2012 \$	June 2011 \$
Operating cash balances	244,221,491	106,653,927
Items in the course of collection	5,605,459	3,908,243
Interest bearing term deposits	16,905,354 -----	19,905,354 -----
Included in cash and cash equivalent (Note 30)	266,732,304	130,467,524
Special term deposits*	58,941,246	52,135,917
Restricted term deposits**	146,123,997	168,759,718
Interest receivable	8,840,469 -----	6,191,683 -----
Total	480,638,016 =====	357,554,842 =====

*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's international business operations. These deposits are not available for use in the day-to-day operations of the Bank.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2012

9. Loans and advances to customers

	<u>Mar</u> <u>2012</u> \$	<u>June</u> <u>2011</u> \$
Overdrafts	159,532,945	154,833,765
Mortgages	74,267,292	72,208,653
Demand	193,655,535	187,005,341
Special Term	689,767,566	693,615,592
Other Secured	19,483,945	18,941,566
Consumer	5,267,644	5,742,376
	-----	-----
Productive loans	1,141,974,927	1,132,347,293
Impaired loans and advances	59,190,333	61,243,613
Less allowance for impairment (Note 25)	(39,072,868)	(39,072,868)
	-----	-----
	1,162,092,392	1,154,518,038
Interest receivable	60,172,216	60,088,154
	-----	-----
Net loans and advances	1,222,264,608	1,214,606,192
	=====	=====

10. Originated debts

	<u>Mar</u> <u>2012</u> \$	<u>June</u> <u>2011</u> \$
Government of St. Kitts and Nevis bonds maturing April 18, 2057 at 1.5 % interest (2011 – March 3, 2020 at 8.25%)	64,423,035	69,925,172
Eastern Caribbean Home Mortgage Bank Long-term bond maturing July 01, 2013 at 6.00 % interest	1,000,000	1,000,000
Antigua Commercial Bank 9 % interest rate Series A bond maturing December 31, 2025	1,496,913	1,496,913
	-----	-----
Balance carried forward	66,919,948	72,422,085

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

Originated Debt.....continued

	<u>Mar</u> <u>2012</u> \$	<u>June</u> <u>2011</u> \$
Grenada Electricity Services Limited 10-year 7 % bond maturing December 19, 2017	6,210,000	7,020,000
Government of Antigua 7-year long-term notes Maturing April 30, 2017 at 6.7% interest	42,801,400	41,269,679
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 (no specific repayment terms)	300,000	300,000
	-----	-----
Sub-total	<u>121,231,348</u>	<u>126,011,764</u>
	=====	=====

11. Investment securities

(A)	<u>Mar</u> <u>2012</u> \$	<u>June</u> <u>2011</u> \$
<i>Available-for-sale securities</i>		
Securities at fair value		
-- Unlisted	16,647,209	16,647,209
-- Listed	260,738,525	331,693,434
-- Less provision for impairment	(1,351,300)	(1,351,300)
	-----	-----
Sub-total	<u>276,034,434</u>	<u>346,989,343</u>
	=====	=====

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\$2.7026) per share.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

11. Investment securities.....continued

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

	Available for Sale	Loans and receivable originated debts	Total
	\$	\$	\$
Balance – June 30, 2011	346,989,343	126,011,764	473,001,107
Additions	545,635,142	2,107,721	547,742,863
Disposals (sales/redemption)	(522,456,212)	(6,888,137)	(529,344,349)
Fair value gains (losses)	(94,133,839)	-	(94,133,839)
Total as at Mar 31, 2012	276,034,434	121,231,348	397,265,782
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 loss	(1,351,300)	-	(1,351,300)
Total as at June 30, 2011	346,989,343	126,011,764	473,001,107

	Mar <u>2012</u>	June <u>2011</u>
	\$	\$

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

Listed securities:

- Equity securities - UK	-	-
- Equity securities – US	149,727,276	229,693,279
- Equity securities – Caribbean	6,405,500	6,405,500
- Debt securities – UK	-	-
- Debt securities – US	104,605,749	95,594,655

Unlisted securities:

- Equity securities – Caribbean	14,637,150	14,637,150
- Debt securities – Caribbean	2,010,059	2,010,059
- Provision for impairment loss	<u>(1,351,300)</u>	<u>(1,351,300)</u>
Total available-for-sale securities	276,034,434	346,989,343

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2012

11. Investment securities.....continued

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

(C)	<u>Mar</u> <u>2012</u> \$	<u>June</u> <u>2011</u> \$
<u>Listed:</u>		
US dollars	254,333,025	325,287,934
EC dollars	6,405,500	6,405,500
	-----	-----
Total listed securities and interest	<u>260,738,525</u>	<u>331,693,434</u>
<u>Unlisted:</u>		
US dollars	9,322,909	9,322,909
Less: Provision for impairment loss	<u>(1,351,300)</u>	<u>(1,351,300)</u>
Sub-total US dollars	7,971,609	7,971,609
EC dollars	7,324,300	7,324,300
	-----	-----
Total unlisted securities	<u>15,295,909</u>	<u>15,295,909</u>
Total available-for-sale securities	276,034,434	346,989,343

12. Investment in subsidiary

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	<u>26,750,000</u>	<u>26,750,000</u>
	=====	=====

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

Letters of credit	4,095,350	29,535
Guarantees	4,096,565	4,096,565
	-----	-----
Total	<u>8,191,915</u>	<u>4,126,100</u>
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

14. Property, Plant and Equipment

COST	<u>Total</u>	<u>Property</u>	<u>Equipment</u>	<u>Furniture</u>	<u>Motor</u>	<u>Reference</u>	<u>Projects</u>
				<u>And</u>			
	\$	\$	\$	<u>Fittings</u>	<u>Vehicles</u>	<u>Books</u>	<u>Ongoing</u>
	\$	\$	\$	\$	\$	\$	\$
At June 30, 2011	39,195,140	20,833,039	12,878,285	2,900,284	477,000	140,367	1,966,165
Additions	1,187,531	306,854	276,773	519,664	84,240	-	-
Disposals	(100,000)	-	-	-	(100,000)	-	-
Transfer	(1,346,721)	-	-	-	-	-	(1,346,721)
Mar 31, 2012	38,935,950	21,139,893	13,155,058	3,419,948	461,240	140,367	619,444
Accumulated Depreciation							
At June 30, 2011	14,380,946	2,840,699	9,382,411	1,712,619	310,896	134,321	-
Charge for Year	1,263,291	328,192	748,063	139,170	46,300	1,566	-
Eliminated on Disposal	(75,832)	-	-	-	(75,832)	-	-
Mar 31, 2012	15,568,405	3,168,891	10,130,474	1,851,789	281,364	135,887	-
Net Book Value							
At Mar 31, 2012	23,367,545	17,971,002	3,024,584	1,568,159	179,876	4,480	619,444
At June 30, 2011	24,814,194	17,992,340	3,495,874	1,187,665	166,104	6,046	1,966,165

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

	<u>Mar</u> <u>2012</u> \$	<u>June</u> <u>2011</u> \$
15. Intangible assets		
Cost at July 1, 2011	6,921,908	5,036,353
Additions	<u>962,439</u>	<u>1,885,555</u>
Total at Mar 31, 2012	<u>7,884,347</u>	<u>6,921,908</u>
	=====	=====
Accumulated amortisation		
At July 1, 2011	4,977,331	3,841,356
Charges for the year-to-date	<u>899,932</u>	<u>1,135,975</u>
Total at Mar 31, 2012	<u>5,877,263</u>	<u>4,977,331</u>
	=====	=====
Net book value	<u>2,007,084</u>	<u>1,944,577</u>
	=====	=====
Intangible assets represent computer software acquired for the Bank use.		
16. Other assets		
Prepayments	4,823,468	14,189,110
Stationery and card stock	828,168	841,210
Epassport receivable	54,993,030	53,031,768
Other receivables	<u>6,388,336</u>	<u>3,106,559</u>
Total	<u>67,033,002</u>	<u>71,168,647</u>
	=====	=====
17. Due to customers		
Consumers	362,445,674	364,479,838
Private businesses and subsidiaries	333,908,787	301,831,746
State, statutory bodies and non-financial bodies	858,627,921	776,674,111
Others	215,124,312	217,126,172
Interest Payable on fixed deposits	18,593,224	9,987,270
	-----	-----
Total Customers deposits	<u>1,788,699,918</u>	<u>1,670,099,137</u>
	=====	=====

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

	<u>Mar</u> <u>2012</u> \$	<u>June</u> <u>2011</u> \$
18. Other borrowed funds		
Credit line	121,835,629	136,093,208
Bonds issued	93,540,229	93,540,229
Interest payable	2,701,134	863,646
	-----	-----
Total	218,076,992	230,497,083
	=====	=====

The rate of interest charged on the line-of-credit is 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 \$6,805,845.

19. Accumulated provisions, creditors and accruals

Other interest on customers' deposits	9,972,937	11,292,256
Managers cheques and bankers payments	1,040,176	1,176,660
Unpaid drafts on other banks	1,553,895	1,531,663
E-commerce payables	3,995,426	4,924,615
Other payables	93,795,255	20,747,752
	-----	-----
Total	110,357,689	39,672,946
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

	Mar 2012	Mar 2011
	\$	\$
20. Taxation		
Tax expense		
Current tax	-	-
Deferred tax	-	-
Prior year income tax expense	-	-
	-----	-----
Total	-	-
	=====	=====
Income for the period before tax	<u>31,829,712</u>	<u>7,101,970</u>
Income tax at the applicable tax rate of 35%	-	-
Non-deductible expenses	-	-
Deferred tax over provided	-	-
Income not subject to tax	-	-
	-----	-----
Total	-	-
	=====	=====

Deferred tax asset/(liability)

The movement on the deferred tax assets and liabilities during the period are as follows:

	Mar 2012	June 2011
	\$	\$
Deferred tax asset		
Balance brought forward (capital allowance)	344,097	357,786
Deferred tax (recovery)/charge, net	-	(13,689)
Accelerated depreciation	<u>344,097</u>	<u>344,097</u>
Unrealized gain on AFS securities	(26,811,780)	-
Transfer of net unrealized gains on AFS securities	32,946,844	-
Total	<u>6,479,161</u>	<u>344,097</u>
Deferred tax liability		
Balance brought forward	-	27,005,824
Net unrealized loss for the year	-	(194,044)
Total	<u>-</u>	<u>26,811,780</u>

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

	Mar <u>2012</u> \$	June <u>2011</u> \$
21. Share Capital		
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	135,000,000	135,000,000
	=====	=====
22. Reserves		
22.1 Statutory reserve		
Balance at beginning of year	96,610,790	87,640,034
Addition	-	8,970,756
	-----	-----
	96,610,790	96,610,790
	=====	=====
In accordance with Section 14 (1) of Saint Christopher and Nevis Banking Act No. 6 of 1991, the St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain a reserve fund into which it shall transfer not less than 20% of its net profit of each year whenever the reserve fund is less than the Bank paid-up capital.		
22.2 Revaluation reserve		
Balance brought forward	57,513,927	57,874,294
Movement in market value of investments, net	(61,186,996)	(360,367)
	-----	-----
Balance	(3,673,069)	57,513,927
	=====	=====
Revaluation reserve is represented by:		
Available for sale investment securities	(11,393,690)	49,793,306
Properties	7,720,621	7,720,621
	-----	-----
	(3,673,069)	57,513,927
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2012

	<u>Mar</u>	<u>June</u>
	<u>2012</u>	<u>2011</u>
	\$	\$
22. Reserves.....continued		
22.3 Other reserves		
Balance brought forward	174,653,586	154,653,586
Transfer from retained earnings	-	20,000,000
Transfer to share capital	-	-
Transfer for interest on non-performing loans	-	-
	-----	-----
	174,653,586	174,653,586
	=====	=====
Other reserves is represented by:		
Reserve for interest on non-performing loans	16,496,753	16,496,753
General reserve	158,156,833	158,156,833
	-----	-----
	174,653,586	174,653,586
	=====	=====

Included in Other reserves 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 Standards (IAS) 39. The prudential guidelines of 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 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.

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	<u>Mar</u>	<u>Mar</u>
	<u>2012</u>	<u>2011</u>
	\$	\$
23. Net Interest Income		
<u>Interest Income</u>		
Loans and Advances	60,297,399	56,119,698
Deposits with other financial institutions	6,782,695	5,914,238
Investments	15,699,784	13,775,398
	82,779,878	75,809,334
<u>Interest Expense</u>		
Savings accounts	8,992,618	8,176,725
Call Accounts	5,619,344	4,437,894
Fixed Deposits	43,457,767	40,684,460
Current and other deposit accounts	1,505,440	1,053,867
Debt and other related accounts	6,805,845	6,700,672
	66,381,014	61,053,618
Net	16,398,864	14,755,716
24. Net fees and commission income		
Credit related fees and commission	1,913,891	2,407,737
International and foreign exchange	3,902,764	4,636,995
Brokerage and other fees and commission	496,943	401,420
	6,313,598	7,446,152
Fee expenses		
Brokerage and other related fee expenses	104,961	89,305
International and foreign exchange fee expenses	2,160,175	1,748,695
Other fee expenses	86,652	338,604
	2,351,788	2,176,604
Total net	3,961,810	5,269,548

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	<u>Mar</u> <u>2012</u> \$	<u>June</u> <u>2011</u> \$
25. Provision for credit impairment		
Balance brought forward	39,072,868	39,074,583
Charge-offs and write-offs	-	(1,715)
	-----	-----
Total	<u>39,072,868</u>	<u>39,072,868</u>
	=====	=====
26. Administration and general expenses		
	<u>Mar</u> <u>2012</u> \$	<u>Mar</u> <u>2011</u> \$
Advertisement and marketing	506,060	245,824
Stationery and supplies	387,867	425,784
Communication	568,237	482,239
Utilities	785,544	545,135
Shareholders' expenses	400,053	170,795
Rent and occupancy expenses	362,086	480,263
Taxes and licences	56,781	62,839
Security services	210,599	367,202
Insurance	178,255	473,123
Legal expenses	121,538	619,733
Staff employment	9,796,426	9,736,983
Repairs and maintenance	1,906,338	1,303,129
Premises upkeep	19,939	24,765
Other general expenses	700,730	809,842
	-----	-----
Total	<u>16,000,453</u>	<u>15,747,656</u>
	=====	=====

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27. Dividend

The financial statements reflect a dividend of \$15,525,000.00, which was approved at the Fortieth Annual General Meeting held on September 13, 2011, and subsequently paid. The statements also reflect an interim dividend payment of \$8,775,000.00 and final dividend payment of \$6,750,000.00 paid on December 8, 2011 and February 16, 2012 respectively.

28. 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 of 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. There is a high likelihood of success on same ground as initial claim. The judge gave a detailed precise judgment.

29. 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. Those 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 are widely held by individuals and other institutions (over 5,200 shareholders). The Bank is the main bankers to the government and, as such, undertakes commercial banking transactions on behalf of the government on commercial terms and conditions at market rates.

Public sector net position with the Bank as at March 31, 2012 (loans and advances less deposits) was \$272 million in deficit (June 30, 2011 - \$321 million).

Interest charged to the public sector for the quarter was \$14 million. Interest paid and payable to the public sector for the quarter ended March 31, 2012 was \$11 million.

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Subsidiaries

Advances outstanding as at March 31, 2012 amounted to \$8.601 million (June 30, 2011 - \$9.439 million).

Deposits balances as at March 31, 2012 amounted to \$147.184 million (June 30, 2011 - \$143.355 million).

Directors and Associates

Advances outstanding as at March 31, 2012 amounted to \$736,043 (June 30, 2011 - \$1,156,284).

Deposits balances as at March 31, 2012 amounted to \$1,213,574 (June 30, 2011 - \$1,051,593).

Senior Management

At the end of March 2012 the following amounts were in place:

- Gross salaries, allowances and bonus payments amounted to \$1.579 million (June - \$1.907 million).
- Loans and advances amounted to \$3.358 million (June 2011 - \$3.372 million);
- Deposit amounts were \$2.600 million (June 2011 - \$2.251 million); and
- Total St. Kitts-Nevis-Anguilla National Bank Limited shares held were 1,159,241 (June 2011 – 1,159,241)

	<u>Mar</u>	<u>June</u>
	<u>2012</u>	<u>2011</u>
	\$	\$
30. Cash and cash equivalent		
Cash and balances with Central Bank (Note 6)	144,726,018	122,694,858
Deposits with other financial institutions (Note 8)	266,732,304	130,467,524
	411,458,322	253,162,382
	411,458,322	253,162,382
31. Contingent liabilities and commitments		

At March 31, 2012 the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

Loan commitments	59,797,437	70,962,488
Guarantees and standby letters of credit	8,191,915	4,126,100
	67,989,352	75,088,588
	67,989,352	75,088,588