

**ST KITTS-NEVIS-ANGUILLA
NATIONAL BANK LIMITED**

Financial statements

June 30, 2010

Independent auditors' report

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

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Independent auditors' report (continued)

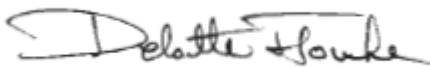
To the shareholders of St Kitts-Nevis-Anguilla National Bank Limited

Opinion

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

Emphasis of matter

Without qualifying our opinion, we draw attention to note 22 which describes management's recognition of interest on non-performing loans and the Eastern Caribbean Central Bank prudential guidelines regarding recognition.



The Phoenix Centre
George Street
St Michael
Barbados



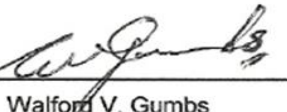
Independent House
North Independence Square
Basseterre
St Kitts

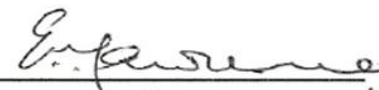
December 31, 2010

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NON-CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2010

Assets	Notes	2010	2009
		\$	\$
Cash and balances with Central Bank	6	102,459,955	80,707,270
Treasury bills	7	90,715,601	90,715,601
Deposits with other financial institutions	8	331,347,078	340,374,351
Loans and receivables - loans and advances to customers	9	1,145,755,171	1,032,119,164
- originated debts	10	130,074,490	86,976,913
Investment securities - available-for-sale	11	374,448,905	349,806,134
Investment in subsidiaries	12	26,750,000	17,750,000
Customers' liability under acceptances, guarantees and letters of credit	13	5,046,100	5,186,100
Income tax asset		7,927,397	-
Property, plant and equipment	14	24,859,436	25,241,004
Intangible assets	15	1,194,997	1,572,368
Other assets	16	31,683,460	32,203,116
Deferred tax asset	20	357,786	200,907
Total Assets		2,272,620,376	2,062,852,928
Liabilities			
Due to customers	17	1,483,165,330	1,359,465,172
Due to other financial institutions		-	623,102
Other borrowed funds	18	202,311,769	176,750,620
Acceptances, guarantees and letters of credit	13	5,046,100	5,186,100
Income tax liability		-	957,999
Accumulated provisions, creditors and accruals	19	89,064,483	87,248,572
Deferred tax liability	20	27,005,824	14,646,767
Total liabilities		1,806,593,506	1,644,878,332
Shareholders' equity			
Issued share capital	21	135,000,000	81,000,000
Share premium		3,877,424	3,877,424
Retained earnings		26,981,532	23,307,744
Total reserves	22	300,167,914	309,789,428
Total shareholders' equity		466,026,870	417,974,596
Total liabilities and shareholders' equity		2,272,620,376	2,062,852,928

Approved by the Board of Directors on September 24, 2010

Director 
Walford V. Gumbs

Director 
Edmund W. Lawrence

The attached notes form part of these Financial Statements

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NON-CONSOLIDATED STATEMENT OF INCOME
For the year ended June 30, 2010

	Notes	<u>2010</u> \$	<u>2009</u> \$
Interest income		111,726,602	114,627,731
Interest expense		<u>-74,888,287</u>	<u>-69,124,287</u>
Net interest income	23	36,838,315	45,503,444
Provision for credit Impairment losses	25	<u>-2,315,888</u>	<u>-5,877,151</u>
Sub-total - interest revenue		<u>34,522,427</u>	<u>39,626,293</u>
Fees and commission income		23,457,669	45,725,223
Fee expense		<u>-1,959,939</u>	<u>-3,570,648</u>
Net fees and commission income	24	<u>21,497,730</u>	<u>42,154,575</u>
Dividend income		786,871	983,434
Net gains less (losses) from investments		1,391,045	-9,145,409
Gain on foreign exchange		2,955,976	1,505,032
Other operating income		<u>364,924</u>	<u>183,620</u>
Other Income/(losses)		<u>5,498,816</u>	<u>-6,473,323</u>
Operating income		<u>61,518,973</u>	<u>75,307,545</u>
Operating expenses			
Administration and general expenses	26	24,515,467	26,235,780
Directors fees and expenses		330,679	333,432
Audit fees and expenses		292,691	260,000
Depreciation		1,816,019	1,601,993
Amortisation		<u>730,937</u>	<u>415,635</u>
Total operating expenses		<u>27,685,793</u>	<u>28,846,840</u>
Operating income before tax		<u>33,833,180</u>	<u>46,460,705</u>
Income tax expense	20	<u>-633,009</u>	<u>-6,791,113</u>
Net income for the year		<u>33,200,171</u>	<u>39,669,592</u>
Earnings per share	27	0.25	0.29

The attached notes form part of these Financial Statements

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NON-CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended June 30, 2010

	Notes	<u>2010</u> \$	<u>2009</u> \$
Net income for the year		33,200,171	39,669,592
Other comprehensive income:			
Available-for-sale financial assets:			
Unrealised gains (losses) on investment securities		33,171,545	-73,990,977
Tax effect		-11,610,041	25,896,842
Reclassification adjustments for gains (losses) included in income		1,390,599	2,431,361
Total other comprehensive income		22,952,103	-45,662,774
Total comprehensive income for the year		56,152,274	-5,993,182

The attached notes form part of these Financial Statements

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For The Year Ended June 30, 2010

	<u>Notes</u>	<u>Share Capital</u> \$	<u>Share Premium</u> \$	<u>Statutory Reserve</u> \$	<u>Other Reserve</u> \$	<u>Investment Reserves</u> \$	<u>Property Revaluation Reserves</u> \$	<u>Retained Earnings</u> \$	<u>Total Shareholders' Equity</u> \$
Balance at June 30, 2008 as restated		81,000,000	3,877,424	81,000,000	160,000,000	72,864,344	7,720,621	32,490,389	438,952,778
Total comprehensive income for the year		-	-	-	-	-45,662,774	-	39,669,592	-5,993,182
Reserves for loan impairment	22	-	-	-	-20,000,000	-	-	20,000,000	-
Transfer to Reserves	22	-	-	-	53,867,237	-	-	-53,867,237	-
Dividends	28	-	-	-	-	-	-	-14,985,000	-14,985,000
Balance at June 30, 2009		81,000,000	3,877,424	81,000,000	193,867,237	27,201,570	7,720,621	23,307,744	417,974,596
Total comprehensive income for the year		-	-	-	-	22,952,103	-	33,200,171	56,152,274
Transfer to Reserves	22	-	-	6,640,034	14,786,349	-	-	-21,426,383	-
Increase in share capital	21	54,000,000	-	-	-54,000,000	-	-	-	-
Dividends	28	-	-	-	-	-	-	-8,100,000	-8,100,000
Balance at June 30, 2010		135,000,000	3,877,424	87,640,034	154,653,586	50,153,673	7,720,621	26,981,532	466,026,870

The attached notes form part of these Financial Statements

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NON-CONSOLIDATED STATEMENT OF CASHFLOWS
For the year ended JUNE 30, 2010

	Notes	<u>2010</u>	<u>2009</u>
		\$	\$
Cash flows from operating activities:			
Operating Income before taxation		33,833,180	46,460,705
Adjustments for:			
Interest income		-111,726,602	-114,627,731
Interest expense		74,888,287	69,124,287
Depreciation		1,903,586	1,601,993
Amortisation		643,370	415,635
Provision for impairment, net		2,315,888	5,877,151
Prior year adjustments			
Gain on disposal of premises and equipment		-363	-65,998
Operating income before changes in operating assets and liabilities		<u>1,857,346</u>	<u>8,786,042</u>
<i>(Increase)/decrease in operating assets:</i>			
Loans and advances to customers		-111,251,894	-70,676,341
Mandatory deposit with the Central Bank		-7,189,502	-8,673,700
Other accounts		519,655	4,177,746
<i>Increase/(decrease) in operating liabilities:</i>			
Customers' deposits		124,104,087	3,789,002
Due to other financial institutions		-623,102	-12,350,559
Accumulated provisions, creditors, and accruals		<u>1,473,852</u>	<u>-75,766,270</u>
Cash generated from (used in) operations		8,890,442	-150,714,080
Interest received		105,692,376	109,991,182
Interest paid		-74,950,157	-79,762,986
Income tax paid		<u>-9,675,284</u>	<u>-50,890,041</u>
Net cash generated from/(used in) operating activities		<u>29,957,377</u>	<u>-171,375,925</u>
Cash flows from investing activities:			
Purchase equipment and intangible assets		-1,789,344	-6,254,024
Proceeds from desposal of equipment		1,690	135,000
(Increase)/decrease in special term deposits		-36,260,609	14,018,520
(Increase) in restricted term deposits		-15,533,593	-12,752,390
(Increase) investment in subsidiaries		-9,000,000	-
Proceeds from disposal of investment securities		180,371,216	147,126,755
Purchase investment securities		<u>-213,065,866</u>	<u>-182,083,127</u>
Net cash used in investing activities		<u>-95,276,506</u>	<u>-39,809,266</u>
Cash flows from financing activities:			
Other borrowed funds		25,561,148	3,908,263
Dividend paid		<u>-8,100,000</u>	<u>-14,985,000</u>
Net cash generated from/(used in) financing activities		<u>17,461,148</u>	<u>-11,076,737</u>
Net decrease in cash and cash equivalents		<u>-47,857,981</u>	<u>-222,261,928</u>
Cash and cash equivalents at beginning of year		<u>271,054,215</u>	<u>493,316,143</u>
Cash and cash equivalents at end of year	31	<u><u>223,196,234</u></u>	<u><u>271,054,215</u></u>

The attached notes form part of these Financial Statements

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

1. General information

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

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

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

The Bank is listed on the Eastern Caribbean Securities Exchange.

2. Adoption and amendments of published standards and interpretations

2.1 Amendments and published standards adopted in current period

- *IAS 19 (Amendment), 'Employee benefits'* (effective for annual periods beginning on or after January 1, 2009). This amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment; an amendment that changes benefit attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short-term and long-term employee benefits is based on whether benefits are due to be settled within or after 12 months of employee service being rendered. IAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed not recognised. IAS 19 has been amended to be consistent in this regard.
- *IAS 1 (Revised), 'Presentation of financial statements'* (effective for annual periods beginning on or after January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the Statement of income and statement of comprehensive income). The Bank chose two statements. Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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

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

- *IAS 1 (Amendment), 'Presentation of financial statements'* (effective for annual periods beginning on or after January 1, 2009). This amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. IAS 39 (Amendment) has had no impact on the Bank financial statements.
- *IAS 36 (Amendment), 'Impairment of assets'* (effective for annual periods beginning on or after January 1, 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.
- *IAS 38 (Amendment), 'Intangible assets'* (effective for annual periods beginning on or after January 1, 2009). Prepayments may only be recognized in the event that those payments have been made in advance of obtaining right of access to goods or receipt of services. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment does not have an impact on the Bank operations as all intangible assets are amortised using the straight line method.
- *IFRS 7 (Amendments), 'financial instruments: Disclosures'* (effective from March 1, 2009). The amendment requires enhanced disclosure about fair value measurements and liquidity risk. Also, the amendment requires disclosure of fair value measurements by level in a fair value hierarchy. This enhanced disclosure can be found in Note 4.
- *IFRS 8, 'Operating segments'*, replaces IAS 14, 'Segment reporting' (effective for annual periods beginning on or after January 1, 2009). The new standard requires that segment reporting be based on the internal reporting to the Board of Directors (in its function as chief operating decision-maker), which makes decisions on the allocation of resources and assesses the performance of each reportable segment. Application of this standard will have no material effect on the Bank.
- *IAS 37, 'Provisions, contingent liabilities and contingent assets'*, requires contingent liabilities to be disclosed, not recognized. As a result, IAS 19 has been amended to be consistent.
- *IAS 27 (Amendment), 'Consolidated and separate financial statements'* (effective for annual periods beginning on or after January 1, 2009). Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: Recognition and measurement' is classified as held for sale under IFRS 5, 'Non-current assets held for sale and discontinued operations', IAS 39 continues to be applied. The amendment has no impact on the Bank.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

2. Adoption and amendments of published standards and interpretationscontinued

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

- *IFRS 9, 'Financial instrument: Classification and measurement'* (effective for annual periods beginning on or after January 1, 2013). This standard replaces those parts in IAS 39 relating to the classification and measurement of financial assets. The principal features to the standard are as follows:
 1. Financial assets are required to be classified into two (2) measurement categories: those to be subsequently measured at amortised cost and those to be subsequently measured at fair value. The measurement decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial assets and the contractual cash flow characteristics of the financial assets.
 2. A financial asset is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows, and the financial asset's contractual cash flows represent only payments of principal and interest.
 3. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity instruments, an irrevocable election can be made at initial recognition, to recognise realized and unrealised gains or losses through other comprehensive income rather than profit or loss. This election may be made on an instrument-by-instrument basis.

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. Consolidated financial statements including the financial statements of the Bank's subsidiaries are also prepared for issuance to the shareholders. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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 recognised in the statement of income.

3.4 Financial assets

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

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

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

(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 recognised when cash or the right to cash is advanced to a borrower.

(c) *Bonus share dividend*

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the 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.

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

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

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

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

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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

3.5 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of income using the effective interest method.

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

3.6 Fee and commission income

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

3.7 Dividend income

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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

3.8 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 recognised are not included in a collective assessment of impairment.

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

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

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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

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

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

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

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

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

(c) *Renegotiated loans*

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

3.9 Property, plant and equipment

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

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

3.9 Property, plant and equipment.....continued

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

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

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

3.10 Intangible assets – computer software

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

Assets that have an indefinite useful life are not subject to 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.

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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3. Summary of significant accounting policies.....continued

3.11 Impairment of non-financial assets

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

3.12 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.

3.13 Leases

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

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

3.14 Cash and cash equivalents

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

3.15 Employee benefits

(a) Pension plan

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

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

3.15 Employee benefitscontinued

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

(b) Gratuity

The Bank provides a gratuity plan to its employees after 15 years of employment. The amount of the gratuity payment to eligible employees at retirement is computed with reference to final salary and calibrated percentage rates based on the number of years of service. Provisions for these amounts are included in the Statement of income.

3.16 Current and deferred income tax

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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3. Summary of significant accounting policies.....continued

3.17 Borrowings

Borrowings are recognised initially at fair value (which is their issue proceeds and fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any 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.

3.18 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 recognised in equity in the period in which they are paid by the Board of Directors and or approved by the Bank's shareholders.

Dividends for the year are dealt with in note 'Note 28'.

3.20 Comparatives

Where it has been necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. Adjustments have been made to Note 22 to reflect the change from gross interest taken in to income on impaired loans (excluding impairment expense) to net interest which is charged to income in the same period.

4. Financial risk management

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

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4. Financial risk management.....continued

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

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

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

4.1 Credit risk

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

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

4.1.1 Credit risk measurement

(a) Loans and advances

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

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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 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.

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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4. Financial risk management.....continued

4.1.2 Risk limit control and mitigation policies.....continued

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:

(a) Collateral

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

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

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

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

(b) Credit-related commitments

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

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

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4. Financial risk management.....continued

4.1.2 Risk limit control and mitigation policies.....continued

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

4.1.3 Impairment and provisioning

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

	2010		2009	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1 Pass	83.70	-	79.68	6.74
2 Special mention	11.53	0.02	15.44	1.30
3 Sub-standard	3.49	30.25	3.39	29.93
4 Doubtful	1.27	68.66	1.48	61.30
5 Loss	0.01	1.07	0.01	0.73
	----- 100.00 -----	----- 100.00 -----	----- 100.00 -----	----- 100.00 -----

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4. Financial risk management.....continued

4.1.3 Impairment and provisioning.....continued

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

Loans

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

Advances (overdrafts)

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

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

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

	Maximum exposure	
<i>Credit risk exposures relating to on-balance sheet assets are as follows:</i>	2010	2009
Treasury bills	90,715,601	90,715,601
Deposits with other financial institutions	331,347,078	340,374,351
Loans and advances:		
• Overdrafts	168,488,332	274,927,346
• Corporate customers	135,079,860	73,018,737
• Term loans	735,337,536	583,732,288
• Mortgages (personal)	106,849,444	100,440,793
• Originated debts	130,074,490	86,976,913
• Available-for-sale investments	120,467,552	67,997,035
• Other assets	31,025,378	31,655,570
• Loan commitments and financial guarantees	53,693,153	20,745,455
Total	1,903,078,424	1,670,584,089

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4. Financial risk management.....continued

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

The above table represents a worse case scenario of credit risk exposure to the Bank at June 30, 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet. As shown above, 60% (2009 – 62%) of the total maximum exposure is derived from loans and advances to customers; 13% (2009 – 9%) 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% (2009 – 95%) of the loans and advances portfolio are categorized in the top two grades of the internal rating system;
- Term loans, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees;
- 88% (2009 – 85%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines; and
- 10% of the investments in debt securities and other bills have at least an A- credit rating. Many issuers and instruments in the region are not graded; consequently 36% of these investments are not rated (Government securities – treasury bills, etc.).

4.1.5 Loans and advances

Loans and advances are summarized as follows:

	<u>2010</u>	<u>2009</u>
Loans and advances to customers		
Neither past due nor impaired	988,784,854	860,602,995
Past due but not impaired	81,710,843	103,548,504
Impaired	54,366,608	49,510,163
	1,124,862,305	1,013,661,662
Interest receivable	59,967,449	55,267,449
Less allowance for impairment losses	(39,074,583)	(36,809,947)
Net	1,145,755,171	1,032,119,164

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4. Financial risk management.....continued

4.1.5 Loans and advances.....continued

The total allowance for impairment losses on loans and advances is \$39,074,583 (2009 - \$36,809,947). Further information of the allowance for impairment losses on loans and advances to customers is provided in Note 25.

(a) Loans and advances neither past due nor impaired

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

June 30, 2010

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

June 30, 2009

	Overdrafts	Term loans	Mortgages	Corporate customers	Total Loans and advances to customers
	\$	\$	\$	\$	\$
Loans and advances to customers					
Classifications:					
1. Pass	175,714,430	355,553,889	65,237,334	107,621,684	704,127,337
2. Special monitoring	85,691,501	1,369,975	4,004,461	65,409,721	156,475,658
Gross	261,405,931	356,923,864	69,241,795	173,031,405	860,602,995

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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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:

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

At June 30, 2009	Term loans \$	Mortgages \$	Corporate customers \$	Total \$
Past due up to 30 days	65,324,443	7,693,117	5,939,983	78,957,543
Past due 30 – 60 days	485,682	2,491,639	18,788,689	21,766,010
Past due 60 – 90 days	517,583	423,045	-	940,628
Over 90 days	173,695	1,710,628	-	1,884,323
	-----	-----	-----	-----
Gross	66,501,403	12,318,429	24,728,672	103,548,504
	=====	=====	=====	=====
Fair value of collateral	77,767,240	26,846,188	91,681,125	196,294,553

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

(c) Loans and advances individually impaired

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

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4. Financial risk management.....continued

4.1.5 Loans and advances.....continued

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
June 30, 2010	\$	\$	\$	\$	\$
Pass	-	95,135	146,503	-	241,638
Special mention	-	93,659	353,180	-	446,839
Substandard	2,144,102	3,590,773	13,266,800	20,218,869	39,220,544
Doubtful	3,834,216	3,019,002	4,288,689	3,149,210	14,291,117
Loss	166,470	-	-	-	166,470
Total	6,144,788	6,798,569	18,055,172	23,368,079	54,366,608
Fair value of collateral	10,819,271	19,586,128	34,023,874	135,851,757	200,281,030

	Overdrafts	Term loans	Mortgages	Corporate customers	Total Loans and advances to customers
June 30, 2009	\$	\$	\$	\$	\$
Pass	-	27,170	36,425	-	63,595
Special mention	-	91,349	-	95,870	187,219
Substandard	2,441,011	1,452,591	11,536,566	18,665,458	34,095,626
Doubtful	4,132,802	1,306,961	4,646,945	4,908,216	14,994,924
Loss	166,469	2,330	-	-	168,799
Total	6,740,282	2,880,401	16,219,936	23,669,544	49,510,163
Fair value of collateral	13,631,713	16,275,247	27,864,831	132,388,119	186,644,910

(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.

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4. Financial risk management.....continued

4.1.6 Debt securities, treasury bills and other eligible bills

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

	Treasury Bills	Investment Securities	Loans and receivables - notes & bonds	Total
	\$	\$	\$	\$
AAA		6,117,832		6,117,832
AA- to AA+		3,589,046		3,589,046
A- to A+		35,880,862		35,880,862
Lower than A-		19,547,196		19,547,196
Unrated	90,715,601	187,523,502	130,074,490	408,313,593
Total	90,715,601	252,658,438	130,074,490	473,448,529

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

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
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FOR THE YEAR ENDED JUNE 30, 2010

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

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

	<u>St. Kitts & Nevis</u> \$	<u>United States & Canada</u> \$	<u>Europe</u> \$	<u>Other Caribbean States</u> \$	<u>Total</u> \$
As at June 30, 2009					
Treasury bills	90,715,601	-	-	-	90,715,601
Deposit with Fin. Inst.	37,689,057	153,018,744	49,103,188	100,563,362	340,374,351
Loans and advances					
to customers	991,801,491	25,555,850	1,954,536	12,807,287	1,032,119,164
Originated debts	76,300,000	-	-	10,676,913	86,976,913
Investments (AFS)	-	67,997,035	-	-	67,997,035
Other assets	31,190,447	-	-	-	31,190,447
	1,227,696,596	246,571,629	51,057,724	124,047,562	1,649,373,511

4.1.8 Sectoral analysis of the loans and advances portfolio

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

	<u>2010</u>	<u>2009</u>
Consumers	130,257,994	126,200,722
Agriculture, fisheries and manufacturing	5,275,998	5,462,690
Construction and land development	40,774,101	42,268,609
Distributive trade, transportation and storage	10,527,540	10,985,722
Tourism, entertainment and catering	20,751,091	22,895,695
Financial institutions	16,046,801	12,292,632
State, statutory bodies and public utilities	879,402,690	779,757,679
Professional and other services	21,826,090	13,797,913
	-----	-----
Gross	1,124,862,305	1,013,661,662
	=====	=====

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

4. Financial risk management.....continued

4.1.9 Concentration of risks of financial assets with credit exposure

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

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

June 30, 2009	Public Sector	Construction	Tourism	Financial Institutions	Individuals	Other Industries	Total
Treasury Bills	90,715,601						90,715,601
Deposit with financial institutions	-	-	-	340,374,351	-	-	340,374,351
Loans and receivables:							
- Originated debts	76,496,913	-	-	1,300,000	-	9,180,000	86,976,913
- Loans & Advances	779,757,679	46,309,390	31,349,462	12,196,923	130,368,324	32,137,386	1,032,119,164
Investments – available-for-sale	-	-	-	-	-	67,997,035	67,997,035
Other assets	-	-	-	-	21,799	31,168,648	31,190,447
Total	946,970,193	46,309,390	31,349,462	353,871,274	130,390,123	140,483,069	1,649,373,511

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4. Financial risk management.....continued

4.2 Market risk

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

Non-trading portfolios primarily arise from the interest rate management of the Bank retail and commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arising from the Bank available-for-sale investments.

4.2.1 Price risk

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

4.2.2 Foreign exchange risk

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

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4. **Financial risk management.....continued**
4.2.2 Foreign exchange risk.....continued

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

As at June 30, 2010	ECD	USD	EURO	GBP	CAN	BDS	GUY	TOTAL
Assets								
Cash & balances with Central Bank	99,611,749	2,667,823	40,830	74,678	41,231	23,644	-	102,459,955
Treasury bills	90,715,601	-	-	-	-	-	-	90,715,601
Deposits with other financial bodies	51,608,185	273,207,982	1,022,214	758,108	4,136,663	601,311	12,615	331,347,078
Loans and receivables								
- Loans and advances to customers	1,145,755,171	-	-	-	-	-	-	1,145,755,171
- Originated debts	128,577,576	1,496,914	-	-	-	-	-	130,074,490
Investments								
- Available-for-sale	8,947,072	365,501,833	-	-	-	-	-	374,448,905
- Held to maturity								
Other assets	8,358,906	27,712,572	-	-	-	-	-	36,071,478
Total financial assets	1,533,574,260	670,587,124	1,063,044	832,786	4,177,894	624,955	12,615	2,210,872,678
Liabilities								
Due to Customers	1,241,998,469	236,456,930	557,726	525,660	3,626,545	-	-	1,483,165,330
Due to other financial bodies	-	-	-	-	-	-	-	-
Other borrowed funds	-	202,311,769	-	-	-	-	-	202,311,769
Other liabilities	24,694,388	68,752,869	42,179	379,114	146,983	58,155	-	94,073,688
Total financial liabilities	1,266,692,857	507,521,568	599,905	904,774	3,773,528	58,155	-	1,779,550,787
Net on-balance sheet positions	266,881,403	163,065,556	463,139	(71,988)	404,366	566,800	12,615	431,321,891
Credit commitments	48,647,053	-	-	-	-	-	-	48,647,053

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4. **Financial risk management.....continued**
4.2.2 Foreign exchange risk.....continued

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

As at June 30, 2009	ECD	USD	EURO	GBP	CAN	BDS	GUY	TOTAL
Total financial assets	1,403,287,840	629,434,094	613,197	912,352	700,245	885,815	5,106	2,035,838,649
Total financial liabilities	1,181,540,331	448,260,374	631,873	982,700	1,254,307	58,300	-	1,632,727,885
Net on-balance sheet positions	221,747,509	181,173,720	(18,676)	(70,348)	(554,062)	827,515	5,106	403,110,764
Credit commitments	15,668,116	-	-	-	-	-	-	15,668,116

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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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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4. Financial risk management.....continued

4.2.3 Interest rate risk.....continued

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

As at June 30, 2010	<u>Up to 1</u> <u>Month</u> \$	<u>1 to 3</u> <u>Months</u> \$	<u>3 to 12</u> <u>Months</u> \$	<u>1 to 5</u> <u>Years</u> \$	<u>Over 5</u> <u>Years</u> \$	<u>Non-</u> <u>interest</u> <u>Bearing</u> \$	<u>Total</u> \$
Assets							
Cash & balances with Central Bank	-	-	-	-	-	102,459,955	102,459,955
Treasury bills	-	90,715,601	-	-	-	-	90,715,601
Deposits with other financial institutions	154,332,889	14,756,761	97,046,818	-	-	65,210,610	331,347,078
Loans and advances - Customers	229,173,728	1,743,755	32,746,226	102,724,406	771,267,421	8,099,635	1,145,755,171
- Originated debts	1,152,000	1,422,000	5,994,000	32,968,000	88,538,490	-	130,074,490
Investments – Available-for-sale	3,466,813	1,244,953	1,406,465	61,358,298	52,991,023	253,981,353	374,448,905
Other assets	-	-	-	-	-	36,071,478	36,071,478
Total assets	388,125,430	109,883,070	137,193,509	197,050,704	912,796,934	465,823,031	2,210,872,678
Liabilities							
Due to customers	580,795,659	56,256,437	677,377,118	-	-	168,736,116	1,483,165,330
Due to other financial institutions	-	-	-	-	-	-	-
Other borrowed funds	270,260	270,260	2,432,340	9,729,360	188,745,904	863,645	202,311,769
Other liabilities	-	-	949,535	-	-	93,124,153	94,073,688
Total liabilities	581,065,919	56,526,697	680,758,993	9,729,360	188,745,904	262,723,914	1,779,550,787
Total Interest repricing gap	(192,940,489)	53,356,373	(543,565,484)	187,321,344	724,051,030		

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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4. Financial risk management.....*continued*

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

As at June 30, 2009	<u>Up to 1 Month</u> \$	<u>1 to 3 Months</u> \$	<u>3 to 12 Months</u> \$	<u>1 to 5 Years</u> \$	<u>Over 5 Years</u> \$	<u>Non- interest Bearing</u> \$	<u>Total</u> \$
Total financial assets	482,512,715	161,358,214	95,058,871	85,916,069	735,203,077	475,250,002	2,035,298,948
Total financial liabilities	487,157,660	66,149,496	624,238,277	7,790,588	170,448,637	273,705,303	1,629,489,961
Total Interest repricing gap	(4,644,945)	95,208,718	(529,179,406)	78,125,481	564,754,440		

The Bank fair value interest rate risk arises from debt securities classified as available-for-sale. At June 30, 2010 if market interest rates had been 100 basis points higher/lower with all variables held constant, equity for the year would have been \$4,395,370 lower/higher as a result of the decrease/increase in fair value of available-for-sale debt securities.

Cash flow interest rate risk arises from loans and advances to customers at available rates. At June 30, 2010 if variable rates had been 100 basis points higher/lower with all other variables held constant, post-tax profits for the year would have been \$10,454,075 higher/lower, mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

4.3 Liquidity risk

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

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4. Financial risk management.....continued

4.3 Liquidity risk.....continued

4.3.1 Liquidity risk management

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

- Daily monitoring of the Bank liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers. The Bank ensures that sufficient funds are held to meet its obligations by not converting into loans foreign deposits, demand deposits, reserves, provision for interest, provision for loan losses, and other net financial assets and liabilities.
- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, currency and term.
- Daily monitoring of the balance sheet liquidity ratios against internal and regulatory requirements.
- Managing the concentration and profile of debt maturities.
- Formalised arrangements with non-regional financial institutions to fund any liquidity needs that may arise.

4.3.2 Funding approach

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

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4. Financial risk management.....continued

4.3.3 Cash flows

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

As at June 30, 2010	<u>Up to 1 month</u> \$	<u>1 – 3 months</u> \$	<u>3 – 12 months</u> \$	<u>1 – 5 years</u> \$	<u>Over 5 years</u> \$	<u>Total</u> \$
Financial Liabilities						
Due to customers	742,568,466	57,990,446	682,606,418	-	-	1,483,165,330
Due to other financial institutions	-	-	-	-	-	-
Other borrowed funds	270,260	270,260	3,295,985	9,729,360	188,745,904	202,311,769
Other liabilities	73,817,603	2,479,767	13,625,559	4,150,759	-	94,073,688
Total financial liabilities	816,656,329	60,740,473	699,527,962	13,880,119	188,745,904	1,779,550,787
Total assets	890,425,900	113,934,366	145,288,837	170,567,166	890,656,409	2,210,872,678
<hr/>						
As at June 30, 2009						
Total financial liabilities	733,793,934	71,481,116	641,822,443	11,943,831	170,448,637	1,629,489,961
Total financial assets	611,118,630	161,120,623	94,854,165	141,648,740	1,026,556,790	2,035,298,948

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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 32), are summarised in the table below.

As at June 30, 2010	<u>Up to 1 year</u> \$	<u>1 – 3 years</u> \$	<u>Over 3 years</u> \$	<u>Total</u> \$
Loan commitments	39,217,448	3,052,861	6,376,744	48,647,053
Guarantees and standby letters of credit	949,535	-	4,096,565	5,046,100
Total	40,166,983	3,052,861	10,473,309	53,693,153
<hr/>				
As at June 30, 2009				
Loan commitments	6,747,360	2,934,451	5,877,544	15,559,355
Guarantees and standby letters of credit	1,089,535	-	4,096,565	5,186,100
Total	7,836,895	2,934,451	9,974,109	20,745,455

4.4 Fair values of financial assets and liabilities

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

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

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

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4. Financial risk management.....continued

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

(a) Treasury bills

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

(b) Deposits with other financial institutions

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

(c) Loans and advances to customers

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

(d) Originated debt

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

(e) Due to customers

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

(f) Due to financial institutions

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

(g) Other borrowed funds

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

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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 those financial assets and liabilities not presented on the Bank balance sheet at their fair value.

Financial assets	Carrying Value		Fair Value	
	<u>2010</u> \$	<u>2009</u> \$	<u>2010</u> \$	<u>2009</u> \$
Treasury bills	90,715,601	90,715,601	90,715,601	90,715,601
Deposits with other financial institutions	331,347,078	340,374,351	331,347,078	340,374,351
Loans and receivables:				
Loans and advances:				
Overdraft	168,488,332	274,927,346	170,460,174	277,895,643
Corporate	197,482,280	73,018,737	326,405,300	203,700,129
Mortgage	106,849,444	100,440,793	213,884,781	184,551,610
Term	672,935,115	583,732,288	802,196,086	737,697,525
Originated debts	130,074,490	86,979,913	130,074,490	86,979,913
Investments	120,467,552	67,997,035	120,467,552	67,997,035
Financial liabilities				
Due to customers	1,483,165,330	1,359,465,172	1,483,165,330	1,359,465,172
Due to financial institutions	-	623,102	-	623,102
Other borrowed funds	202,311,769	176,750,620	202,311,769	176,750,620

4.4.1 Fair value measurements recognised in the balance sheet

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

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

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4. Financial risk management.....continued

4.4 Fair value measurements recognised in the balance sheet.....continued

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

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Available-for-sale financial assets				
Debt securities	118,639,240	-		118,639,240
Equities	244,602,456	-		244,602,456
Unquoted equities		-	11,207,209	11,207,209
Unquoted debts		-	130,074,490	130,074,490
Total	363,241,696	-	141,281,699	504,523,395
Financial liabilities at FVTPL				\$
Debt, payables and accruals				<u>1,779,550,787</u>

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

Reconciliation of Level 3 fair value measurements of financial assets

	<u>Debt securities</u>	<u>Equities</u>	<u>Total</u>
	\$	\$	\$
Opening balance	86,976,913	11,062,409	98,039,322
Additions	44,177,577	144,800	44,322,377
Disposals	(1,080,000)	-	(1,080,000)
Total	130,074,490	11,207,209	141,281,699

The table above only includes financial assets.

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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4. Financial risk management.....continued

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

All gain and losses included in other comprehensive income relate to asset-based securities held at the end of the reporting period and are reported as changes of ‘Available-for-sale financial assets reserve’

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

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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

4.5 **Capital management.....continued**

	2010 \$	2009 \$
Tier 1 capital		
Share capital	135,000,000	81,000,000
Bonus shares from capitalization of unrealised asset revaluation gain reserve	(4,500,000)	(4,500,000)
Reserves	246,171,044	278,744,661
Retained earnings	<u>26,981,532</u>	<u>23,307,744</u>
Total qualifying Tier 1 capital	<u>403,652,576</u>	<u>378,552,405</u>
Tier 2 capital		
Revaluation reserve – available-for-sale investments	50,153,673	27,201,570
Revaluation reserve – property, plant and equipment	7,720,621	7,720,621
Bonus shares capitalization	4,500,000	4,500,000
Accumulated impairment allowance	<u>39,074,583</u>	<u>36,809,947</u>
Total qualifying Tier 2 capital	<u>101,448,877</u>	<u>76,232,138</u>
Investment in subsidiaries	(26,750,000)	(17,750,000)
Total regulatory capital	<u>478,351,453</u>	<u>437,034,543</u>
Risk-weighted assets:		
On-balance sheet	770,768,399	727,600,298
Off-balance sheet	<u>12,483,399</u>	<u>11,527,055</u>
Total risk-weighted assets	<u>783,251,798</u>	<u>739,127,353</u>
Basel ratio	61%	59%

5. **Critical accounting estimates and judgements**

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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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 judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with a individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated \$1,475,905 lower or \$1,690,238 higher.

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

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

6. Cash and balances with Central Bank	<u>2010</u>	<u>2009</u>
	\$	\$
Cash in hand	8,586,933	7,982,347
Balances with Central Bank other than mandatory deposits	7,916,647	(6,041,950)
	-----	-----
Included in cash and cash equivalents (Note 31)	16,503,580	1,940,397
Mandatory deposits with Central Bank	85,956,375	78,766,873
	-----	-----
Total	102,459,955	80,707,270
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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6. Cash and balances with Central Bank.....continued

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

7. Treasury bills	<u>2010</u>	<u>2009</u>
	\$	\$
Government of St. Kitts and Nevis maturing August 17, 2010 at 6.5% interest	<u>90,715,601</u>	<u>90,715,601</u>

Treasury bills are debt securities issued by a sovereign government. They also form part of cash and cash equivalents (Note 31).

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

	<u>2010</u>	<u>2009</u>
	\$	\$
Operating cash balances	93,017,670	121,940,663
Items in the course of collection	3,054,029	5,569,385
Interest bearing term deposits	19,905,354	50,888,169
	-----	-----
Included in cash and cash equivalents (Note 31)	115,977,053	178,398,217
Special term deposits *	50,362,040	14,101,431
Restricted term deposits **	159,378,267	143,844,674
Interest receivable	5,629,718	4,030,029
	-----	-----
Total	<u>331,347,078</u>	<u>340,374,351</u>
	=====	=====

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

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

Interest earned on both 'Special term deposits' and 'Restricted term deposits' is credited to income. The effective interest rate on 'Deposits with other financial institutions' at June 30, 2010 was 3.15% (2009 – 2.34%).

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
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FOR THE YEAR ENDED JUNE 30, 2010

9. Loans and advances to customers

	<u>2010</u> \$	<u>2009</u> \$
Overdrafts	156,166,871	261,405,931
Mortgages	71,551,831	68,973,762
Demand	210,511,948	225,458,579
Special Term	609,978,832	387,500,000
Other Secured	15,901,588	14,380,399
Consumer	6,384,627	6,432,828
	<u>1,070,495,697</u>	<u>964,151,499</u>
Impaired loan and advances	54,366,608	49,510,163
Less allowance for impairment (Note 25)	(39,074,583)	(36,809,947)
	<u>1,085,787,722</u>	<u>976,851,715</u>
Interest receivable	59,967,449	55,267,449
Net loans and advances	<u><u>1,145,755,171</u></u>	<u><u>1,032,119,164</u></u>

The weighted average effective interest rate on productive loans and advances at amortized cost at June 30, 2010 was 7.66% (2009 – 8.15%) and productive overdraft stated at amortized cost was 10.90% (2009 – 10.22%).

10. Originated debt

	<u>2010</u> \$	<u>2009</u> \$
Government of St. Kitts and Nevis bonds maturing March 03, 2020 at 8.25% interest	75,000,000	75,000,000
Eastern Caribbean Home Mortgage Bank long-term bond maturing July 01, 2010 at 5.5% interest	1,000,000	1,000,000
Antigua Commercial Bank 10% interest rate Series A bond maturing December 31, 2016	1,496,913	1,496,913
Balance carried forward	<u><u>77,496,913</u></u>	<u><u>77,496,913</u></u>

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

10. **Originated debt**.....*continued*

	<u>2010</u> \$	<u>2009</u> \$
<i>Balance carried forward</i>	77,496,913	77,496,913
Grenada Electricity Services Limited 10-year 7% bond maturing December 18, 2017	8,100,000	9,180,000
Government of Antigua 7-year long-term notes maturing April 30, 2017 at 6.7% interest	39,177,577	-
Government of St. Vincent & The Grenadines 10-year bond maturing December 17, 2019 at 7.5% interest	5,000,000	-
Caribbean Credit Card Corporation unsecured loan at 10 % interest with no specific terms of repayment	300,000	300,000
Total	130,074,490	86,976,913
	=====	=====

11. **Investment securities**

	<u>2010</u> \$	<u>2009</u> \$
(A)		
<i>Available-for-sale securities</i>		
Securities at fair value		
-- Unlisted	11,207,209	11,062,409
-- Listed	363,059,949	338,296,515
-- Interest receivable	181,747	447,210
Sub-total	374,448,905	349,806,134
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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:

	Held to maturity	Available for sale	Loans and receivable-: originated debts	Total
	\$	\$	\$	\$
Balance - June 30, 2009	-	349,806,134	86,976,913	436,783,047
Additions	-	168,888,289	44,177,577	213,065,866
Disposal (sales/redemption)	-	(179,738,192)	(1,080,000)	(180,818,192)
Fair value gains (losses)	-	35,310,927	-	35,310,927
Interest receivable	-	181,747	-	181,747
Total as at June 30, 2010	-	374,448,905	130,074,490	504,523,395
Balance - June 30, 2008	1,000,000	380,290,542	90,759,513	472,050,055
Additions	-	182,083,127	-	182,083,127
Disposal (sales/redemption)	(1,000,000)	(134,670,441)	(3,782,600)	(139,453,041)
Fair value gains (losses)	-	(78,344,304)	-	(78,344,304)
Interest receivable	-	447,210	-	447,210
Total as at June 30, 2009	-	349,806,134	86,976,913	436,783,047

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

(B)	<u>2010</u>	<u>2009</u>
	\$	\$
Listed securities:		
- Equity securities – UK	8,502,798	7,619,897
- Equity securities – US	229,218,633	255,798,558
- Equity securities – Caribbean	6,881,025	6,881,025
- Debt securities – UK	14,211,894	17,373,216
- Debt securities – US	104,245,599	50,623,819
- Interest receivable	181,747	447,210
Unlisted securities:		
- Equity securities – Caribbean	9,197,150	11,062,409
- Debt securities – Caribbean	2,010,059	-
Total available-for-sale securities	374,448,905	349,806,134

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

11. Investment securities.....continued

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

(C)	<u>2010</u> \$	<u>2009</u> \$
<u>Listed:</u>		
US dollars	356,360,671	331,862,700
EC dollars	6,881,025	6,881,025
	-----	-----
Total listed securities and interest	<u>363,241,696</u>	<u>338,743,725</u>
<u>Unlisted:</u>		
US dollars	9,322,909	9,322,909
EC dollars	1,884,300	1,739,500
	-----	-----
Total unlisted securities	<u>11,207,209</u>	<u>11,062,409</u>
Total available-for-sale securities	<u>374,448,905</u>	<u>349,806,134</u>

12. Investment in subsidiaries

	<u>2010</u> \$	<u>2009</u> \$
National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited	5,750,000	5,750,000
National Caribbean Insurance Company Limited	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>17,750,000</u>
	=====	=====

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

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

	<u>2010</u> \$	<u>2009</u> \$
Letters of credit	949,535	1,089,535
Guarantees	<u>4,096,565</u>	<u>4,096,565</u>
	-----	-----
Total	<u>5,046,100</u>	<u>5,186,100</u>
	=====	=====

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NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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14. Property, plant and equipment

COST/VALUATION	<u>Total</u>	<u>Property</u>	<u>Equipment</u>	<u>Furniture And Fittings</u>	<u>Motor Vehicles</u>	<u>Reference Books</u>	<u>Projects Ongoing</u>
	\$	\$	\$	\$	\$	\$	\$
At June 30, 2009	36,289,012	20,474,781	10,452,629	2,088,586	477,000	134,906	2,661,110
Additions	1,435,778	-	1,053,797	99,413	-	5,461	277,107
Disposals	(385,005)	-	(322,669)	(62,336)	-	-	-
June 30, 2010	37,339,785	20,474,781	11,183,757	2,125,663	477,000	140,367	2,938,217
Accumulated Depreciation							
At June 30, 2009	11,048,008	1,621,728	7,678,290	1,445,703	174,098	128,189	-
Charge for Year	1,816,019	623,664	968,815	151,792	68,399	3,349	-
Eliminated on Disposal	(383,678)	-	(322,619)	(61,059)	-	-	-
June 30, 2010	12,480,349	2,245,392	8,324,486	1,536,436	242,497	131,538	-
Net Book Value							
At June 30, 2010	24,859,436	18,229,389	2,859,271	589,227	234,503	8,829	2,938,217
At June 30, 2009	25,241,004	18,853,053	2,774,338	642,882	302,902	6,719	2,661,110

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
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15. Intangible assets

	<u>2010</u> \$	<u>2009</u> \$
Cost at June 30, 2009	4,682,787	3,308,582
Additions	353,566	1,374,205
	-----	-----
Total at June 30, 2010	5,036,353	4,682,787
	=====	=====
Accumulated amortisation		
At June 30, 2009	3,110,419	2,694,784
Charges for the year	730,937	415,635
	-----	-----
Total at June 30, 2010	3,841,356	3,110,419
	-----	-----
Net book value	1,194,997	1,572,368
	=====	=====

Intangible assets represent computer software acquired for the Bank use.

16. Other assets

	<u>2010</u> \$	<u>2009</u> \$
Prepayments	30,035,884	31,190,447
Stationery and card stock	657,986	539,701
Other receivables	989,590	472,967
	-----	-----
Total	31,683,460	32,203,115
	=====	=====

17. Due to customers

	<u>2010</u> \$	<u>2009</u> \$
Consumers	378,787,283	364,568,559
Private businesses and subsidiaries	293,791,937	303,384,666
State, statutory bodies and non-financial bodies	692,553,378	609,332,851
Others	108,912,742	72,655,176
Interest payable	9,119,990	9,523,920
	-----	-----
Total	1,483,165,330	1,359,465,172
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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17. Due to customers.....continued

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

The Bank pays interest on all categories of customers’ deposits. In 2010 total interest paid and payable on deposit accounts amounted to \$66,457,526 (2009 - \$58,557,025). The average effective rate of interest paid on customers’ deposits was 4.68% (2009 – 4.36%).

18. Other borrowed funds

	<u>2010</u>	<u>2009</u>
	\$	\$
Credit line	107,907,894	82,346,746
Bonds issued	93,540,229	93,540,229
Interest payable	863,646	863,645
	-----	-----
Total	202,311,769	176,750,620
	=====	=====

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 \$8,430,761 (2009 - \$10,330,726).

19. Accumulated provisions, creditors and accruals

	<u>2010</u>	<u>2009</u>
	\$	\$
Other interest payable on customers’ deposits	11,266,528	10,924,469
Managers cheques and bankers payments	1,541,821	1,305,254
Unpaid drafts on other banks	1,431,227	1,277,347
E-commerce payables	48,958,168	24,269,344
Other payables	25,866,739	49,472,158
	-----	-----
Total	89,064,483	87,248,572
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
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20. Taxation	<u>2010</u> \$	<u>2009</u> \$
Tax expense		
Current tax	846,769	6,615,097
Deferred tax	(156,879)	181,331
Prior year income tax expense	(56,881)	(5,315)
	-----	-----
Total	<u>633,009</u>	<u>6,791,113</u>
	=====	=====
 Income for the year before tax	 <u>33,833,180</u>	 <u>46,460,705</u>
Income tax at the applicable tax rate of 35%	11,841,613	16,261,246
Non-deductible expenses	2,359,029	2,383,213
Deferred tax over provided	20,347	(5,984)
Income not subject to tax	(13,531,099)	(11,842,047)
Prior year income tax expense	(56,881)	(5,315)
	-----	-----
Total	<u>633,009</u>	<u>6,791,113</u>
	=====	=====
Deferred income tax		
Deferred tax assets and deferred tax liabilities consist of the following:		
	<u>2010</u>	<u>2009</u>
	\$	\$
Deferred tax asset		
Accelerated depreciation	<u>357,786</u>	<u>200,907</u>
Deferred tax liability:		
Unrealised gain on available-for-sale securities	<u>27,005,824</u>	<u>14,646,767</u>

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
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	<u>2010</u>	<u>2009</u>
	\$	\$
21. Share Capital		
Authorised: -		
135,000,000 Ordinary Shares of \$1 each	135,000,000	135,000,000
	=====	=====
Issued and Fully Paid: -		
135,000,000 Ordinary Shares of \$1 each (Note 28)	135,000,000	81,000,000
	=====	=====
22. Reserves		
22.1 Statutory reserve		
Balance at beginning of year	81,000,000	81,000,000
Addition	<u>6,640,034</u>	<u>-</u>
	87,640,034	81,000,000
	=====	=====
In accordance with Section 14 (1) of Saint Christopher and Nevis Banking Act No. 6 of 1991, the St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain a reserve fund into which it shall transfer not less than 20% of its net income of each year whenever the reserve fund is less than the Bank paid-up capital.		
22.2 Revaluation reserve		
	<u>2010</u>	<u>2009</u>
	\$	\$
Balance brought forward	34,922,191	80,584,965
Movement in market value of investments, net	22,952,103	(45,662,774)
	-----	-----
Balance as at year end	57,874,294	34,922,191
	=====	=====
Revaluation reserve is represented by:		
Available for sale investment securities	50,153,673	27,201,570
Properties	<u>7,720,621</u>	<u>7,720,621</u>
	-----	-----
	57,874,294	34,922,191
	=====	=====
22.3 Other reserves		
Balance at beginning of year	193,867,237	160,000,000
Transfer from retained earnings	12,321,785	48,199,830
Transfer to share capital	(54,000,000)	
Reserve for interest on non-performing loans	2,464,564	5,667,407
Reserve for loan impairment	-	(20,000,000)
	-----	-----
Balance as at year end	154,653,586	193,867,237
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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22. Reserves.....continued

	<u>2010</u>	<u>2009</u>
	\$	\$
'Other reserves' is represented by:		
Reserve for interest on non-performing loans	16,496,753	14,032,189
General reserve	138,156,833	179,835,048
	154,653,586	193,867,237
	154,653,586	193,867,237

Other reserve

Included in this reserve are the following individual reserves:

General reserve

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

Reserve for interest collected on non-performing loans

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

Loan loss reserve

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

23. Net interest income

	<u>2010</u>	<u>2009</u>
<u>Interest Income</u>	\$	\$
Loans and Advances	82,517,754	82,210,785
Deposits with other financial institutions	10,575,733	9,888,156
Investments	18,633,115	22,528,790
	111,726,602	114,627,731
	111,726,602	114,627,731

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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23. Net interest income.....continued

	<u>2010</u>	<u>2009</u>
<u>Interest Expense</u>		
Savings accounts	10,204,179	9,713,029
Call accounts	4,355,245	1,266,362
Fixed deposits	41,261,645	38,039,271
Current and other deposit accounts	10,636,457	9,774,899
Debt and other related accounts	8,430,761	10,330,726
	-----	-----
	74,888,287	69,124,287
	-----	-----
Total	36,838,315	45,503,444
	=====	=====

24. Net fees and commission income

Credit related fees and commission	3,105,479	2,990,135
International business and foreign exchange	19,887,888	42,120,640
Brokerage and other fees and commission	464,302	614,448
	-----	-----
Fees and commission income	23,457,669	45,725,223
	-----	-----
Fee expenses		
Brokerage and other related fee expenses	130,976	145,661
International business and foreign exchange fee expenses	1,329,162	3,248,877
Other fee expenses	499,801	176,110
	-----	-----
Fee expenses	1,959,939	3,570,648
	-----	-----
Total net	21,497,730	42,154,575
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
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25. Provision for credit impairment

	<u>2010</u>	<u>2009</u>
	\$	\$
Balance brought forward	36,809,947	44,834,768
Charge-offs and write-offs	(51,252)	(13,901,972)
Provision for impairment losses	2,321,785	5,902,151
Recoveries during the year	(5,897)	(25,000)
	-----	-----
Total	39,074,583	36,809,947
	=====	=====

26. Administration and general expenses

	<u>2010</u>	<u>2009</u>
	\$	\$
Staff employment	17,079,677	17,898,046
Repairs and maintenance	2,753,992	2,292,408
Legal expenses	207,901	1,285,279
Utilities	695,045	857,933
Stationery and supplies	880,550	738,799
Other general expenses	464,336	589,568
Advertisement and marketing	385,476	553,552
Communication	567,355	509,022
Insurance	482,464	439,154
Security services	300,468	408,732
Rent and occupancy expenses	565,178	385,772
Shareholders' expenses	5,545	128,146
Taxes and licences	78,379	98,566
Premises upkeep	49,101	50,803
	-----	-----
Total	24,515,467	26,235,780
	=====	=====

27. Earnings per share

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

	<u>2010</u>	<u>2009</u>
Net income attributable to shareholders	33,200,171	39,669,592
	-----	-----
Weighted average number of ordinary shares in issue	135,000,000	135,000,000
	=====	=====
Basic earnings per share	\$0.25	\$0.29

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28. Dividend

The financial statements reflect an interim dividend of \$8,100,000 (full dividend paid in 2008 - \$14,985,000) for the year ended June 30, 2009, which was approved by the Board of Directors and paid.

Bonus share dividend

At the 38th Annual General Meeting of the St. Kitts-Nevis-Anguilla National Bank Limited held on 26th March 2009, shareholders approved a recommendation by the Board of Directors to issue a bonus share dividend of two (2) new shares for every three (3) existing shares. On 11th September 2009, shareholders received a total of 53,998,883 shares as bonus shares based on their holdings of shares at 31st August 2009.

The remaining 1,117 shares (arising from fractional allocations) were sold on the open market and the cash proceeds distributed to the shareholders in the same proportion of their fractional share holdings.

29. Other events

Litigation

- **Lynn Bass** (Appellant) and **St. Kitts-Nevis-Anguilla National Bank Limited** (Respondent) High Court, Civil Appeal No. 4 of 2009. Lynn Bass, a former employee, filed a claim for wrongful dismissal against the Bank for special and general damages. The Bank was successful in Judgment received on March 23, 2009 (with costs). The above decision was appealed in the High Court by way of Civil Appeal No. 4 of 2009 filed on April 28, 2009. A high likelihood of success on the same grounds as the initial claim is expected. The judge gave a detailed precise judgment.
- **NATIONAL CONSUMER MORTGAGE, LLC (a California Limited Liability Company) (Debtor) John P Brincko, Chapter 11 Trustee** (Plaintiff) vs. **St. Kitts-Nevis-Anguilla National Bank Limited** (Defendant) CASE NO. 8:06-10429-TA. The Trustee asserts that the Bank engaged in negligent, reckless and intentional misconduct that enabled a certain company to open and maintain an account into which the Debtor made fraudulent transfers.

The assertion is based on a belief by the Trustee that the Bank knew or reasonably should have known that the company was a fraudulent business entity.

It is likely that this matter can/will be withdrawn as the Bank performed its due diligence and found that the company in question was a valid company that was properly registered to do business at all material times.

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29. Other eventscontinued

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

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

Following this settlement the Plaintiffs dismissed the Bank with prejudice from the lawsuit and amended their complaint to name VISA as a defendant in order to recoup the fines assessed upon them by, and paid by the Bank to, Visa. Visa has requested that the Bank indemnify them and pay their defense costs in this matter. The Bank contends that without affecting the Bank's obligations under the liabilities and indemnification section of the VISA International Operating Regulations, it would seem inappropriate for the Bank to be responsible to VISA in this matter in view of the fact that the Bank collected and paid VISA the amount of the fines that are the subject of the matter. These defense costs have not yet been quantified or determined and the Bank has not accepted liability regarding any amounts which may arise in this matter.

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

The Bank has filed a claim against CardSystems Solutions Inc. as debtor in a bankruptcy matter before the Bankruptcy court for the District of Arizona (Case No. 4:06-bk-00515-JMM) in the amount of US\$1,700,395. The Bank is carrying a net receivable of approximately US \$740,000 from CardSystems Solutions Inc. This matter is on-going and the Bank anticipates that it will realise the full amount of its claim. Consequently no provision has been made in the financial statements for this receivable.

No provision for a contingent liability is included in these financial statements for these matters.

TCI Bank Limited

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

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30. Related Parties

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

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

Government of St. Kitts and Nevis

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

Public sector net position with the Bank as at June 30, 2010 (loans and advances less deposit) was \$416 million in deficit (2009 - \$363 million).

Interest charged to the public sector during the year was \$71.773 million (2009 - \$69.298 million). Interest paid and payable to the public sector as at June 30, 2010 was \$36.173 million (2009 - \$32.665 million).

Subsidiaries

Advances outstanding as at June 30, 2010 amounted to \$14.119 million (2009 - \$9.822 million).

Deposits balances as at June 30, 2010 amounted to \$133.408 million (2009 - \$114.515 million).

Directors and Associates

Advances outstanding as at June 30, 2010 amounted to \$688,399 (2009 - \$1.257 million).

Deposits balances as at June 30, 2010 amount to \$992,162 (2009 - \$1.485 million).

Senior Management

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

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

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31. Cash and cash equivalents	<u>2010</u>	<u>2009</u>
	\$	\$
Cash and balances with Central Bank (Note 6)	16,503,580	1,940,397
Treasury bills (Note 7)	90,715,601	90,715,601
Deposits with other financial institutions (Note 8)	115,977,053	178,398,217
	-----	-----
Total	223,196,234	271,054,215
	=====	=====

32. Contingent liabilities and commitments

At June 30, 2010 the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

Loan commitments	48,647,053	15,559,355
Guarantees and standby letters of credit	5,046,100	5,186,100
	-----	-----
	53,693,153	20,745,455
	=====	=====