

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

**UNAUDITED**

**FINANCIAL STATEMENTS**

**FOR THE FIRST QUARTER ENDED**

**SEPTEMBER 30, 2010**

**SKNA National Bank Ltd. Comptroller Division**

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

## **UNAUDITED FINANCIAL STATEMENTS** **FOR THE FIRST QUARTER ENDED SEPTEMBER 30, 2010**

### **C O N T E N T S**

	<b>Page</b>
MANAGEMENT'S DISCUSSION AND ANALYSIS	
Introduction	1
Income Statement	1
Net Interest Income	1
Net Fees & Commission Income	1
Other Income	2
Operating Expenses	2
Net Income	2
Balance Sheet	2
Assets	2
Deposits	3
Loans and Advances	3
Shareholders' Equity	3
Corporate Governance	3
Risk Management	4
Outlook	4
BALANCE SHEET	5
INCOME STATEMENT	6
STATEMENT OF COMPREHENSIVE INCOME	7
STATEMENT OF CHANGES IN EQUITY	8
CASH FLOW STATEMENT	9
NOTES TO THE FINANCIAL STATEMENTS	10 – 58

**MANAGEMENT DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS  
For the 1st quarter ended September 30, 2010**

**Introduction**

The Management Discussion and Analysis gives an overview of the Company's financial condition and results of operations for the first quarter ended September 30, 2010. The report includes forward-looking statements about objectives, strategies and expected financial results. These statements are inherently subject to risks and uncertainties beyond the Bank's control including, but not limited to, economic and financial conditions globally, technological development, competition, and regulatory developments in St. Kitts and Nevis and elsewhere. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements. The reader is therefore cautioned not to place undue reliance on these statements.

**Income Statement**

**Net Interest Income**

At September 30, 2010, net interest income decreased by \$3.3 million or 42.7% when compared with the results attained for the same period in 2009. A reduction in interest income and an increase in interest expense from rising customer's deposits resulted in the decrease in net interest income.

**Net Fees & Commission Income**

At the end of the first quarter, net fees and commission income fell by 40.4% when compared with that achieved for the quarter ended September 30, 2009. This decrease was due mainly to the reduction in commissions received from debit card services resulting from lower card usage, brought about by the economic downturn.

## **Other Income**

At September 30, 2010, income from other sources decreased by \$0.8 million or 38.2% when compared with September 30, 2009. This was the result of a decrease in net gains from the sale of available-for-sale investments by \$0.8 million in comparison with September 30, 2009.

## **Operating Expenses**

Operating expenses, which were \$5.3 million at September 30, 2010, represented a slight increase of \$0.1 million or 2.1% when compared with expenses of \$5.2 million incurred for the quarter ended September 30, 2009. During the review period, the Bank upgraded its security and computer systems to ensure more efficient customer service and improved protection of customers and the bank's assets. This has thereby led to an increase in operating expenses in the form of depreciation and amortization costs.

## **Net Income**

The net result of the decrease in net interest income, non-interest income and other income and an increase in operating expenses for the quarter ended September 30, 2010, was a fall in net income. At September 30, 2010, net income was \$3.6 million or \$2.9 million lower than the prior year's earnings of \$6.5 million.

The Company believes that net income will show a slight improvement over the next quarter and beyond, through continued focus on exploring new avenues to diversify and enhance our non-interest income base.

## **Balance Sheet**

### **Assets**

At September 30, 2010, total assets decreased by 2.9% when compared with June 30, 2010. This reduction in total assets was due mainly to a decrease in deposits with other financial institutions and a decrease in available-for-sale investments. During the review period, our investment portfolio was reduced due to the sale of a number of investments held with fund managers.

Loans and advances contributed to 53.2% of total assets at September 30, 2010, while deposits with other financial institutions contributed to 13.1%. All other assets accounted for the remaining 33.7%.

## **Deposits**

At the end of September 2010, customer deposits decreased slightly by 1.7% over that recorded at the end of fiscal year 2010. The Bank recognizes and appreciates the importance of its core deposit base and as such management continues to monitor activity in customer deposits, especially the non-core deposits area.

## **Loans and Advances**

At September 30, 2010 loans and advances to customers increased by \$29.7 million, representing a 2.6% rise from \$1,145.7 million recorded at June 30, 2010. The increase in loans and advances to customers resulted mainly from the increased utilization of our overdraft facility by the public and private sectors.

## **Shareholders' Equity**

The company continues to realize its goal of providing a satisfactory return to shareholders and increasing the value of investments. Shareholders' Equity was \$474.6 million at September 30, 2010 compared with \$466.0 million at June 30, 2010. This represents a 1.8% increase, resulting from the net operating income for the period and unrealized gains from the revaluation of available-for-sale investments.

## **Corporate Governance**

The Board of Directors continues to search for innovative ways to improve corporate governance, risk management, ethical conduct, best practices and maintenance of international standards. In this regard the Board is focused on:

- Adoption and implementation of corporate governance guidelines and codes of ethics and business conduct.
- Continued emphasis on the Corporate Strategic Plan, which includes management's philosophy, economic outlook and conditions, performance targets and plans for implementation of strategies over the next 5 years.

Additionally, the Board will continue to take vital steps towards culturing a strong corporate governance environment, improving transparency and fostering high levels of integrity, thereby strengthening shareholder confidence in the Company.

## **Risk Management**

The management of risks has emerged as one of the greatest challenges that banks now face. This challenge must be tackled by developing new approaches and by adjusting current processes.

The Bank has taken up this challenge and has placed increased emphasis on the management of risks through the systematic development of tools and strategies to mitigate these risks. Risks are continuously being evaluated in terms of the level of impact they can have on income and asset values.

While the bank places strong emphasis on the management of risks, it does so with the objective of balancing risk taking with expected returns to our shareholders.

## **Outlook**

Over the next quarter, the Company will continue to focus on cost containment, risk management and operational efficiency. We will continue to build on our existing infrastructure and technology to enhance our products and services and focus on initiatives to augment our interest income and non-interest income base.

These measures should boost total revenue. At the end of the second quarter ending December 31, 2010, we anticipate an increase in shareholders equity, deposits and assets when compared to the end of the same period in 2009.

## BALANCE SHEET AS AT SEPTEMBER 30, 2010

<i>Unaudited</i> Year Ended <u>June 2010</u> \$		<i>Notes</i>	<i>Unaudited</i> Quarter Ended <u>September 2010</u> \$	<i>Unaudited</i> Quarter Ended <u>September 2009</u> \$
<b>Assets</b>				
102,459,955	Cash and balances with Central Bank	6	90,223,589	107,091,026
90,715,601	Treasury Bills	7	90,715,601	90,715,601
331,347,078	Deposits with other financial Institutions	8	290,213,637	377,508,703
1,145,755,171	Loans and Advances - customers	9	1,175,427,604	1,062,482,651
130,074,490	- originated debts	10	126,742,352	86,706,913
374,448,905	Investments - available for sale	11	346,057,352	340,574,758
26,750,000	Investment in Subsidiaries	12	26,750,000	17,750,000
	Customers' Liability under Acceptances, Guarantees, and Letters of Credit (per contra)	13	5,046,100	5,070,100
5,046,100			5,046,100	5,070,100
7,927,397	Income Tax Asset		7,927,397	
24,859,436	Property, Plant and Equipment	14	24,598,073	25,154,015
1,194,997	Intangible Assets	15	1,021,656	1,719,107
31,683,460	Other Accounts	16	22,305,718	9,320,964
357,786	Deferred Tax	20	357,786	200,907
<b>2,272,620,376</b>	<b>Total Assets</b>		<b>2,207,386,865</b>	<b>2,124,294,745</b>
<b>Liabilities</b>				
1,483,165,330	Due to Customers	17	1,458,316,792	1,447,661,085
	Due to other financial institutions		1,745,354	1,044,875
202,311,769	Other borrowed funds	18	203,995,354	178,609,363
	Acceptances, Guarantees and Letters of Credit (per contra)		5,046,100	5,070,100
5,046,100	Income tax liability			1,100,776
	Accumulated Provisions, Creditors, and Accruals	19	33,966,799	51,699,095
89,064,483	Deferred Tax Liability		29,703,287	14,646,767
27,005,824				
<b>1,806,593,506</b>	<b>Total Liabilities</b>		<b>1,732,773,686</b>	<b>1,699,832,061</b>
<b>Shareholders' Equity</b>				
135,000,000	Issued Share Capital	21	135,000,000	134,998,883
3,877,424	Share Premium		3,877,424	3,877,424
26,981,532	Retained Earnings		30,558,268	29,795,832
300,167,914	Other Reserves	22	305,177,487	255,790,545
<b>466,026,870</b>	<b>Total Shareholders' Equity</b>		<b>474,613,179</b>	<b>424,462,684</b>
<b>2,272,620,376</b>	<b>Total Liabilities and Shareholders' Equity</b>		<b>2,207,386,865</b>	<b>2,124,294,745</b>

## Statement of Income for the period ended September 30, 2010

Unaudited Year Ended June 2010		Unaudited Quarter Ended September 2010 \$	Unaudited Quarter Ended September 2009 \$
<b>INCOME</b>			
111,726,602	Interest income	24,413,787	26,004,122
(74,888,287)	Interest expense	(19,901,477)	(18,131,869)
<b>36,838,315</b>	<b>Net interest income</b>	<b>4,512,310</b>	<b>7,872,253</b>
(2,315,888)	<b>Credit Impairment Losses</b>		
<b>34,522,427</b>	<b>Sub-total Interest Revenue</b>	<b>4,512,310</b>	<b>7,872,253</b>
23,457,669	Fees and commission income	4,096,025	5,917,665
(1,959,939)	Fee expense	(879,320)	(518,849)
<b>21,497,730</b>	<b>Net fees and commission income</b>	<b>3,216,705</b>	<b>5,398,816</b>
786,871	Dividend income	146,055	116,532
1,391,045	Gains less losses from investments	283,688	1,083,986
2,955,976	Gain on foreign exchange	764,540	741,958
364,924	Other operating income	21,212	24,961
<b>5,498,816</b>	<b>Other Income</b>	<b>1,215,495</b>	<b>1,967,437</b>
<b>61,518,973</b>	<b>Operating Income</b>	<b>8,944,510</b>	<b>15,238,506</b>
<b>Operating expenses</b>			
24,515,467	Administration and general expenses	4,569,291	4,752,794
330,679	Directors fees and expenses	77,409	87,110
292,691	Audit fees and expenses		
1,903,586	Depreciation	517,005	328,788
643,370	Amortisation	204,069	88,140
<b>27,685,793</b>	<b>Total operating expenses</b>	<b>5,367,774</b>	<b>5,256,832</b>
<b>33,833,180</b>	<b>Operating income before tax</b>	<b>3,576,736</b>	<b>9,981,674</b>
(633,009)	<b>Income tax expense</b>		(3,493,586)
<b>33,200,171</b>	<b>Net income for the year</b>	<b>3,576,736</b>	<b>6,488,088</b>
<b>0.27</b>	<b>Earnings per share (Annualized)</b>	<b>0.11</b>	<b>0.19</b>



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

**Statement of Comprehensive Income for the period ended September 30, 2010**

Notes

<b>Unaudited Year Ended June 2010</b>		<b>Unaudited Quarter Ended September 2010</b>	<b>Unaudited Quarter Ended September 2009</b>
<u>33,200,171</u>	<b>Net Income for the period</b>	<u>3,576,736</u>	6,488,088
	<b>Other Comprehensive Income:</b>		
<u>22,952,103</u>	Available for sale financial assets	<u>5,009,573</u>	<u>0</u>
<u>22,952,103</u>	<b>Other comprehensive Income for the period</b>	<u>5,009,573</u>	<u>0</u>
<u>56,152,274</u>	<b>Total Comprehensive Income for the period</b>	<u>8,586,309</u>	<u>6,488,088</u>

**STATEMENT OF CHANGES IN EQUITY**  
For The Quarter Ended September 30, 2010

Notes	Share Capital \$	Share Premium \$	Statutory Reserves \$	Other Reserves \$	Available for Sale Financial Assets \$	Revaluation Surplus \$	Retained Earnings \$	Total Shareholders' Equity \$
<b>Balance at September 30, 2009</b>	<b>134,998,883</b>	<b>3,877,424</b>	<b>81,000,000</b>	<b>139,868,354</b>	<b>27,201,570</b>	<b>7,720,621</b>	<b>29,795,832</b>	<b>424,462,684</b>
Total Comprehensive Income For The Year	-	-	-	-	22,952,103	-	26,712,083	49,664,186
Increase in share capital	1,117	-	-	(1,117)	-	-	-	0
Transfer to Reserves	-	-	6,640,034	14,786,349	-	-	(21,426,383)	0
Dividends	-	-	-	-	-	-	(8,100,000)	(8,100,000)
<b>Balance at June 30, 2010</b>	<b>135,000,000</b>	<b>3,877,424</b>	<b>87,640,034</b>	<b>154,653,586</b>	<b>50,153,673</b>	<b>7,720,621</b>	<b>26,981,532</b>	<b>466,026,870</b>
Total Comprehensive Income For The Quarter	-	-	-	-	5,009,573	-	3,576,736	8,586,309
<b>Balance at September 30, 2010</b>	<b>135,000,000</b>	<b>3,877,424</b>	<b>87,640,034</b>	<b>154,653,586</b>	<b>55,163,246</b>	<b>7,720,621</b>	<b>30,558,268</b>	<b>474,613,179</b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LTD.**  
**STATEMENT OF CASHFLOW**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

9

<b>Unaudited Year Ended June 2010</b>		<b>Notes</b>	<b>Quarter Ended September 2010 \$</b>	<b>Quarter Ended September 2009 \$</b>
	<b>Cash flows from operating activities</b>			
33,833,180	Operating Income before taxation		3,576,736	9,981,674
	Adjustments for:			
(111,726,602)	Interest Income		(24,413,787)	(26,004,122)
74,888,287	Interest Expense		19,901,477	18,131,869
1,903,586	Depreciation		517,005	328,788
643,370	Amortisation		204,069	88,140
2,315,888	Provision for loan losses			
	Prior year adjustments			
(363)	Loss on disposal of fixed assets			
<b>1,857,346</b>	Operating income before changes in operating assets and liabilities		<b>(214,500)</b>	<b>2,526,349</b>
	<i>(Increase) decrease in operating assets:</i>			
(111,251,894)	Loans and advances to customers		(29,569,301)	(29,962,077)
(7,189,502)	Mandatory deposits with Central Bank		1,429,327	(4,855,769)
519,655	Other accounts		9,377,743	22,882,152
	<i>Increase (decrease) in operating liabilities:</i>			
124,104,087	Customers' deposits		(30,739,110)	83,456,612
(623,102)	Due to other financial institutions		1,745,354	421,773
1,473,852	Accumulated provisions, creditors, and accruals		(55,871,728)	(36,192,694)
<b>8,890,442</b>	<b>Cash generated from operations</b>		<b>(103,842,215)</b>	<b>38,276,346</b>
105,692,376	Interest received		24,756,341	26,299,430
(74,950,157)	Interest paid		(11,391,685)	(10,904,173)
(9,675,284)	Income tax paid			(3,350,809)
<b>29,957,377</b>	<b>Net cash generated in operating activities</b>		<b>(90,477,559)</b>	<b>50,320,794</b>
	<b>Cash flows from investing activities</b>			
(1,789,344)	Purchase fixed assets		(286,370)	(476,679)
1,690	Proceeds from disposal of assets			
(36,260,609)	(Increase)/Decrease in special term deposits		536,667	(13,970,401)
(15,533,593)	(Increase)/Decrease in restricted term deposits		(4,446)	(2,979,268)
(9,000,000)	Investment in subsidiaries			
(32,694,650)	(Increase)/Decrease in investments		39,493,101	9,407,221
<b>(95,276,506)</b>	<b>Net cash used in investing activities</b>		<b>39,738,952</b>	<b>(8,019,127)</b>
	<b>Cash flows from financing activities</b>			
25,561,148	Other Borrowed Funds		(161,591)	13,565
(8,100,000)	Dividend paid			
<b>17,461,148</b>	<b>Net cash used in financing activities</b>		<b>(161,591)</b>	<b>13,565</b>
<b>(47,857,981)</b>	<b>Increase (Decrease) in cash and cash equivalents</b>		<b>(50,900,198)</b>	<b>42,315,232</b>
<b>271,054,215</b>	<b>Cash and cash equivalents at beginning of period</b>		<b>223,196,234</b>	<b>271,054,215</b>
<b>223,196,234</b>	<b>Cash and cash equivalents at end of period</b>	31	<b>172,296,036</b>	<b>313,369,447</b>

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

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

### **1. Incorporation**

The St. Kitts-Nevis-Anguilla National Bank Limited (the Bank) was incorporated on the 15<sup>th</sup> 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 14<sup>th</sup> 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 income statement 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 FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED SEPTEMBER 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 on or after January 1, 2009). Prepayments may only be recognised 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 amortization 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.
- *IAS 7 (Amendment), '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 amendment has no impact on the Bank.
- *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 recognised. 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 FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

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

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

**3.3 Foreign currency transaction**

*Functional and presentation currency*

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

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

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

**3.4 Financial assets**

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

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

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

**(b) *Loans and receivables***

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

Loans and receivables are recognized when cash or the right to cash is advanced to a borrower.

**(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.

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

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

#### **3.4 Financial assets .....continued**

##### **(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 recognized on trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction cost for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized 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 derecognized 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 income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial assets is derecognized or impaired, at which time, the cumulative gain or loss previously recognized in equity is then recognized 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 recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement 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.

#### **3.5 Interest income and expense**

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.



**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

**3.5 Interest income and expense.....continued**

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

**3.6 Fee and commission income**

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

**3.7 Dividend income**

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

**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.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

**3.8 Impairment of financial assets.....continued**

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

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

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

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

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

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

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

**3.8 Impairment of financial assets.....continued**

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

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

**(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 depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using values at the balance sheet date.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

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

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

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

**3.10 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 amortised on the basis of the expected useful lives of such software which is three to five years.

**3.11 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash flows (cash-generating units).

**3.12 Leases**

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

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

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

**3.13 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.

**3.14 Employee benefits**

**(a) Pension plan**

The Bank operates a defined contribution plan for its employees. The Bank pays for annual insurance premiums to fund a post-employment benefit plan. Payment of premiums is used to purchase an insurance policy in the name of a specified plan participant or a group of plan participants that is separate and distinct from the Bank. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Payments of premiums are charged to income.

**(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.

**3.15 Current and deferred income tax**

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

**3.15 Current and deferred income tax.....continued**

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

**3.16 Borrowings**

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with differences between proceeds net of transaction costs and the redemption value being recognized in the statement of income over the period of the borrowing using the effective interest method.

**3.17 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.

**3.18 Share capital**

**(a) *Share issue costs***

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

**(b) *Dividends on ordinary shares***

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

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

**3.19 Comparatives**

Where it has been necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

**4. Financial risk management**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

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

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

**4.1 Credit risk**

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

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

**4.1.1 Credit risk measurement**

**(a) Loans and advances**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

**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.

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

**(b) Debt securities and other bills**

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

**4.1.2 Risk limit control and mitigation policies**

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

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

The exposure to any one borrower, including banks and other financial institutions, is further restricted by sub-limits covering on-balance sheet and off-balance sheet exposures. Actual exposures against limits are monitored.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other specific controls and mitigation measures are outlined below:



**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

**(a) Collateral**

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

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

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

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

**(b) Credit-related commitments**

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

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

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

**4.1.3 Impairment and provisioning**

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

**Bank rating**

	<b>Sept 2010</b>		<b>June 2010</b>	
	-----	-----	-----	-----
	<b>Loans and advances (%)</b>	<b>Impairment provision (%)</b>	<b>Loans and advances (%)</b>	<b>Impairment provision (%)</b>
1 Pass	82.38	-	83.70	-
2 Special mention	12.54	0.02	11.53	0.02
3 Sub-standard	3.79	30.25	3.49	30.25
4 Doubtful	1.25	68.66	1.27	68.66
5 Loss	0.04	1.07	0.01	1.07
	-----	-----	-----	-----
	100.00	100.00	100.00	100.00
	-----	-----	-----	-----

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

*Loans*

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

*Advances (overdrafts)*

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

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

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

	Maximum exposure	
	<b>Sept</b>	<b>June</b>
	<b><u>2010</u></b>	<b><u>2010</u></b>
	\$	\$
<i>Credit risk exposures relating to on-balance sheet assets are as follows:</i>		
Treasury bills	90,715,601	90,715,601
Deposits with other financial institutions	290,213,637	331,347,078
Loans and advances:		
• Overdrafts	196,432,951	168,488,332
• Corporate customers	34,989,258	135,079,860
• Term loans	835,518,794	735,337,536
• Mortgages (personal)	108,486,601	106,849,444
• Originated debts	126,742,352	130,074,490
• Available-for-sale investments	111,742,930	120,467,552
• Other assets	21,391,203	31,025,378
• Loan commitments and financial guarantees	35,532,622	53,693,153
<b>Total</b>	<b>1,851,765,949</b>	<b>1,903,078,424</b>

The above table represents a worse case scenario of credit risk exposure to the Bank at Sept 30, 2010 and June 30, 2010, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 63% (June 2010 – 60%) of the total maximum exposure is derived from loans and advances to banks and customers; 13% (June 2010 – 13%) represents investments in debt securities.

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

- 95% (June 2010 – 95%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

- Term loans, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees.
- 81% (June 2010 – 88%) of the loans and advances portfolio are considered to be neither past due nor impaired.
- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines;
- 10% of the investments in debt securities and other bills have at least an A- credit rating. Many issuers in the region are not graded; consequently 86% of these investments are not rated.

**4.1.5 Loans and advances**

	<b><u>Sept</u></b> <b><u>2010</u></b> \$	<b><u>June</u></b> <b><u>2010</u></b> \$
Loans and advances are summarized as follows:		
<b>Loans and advances to customers</b>		
Neither past due nor impaired	940,691,691	988,784,854
Past due but not impaired	158,732,746	81,710,843
Impaired	<u>55,007,168</u>	<u>54,366,608</u>
	<b><u>1,154,431,605</u></b>	<b><u>1,124,862,305</u></b>
Interest receivable (see Note 9)	60,070,582	59,967,449
Less allowance for impairment losses (Note 9)	(39,074,583)	(39,074,583)
<b>Net</b>	<b><u>1,175,427,604</u></b>	<b><u>1,145,755,171</u></b>

The total allowance for impairment losses on loans and advances is \$39,074,583 (June 2010-\$39,074,583). Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 25.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

**4.1.5 Loans and advances.....continued**

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

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

**Sept 30, 2010**

	Overdrafts \$	Term loans \$	Mortgages \$	Corporate customers \$	Total Loans and advances to customers \$
<b>Loans and advances to customers</b>					
<b>Classifications:</b>					
1. Pass	119,040,083	674,699,896	65,385,601	10,836,261	869,961,841
2. Special mention	65,084,597	1,180,822	4,464,431	-	70,729,850
	-----	-----	-----	-----	-----
<b>Gross</b>	<b>184,124,680</b>	<b>675,880,718</b>	<b>69,850,032</b>	<b>10,836,261</b>	<b>940,691,691</b>
	=====	=====	=====	=====	=====

**June 30, 2010**

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

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

4. Financial risk management.....continued

4.1.5 Loans and advances.....continued

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

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

	Term loans \$	Mortgages \$	Corporate customers \$	Total \$
<b>At Sept 30, 2010</b>				
Past due up to 30 days	2,447,530	7,453,438	3,085,957	12,986,925
Past due 30 – 60 days	560,332	3,400,645	864,561	4,825,538
Past due 60 – 90 days	73,784,551	1,423,661	-	75,208,212
Over 90 days	62,288,058	3,039,562	384,451	65,712,071
	-----	-----	-----	-----
<b>Gross</b>	<b>139,080,471</b>	<b>15,317,306</b>	<b>4,334,969</b>	<b>158,732,746</b>
	=====	=====	=====	=====
Fair value of collateral	<b>160,580,983</b>	<b>29,844,878</b>	<b>5,174,969</b>	<b>195,600,830</b>

	Term loans \$	Mortgages \$	Corporate customers \$	Total \$
<b>At June 30, 2010</b>				
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
	-----	-----	-----	-----
<b>Gross</b>	<b>65,886,708</b>	<b>15,293,734</b>	<b>530,401</b>	<b>81,710,843</b>
	=====	=====	=====	=====
Fair value of collateral	<b>86,796,432</b>	<b>29,844,878</b>	<b>840,000</b>	<b>117,481,310</b>

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

**4.1.5 Loans and advances.....continued**

*(c) Loans and advances individually impaired*

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is \$55,007,168.

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

	<b>Overdrafts</b>	<b>Term loans</b>	<b>Mortgages</b>	<b>Corporate customers</b>	<b>Total Loans and advances to customers</b>
	\$	\$	\$	\$	\$
<b>Sept 30, 2010</b>					
Pass		29,101	51,865		80,966
Special mention		1,581	452,756		454,337
Substandard	2,134,812	3,773,821	13,554,446	20,219,025	39,682,104
Doubtful	3,830,316	3,001,956	4,325,124	3,149,204	14,306,600
Loss	166,470		316,685	6	483,161
	-----	-----	-----	-----	-----
	<b>6,131,598</b>	<b>6,806,459</b>	<b>18,700,876</b>	<b>23,368,235</b>	<b>55,007,168</b>
	-----	-----	-----	-----	-----
Fair value of collateral	11,819,271	19,586,128	34,023,874	135,851,757	201,281,030
	<b>Overdrafts</b>	<b>Term loans</b>	<b>Mortgages</b>	<b>Corporate customers</b>	<b>Total Loans and advances to customers</b>
	\$	\$	\$	\$	\$
<b>June 30, 2010</b>					
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	3,149,204	14,291,111
Loss	166,470			6	166,476
	-----	-----	-----	-----	-----
	<b>6,144,788</b>	<b>6,798,569</b>	<b>18,055,172</b>	<b>23,368,079</b>	<b>54,366,608</b>
	-----	-----	-----	-----	-----
Fair value of collateral	11,819,271	19,586,128	34,023,874	135,851,757	201,281,030

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

**4.1.5 Loans and advances.....continued**

**(d) *Loans and advances renegotiated***

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

**4.1.6 Debt securities, treasury bills and other eligible bills**

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

	<b>Treasury Bills \$</b>	<b>Investment Securities \$</b>	<b>Loans and receivables - notes &amp; bonds \$</b>	<b>Total \$</b>
AAA				
AA- to AA+		2,184,498		<b>2,184,498</b>
A- to A+		11,761,276		<b>11,761,276</b>
Lower than A-		13,528,648		<b>13,528,648</b>
Unrated	90,715,601	84,268,508	126,742,352	<b>301,726,461</b>
<b>Total</b>	<b>90,715,601</b>	<b>111,742,930</b>	<b>126,742,352</b>	<b>329,200,883</b>



**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

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

	<b><u>St. Kitts &amp; Nevis</u></b> \$	<b><u>United States &amp; Canada</u></b> \$	<b><u>Europe</u></b> \$	<b><u>Other Caribbean States</u></b> \$	<b><u>Total</u></b> \$
<b>Sept 30, 2010</b>					
Treasury bills	90,715,601				90,715,601
Deposits with Fin. Inst.	41,142,629	155,034,978	2,234,532	91,801,498	290,213,637
Loans and advances	1,129,852,297	31,303,781	2,236,934	12,034,592	1,175,427,604
Originated debts	73,813,862			52,928,490	126,742,352
Investments (AFS)	2,010,059	109,732,871			111,742,930
Other assets	21,391,203				21,391,203
	<b>1,358,925,651</b>	<b>296,071,630</b>	<b>4,471,466</b>	<b>156,764,580</b>	<b>1,816,233,327</b>
<b>June 30, 2010</b>					
Treasury bills	90,715,601				90,715,601
Deposits with Fin. Inst.	40,927,492	149,254,476	14,833,192	126,331,918	331,347,078
Loans and advances	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
	<b>1,340,538,100</b>	<b>299,386,048</b>	<b>17,124,416</b>	<b>192,336,706</b>	<b>1,849,385,270</b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

**4.1.8 Sectoral analysis of the loans and advances portfolio**

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

	<b>Sept 2010 \$</b>	<b>June 2010 \$</b>
Consumers	132,102,754	130,257,994
Agriculture, fisheries and manufacturing	5,069,689	5,275,998
Construction and land development	43,066,640	40,774,101
Distributive trade, transportation and storage	10,539,927	10,527,540
Tourism, entertainment and catering	20,700,857	20,751,091
Financial institutions	14,327,001	16,046,801
State, statutory bodies and public utilities	908,421,247	879,402,690
Professional and other services	20,203,490	21,826,090
<b>Total</b>	<b>1,154,431,605</b>	<b>1,124,862,305</b>

**4.19 Concentration of risks of financial assets with credit exposure**

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

	<b>Public Sector \$</b>	<b>Construction \$</b>	<b>Tourism \$</b>	<b>Financial Inst. \$</b>	<b>Individuals \$</b>	<b>Other Industries \$</b>	<b>TOTAL \$</b>
<b>Sep 30, 2010</b>							
Treasury Bills	90,715,601	-	-	-	-	-	90,715,601
Deposits with banks & Non bank financial Inst.	-	-	-	290,213,637	-	-	290,213,637
Originated Debt	117,612,352	-	-	1,300,000	-	7,830,000	126,742,352
Investment securities - Debt securities	-	-	-	107,194,911	-	4,548,019	111,742,930
Loans & Advances to customers	908,467,880	46,624,378	31,057,567	14,328,721	136,820,734	38,128,324	1,175,427,604
Other Assets	-	-	-	2,000,000	583,708	18,807,495	21,391,203
<b>Total</b>	<b>1,116,795,833</b>	<b>46,624,378</b>	<b>31,057,567</b>	<b>415,037,269</b>	<b>137,404,442</b>	<b>69,313,838</b>	<b>1,816,233,327</b>
<b>June 30, 2010</b>	<b>1,100,374,313</b>	<b>44,331,839</b>	<b>31,107,801</b>	<b>456,862,507</b>	<b>135,458,461</b>	<b>81,250,349</b>	<b>1,849,385,270</b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

**4.2 Market risk**

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

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

**4.2.1 Price risk**

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

**4.2.2 Foreign exchange risk**

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

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2010

### 4. Financial risk management.....continued

#### 4.2.2 Foreign exchange risk.....continued

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

September 30, 2010	EC\$	US\$	EURO	GBP	CAN	BDS	GUY	TOTAL
<b>Assets</b>								
Cash & Balances with Central Bank	87,336,957	2,624,805	64,454	143,331	21,418	32,624	-	90,223,589
Treasury Bills	90,715,601	-	-	-	-	-	-	90,715,601
Deposits with other financial bodies	51,072,243	235,878,369	564,195	290,184	1,880,225	491,510	36,911	290,213,637
<i>Loans and receivables</i>								
- Loans and advances to customers	1,175,319,276	108,328	-	-	-	-	-	1,175,427,604
- Originated Debt	125,245,438	1,496,914	-	-	-	-	-	126,742,352
Investment Securities - avail for sale	9,009,447	337,047,905	-	-	-	-	-	346,057,352
Other Assets	9,250,147	17,187,156	-	-	-	-	-	26,437,303
<b>Total financial Assets</b>	<b>1,547,949,109</b>	<b>594,343,477</b>	<b>628,649</b>	<b>433,515</b>	<b>1,901,643</b>	<b>524,134</b>	<b>36,911</b>	<b>2,145,817,438</b>
<b>Liabilities</b>								
Due to customers	1,237,595,161	215,551,624	760,447	558,798	3,850,762	-	-	1,458,316,792
Due to other financial institutions	-	1,745,301	-	-	53	-	-	1,745,354
Other borrowed funds	-	203,995,354	-	-	-	-	-	203,995,354
Other liabilities	27,374,327	11,012,141	42,179	379,114	146,983	58,155	-	39,012,899
<b>Total financial Liabilities</b>	<b>1,264,969,488</b>	<b>432,304,420</b>	<b>802,626</b>	<b>937,912</b>	<b>3,997,798</b>	<b>58,155</b>	<b>-</b>	<b>1,703,070,399</b>
<b>Net on-balance sheet positions</b>	<b>282,979,621</b>	<b>162,039,057</b>	<b>(173,977)</b>	<b>(504,397)</b>	<b>(2,096,155)</b>	<b>465,979</b>	<b>36,911</b>	<b>442,747,040</b>
<b>Credit Commitments</b>	<b>30,486,522</b>							
June 30, 2010	EC\$	US\$	EURO	GBP	CAN	BDS	OTHER	TOTAL
Total Financial Assets	1,533,574,260	670,587,124	1,063,044	832,786	4,177,894	624,955	12,615	2,210,872,678
Total Financial Liabilities	1,266,692,857	507,521,568	599,905	904,774	3,773,528	58,155	-	1,779,550,787
<b>Net on-balance sheet positions</b>	<b>266,881,403</b>	<b>163,065,556</b>	<b>463,139</b>	<b>(71,988)</b>	<b>404,366</b>	<b>566,800</b>	<b>12,615</b>	<b>431,321,892</b>
<b>Credit Commitments</b>	<b>48,647,053</b>							

#### 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.

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2010

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

### Interest Sensitivity of Assets and Liabilities

	Up to 1 Month \$	1 to 3 Months \$	3 to 12 Months \$	1 to 5 Years \$	Over 5 Years \$	Non-Interest Bearing \$	Total \$
<b>As at Sep 30, 2010</b>							
<b>Financial Assets</b>							
Cash & balances with Central Bank	-	-	-	-	-	90,223,589	90,223,589
Treasury Bills	-	90,715,601	-	-	-	-	90,715,601
Deposits with other financial Inst.	186,096,596	82,576,819	786,359	-	-	20,753,863	290,213,637
Loans & Advances to customers	257,712,802	31,388,705	3,979,790	105,275,971	768,949,408	8,120,928	1,175,427,604
- Originated Debts	576,000	1,422,000	5,994,000	32,968,000	85,782,352	-	126,742,352
Investment securities	3,466,813	1,244,953	1,268,871	51,312,134	38,393,833	250,370,748	346,057,352
Other Assets	-	-	-	-	-	26,437,303	26,437,303
<b>Total Financial Assets</b>	<b>447,852,211</b>	<b>207,348,078</b>	<b>12,029,020</b>	<b>189,556,105</b>	<b>893,125,593</b>	<b>395,906,431</b>	<b>2,145,817,438</b>
<b>Financial Liabilities</b>							
Due to Customers	534,492,710	53,887,894	699,545,377	-	-	170,390,811	1,458,316,792
Due to Other financial Inst.	1,745,354	-	-	-	-	-	1,745,354
Other Borrowed funds	270,260	270,260	2,432,340	9,729,360	188,584,312	2,708,822	203,995,354
Other Liabilities	-	-	949,535	-	-	38,063,364	39,012,899
<b>Total Financial Liabilities</b>	<b>536,508,324</b>	<b>54,158,154</b>	<b>702,927,252</b>	<b>9,729,360</b>	<b>188,584,312</b>	<b>211,162,997</b>	<b>1,703,070,399</b>
<b>Total Interest repricing gap</b>	<b>(88,656,113)</b>	<b>153,189,924</b>	<b>(690,898,232)</b>	<b>179,826,745</b>	<b>704,541,281</b>		
<b>As at June 30, 2010</b>							
Total Financial Assets	388,125,430	109,883,070	137,193,509	197,050,704	912,796,934	465,823,031	2,210,872,678
Total Financial Liabilities	581,065,919	56,526,697	680,758,993	9,729,360	188,745,904	262,723,914	1,779,550,787
<b>Total Interest repricing Gap</b>	<b>(192,940,489)</b>	<b>53,356,373</b>	<b>(543,565,484)</b>	<b>187,321,344</b>	<b>724,051,030</b>		

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

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

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

#### **4.3 Liquidity risk**

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

##### **4.3.1 Liquidity risk management**

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

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

##### **4.3.2 Funding Approach**

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

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

**4.3.3 Non-derivative cash flows**

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

**Analysis of Assets and Liabilities into relevant maturity grouping**

	Up to 1 Month \$	1 - 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
<b>As at Sep 30, 2010</b>						
<b>Financial Liabilities</b>						
Due to Customers	691,671,067	55,418,673	711,227,052	-	-	1,458,316,792
Due to other financial Inst.	1,745,354	-	-	-	-	1,745,354
Other Borrowed funds	270,260	2,979,082	2,432,340	9,729,360	188,584,312	203,995,354
Other Liabilities	17,873,950	4,159,469	12,827,221	4,152,259	-	39,012,899
<b>Total Financial Liabilities</b>	<b>711,560,631</b>	<b>62,557,224</b>	<b>726,486,613</b>	<b>13,881,619</b>	<b>188,584,312</b>	<b>1,703,070,399</b>
<b>Total Financial Assets</b>	<b>890,482,234</b>	<b>210,710,395</b>	<b>18,857,718</b>	<b>154,782,023</b>	<b>870,985,068</b>	<b>2,145,817,438</b>
<b>As at June 30, 2010</b>						
<b>Total Financial Liabilities</b>	<b>816,656,329</b>	<b>60,740,473</b>	<b>699,527,962</b>	<b>13,880,119</b>	<b>188,745,904</b>	<b>1,779,550,787</b>
<b>Total Financial Assets</b>	<b>890,425,900</b>	<b>113,934,366</b>	<b>145,288,837</b>	<b>170,567,166</b>	<b>890,656,409</b>	<b>2,210,872,678</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

**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 summarized in the table below.

	<b><u>Up to 1 year</u></b>	<b><u>1 – 3 years</u></b>	<b><u>Over 3 years</u></b>	<b><u>Total</u></b>
	\$	\$	\$	\$
<b>As at September 30, 2010</b>				
Loan commitments	21,237,911	2,927,147	6,321,464	30,486,522
Guarantees and standby letters of credit	949,535	-	4,096,565	5,046,100
Total	22,187,446	2,927,147	10,418,029	35,532,622

**As at June 30, 2010**

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

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

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

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

(a) Treasury bills

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



**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

(b) Deposits with other financial institutions

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

(c) Loans and advances to customers

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

(d) Originated debt

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

(e) Due to customer

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

(f) Due to financial institutions

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

(g) Other borrowed funds

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

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

	<b>Carrying Value</b>		<b>Fair Value</b>	
	<b>Sept 2010</b>	<b>June 2010</b>	<b>Sept 2010</b>	<b>June 2010</b>
<b>Financial assets</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Treasury bills	90,715,601	90,715,601	90,715,601	90,715,601
Deposits with other financial institutions	290,213,637	331,347,078	290,213,637	331,347,078
Loans and receivables:				
Loans and advances				
Overdrafts	196,432,951	168,488,332	198,417,983	170,460,174
Corporate	34,989,258	197,482,280	190,620,749	326,405,300
Mortgage	108,486,601	106,849,444	213,884,781	213,884,781
Term	835,518,794	672,935,115	937,980,637	802,196,086
Originated debts	126,742,352	130,074,490	126,742,352	130,074,490
Investments	111,742,930	120,467,552	111,742,930	120,467,552
<b>Financial Liabilities</b>				
Due to customers	1,458,316,792	1,483,165,330	1,458,316,792	1,483,165,330
Due to financial institutions	1,745,354		1,745,354	
Other borrowed funds	203,995,354	202,311,769	203,995,354	202,311,769

**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.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

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

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the period ended September 30, 2010 and June 30, 2010. During these two periods, the Bank complied with all the externally imposed capital requirements to which it is subject.

	<b><u>Sept</u></b> <b><u>2010</u></b> \$	<b><u>June</u></b> <b><u>2010</u></b> \$
<b>Tier 1 capital</b>		
Share Capital	135,000,000	135,000,000
Bonus shares from capitalization of unrealized asset revaluation reserve	(4,500,000)	(4,500,000)
Reserves	246,171,044	246,171,044
Retained earnings	<u>26,981,532</u>	<u>26,981,532</u>
<b>Total qualifying Tier 1 capital</b>	<b><u>403,652,576</u></b>	<b><u>403,652,576</u></b>
<b>Tier 2 capital</b>		
Revaluation reserve – available-for-sale investments	55,163,246	50,153,673
Revaluation reserve – property, plant and equipment	7,720,621	7,720,621
Bonus shares capitalization	4,500,000	4,500,000
Accumulated impairment allowance	39,074,583	39,074,583
<b>Total qualifying Tier 2 capital</b>	<b>106,458,450</b>	<b>101,448,877</b>
Investment in subsidiaries	(26,750,000)	(26,750,000)
<b>Total regulatory capital</b>	<b>483,361,026</b>	<b>478,351,453</b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

	<b>Sept 2010</b>	<b>June 2010</b>
	<b>\$</b>	<b>\$</b>
<b>Risk-weighted capital</b>		
<b>On-balance sheet</b>	776,602,750	770,768,399
<b>Off-balance sheet</b>	10,825,760	12,483,399
<b>Total risk-weighted assets</b>	<b>787,428,510</b>	<b>783,251,798</b>
<b>Basel ratio</b>	<b>61%</b>	<b>61%</b>

5. **Critical accounting estimates and judgments**

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

*(a) Impairment losses on loans and advances*

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

<b>6. Cash and balances with Central Bank</b>	<b>Sept 2010</b>	<b>June 2010</b>
	\$	\$
Cash in hand	9,446,808	8,586,933
Balances with Central Bank other than mandatory deposits	(3,750,267)	7,916,647
	-----	-----
Included in cash and cash equivalent (Note 31)	5,696,541	16,503,580
Mandatory deposits with Central Bank	84,527,048	85,956,375
	-----	-----
<b>Total</b>	<b>90,223,589</b>	<b>102,459,955</b>
	=====	=====

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

**7. Treasury bills**

Government of St. Kitts and Nevis maturing November 17, 2010 at 6.5% interest	<b>90,715,601</b>	<b>90,715,601</b>
	=====	=====

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

**8. Deposits with other financial institutions**

Operating cash balances	51,753,842	92,290,660
Items in the course of collection	4,224,698	3,781,039
Interest bearing term deposits	19,905,354	19,905,354
	-----	-----
Included in cash and cash equivalent (Note 31)	75,883,894	115,977,053
Special term deposits*	49,825,373	50,362,040
Restricted term deposits**	159,382,713	159,378,267
Interest receivable	5,121,657	5,629,718
	-----	-----
<b>Total</b>	<b>290,213,637</b>	<b>331,347,078</b>
	=====	=====

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

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

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

Interest earned on both 'Special term deposits' and 'Restricted term deposits' is credited to income.

	<b><u>Sept</u></b> <b><u>2010</u></b> \$	<b><u>June</u></b> <b><u>2010</u></b> \$
<b>9. Loans and advances to customers</b>		
Overdrafts	184,124,680	156,166,871
Mortgages	72,445,104	71,551,831
Demand	211,819,865	210,511,948
Special Term	608,154,977	609,978,832
Other Secured	16,305,447	15,901,588
Consumer	6,574,364	6,384,627
Non-productive	55,007,168	54,366,608
	-----	-----
Gross	1,154,431,605	1,124,862,305
Less allowance for impairment (Note 25)	(39,074,583)	(39,074,583)
	-----	-----
	<b>1,115,357,022</b>	<b>1,085,787,722</b>
Interest receivable	60,070,582	59,967,449
	-----	-----
<b>Net loans and advances</b>	<b>1,175,427,604</b>	<b>1,145,755,171</b>
	=====	=====
Current	293,081,297	173,992,228
Non-current	882,346,307	971,762,943
	-----	-----
	<b>1,175,427,604</b>	<b>1,145,755,171</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

	<b><u>Sept</u></b> <b><u>2010</u></b> \$	<b><u>June</u></b> <b><u>2010</u></b> \$
<b>10. Originated debts</b>		
Government of St. Kitts and Nevis bonds maturing March 03, 2020 at 8.5 % interest	72,513,863	75,000,000
Eastern Caribbean Home Mortgage Bank Long-term bond maturing July 01, 2013 at 6.00 % interest	1,000,000	1,000,000
Antigua Commercial Bank 10 % interest rate Series A bond maturing December 31, 2016	1,496,913	1,496,913
Grenada Electricity Services Limited 10-year 7 % bond maturing December 18, 2017	7,830,000	8,100,000
Government of Antigua 7-year long-term notes Maturing April 30, 2017 at 6.7% interest	38,601,576	39,177,577
Government of St. Vincent & The Grenadines 10-year bond maturing December 17, 2019 at 7.5% interest	5,000,000	5,000,000
Caribbean Credit Card Corporation unsecured loan at 10 % interest (no specific repayment terms)	300,000	300,000
	-----	-----
<b>Sub-total</b>	<b>126,742,352</b>	<b>130,074,490</b>
	=====	=====
 <b>11. Investment securities</b>		
(A)	<b><u>Sept</u></b> <b><u>2010</u></b> \$	<b><u>June</u></b> <b><u>2010</u></b> \$
<i>Available-for-sale securities</i>		
Securities at fair value		
-- Unlisted	11,207,209	11,207,209
-- Listed	334,606,021	363,059,949
-- Interest receivable	244,122	181,747
	-----	-----
<b>Sub-total</b>	<b>346,057,352</b>	<b>374,448,905</b>
	=====	=====
<b>Total</b>	<b>472,799,704</b>	<b>504,523,395</b>
	=====	=====

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 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:

	<b><u>Held to</u></b>	<b><u>Available</u></b>	<b><u>Loans and</u></b>	<b><u>Total</u></b>
	<b><u>maturity</u></b>	<b><u>for Sale</u></b>	<b><u>receivable-:</u></b>	
	\$	\$	\$	\$
<b>Balance – June 30, 2010</b>	-	<b>374,448,905</b>	<b>130,074,490</b>	<b>504,523,395</b>
Additions	-	16,665,613		16,665,613
Disposals (sales/redemption)	-	(52,985,478)	(3,332,138)	(56,317,616)
Fair value gains (losses)	-	7,684,190		7,684,190
Interest receivable	-	244,122		244,122
<b>Total as at Sept 30, 2010</b>	-	<b>346,057,352</b>	<b>126,742,352</b>	<b>472,799,704</b>
<b>Balance – June 30, 2009</b>	-	<b>349,806,134</b>	<b>86,976,913</b>	<b>436,783,047</b>
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
<b>Total as at June 30, 2010</b>	-	<b>374,448,905</b>	<b>130,074,490</b>	<b>504,523,395</b>

<b>(B)</b>	<b><u>Sept</u></b>	<b><u>June</u></b>
	<b><u>2010</u></b>	<b><u>2010</u></b>
	\$	\$

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

**Listed securities:**

- Equity securities - UK	-	8,502,798
- Equity securities – US	217,992,125	229,218,633
- Equity securities – Caribbean	6,881,025	6,881,025
- Debt securities – UK	-	14,211,894
- Debt securities – US	109,732,871	104,245,599
- Interest receivable	244,122	181,747

**Unlisted securities:**

- Equity securities – Caribbean	9,197,150	9,197,150
- Debt securities – Caribbean	2,010,059	2,010,059

<b>Total available-for-sale securities</b>	<b>346,057,352</b>	<b>374,448,905</b>
	=====	=====



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

**11. Investment securities.....continued**

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

(C)	<b><u>Sept</u></b> <b><u>2010</u></b> \$	<b><u>June</u></b> <b><u>2010</u></b> \$
<b><u>Listed:</u></b>		
US dollars	327,969,118	356,360,671
EC dollars	6,881,025	6,881,025
	-----	-----
<b>Total listed securities and interest</b>	<b><u>334,850,143</u></b>	<b><u>363,241,696</u></b>
<b><u>Unlisted:</u></b>		
US dollars	9,322,909	9,322,909
EC dollars	1,884,300	1,884,300
	-----	-----
<b>Total unlisted securities</b>	<b><u>11,207,209</u></b>	<b><u>11,207,209</u></b>
<b>Total available-for-sale securities</b>	<b>346,057,352</b>	<b>374,448,905</b>

**12. Investment in subsidiary**

National Bank Trust Company (St Kitts-Nevis-Anguilla) Limited	5,750,000	5,750,000
National Caribbean Insurance Company Limited	9,000,000	9,000,000
St Kitts and Nevis Mortgage and Investment Company Limited (MICO)	12,000,000	12,000,000
	-----	-----
<b>Total</b>	<b><u>26,750,000</u></b>	<b><u>26,750,000</u></b>
	=====	=====

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

Letters of credit	949,535	949,535
Guarantees	4,096,565	4,096,565
	-----	-----
<b>Total</b>	<b><u>5,046,100</u></b>	<b><u>5,046,100</u></b>
	=====	=====

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

**14. Property, Plant and Equipment**

COST	<u>Total</u>	<u>Property</u>	<u>Equipment</u>	<u>Furniture</u>	<u>Motor</u>	<u>Reference</u>	<u>Projects</u>
				<u>And</u>			
	\$	\$	\$	<u>Fittings</u>	<u>Vehicles</u>	<u>Books</u>	<u>Ongoing</u>
	\$	\$	\$	\$	\$	\$	\$
At June 30, 2010	37,339,785	20,474,781	11,183,757	2,125,663	477,000	140,367	2,938,217
Additions	315,753	-	312,753	3,000	-	-	-
Disposals	(60,111)	-	-	-	-	-	(60,111)
Sept 30, 2010	37,595,427	20,474,781	11,496,510	2,128,663	477,000	140,367	2,878,106
<b>Accumulated Depreciation</b>							
At June 30, 2010	12,480,349	2,245,392	8,324,486	1,536,436	242,497	131,538	-
Charge for Year	517,005	155,916	282,204	57,948	20,100	837	-
Eliminated on Disposal							
Sept 30, 2010	12,997,354	2,401,308	8,606,690	1,594,384	262,597	132,375	-
<b>Net Book Value</b>							
At Sept 30, 2010	<b>24,598,073</b>	<b>18,073,473</b>	<b>2,889,820</b>	<b>534,279</b>	<b>214,403</b>	<b>7,992</b>	<b>2,878,106</b>
At June 30, 2010	<b>24,859,436</b>	<b>18,229,389</b>	<b>2,859,271</b>	<b>589,227</b>	<b>234,503</b>	<b>8,829</b>	<b>2,938,217</b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

	<b>Sept 2010</b>	<b>June 2010</b>
	<b>\$</b>	<b>\$</b>
<b>15. Intangible assets</b>		
Cost at July 1, 2010	5,036,353	4,682,787
Additions	30,729	353,566
Disposal		
Total at Sept 30, 2010	<u>5,067,082</u>	<u>5,036,353</u>
<b>Accumulated amortisation</b>		
At July 1, 2010	3,841,356	3,110,419
Charges for the year-to-date	204,070	730,937
Disposals		
Total at Sept 30, 2010	<u>4,045,426</u>	<u>3,841,356</u>
<b>Net book value</b>	<u>1,021,656</u>	<u>1,194,997</u>
Intangible assets represent computer software acquired for the Bank use.		
<b>16. Other assets</b>		
Prepayments	19,265,830	30,035,884
Stationery and card stock	679,039	657,986
Other receivables	2,360,849	989,590
<b>Total</b>	<u>22,305,718</u>	<u>31,683,460</u>
<b>17. Due to customers</b>		
Consumers	374,801,920	378,787,283
Private businesses and subsidiaries	291,376,960	293,791,937
State, statutory bodies and non- financial bodies	679,691,025	692,553,378
Others	97,436,326	108,912,742
Interest Payable	15,010,561	9,119,990
<b>Total</b>	<u>1,458,316,792</u>	<u>1,483,165,330</u>

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**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

**17. Due to customers *continued***

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

The Bank pays interest on all categories of customers’ deposits. In September 2010 total interest paid on deposit accounts amounted to \$16,005,813 (June 2010 - \$66,457,526). The average effective rate of interest paid on customers’ deposits was 1.12% (June 2010– 4.68%).

	<b>Sept 2010</b>	<b>June 2010</b>
	\$	\$
<b>18. Other borrowed funds</b>		
Credit line	107,746,303	107,907,894
Bonds issued	93,540,229	93,540,229
Interest payable	2,708,822	863,646
	-----	-----
<b>Total</b>	<b>203,995,354</b>	<b>202,311,769</b>
	=====	=====

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.

**19. Accumulated provisions, creditors and accruals**

Other interest on customers’ deposits	12,040,573	11,266,528
Managers cheques and bankers payments	819,909	1,541,821
Unpaid drafts on other banks	1,413,640	1,431,227
E-commerce payables	4,561,754	48,958,168
Other payables	15,130,923	25,866,739
	-----	-----
<b>Total</b>	<b>33,966,799</b>	<b>89,064,483</b>
	=====	=====

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

	<b><u>Sept</u></b> <b><u>2010</u></b> \$	<b><u>June</u></b> <b><u>2010</u></b> \$
<b>20. Taxation</b>		
<b>Tax expense</b>		
Current tax	-	846,769
Deferred tax	-	(156,879)
Prior year income tax expense	-	(56,881)
	-----	-----
<b>Total</b>	<b>-</b>	<b>633,009</b>
	=====	=====
Income for the year before tax	<b><u>3,576,736</u></b>	<b><u>33,833,180</u></b>
Income tax at the applicable tax rate of 35%		11,841,613
Non-deductible expenses		2,359,029
Deferred tax over provided	-	20,347
Income not subject to tax		(13,531,099)
Prior year income tax expense	-	(56,881)
	-----	-----
<b>Total</b>		<b>633,009</b>
	=====	=====

**Deferred income tax**

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

Tax asset	(357,786)	(200,907)
Recovered during the year, net	-	(156,879)
Tax liability	29,703,287	27,005,824
	-----	-----
<b>Net</b>	<b>29,345,501</b>	<b>26,648,038</b>
	=====	=====
Accelerated depreciation	(357,786)	(357,786)
Available-for-sale securities	29,703,287	27,005,824
	-----	-----
<b>Net</b>	<b>29,345,501</b>	<b>26,648,038</b>
	=====	=====

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

	<b>Sept 2010 \$</b>	<b>June 2010 \$</b>
<b>21. Share Capital</b>		
<b>Authorised: -</b>		
135,000,000 Ordinary Shares of \$1 each	<b>135,000,000</b>	<b>135,000,000</b>
	=====	=====
<b>Issued and Fully Paid: -</b>		
135,000,000 Ordinary Shares of \$1 each	<b>135,000,000</b>	<b>135,000,000</b>
	=====	=====
<b>22. Reserves</b>		
<b>22.1 Statutory reserve</b>		
Balance at beginning of year	87,640,034	81,000,000
Addition	-	6,640,034
	-----	-----
	<b>87,640,034</b>	<b>87,640,034</b>
	=====	=====
<p>In accordance with Section 14 (1) of Saint Christopher and Nevis Banking Act No. 6 of 1991, the St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain a reserve fund into which it shall transfer not less than 20% of its net profit of each year whenever the reserve fund is less than the Bank paid-up capital.</p>		
<b>22.2 Revaluation reserve</b>		
Balance brought forward	57,874,294	34,922,191
Movement in market value of investments, net	5,009,573	22,952,103
	-----	-----
<b>Balance</b>	<b>62,883,867</b>	<b>57,874,294</b>
	=====	=====
<b>Revaluation reserve is represented by:</b>		
Available for sale investment securities	55,163,246	50,153,673
Properties	7,720,621	7,720,621
	-----	-----
	<b>62,883,867</b>	<b>57,874,294</b>
	=====	=====

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

	<b>Sept 2010</b>	<b>June 2010</b>
	\$	\$
<b>22. Reserves.....continued</b>		
<b>22.3 Other reserves</b>		
Balance brought forward	154,653,586	193,867,237
Transfer from retained earnings	-	10,000,000
Transfer to share capital	-	(54,000,000)
Transfer for interest on non-performing loans	-	4,786,349
	154,653,586	154,653,586
	154,653,586	154,653,586
<b>Other reserves is represented by:</b>		
Reserve for interest on non-performing loans	59,320,993	59,320,993
General reserve	95,332,593	95,332,593
	154,653,586	154,653,586
	154,653,586	154,653,586

Included in Other reserves are the following individual reserves:

***General Reserve***

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

***Reserve for interest collected on non-performing loans***

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

**Loan Loss Reserve**

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

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

	<b><u>Sept</u></b> <b><u>2010</u></b>	<b><u>June</u></b> <b><u>2010</u></b>
	\$	\$
<b>23. Net Interest Income</b>		
<b><u>Interest Income</u></b>		
Loans and Advances	18,993,410	82,517,754
Deposits with other financial institutions	1,779,322	10,575,733
Investments	3,641,055	18,633,115
	<b>24,413,787</b>	<b>111,726,602</b>
<b><u>Interest Expense</u></b>		
Savings accounts	2,828,838	10,204,179
Call Accounts	1,187,018	4,355,245
Fixed Deposits	13,588,686	41,261,645
Current and other deposit accounts	343,089	10,636,457
Debt and other related accounts	1,953,846	8,430,761
	19,901,477	74,888,287
<b>Net</b>	<b>4,512,310</b>	<b>36,838,315</b>
<b>24. Net fees and commission income</b>		
Credit related fees and commission	550,404	3,105,479
International and foreign exchange	3,395,613	19,887,888
Brokerage and other fees and commission	150,008	464,302
	<b>4,096,025</b>	<b>23,457,669</b>
<b><u>Fee expenses</u></b>		
Brokerage and other related fee expenses	10,500	130,976
International and foreign exchange fee expenses	668,086	1,329,162
Other fee expenses	200,734	499,801
	<b>879,320</b>	<b>1,959,939</b>
<b>Total net</b>	<b>3,216,705</b>	<b>21,497,730</b>



**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

	<b>Sept 2010 \$</b>	<b>June 2010 \$</b>
<b>25. Provision for loan impairment, net of recoveries</b>		
Balance brought forward	39,074,583	36,809,947
Charge-offs and write-offs	-	(51,252)
Provision for impairment losses	-	2,321,785
Recoveries during the year	-	(5,897)
	-----	-----
<b>Total</b>	<b>39,074,583</b>	<b>39,074,583</b>
	=====	=====

<b>26. Administration and general expenses</b>		
Advertisement and marketing	46,878	385,476
Stationery and supplies	112,374	880,550
Communication	147,621	567,355
Utilities	62,638	695,045
Shareholders' expenses	28,526	5,545
Rent and occupancy expenses	152,264	565,178
Taxes and licences	448	78,379
Security services	77,613	300,468
Insurance	14,231	482,464
Legal expenses	27,823	207,901
Staff employment	3,133,395	17,079,677
Repairs and maintenance	392,705	2,753,992
Premises upkeep	6,146	49,101
Other general expenses	366,629	464,336
	-----	-----
<b>Total</b>	<b>4,569,291</b>	<b>24,515,467</b>
	=====	=====

**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.

Net income attributable to shareholders	3,576,736	33,200,171
	-----	-----
Weighted average number of ordinary shares in issue	135,000,000	121,500,000
	-----	-----

Basic earnings per share (annualized)

\$0.11

\$0.27

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

**28. Dividend**

The financial statements reflect an interim dividend of \$8,100,000 for the year ended June 30, 2009, which was approved by the Board of Directors and paid.

**29. Other events**

**Bonus share dividend**

At the 38<sup>th</sup> Annual General Meeting of the St Kitts-Nevis-Anguilla National Bank Limited held on 26<sup>th</sup> 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 11<sup>th</sup> September 2009, shareholders received a total of 53,998,883 shares as bonus shares based on their holdings of shares at 31<sup>st</sup> 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.

**Litigation**

**Lynn Bass v. St. Kitts-Nevis-Anguilla National Bank Limited**

High Court, Civil Appeal No. 4 of 2009. Lynn Bass, a former employee, filed a claim of wrongful dismissal against the Bank for special and general damages. The Bank was successful in judgment received on March 23, 2009 (with costs). The above decision was appealed in the High Court by way of Civil Appeal No. 4 of 2009, filed on April 28, 2009. There is a high likelihood of success on same ground as initial claim. The judge gave a detailed precise judgment.

**National Consumer Mortgage, LLC (a California Limited Liability Company) (Debtor) John P Brincko, Chapter 11 Trustee (Plaintiff) v. 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 the company in question was a valid company properly registered to do business at all material times.

As a result, no provision for a contingent liability is included in these financial statements.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

**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. Those transactions, which include deposits, loans and other transactions, are carried out on commercial terms and conditions, at market rates.

**Government of St Kitts and Nevis**

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

Public sector indebtedness to the Bank as at September 30, 2010 was \$1.102 billion (June 30, 2010 - \$1.074 billion). Public Sector deposits stood at \$666.214 million as at September 30, 2010 (June 30, 2010 - \$657.757 million).

**Subsidiaries**

Advances outstanding as at September 30, 2010 amounted to \$11.519 million (June 30, 2010 - \$14.119 million).

Deposits balances as at September 30, 2010 amounted to \$122.354 million (June 30, 2010 - \$133.408 million).

**Directors and Associates**

Advances outstanding as at September 30, 2010 amounted to \$756,360 (June 30, 2010 - \$688,399).

Deposits balances as at September 30, 2010 amounted to \$950,006 (June 30, 2010 - \$992,162).

**Senior Management**

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

- Gross salaries, allowances and bonus payments amounted to \$377,505
- Loans and advances amounted to \$2.206 million (June 2010 - \$2.092 million);
- Deposit amounts were \$1.811 million (June 2010 - \$1.886 million); and
- Total St. Kitts-Nevis-Anguilla National Bank Limited shares held were 1,152,417 (June 2010 – 1,152,417)

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2010**

	<b>Sept <u>2010</u> \$</b>	<b>June <u>2010</u> \$</b>
<b>31. Cash and cash equivalent</b>		
Cash and balances with Central Bank (Note 6)	5,696,541	16,503,580
Treasury bills (Note 7)	90,715,601	90,715,601
Deposits with other financial institutions (Note 8)	75,883,894	115,977,053
	172,296,036	223,196,234
	172,296,036	223,196,234

**32. Contingent liabilities and commitments**

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

Loan commitments	30,486,522	48,647,053
Guarantees and standby letters of credit	5,046,100	5,046,100
	35,532,622	53,693,153
	35,532,622	53,693,153