# VISION

To be recognised internationally as the premier financial institution through advanced technology, strategic alliances and superior products and services.

# MISSION

To be an efficient, profitable and growth-oriented financial institution, promoting social and economic development in the national and regional community by providing high quality financial services and products at competitive prices.

## Customers' Charter

- To keep the Bank a customer friendly institution.
- To treat customers as an integral part of the Bank and serve them with the highest levels of integrity, fairness and goodwill.
- To provide customers with the products and services they need, in the form and variety they demand them, at the time they require them, and at prices they can afford.
- To give our customers good value for the prices they pay.

### Policy Statement

- To mobilise domestic and foreign financial resources and allocate them to efficient productive uses to gain the highest levels of economic development and social benefits.
- To promote and encourage the development of entrepreneurship for the profitable employment of available resources.
- To exercise sound judgment, due diligence, professional expertise and moral excellence in managing our corporate business and advising our customers and clients.
- To maintain the highest standard of confidentiality, integrity, fairness and goodwill in all dealing with customers, clients and the general public.
- To create a harmonious and stimulating work environment in which our employees can experience career fulfillment, job satisfaction and personal accomplishment; to provide job security; to pay fair and adequate compensation based on performance, and to recognize and reward individual achievements.
- To promote initiative, dynamism and a keen sense of responsibility in our Managers; to hold them accountable personally for achieving performance targets and to require of them sustained loyalty and integrity.
- To provide our shareholders with a satisfactory return on their capital and thus preserve and increase the value_of their investment.
- To be an exemplary corporate citizen providing managerial, organizational and ethical leadership to the business community.

The polices set out above inform and inspire our customer relationships, staff interactions and public communication; guide our corporate decision making process; influence the manner in which we perform our daily tasks and direct our recruitment, organizational, operational and development policies, plans and programmes.

Our Directors, Management and Staff are unreservedly committed to the observance of the duties and responsibilities stated above for the fulfillment of our Mission.

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## NOTICE OF MEETING

Notice is hereby given that the **FORTIETH ANNUAL GENERAL MEETING of St. Kitts-Nevis-Anguilla National Bank Limited** will be held at the Ocean Terrace Inn, Fortlands, Basseterre, on Tuesday 13th September, 2011 at 5.00pm for the following purposes:-

1 To read and confirm the Minutes of the Meeting held on 30th November, 2010

2 To consider matters arising from the Minutes

3 To receive the Directors' Report

4 To receive the Auditors Report

5 To receive and consider the Accounts for the year ended 30th June, 2010

6 To declare a dividend

7 To elect Directors

8 To reconfirm the appointment of Auditors for the year ending 30th June, 2011.

9 To discuss any other business for which notice in writing is delivered to the Company's Secretary three clear banking days prior to the meeting.

By Order of the Board

Yvonne Merchant-Charles
Secretary

## SHAREHOLDERS OF RECORD

All shareholders of record as at 31st August 2011 will be entitled to receive a dividend in respect of the financial year ended 30th June 2010.

## PROXY

A member of the Company who is entitled to attend and vote at this meeting is entitled to appoint a proxy to vote in his stead. No person shall be appointed a proxy who is not entitled to vote at the meeting for which the proxy is given. The proxy form must be delivered to the Company Secretary 48 hours before the meeting.

## ARTICLES GOVERNING MEETINGS

*ARTICLE 42*

At any meeting, unless a poll is demanded as hereinafter provided, every resolution shall be decided by a majority of the Shareholders or their proxies present and voting, either by show of hands or by secret ballot, and in case there shall be an equality of votes, the Chairman of such meeting shall have a casting vote in addition to the vote to which he may be entitled as a member.

*ARTICLE 43*

If at any meeting a poll is demanded by ten members present in person or by proxy and entitled to vote, the poll shall be taken in every such manner as the Chairman shall direct; and in such case every member present at the taking of the poll, either personally or by proxy, shall have a number of votes, to which he may be entitled as hereinafter provided; and in case at any such poll there shall be an equality of votes, the Chairman of the meeting at which such poll shall be taken shall be entitled to a casting vote in addition to any votes to which he may be entitled as a member and proxy.

*ARTICLE 45*

Every member shall on a poll have one vote for every dollar of the capital in the Company held by him.

*ARTICLE 56*

At every ordinary meeting one-third of the Directors shall retire from office. If the number of Directors be not divisible by three, then the nearest to one-third of the number of Directors shall retire from office. The Directors to retire shall be those who have been longest in office since their last election. As between Directors of equal seniority in office the Directors to retire shall be selected from amongst them by lot. A retiring Director shall be immediately, or at any future time, if still qualified, eligible for re-election.

*ARTICLE 59*

No one (other than a retiring Director) shall be eligible to be a Director, unless notice in writing that he is a candidate for such office shall have been given to the Company by two other members of the Company at least seven days before the day of holding the meeting at which the election is to take place.

# FINANCIAL HIGHLIGHTS

| | 2010 $'000 | 2009 $'000 | 2008 $`000 |
|---|---|---|---|
| **BALANCE SHEET INFORMATION** | | | |
| Total assets | 2,297,155 | 2,103,072 | 2,265,767 |
| Total customers' deposits | 1,350,902 | 1,253,224 | 1,278,258 |
| Loans and advances (gross) | 1,112,185 | 1,004,935 | 939,644 |
| Investment securities | 516,265 | 454,758 | 501,059 |
| Cash and money at call | 313,933 | 354,149 | 567,309 |
| **OPERATING RESULTS** | | | |
| Gross operating income | 168,598 | 179,641 | 290,703 |
| Interest Income | 111,618 | 113,733 | 126,898 |
| Interest expense | 72,781 | 67,596 | 65,952 |
| Earnings before income tax | 36,941 | 48,582 | 166,239 |
| Net income | 34,562 | 41,579 | 113,544 |
| Operating expenses/provisions | 59,415 | 63,463 | 58,512 |
| Number of employees | 241 | 240 | 237 |
| Gross revenue per employee | 700 | 749 | 1,227 |
| Total assets per employee | 9,536 | 8,763 | 9,560 |
| **SHARE CAPITAL & DIVIDEND INFORMATION** | | | |
| Common shares issued and outstanding (in thousands) (2) | 135,000 | 135,000 | 81,000 |
| Total shareholders' equity | 495,348 | 445,968 | 464,611 |
| Dividend paid (1) | 8,100 | 14,985 | 14,985 |
| Number of shareholders | 5,340 | 5,271 | 5,218 |
| Earnings per share ($) (2) | 0.26 | 0.31 | 1.40 |
| Dividends per share ($) (2) | 0.10 | 0.111 | 0.185 |
| Book value per common share (2) | 3.67 | 3.30 | 5.74 |
| **BALANCE SHEET AND OPERATING RESULTS RATIOS** | % | % | % |
| Loans and advances to deposits | 82.3 | 80.2 | 73.5 |
| Staff cost/total cost | 18.9 | 18.7 | 19.4 |
| Staff cost/total revenue | 15.0 | 13.7 | 8.3 |
| Efficiency ratios | 61.4 | 56.6 | 26.0 |
| Return on average shareholders' equity | 7.3 | 9.1 | 30.8 |
| Return on average assets | 1.6 | 1.9 | 5.3 |
| Asset utilization | 7.7 | 8.2 | 13.8 |
| Yield on earning assets | 5.9 | 5.9 | 6.9 |
| Cost to Fund earning assets | 3.8 | 3.5 | 3.6 |
| Net interest margin | 2.1 | 2.4 | 3.3 |

*(1) A final dividend of $6.85 million was paid on November 30, 2010, bringing the total dividend payment to $14.985 million.*

*(2) Amounts have been retroactively adjusted to reflect the two-for-three stock split 1n September 2009.*

# CORPORATE INFORMATION

| | | |
|---|---|---|
| **BOARD OF DIRECTORS** | Walford V. Gumbs | Chairperson |
| | Mitchell Gumbs | 1st Vice Chairperson |
| | Dr Mervyn Laws | 2nd ViceChairperson |
| | Yvonne Merchant-Charles | Secretary |
| | Linkon Willcove Maynard | Director |
| | Halva Maurice Hendrickson | Director |
| | Elsie Eudorah Mills | Director |
| | Sharylle V I Richardson | Director |
| | Eugenie J Condor | Director |
| | Sir Edmund W Lawrence | Managing Director |

**CORPORATE SECRETARY**

Yvonne Merchant-Charles

**SOLICITORS**

Kelsick, Wilkin & Ferdinand
Chambers
South Independence Square
BASSETERRE

**AUDITORS**

Deliotte & Touche
The Phoenix Centre
George Street
St Michael
BARBADOS

PKF
Independence House
North Independence Square
BASSETERRE

## BRANCHES AND SUBSIDIARIES

| | |
|---|---|
| **BRANCHES** | Nevis Branch<br>Charlestown, Nevis<br><br>Sandy Point Branch<br>Main Street, Sandy Point, St. Kitts<br><br>Saddlers Branch<br>Main Street, Saddlers, St. Kitts<br><br>Pelican Mall Branch<br>Bay Road, Basseterre, St. Kitts<br><br>Airport Branch<br>RLB International Airport |
| **ATMS** | Old Road<br>St. Paul's<br>Cayon<br>Lodge<br>St. Peter's<br>CAP Southwell Industrial Park<br>Vance W Amory International Airport<br>Nevis Branch<br>Sandy Point Branch<br>Saddlers Branch<br>RLB International Airport<br>Pelican Mall<br>Basseterre Branch<br>Camps<br>Port Zante<br>Tabernacle<br>Frigate Bay |
| **SUBSIDIARIES CONSOLIDATED** | National Bank Trust Company<br>(St. Kitts-Nevis-Anguilla) Limited<br>Rosemary Lane, BASSETERRE, St. Kitts<br><br>National Caribbean Insurance Company Limited<br>Church Street, BASSETERRE, St. Kitts<br><br>St. Kitts and Nevis Mortgage and Investment<br>Company Limited<br>Central Street, BASSETERRE, St. Kitts |
| **REGISTERED OFFICE OF THE PARENT COMPANY** | St. Kitts-Nevis-Anguilla National Bank Limited<br>Central Street, BASSETERRE, St. Kitts |

## Letter from the Chairman

It gives me much pleasure to once again present the St. Kitts-Nevis-Anguilla National Bank Limited and its subsidiaries' report for the financial year ending 30th June 2010.

At our last meeting we reported that the delay was due mainly to the decision taken to change to a different auditing firm. We promised then, that we will work assiduously to get back on schedule so that in future we can hold the Annual General Meeting within the year in which the financial year ends. It appears from all reports that we are on schedule and we will meet again before the end of this year for our next Annual General Meeting.

The impact of the global financial crisis continues to affect economies and the banking and financial institutions. It has been forecast that this crisis would continue for much longer as the economies slowly recover. St. Kitts and Nevis is not spared from the effects. A full analysis on the accounts is reported elsewhere, but I am pleased to report that total assets grew from $2.1 billion as at the end of June 2009 to $2.3 billion as at 30th June 2010. Net income before tax is $36.9 million while net income after tax is reported as $34.5 million. This outcome is commendable given the current financial difficulties referred to earlier.

We are meeting at a time when National Bank is celebrating its 40th Anniversary under the theme "Vision, Resilience, Stability-Hallmarks of our Journey." The calendar of activities spreads over the year to the end of January 2012.

The program of events encompasses a wide cross-section of community involvement as for as possible. It is a varied mix of social, educational and community activities. It offers something for everyone, shareholders, customers, staff, youths, the aged and disabled.

While the events have been all very successful so far, I would like to make special mention of the shareholders seminar that was held in March. Many shareholders expressed their pleasure for the information that was shared and of the high quality of the presentation on the various topics.

We record the continued contribution of the National Bank Group to community and national development. Our policy of assistance to all sectors of community life and to sporting organizations is very evident.

The success of the Group is due in large measure to staying focused on its customers' charter and particularly to continue to treat customers as an integral part of the Bank and serve them with the highest level of integrity, fairness and goodwill.

We will be true to our charter as we thank our many customers for their patronage and support.

We will continue to invest in staff training in-house, locally and overseas, so as to employ the best qualified staff to maintain our vision. On behalf of the Board of Directors I thank the staff for their contribution to the success of the Bank during the year.

I thank my fellow Directors for their support during the year and our shareholders for the confidence they have placed in us as we look towards a brighter and prosperous future.

Walford Gumbs
*Chairman*

## MANAGING DIRECTOR'S REPORT

In financial year ended 30 June, 2010 NATIONAL achieved material quantitative increases in hard resources, important qualitative improvements in soft resources, and provident elevations in prudential ratios.

The self-regulatory framework of dynamic policies, procedures, processes and practices by which NATIONAL strategically manages all aspects of its business and affairs is the primary artesian source of its safety, soundness, strength and stability.

In financial year 2010 total ASSETS increased by $209,767,448 or 10.16% over total assets in 2009. The main contributing factors to the growth in total assets were increases in Cash and balances with the Central Bank, Loans and receivables, Investment securities - available for sale.

During the same period total DEPOSITS increased by $123,700,158 or 13.72% over total deposits in 2009. All classes of customers increased their deposits with NATIONAL in this period. Customers regard their deposits with NATIONAL not only as protected savings, but also as profitable investments.

In the financial year under review total SHAREHOLDERS' EQUITY increased by $48,052,274 or 11.49% over shareholders' equity in 2009. The factors that contributed to the growth in total Shareholders' Equity were increases in Reserves and Retained earnings.

Not only were total assets, total deposits and total shareholders' equity higher in financial year 2010 compared with financial year 2009, but they were also higher than the respective amounts in 2008. The performance of these three indicative measures respectively in 2008 was the highest in the history of NATIONAL prior to 2010.

INTEREST INCOME in the year under review declined modestly by $2,901,129 or 2.53% below the amount recorded in the previous year. The decrease was attributable primarily to the fact that the rate of interest charged on facilities to certain public sector entities is tax-free thus the amount of interest paid by these entities to NATIONAL was significantly less than would otherwise have been the case.

INTEREST EXPENSE in financial year 2010 was $5,764,000 or 8.33% more than the amount in 2009 reflecting the concomitant increase in deposits in the same period.

NET FEES AND COMMISSION INCOME declined sharply by $20,656,845 or 49.00% in 2010 compared with 2009. This drastic contraction in fees and commission income reflects the unexpected collapse of a long-standing and highly specialized foreign service provider and the associated loss of a significant segment of the international market for the particular products offered by NATIONAL through that specific service provider.

NATIONAL is diligently taking positive steps to re-establish a comparably versatile and robust platform to deliver the products globally as it did through the former provider.

The Directors have decided to recommend a final DIVIDEND of 11.5% which amounts to $15,525,000 for financial year 2010. This amount is $540,000 more than the total dividend declared and paid for financial year 2009.

If the recommendation is approved each shareholder will be paid a cash dividend that will be marginally more than the amount that the shareholder was paid for financial year 2009.

In 2009 each shareholder was allotted two (2) bonus shares for every three (3) shares that the shareholder previously owned. The total number of shares comprised in the bonus issue was 54 million shares. This bonus shares issue increased the issued share capital to 135 million shares from 81 million shares previously issued.

A shareholder who bought 100 shares at $1 each in the first issue of shares by NATIONAL and who did not buy any more shares in subsequent share issues by NATIONAL now owns 2,500 shares 2,400 of which were allotted free. However, the shareholder is paid the full dividend declared annually on all 2,500 shares that he owns. The 11.5% dividend that the shareholder will be paid on the 2,500 shares for 2010 will amount to $287.50. The shareholder will therefore receive a dividend of $287.50 or 287.50% for financial year 2010 on the $100 that the shareholder invested in NATIONAL to buy 100 shares at $1 each in the first share issue.

Of the 135 million shares issued by NATIONAL shareholders paid for 39 million and were allotted 96 million free as bonus shares.

NET LIQUIDITY as at the end of financial year 2010 was $818,535,000 compared with $762,940,000 in financial year 2009. This amount was equal to 55.18% of customers total deposits with NATIONAL on the same date.

At the end of financial year 2010 NATIONAL had a 52% Tier 1 Capital Ratio.

NATIONAL enjoys a very strong financial position which gives full protection to all depositors and also to all other customers.

A COMMENDABLE ACHIEVEMENT. In August 2010 the Banker Magazine, part of the Financial Times Group, published its 40th annual Top 1000 World Banks ranking in July 2010, and an additional 200 World Banks ranking beyond the Top 1000 World Banks. NATIONAL did not make the top 1000 ranking in 2010.

However, we are certain that shareholders will be very pleased, perhaps delighted, to know that NATIONAL made the Top 1100 World Banks ranking in 2010.

World Banks were ranked by Tier 1 Capital. In that ranking NATIONAL ranked 1089 out of more than 1,000,000 World Banks in 2010. At the same time there were more than 9,000 banks in America, but only 175 of those banks ranked higher than NATIONAL.

The World Banks ranking for 2011 has not yet been published.

During the year under review NATIONAL paid close attention to advancing the holistic welfare of its EMPLOYEES through expanded opportunities for personal, scholastic and professional development. NATIONAL is firmly committed to the enlightened policy of ensuring that the standard of living and quality of life of its employees properly mirrors the success and prosperity of the Bank.

NATIONAL refocused its approach to COMMUNITY OUTREACH in financial year 2010 towards the goal of helping the Nation's youth to so order their lives that they do not grow old without growing up. At the same time NATIONAL maintained its commitment to education and health; sports, athletics and recreation; festivals, pageants and celebrations; and a wide range of other beneficial activities and undertakings.

A realistic and pragmatic analysis and interpretation of the present financial and economic realities together with cautious forecasts strongly indicate that NATIONAL'S FUTURE is secure and that its customers' business and affairs are in safe hands. NATIONAL will work intelligently and smartly to build on this firm foundation.

Sir Edmund W. Lawrence
*Managing Director*

# DIRECTORS' REPORT

The Directors have pleasure in submitting their Report for the financial year ended June 30, 2010.

## DIRECTORS

In accordance with the Bank's Articles of Association one third of the Directors shall retire by rotation at every Annual General Meeting. Retiring Directors shall be eligible for re-election.

The retiring Directors by rotation are:

Mr. Walford V. Gumbs
Mrs. Yvonne Merchant-Charles
Mr. Halva M. Hendrickson

The retiring Directors, being eligible, offer themselves for re-appointment.

## BOARD COMMITTEES

In keeping with its management function and fiduciary duties, the Board of Directors operates through seven (7) committees namely Asset/Liability Management, Audit, Budget, Corporate Governance, Credit, Executive and Investment.

All committees work closely with management to deal with the many challenges facing the financial services industry and the Bank in particular.

## FINANCIAL RESULTS AND DIVIDENDS

Activities of the Bank are focused on increasing shareholders value by providing them with a reasonable return on their investments. During the period June 2000 to June 2010, shareholders' equity increased by 658.6%; moving from $75.2 million to $495.3 million.

The Directors report that profit after taxation for the year ended June 30, 2010 amounted to $34.6 million, with earnings per common share of $0.26.

Further discussion of the performance of the Company can be found in the Management Discussion and Analysis presented in a separate section of this Annual Report.

The Directors have decided to recommend a dividend of 11.5% for the financial year ended June 30, 2010. This recommendation, if approved by the Annual General Meeting, will mean that a total dividend of $15.525 million will be paid for the financial year 2010.

## AUDITORS

The retiring auditors, Deliotte & Touche and PKF, have expressed their willingness to be re-appointed and a resolution to the effect will be proposed at the Annual General Meeting.

By Order of the Board of Directors

Yvonne Merchant-Charles
Secretary

# SPONSORSHIP PROGRAMMES

## The year in reflection

As we look back on the past year's diverse Community Outreach Programme, we are exceedingly pleased with the results. We made substantial provision for our long standing commitment to the development of team sports, initiatives in support of education and the prevention of teenage delinquency. Notwithstanding, we also partnered with various non-profit organizations providing both financial support and human resources as they endeavoured to contribute to the wellness of our communities.

The year began on a high note as we joined fellow citizens at Warner Park in support of the West Indies in their quest to defeat Bangladesh in the test match in July of 2009.

The reopening of schools in September ushered in the National Bank Primary School Football League which we have carried for over 16 years.

◄ *Opening Ceremony Schools Football 2009*

The League includes practically all of the primary schools in St. Kitts and gives over two hundred (200) children the opportunity to compete. It is upon this foundation that National Football is built. The coaching and mentoring that these children receive as they pass through the programme will inculcate lifelong values and skills. We are glad to be able to make a difference in so many young lives year after year. National is extremely proud of this partnership.

National outfitted the St. Kitts under 23 Netball Team with new uniforms as they prepared to compete


*St. Kitts Under 23 Netball Team - 2010* in several regional tournaments including the OECS Under 23 in St. Vincent. The team placed second to Grenada, capturing first place trophies for defending and shooting. We also contributed to the fundraising efforts of the Nevis Under 23 Team, enabling them to compete in the tournament in St. Vincent. In June, the National Bank sponsored St. Kitts Netball League opened with the usual spectacular fanfare. Some twenty (20) teams marched smartly from our offices at Central Street to the Pam Tyson Netball Complex. In 2010 National invested more than thirty-three thousand dollars ($33,000.00) in the sport, reaffirming its 30 year commitment.

Associations to benefit from our contributions were the St. Kitts Football Association and the St. Kitts Table Tennis Association. We continued our support of the St. Thomas Primary Track Team in the Nevis Interschool Primary Competition. In 2010, National contributed over seventy-seven thousand dollars ($77,000) to team sports in the Federation.

Children who are rewarded for excellence are encouraged to work even harder. National donated prizes for merit in academics and sports to both the primary and secondary schools in St. Kitts and Nevis. As technology rapidly creates more avenues for entertainment, children are losing interest in traditional pastimes such as reading. Notwithstanding, we continued to make good on our promise to provide each primary school with a modern library, even as we anticipate that future requests may be for electronic books rather than hardcopies. In 2009, we sponsored the new Dieppe Bay Primary School Library. Over the past year, we invested over twenty-five thousand dollars ($25,000) in education, leveraging our funds to accommodate each request.

*Dieppe Bay Primary School Library Opening Ceremony 2009*

National collaborated with the Eastern Caribbean Central Bank (ECCB), Advancement of Children Foundation (ACF), and St. Kitts Nevis Chamber of Industry and Commerce (CIC), investing more than thirty-five thousand dollars ($35,000) in projects that were dedicated to youth. Financial literacy, entrepreneurship and crime prevention were the three primary areas of emphasis.

National partnered with other financial institutions to host the 2010 Financial Information Month of activities under the theme, “Make Your Dreams a Reality - Save and Invest Wisely.” In addition to financial support, Bank representatives visited several secondary schools to engage students on the theme and participated in other activities including a Financial Youth Symposium. National has been an active member of the Financial Information Month since the programme was launched in 2002.

National is one of six founding members of the ACF whose raison d’être is, “To positively affect the life of the children and youth in our community, by creating an environment that is conducive to learning, growth and contribution, replete with community and family support, and free of violent and negative coercive forces.” National is the Chair of the ACF Board of Councillors. During the year the

Foundation sponsored a 'Parenting Programme' which was conducted by the University of the West Indies (UWI), the Eagle Boyz Club, the Young Female Abstinence Club (TYFAC) and the Rotary Youth Leadership Awards (RYLA).

National has been a member of the Junior Achievement (JA) Advisory Committee since its launch in October 2005. National holds the office of treasurer on the JA Advisory Committee which collaborates with the St. Kitts-Nevis Chamber of Industry & Commerce to oversee JA. The current programme, 'The Innovative Company Project', requires students to propose potential business opportunities, operate a business and provide a performance report at the end of the project. In 2010 six schools from St. Kitts and Nevis successfully completed the programme.

Other programmes included our annual contribution to the Pediatric Association League (PALS) which raises funds to provide for some of the needs of the Pediatric Ward at the Joseph N. France Hospital; our annual sponsorship of the Brimstone Hill Fortress week of activities; and our annual sponsorship of the St. Kitts National Carnival. National's contestant Ms. Sudeakka Francis captured the Ms. National Carnival Crown.

*Junior Achievement Trade Fair 2010*

We continued to support the Parks & Beaches with the maintenance of the garden around the fountain in Independence Square. We also assisted the Church with its work in the community by donating to their fund raising activities.

Recognizing that this is the 'age of information', National ensured that its customers in particular and the general public were fully aware of new additions to its product line and changes to core products. We invested one hundred and thirty thousand dollars ($130,000) in radio, TV and web infomercials in addition to various print ads, raising public awareness and ensuring that our customers are well informed as we raise the standard of service. With regard to our card portfolio, we focused on the enhancements to the National Bank Debit Card and the introduction to the market of another first offering in the Federation, the National Bank MasterCard Giftcard. We are pleased to note that the new products were well received by our customers.

*Fountain Garden - Independence Square*

# MANAGEMENT'S DISCUSSION AND ANALYSIS
of
Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements about objectives, strategies and expected financial results and positions. These statements are based on the Group's current plans, expectations and beliefs about future events. They are inherently subject to risks and uncertainties beyond the Group's control including, but not limited to, economic and financial conditions globally, technological development, competition, and regulatory development both at home and abroad. These and other factors may cause actual experience to be different from expectations and beliefs reflected in the forward-looking statements. The reader is therefore cautioned not to place undue reliance on these statements.

## Overview

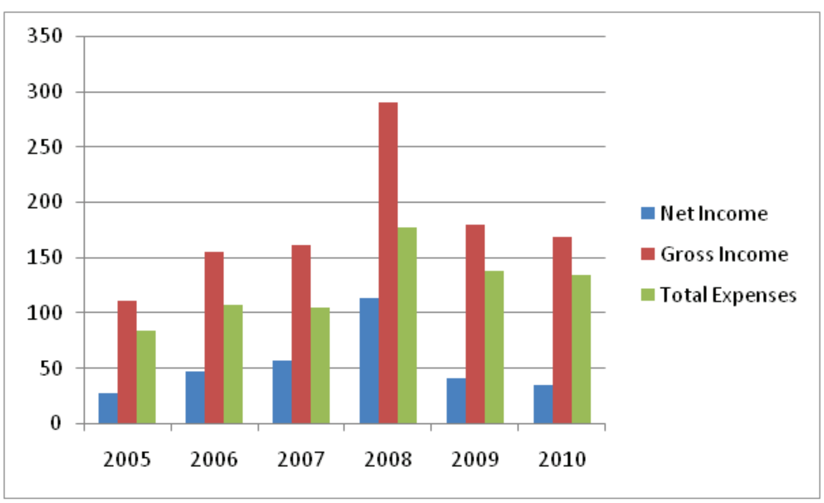
The financial year, which ended June 30, 2010, was another challenging year for the St. Kitts-Nevis-Anguilla National Bank Group of Companies ('Group'). Contracting markets and reduced economic and financial activities in both the local and overseas economies created unusual pressure on the Group's ability to surpass many of its approved financial matrices. Further declines within the local economy and the unexpected closure of one of the Group foreign service providers added to the challenges faced in fiscal year 2010.

Sporadic signs of economic recovery in a number of international economies did little to improve consumer confidence in those economies, increase consumer spending, or increase consumer credit by banks. These particular challenges are very evident in the Group's financial condition and results of operations for the financial year ended June 30, 2010.

## Performance Highlights

In fiscal year ended June 30, 2010 total revenue decreased $11.043 million, or 6 percent, to $168.598 million. Net Income, which totaled $34.562 million or $0.26 per common share in 2010, decreased 16 percent and 17 percent from $41.6 million or $0.31 per common share in 2009. Driving this decrease were increases in interest expense and a significant fall-off in income from fees and commission.
Increases in interest expense totaled $5.185 million, or 8 percent above the $67.596 million reported in 2009. Net fees and commission income decreased by $20.631 million, or 48 percent, to $22.3 million in year under review.

**RESULTS OF OPERATIONS 2005 – 2010**




The launch of new card products and the implementation of other initiatives are important developments in the continued effort to improve shareholder value through increased profits and a strong balance sheet. These and other revenue generating initiatives are expected to be introduced very soon.

## Net Interest Income

### Interest income and interest expense

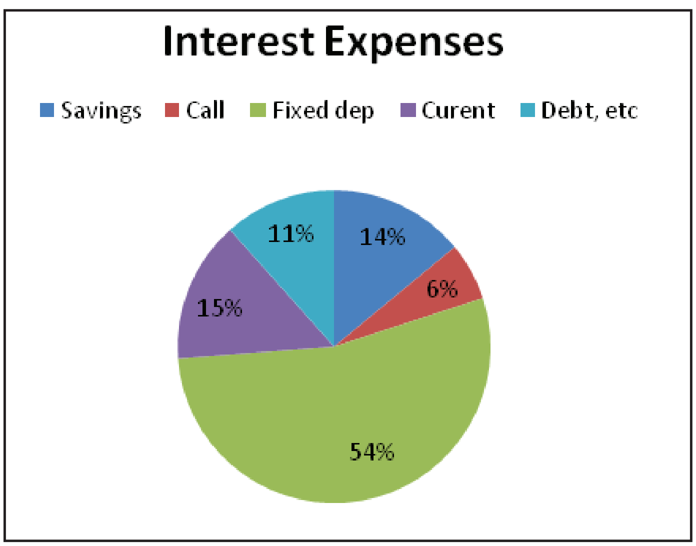
Reported net interest income decreased $7.3 million, or 16 percent, to $38.837 million at June 30, 2010. The impact of two main drivers was mainly responsible for this decrease - (1) a decrease in interest income and (2) an increase in interest expenses.

(1) Interest income decreased $2.115 million, or 2 percent, to $111.618 million in 2010. Driving this decrease was the growth in Special Term loans and the corresponding reduction in certain overdraft balances. And (2) Interest expense increased by $5.185 million, or 8 percent, to $72.781 million in 2010. The growth in call accounts and fixed deposits was the main contributor to the increase in interest expenses.

A breakdown of the increase in interest expenses is as follows:

| (in thousands of dollars) | $ | % |
|---|---|---|
| • Savings accounts | 491 | 5 |
| • Call accounts | 3,069 | 342 |
| • Fixed deposits | 2,664 | 7 |
| • Current accounts and other deposits | 861 | 9 |
| • Debt and other related accounts | (1,900) | (18) |
| | 5,185 | |

The effective rate of interest paid to customers increased 0.19 percent to a high of 4.88 percent in 2010. The effective rate of interest or cost of deposit and borrowed funds was significant higher than the 3 percent minimum interest paid on savings accounts mandated by the regulators.




Call accounts grew $28.882 million, or 37 percent, to $107.344 million in 2010. During the same period, fixed deposits grew $56.314 million, or 8 percent, to $797.128 million.

Budget figures for the 2010 fiscal year presented a fall-off in a number of financial matrices including net interest income. Total net income (net profit) was set at $32.746 million while net interest income was expected at $27.369 million. Actual results, however, improved on those targets by $1.816 million and $11.468 million, respectively.

## Non-interest income

### Net fees and commission income

Net fees and commission income decreased $20.631 million, or 48 percent, to $22.3 million by June 30, 2010 (budget - $17.270 million). The significant reduction in fees and commission income resulted from an unexpected collapse of a foreign service provider through which an important revenue generating product of the Group was placed.

The replacement of this foreign service provider, reintroduction of the Group's product and re-establishment of the lost market for this valuable product are in an advanced stage.

### Other income

This group of income increased $13.314 million, or 69 percent, to $32.72 million in 2010. The increase in other income was due to a $10.536 million turnaround in net return on investments, from a loss of $9.145 million in 2009 to a gain of $1.391 million in 2010. Driving this increase in other income were various portfolio realignment strategies taken by fund managers as they adjust the portfolio to comply with new approved investment policies.

Other improvements in this segment of income came by way of the insurance business. Net insurance income from premiums rose $2.644 million, or 14 percent, to $20.903 million in 2010.

## Non-interest expense

### Operating expenses

In 2010 operating expenses increased by $0.585 million, or 1 percent, to $54.6 million. Continued active management of operating cost has resulted in a relatively balanced level of operating expenses over the reported two-year period - 2010 and 2009. The global economic environment calls for efficiency improvements in all businesses operations. The Group is not immune to these calls. Therefore, going forward, continued emphasis will be placed on generating additional revenue through new technological initiatives and increased efficiencies in all operating areas.

### Income Tax expense

Income tax expense declined $4.624 million or 66 percent, to $2.379 million in 2010. This was due to the impact on reported income before tax and income tax expense of special term loans. This loan category grew $222.479 million, or 57 percent, to $609.979 million during the 2010 fiscal year.

Reported interest revenue on these loans is net of tax. At June 30, 2010 reported tax free interest increased by $4.726 million, or 23 percent, to $24.876 million.

A conversion of reported interest from special term loans to the Fully Taxable Equivalent (FTE) basis showed that reported interest income excluded $20.57 million in interest revenue for 2010 (2009 - $16.663 million). The excluded interest revenue is the income tax paid up-front on the special term loans.

## Financial condition

### Assets

Total assets grew $194.083 million, or 9 percent, to $2.297 billion as at June 30, 2010 and $2.19 billion against 2010 budget figures. The increase is found in cash and balances with Central Bank, loans and advances to customers, originated debts, available-for-sale investments and other assets.

The largest increase in assets for the period came from loans and advances to customers. That group increased by $109.685 million, or 11 percent, to $1.133 billion (budget - $1.057 billion). Originated debts (bonds and notes) increased $43.098 million, or about 50 percent, above the 2009 figure of $86.977 million. Customers demand for credit and conversion of deposits with financial institutions (ECCU) into government (ECCU) long-term notes were the main drivers in this area.

### Liabilities

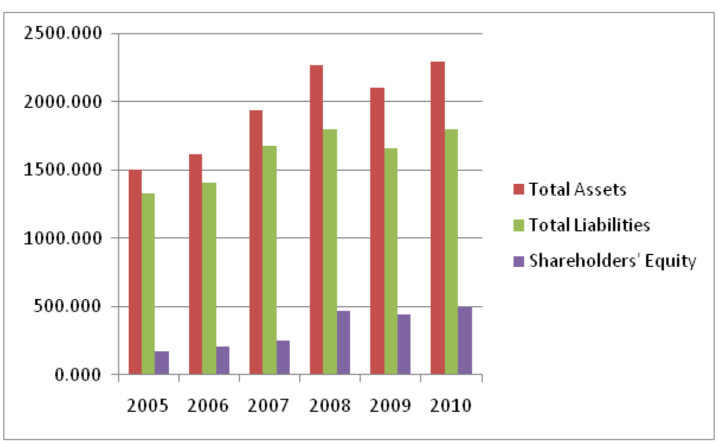
Total liabilities increased by $144.703 million, or 9 percent, to $1.802 billion in 2010 (budget -$1.716 billion). Driving this increase were growth in customers' deposits and other borrowed funds. Customers' deposits grew $98.301 million, or 8 percent, to $1.351 billion in 2010 (budget -$1.5 billion). Also, other borrowed funds grew $24.798 million, or 14 percent, to $207.358 million by the end of the same period. The growth in other borrowed funds was mainly drawings on the line-of-credit in support of liquidity positions.

### Shareholders' Equity

Total shareholders' equity increased $49.380 million, or 11 percent, to $495.348 million in 2010 (budget - $473.744 million). The increase resulted from increases in unrealised gains (net of income taxes) on available-for-sale investment securities and retained earnings.

A remaining dividend balance of $6.885 million on 2009 profits was paid on November 30, 2010. That amount, together with the interim payment made in February 2010, brought the total dividend paid to $14.985 million; equaling dividend paid on profits for 2008. Also, a bonus share dividend of 54 million shares was made in September 2010. Shareholders received fifty-three million nine hundred and ninety-eight thousand eight hundred and eighty-three (53,998,883) $1.00 shares and later a cash payment from sale of the one thousand one hundred and seventeen (1,117) remaining shares arising from the fractional allocation of the bonus share issue.

**FINANCIAL POSITION 2005 - 2010**




### Liquidity

Financial assets and financial liabilities maturing within a twelve-month period increased $0.27 billion and $0.06 billion, or 3 percent and 1 percent, to $1.17 billion and $1.56 billion, respectively, in 2010.

The Group continues to be highly liquid. However, the lessons learnt during financial year 2010 call for a deeper and expanded base of core depositors. Customers' deposits carry a fair share of large deposits as well as an equal amount of concentration. The Group intends to reduce this concentration by implementing certain planned strategic initiatives.

## Capital

Total regulatory capital increased $51.645 million, or 11 percent, to $534.423 million in 2010. Driving this increase were increases in unrealised gains on available-for-sale investments and retained earnings for the year. Total risk-weighted assets increased as well by $44.124 million, or 6 percent in 2010. Due to the large percentage of zero risk assets on the balance sheet, the Group's capital adequacy ratio at June 30, 2010 was well above the minimum level required by the Basel Capital Accord and the regulators.

- Tier 1 Capital ratio: The Accord recommends a minimum ratio of 4%. The Group's Tier 1 Capital ratio as at June 30, 2010 was 55% (2009 – 55%).

- Total Capital ratio: Total Capital ratio increased 3 percent to 68% in 2010. This amount is well above the 8% minimum required by the Basel Capital Accord and the regulators.

## Risk Management

Governance in our management structure enables the Group to manage major aspects of its business through an integrated planning and review process that is financial and customer oriented. Revenue in the form of reward is derived from our management of risk. Qualitative and quantitative measures are used in the management of risk in order to achieve financial objectives, asset growth targets and to minimize unexpected losses.

An analysis of the Group's financial risk management processes can be found in Note 4 of the financial statements.

Strategic risk is the risk that adverse business decisions, ineffective and inappropriate business plans or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, execution and/or other intrinsic risks of business will impact the Group's ability to meet its objectives. Liquidity risk is the inability to accommodate liability maturities and deposit withdrawals, fund asset growth and meet contractual obligations through unconstrained access to funding at reasonable market rates. Credit risk is the risk of loss arising from borrowers or counterparties inability to meet their obligations. Market risk is the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions, such as interest rate movements. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external event.

## Corporate Governance

The Directors continue to monitor the business affairs of the Group to ensure compliance with relevant statutes, regulations, rules, established policies and procedures. They are charged with the oversight responsibility for increasing operational efficiency, strengthening shareholder and customer confidence, and the investment attractiveness of the Group. Directors review material development in governance practices, issues and requirements, and where necessary, policy and strategic actions are taken to safeguard the welfare of the Group.

Deloitte.

PKF

**Independent auditors' report**
**To the shareholders of St Kitts-Nevis-Anguilla National Bank Limited**

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

**Management's responsibility for the financial statements**

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

**Auditors' responsibility**

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

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

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

**Independent auditors' report**
**To the shareholders of St Kitts-Nevis-Anguilla National Bank Limited (continued)**

## Opinion

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

## Emphasis of matter

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

Deloitte & Touche

The Phoenix Centre
George Street
St Michael
Barbados

PKF

Independence House
North Independence Square
Basseterre
St Kitts

June 30, 2011

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
## CONSOLIDATED BALANCE SHEET
### As at June 30, 2010

*(in thousands of Eastern Caribbean dollars)*

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

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

Director ______________________ Director ______________________

Walford V. Gumbs  Sir Edmund W. Lawrence

The attached notes form part of these Financial Statements

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

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

The attached notes form part of these Financial Statements

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

### For the year ended June 30, 2010

*(in thousands of Eastern Caribbean dollars)*

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

The attached notes form part of these Financial Statements

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
### For the year ended June 30, 2010

*(in thousands of Eastern Caribbean dollars)*

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

The attached notes form part of these Financial Statements

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

*(in thousands of Eastern Caribbean dollars)*

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

The attached notes form part of these Financial Statements

(expressed in thousands of Eastern Caribbean dollars)

## 1. General information

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

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

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

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

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

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

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

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

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

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

### 2.1 Amendments and published standards adopted in current period

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

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

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

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

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

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

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

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

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

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

**3. Summary of significant accounting policies**

**3.1 Statement of compliance**

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

(expressed in thousands of Eastern Caribbean dollars)

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

### 3.2 Basis of preparation

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

### 3.3 Basis of consolidation

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

### 3.4 Foreign currencies

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

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

### 3.5 Financial assets

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

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

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

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

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

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

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

### 3.6 Financial liabilities

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

### 3.7 Interest income and expense

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

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

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

### 3.8 Fee and commission income

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

(expressed in thousands of Eastern Caribbean dollars)

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

### 3.9 Other income

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

### 3.10 Impairment of financial assets

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

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

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

### 3.10 Impairment of financial assets……………*continued*

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

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

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

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

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

**(c)** ***Renegotiated loans***

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

### 3.11 Property, plant and equipment

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

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

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

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

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

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

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

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

**3.12 Intangible assets – computer software**

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

(expressed in thousands of Eastern Caribbean dollars)

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

### 3.13 Impairment of non-financial assets

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

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

### 3.14 Leases

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

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

### 3.15 Cash and cash equivalents

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

### 3.16 Employee benefits

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

**(a) *Pension plan*……………………………….*continued***

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

**(b) *Gratuity***

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

**3.17 Current and deferred income tax**

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

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

**3.18 Borrowings**

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

**3.19 Guarantees and letters of credit**

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

**3.20 Share capital**

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

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

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

**3.21 Insurance business**

***Life insurance***

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

***Health insurance***

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

***Property and casualty insurance***

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

***Reinsurance***

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

(expressed in thousands of Eastern Caribbean dollars)

## 4. Financial risk management

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

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

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

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

### 4.1 Credit risk

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

### 4.1.2 Debt securities, treasury bills and other eligible bills

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

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

### 4.1.3 Sectoral analysis of the loans and advances portfolio

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

### 4.1.4 Concentration of risks of financial assets with credit exposure

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

**4.2 Market risk**

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

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

**4.2.1 Price risk**

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

**4.2.2 Foreign exchange risk**

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

(expressed in thousands of Eastern Caribbean dollars)

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

### 4.2.2 Foreign exchange risk…….*continued*

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

### 4.2.2 Foreign exchange risk…….*continued*

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

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

### 4.2.3 Interest rate risk

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

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

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

### 4.3 Liquidity risk

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

(expressed in thousands of Eastern Caribbean dollars)

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

**4.3 Liquidity risk………………..*continued***

**4.3.1 Liquidity risk management**

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

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

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

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

- Managing the concentration and profile of debt maturities.

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

**4.3.2 Funding approach**

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

(expressed in thousands of Eastern Caribbean dollars)

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

**4.3.3 Financial assets and liabilities cash flows**

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

**4.3.4 Off-balance sheet items**

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

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

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

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

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

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

*(a) Treasury bills*

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

*(b) Deposits with other financial institutions*

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

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

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

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

**4.4.1 Fair value measurements recognised in the balance sheet**

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

**Reconciliation of Level 3 fair value measurements of financial assets**

**Available-for-sale financial assets**

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

The table above includes financial assets only.

**4.5 Capital management**

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

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

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

### 4.5 Capital management………..*continued*

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

## 5. Critical accounting estimates and judgments

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

*(a) Impairment losses on loans and advances*
The Group reviews its loan portfolio of assets impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with 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 estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated $1,475,905 lower or $1,690,238 higher.

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

## 6. Cash and balances with Central Bank

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

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

## 7. Treasury bills

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

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

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

## 8. Deposits with other financial institutions

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

## 9. Loans and advances to customers

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

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

| **June 30, 2010** | **Overdrafts** | **Term loans** | **Mortgages** | **Corporate customers** | **Total Loans and advances to customers** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| **Loans and advances to customers** | | | | | |
| **Classifications:** | | | | | |
| 1. Pass | 94,482 | 648,103 | 65,315 | 42,854 | 850,754 |
| 2. Special monitoring | 47,193 | 902 | 4,929 | 71,877 | 124,901 |
| **Gross** | **141,675** | **649,005** | **70,244** | **114,731** | **975,655** |
| **June 30, 2009** | | | | | |
| **Loans and advances to customers** | | | | | |
| **Classifications:** | | | | | |
| 1. Pass | 164,992 | 357,549 | 65,237 | 107,622 | 695,400 |
| 2. Special monitoring | 85,692 | 1,370 | 4,004 | 65,410 | 156,476 |
| **Gross** | **250,684** | **358,919** | **69,241** | **173,032** | **851,876** |

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

| At June 30, 2010 | Term loans $ | Mortgages $ | Corporate customers $ | Total $ |
|---|---|---|---|---|
| Past due up to 30 days | 1,726 | 8,995 | 530 | 11,251 |
| Past due 30 – 60 days | 659 | 3,492 | - | 4,151 |
| Past due 60 – 90 days | 62,915 | 1,855 | - | 64,770 |
| Over 90 days | 587 | 1,404 | - | 1,991 |
| **Gross** | **65,887** | **15,746** | **530** | **82,163** |
| Fair value of collateral | 86,796 | 29,845 | 840 | 117,481 |
| **At June 30, 2009** | | | | |
| Past due up to 30 days | 65,324 | 7,693 | 5,940 | 78,957 |
| Past due 30 – 60 days | 486 | 2,492 | 18,789 | 21,767 |
| Past due 60 – 90 days | 518 | 423 | - | 941 |
| Over 90 days | 174 | 1,710 | - | 1,884 |
| **Gross** | **66,502** | **12,318** | **24,729** | **103,549** |
| Fair value of collateral | 77,767 | 26,846 | 91,681 | 196,294 |

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

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

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

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

## 10. Originated debt

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

## 11. Investment securities

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

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

| **June 30, 2010** | **Available-for-sale**<br>$ | **Loans and receivable-originated debts**<br>$ | **Total**<br>$ |
|---|---|---|---|
| Balance - June 30, 2009 | **350,727** | **86,977** | **437,704** |
| Additions | 169,020 | 44,178 | **213,198** |
| Disposal (sales/redemption) | (179,738) | (1,080) | **(180,818)** |
| Fair value gains (losses) | 35,258 | **-** | **35,258** |
| Interest receivable | 182 | **-** | **182** |
| **Total as at June 30, 2010** | **375,449** | **130,075** | **505,524** |

(expressed in thousands of Eastern Caribbean dollars)

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

**June 30, 2009**

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

## 12. Investment in properties

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

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

(expressed in thousands of Eastern Caribbean dollars)

## 13. Property, plant and equipment

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

## 14. Other assets

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

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

## 15. Due to customers

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

(expressed in thousands of Eastern Caribbean dollars)

## 15. Due to customers…………*continued*

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

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

## 16. Other borrowed funds

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

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

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

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

## 17. Accumulated provisions, creditors and accruals

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

### 17.1 Insurance liabilities

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

(expressed in thousands of Eastern Caribbean dollars)

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

### 17.2 Pension plan

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

Principal actuarial assumptions used are as follows:

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

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

Amounts recognised in the statement of income are as follows:

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

## 18. Taxation

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

(expressed in thousands of Eastern Caribbean dollars)

## 18. Taxation…………………..*continued*

**Deferred income tax**

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

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

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

## 19. Share Capital

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

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

## 20. Reserves

| | | |
|---|---|---|
| **20.1 Statutory reserve** | 87,640 | 81,000 |

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

(expressed in thousands of Eastern Caribbean dollars)

## 20. Reserves…………………………….*continued*

### 20.2 Revaluation reserve

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

**Revaluation reserve is represented by:**

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

### 20.3 Other reserves

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

**'Other reserves' is represented by:**

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

**20. Reserves**……………………………*continued*

**20.3 Other reserves**…………..…*continued*

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

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

***Loan loss reserve***

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

**21. Net interest income**

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

(expressed in thousands of Eastern Caribbean dollars)

## 22. Net fees and commission income

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

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

## 23. Provision for credit impairment

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

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

(expressed in thousands of Eastern Caribbean dollars)

## 24. Other income

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Dividend income | 842 | 1,071 |
| Net investment gain (loss) | 1,391 | (9,145) |
| Foreign exchange gain | 2,956 | 1,505 |
| Net Insurance premiums | 20,903 | 18,259 |
| Other operating income | 6,628 | 7,716 |
| **Total** | **32,720** | **19,406** |

## 25. Administration and general expenses

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

## 26. Other expenses

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

(expressed in thousands of Eastern Caribbean dollars)

## 27. Earnings per share

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

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

## 28. Dividend

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

**Bonus share dividend**

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

## 29. Other events

**Litigation**

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

- **TCI Bank Limited**

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

(expressed in thousands of Eastern Caribbean dollars)

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

**Litigation……………………….***continued*

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

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

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

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

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

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

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

**30. Related Parties**

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

**30. Related Parties…………….***continued*

***Government of St. Kitts and Nevis***

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

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

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

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

***Directors and Associates***

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

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

**Senior Management**

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

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

**31. Cash and cash equivalents**

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

(expressed in thousands of Eastern Caribbean dollars)

## 32. Contingent liabilities and commitments

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

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

## 33. Subsidiaries

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

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

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

## 34. Business segments

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

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

## 34. Business segments……………*continued*

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

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

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

## Independent auditors' report

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

We have audited the non-consolidated financial statements of St. Kitts-Nevis-Anguilla National Bank Limited ("the Bank") for the year ended June 30, 2010, from which the accompanying summarised non-consolidated financial statements were derived, in accordance with International Standards on Auditing. In our report dated December 31, 2010 we expressed an unqualified opinion on the financial statements from which these summarised non-consolidated financial statements were derived.

In our opinion, the accompanying summarised non-consolidated financial statements are consistent, in all material respects, with the financial statements from which they were derived.

For a better understanding of the Bank's financial position and the results of its operations for the period and of the scope of our audit, the summarised non-consolidated financial statements should be read in conjunction with the financial statements from which the summarised non-consolidated financial statements were derived and our audit report thereon.

Deloitte Touche

PKF

The Phoenix Centre
George Street
St Michael
Barbados

Independence House
North Independence Square
Basseterre
St Kitts

December 31, 2010

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
## NON-CONSOLIDATED BALANCE SHEET
### As at June 30, 2010

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

**Approved by the Board of Directors on September 24, 2010**

Director ______________ Director ______________

Walford V. Gumbs Edmund W. Lawrence

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

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

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

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

# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
## NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
### For the year ended June 30, 2010

*(in Eastern Caribbean Dollars)*

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

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

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