

**St. Kitts-Nevis-Anguilla
National Bank Limited**

Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

Independent Auditor's Report
To the Shareholders
St. Kitts-Nevis-Anguilla National Bank Limited

Opinion

We have audited the separate financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** (the "Bank"), which comprise the separate statement of financial position as of June 30, 2017, and the separate statement of income, separate statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Loans and receivables on the Bank's separate statement of financial position includes certain long term notes issued by a third party, ABI Bank Limited (in receivership) ("ABIB), amounting to \$36,242,620, which have matured and remain outstanding. The loans were to be fully repaid by cash flows from loans ABIB made to the Government of Antigua and Barbuda, however on November 27, 2015, ABIB was placed in receivership. No provision for potential losses has been made in the financial statements in respect of these notes.

We were unable to obtain sufficient appropriate audit evidence or satisfy ourselves by alternative methods, as to the recoverability of the \$36,242,620 due to the Bank. Consequently, we were unable to determine whether any adjustment to this amount was necessary in the financial statements.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statement as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Allowance for loan losses

Description of matter

This is a key audit matter as it requires the application of judgment and use of subjective assumptions by management and represents 19% of the Bank's total assets. The assessment of impairment and calculation of the allowance for loan losses involves the use of assumptions including the financial condition of the borrower, the estimated timing and amount of expected future cash flows, valuation of collateral security and the time and costs of collection on realization of such collateral. Further, using different models in calculating the specific and collective allowance provision could result in significantly different estimates. Accordingly, management regularly assesses the assumptions and models used considering current economic and market conditions. Additionally, the related risk management disclosures are also complex and dependent upon the quality of underlying data.

Related disclosures in the financial statements are included in notes 2.4 and 2.6 significant accounting policies, note 8 Loans and advances to customers and note 3 Financial risk management.

How the Matter was addressed in the Audit

Our audit procedures performed to address the risk of material misstatement relating to losses the allowance for loan losses included the following:

- We evaluated and assessed the Bank's credit policy, loan impairment process and the related methodologies, including the relevant systems used to generate information;
- We compared and evaluated the methodology, inputs and assumptions used by management and determined whether there was accordance with the individual and collective impairment assessments prescribed under International Accounting Standard 39;
- We evaluated management's forecast of expected future cash flows and valuation of the underlying collateral, as well as the classification of the loans as part of the impairment assessment. We also considered the internal credit grades/ratings and whether these classifications were consistently and appropriately applied for a sample of loans;
- We evaluated the adequacy of the allowance for loan losses recorded for a sample of loans by recalculating the net present value of expected future cash flows using the original effective interest rates applicable and comparing the result against the carrying value as of June 30, 2017;
- We assessed the reasonableness of credit loss rates through recalculation using historical and current data of the Bank for those loans assessed collectively;
- We assessed the adequacy of the disclosures in the financial statements including credit risk disclosures in note 3.

Key Audit Matters ...continued**Current income taxes***Description of matter*

As of June 30, 2017, the Bank has recognised an income tax recoverable amounting to \$29,660,703 on the statement of financial position. The Bank changed the method it used to estimate its current income taxes, as a result of a settlement agreement reached between the Bank and the Inland Revenue Department (IRD) regarding an assessment was the IRD settlement used in reducing the Bank's 2017 tax liability for additional income taxes for the financial years 2012 to 2014. The income tax recoverable arose primarily as a result of the Bank recognising a tax credit for the benefit provided to the Government arising from reduced interest rates on certain Government loans.

Related disclosures in the financial statements are included in note 2.23 significant accounting policies note 18 Taxation and note 29 Contingent tax liability.

How the Matter was addressed in the Audit

Our audit procedures performed to address the risk of material misstatement relating to the estimate of the current income taxes and the valuation of the income tax recoverable included the following:

- Assessing and evaluating the basis used to derive the current income taxes and the assumptions used;
- Reviewing the calculation made by management in determining the Bank's current income taxes position, for consistency with the settlement agreement between the Bank and IRD; and
- Evaluating management's assessment as to the recoverability of the income tax recoverable.

Responsibilities of Management and the Board of Directors for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

Auditor's Responsibilities for the Audit of the Separate Financial Statements ...continued

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Board of Directors, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jefferson E. Hunte.



Chartered Accountants
May 17, 2018
Basseterre, St. Kitts

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Financial Position

As at June 30, 2017

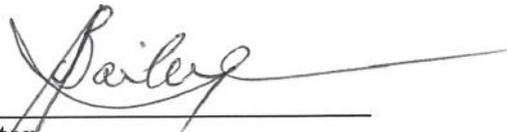
(expressed in Eastern Caribbean dollars)

	Notes	2017 \$	2016 \$
Assets			
Cash and balances with Central Bank	5	206,125,685	269,151,813
Treasury bills	6	107,303,739	135,370,549
Deposits with other financial institutions	7	755,731,009	895,478,694
Financial asset	30	823,124,144	798,480,221
Loans and receivables – Loans and advances to customers	8	715,909,826	715,110,073
– Originated debts	9	113,209,189	114,164,002
Investment securities – available-for-sale	10	916,345,753	613,956,008
Investment in subsidiaries	11	26,750,000	26,750,000
Customers' liability under acceptances, guarantees and letters of credit	12	7,455,745	7,743,745
Income tax recoverable	18	29,660,703	4,417,997
Property and equipment	13	28,414,662	28,957,351
Intangible assets	14	290,694	423,924
Other assets	15	23,104,790	22,441,489
Deferred tax asset	18	–	41,464,236
Total assets		3,753,425,939	3,673,910,102
Liabilities			
Customers' deposits	16	3,222,706,720	3,232,571,338
Due to other financial institutions		–	224,753
Accumulated provisions, creditors and accruals	17	26,618,915	21,878,797
Acceptances, guarantees and letters of credit	12	7,455,745	7,743,745
Income taxes payable	18	3,502,363	–
Deferred tax liability	18	2,976,387	–
Total liabilities		3,263,260,130	3,262,418,633
Shareholders' equity			
Issued share capital	19	135,000,000	135,000,000
Share premium		3,877,424	3,877,424
Retained earnings		29,743,157	13,976,306
Reserves	20	321,545,228	258,637,739
Total shareholders' equity		490,165,809	411,491,469
Total liabilities and shareholders' equity		3,753,425,939	3,673,910,102

The notes on pages 1 to 75 are an integral part of these separate financial statements.

Approved for issue by the Board of Directors on May 17, 2018.


Chairman


Director

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Income

For the year ended June 30, 2017

(expressed in Eastern Caribbean dollars)

	Notes	2017 \$	2016 \$
Interest income		85,065,152	92,039,509
Interest expense		(59,337,717)	(66,422,880)
Net interest income	21	25,727,435	25,616,629
Fees and commission income		15,661,573	15,518,640
Fees expense		(10,007,619)	(8,583,477)
Net fees and commission income	22	5,653,954	6,935,163
Net realised gains and losses from investments	23	36,061,668	11,892,436
Dividend income		5,822,167	3,760,287
Gain on foreign exchange		4,418,282	4,862,868
Other operating income		811,730	358,438
Other income		47,113,847	20,874,029
Total operating income		78,495,236	53,425,821
Operating expenses			
Administrative and general expenses	25	31,995,975	26,764,036
Directors fees and expenses		625,479	563,082
Audit fees and expenses		589,661	330,000
Depreciation and amortisation	13 & 14	2,345,249	2,046,699
Impairment charges	24	11,035,555	278,594
Total operating expenses		46,591,919	29,982,411
Income before tax		31,903,317	23,443,410
Income tax credit	18	4,680,247	429,868
Net income for the year		36,583,564	23,873,278
Earnings per share (basic and diluted)	26	0.27	0.18

The notes on pages 1 to 75 are an integral part of these separate financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Comprehensive Income

For the year ended June 30, 2017

(expressed in Eastern Caribbean dollars)

	Notes	2017 \$	2016 \$
Net income for the year		36,583,564	23,873,278
Other comprehensive income, net of income tax:			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Available-for-sale financial assets:			
Unrealised gain/(loss) on investment securities, net of tax		53,552,896	(48,089,619)
Reclassification adjustments for gains/losses included in income		(226,664)	25,849,925
	20	53,326,232	(22,239,694)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement gain/(loss) on of defined benefit asset	32	3,379,917	(1,553,599)
Income tax relating to item that will be reclassified subsequently to profit or loss		(1,115,373)	512,688
		2,264,544	(1,040,911)
Total comprehensive income for the year		92,174,340	592,673

The notes on pages 1 to 75 are an integral part of these separate financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Changes in Shareholders' Equity

For the year ended June 30, 2017

(expressed in Eastern Caribbean dollars)

	Notes	Issued share capital \$	Share premium \$	Statutory reserves \$	Other reserves \$	Available- for-sale investment revaluation reserves \$	Property revaluation reserve \$	Retained earnings \$	Total \$
Balance as of June 30, 2015		135,000,000	3,877,424	111,674,356	181,860,099	(32,303,580)	15,912,813	8,377,684	424,398,796
Net income for the year		–	–	–	–	–	–	23,873,278	23,873,278
Other comprehensive income		–	–	–	(1,040,911)	(22,239,694)	–	–	(23,280,605)
Total comprehensive income for the year		–	–	–	(1,040,911)	(22,239,694)	–	23,873,278	592,673
Transfer to reserves	20	–	–	4,774,656	–	–	–	(4,774,656)	–
Transaction with owners									
Dividends	27	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2016		135,000,000	3,877,424	116,449,012	180,819,188	(54,543,274)	15,912,813	13,976,306	411,491,469
Net income for the year		–	–	–	–	–	–	36,583,564	36,583,564
Other comprehensive income		–	–	–	2,264,544	53,326,232	–	–	55,590,776
Total comprehensive income for the year		–	–	–	2,264,544	53,326,232	–	36,583,564	92,174,340
Transfer to reserves	20	–	–	7,316,713	–	–	–	(7,316,713)	–
Transaction with owners									
Dividends	27	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2017		135,000,000	3,877,424	123,765,725	183,083,732	(1,217,042)	15,912,813	29,743,157	490,165,809

The notes on pages 1 to 75 are an integral part of these separate financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Separate Statement of Cash Flows

For the year ended June 30, 2017

(expressed in Eastern Caribbean dollars)

	Notes	2017 \$	2016 \$
Cash flows from operating activities			
Net income before tax		31,903,317	23,443,410
Adjustments for:			
Interest expense		59,337,717	66,422,880
Impairment expense		11,035,555	278,594
Depreciation and amortisation		2,345,249	2,046,699
Retirement benefit expense/(credit)		483,532	(38,032)
Reclassification of projects ongoing to expense		201,594	389,835
Loss on disposal of equipment		134,933	–
Dividend income		(5,822,167)	(3,760,287)
Interest income		(85,065,152)	(92,039,509)
Operating income/(loss) before changes in operating assets and liabilities		14,554,578	(3,256,410)
<i>(Increase)/decrease in operating assets:</i>			
Loans and advances to customers		(8,447,291)	(57,042,601)
Mandatory deposits with Central Bank		2,301,592	(3,318,966)
Other assets		1,233,084	478,691
<i>Increase/(decrease) in operating liabilities:</i>			
Customers' deposits		(6,357,984)	60,110,343
Due to other financial institutions		(224,753)	(468,162)
Accumulated provisions, creditors and accruals		4,740,118	1,157,677
Cash generated from/(used in) operations		7,799,344	(2,339,428)
Interest received		44,327,677	72,109,995
Interest paid		(62,844,351)	(69,549,313)
Net cash (used in)/generated from operating activities		(10,717,330)	221,254
Cash flows from investing activities			
Proceeds from sale of investment securities		930,779,894	930,609,890
Interest received from investment		14,345,023	19,841,632
Dividends received		5,822,167	3,760,287
Purchase of equipment and intangible assets		(2,005,857)	(1,729,353)
Payments received from the financial asset		1,750,000	–
Decrease in restricted term deposits and treasury bills		40,179,080	8,057,461
Increase in investment securities and originated debt		(1,156,095,198)	(1,199,474,798)
Net cash used in investing activities		(165,224,891)	(238,934,881)
Cash flows from financing activities			
Dividend paid	27	(13,500,000)	(13,500,000)
Net cash used in financing activities		(13,500,000)	(13,500,000)
Net decrease in cash and cash equivalents		(189,442,221)	(252,213,627)
Cash and cash equivalents, beginning of year		941,761,750	1,193,975,377
Cash and cash equivalents, end of year	31	752,319,529	941,761,750

The notes on pages 1 to 75 are an integral part of these separate financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

1 Incorporation and principal activity

St. Kitts-Nevis-Anguilla National Bank Limited (the “Bank”) was incorporated as a private limited company on February 15, 1971 under the Companies Act Chapter 335, and was reregistered under the new Companies Act No. 22 of 1996 on April 14, 1999. The Bank operates in both St. Kitts and Nevis and is subject to the provisions of the Banking Act of 2015. The Bank is a public company listed on the Eastern Caribbean Securities Exchange.

The principal activity of the Bank is the provision of financial services, and its registered office is at Central Street, Basseterre, St. Kitts.

2 Significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.2 Changes in accounting policies

New and revised standards that are effective for annual periods beginning on or after July 1, 2016

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year.

- IAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative*. The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity’s share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.2 Changes in accounting policies ...continued

New and revised standards that are effective for annual periods beginning on or after July 1, 2016
...continued

- IAS 16 (Amendment), *Property, Plant and Equipment*, and IAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*. The amendment in IAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to IAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.
- IAS 27 (Amendment), *Separate Financial Statements – Equity Method in Separate Financial Statements*. This amendment introduces a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with IAS 39 or IFRS 9. As of the end of the reporting period, the Bank has no plan to change the accounting policy for its investments in its subsidiaries and associates.
- Annual Improvements to IFRS (2012-2014 Cycle) (effective from January 1, 2016). Among the improvements, the following amendments are relevant to the Bank but management does not expect these to have material impact on the Bank's financial statements:
 - IFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of IFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.
 - IAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

These new and amendments to standards do not have a significant impact on these separate financial statements and therefore disclosures have not been made.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.2 Changes in accounting policies ...continued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorisation of these separate financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Bank. Information on those expected to be relevant to the Bank's separate financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's separate financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, *Revenue*, IAS 11, *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition.

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.2 Changes in accounting policies ...continued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank ...continued

The directors have not yet fully assessed the impact of IFRS 15 in these financial statements, and are not yet in a position to provide quantified information. It is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Bank performs a detailed review. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

IFRS 9, *Financial Instruments* (2014)

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are in the scope of IAS 39, *Financial Instruments: Recognition and Measurement*, are required to be substantially at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are sole payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

Under IAS 39, the entire amount of the change in the fair value in the financial liability designated as fair value through profit or loss is presented in profit or loss.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.2 Changes in accounting policies ...continued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank ...continued

IFRS 9, Financial Instruments (2014) ...continued

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transaction eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the type of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the application of IFRS 9 in the future may have a material impact on the disclosures or on the amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Bank undertakes a detail review. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

IFRS 16, Leases

IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-statement of financial position finance leases and off-statement of financial position operating leases. Instead, there is a single, on-statement of financial position accounting model that is similar to current finance lease accounting.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. For lessees, the lease becomes an on-statement of financial position liability that attracts interest, together with a right to use assets also being recognized on the statement of financial position. In other words, lessees will appear to become more asset-rich but also more heavily indebted.

The impacts are not limited to the separate statement of financial position. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019. The impact of IFRS 16 is being assessed by the directors of the Bank.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

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(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.3 Cash and cash equivalents

Cash comprises cash on hand and demand and call deposits with banks. Cash equivalents are short-term, highly liquid investments with original maturities of 90 days or less that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

2.4 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – are recognised in the statement of financial position and measured in accordance with their assigned category.

Financial assets

The Bank allocates its financial assets to the IAS 39 category of: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

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

Loans and receivable are recognised when cash or the right to cash is advanced to a borrower and are carried at amortised cost using the effective interest method. The Bank's loans and receivables include cash in banks and deposits with other financial institution, treasury bills, financial asset, loans and advances to customers, originated debts and other receivables.

(ii) Available-for-sale financial assets

Available-for-sale financial assets 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 and available-for-sale are recognised on settlement date – the date that an asset is delivered to or by the Bank.

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2 Significant accounting policies ...continued

2.4 Financial assets and liabilities ...continued

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

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

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

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

The Bank's available-for-sale financial assets are separately presented in the statement of financial position.

Financial liabilities

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

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

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. That is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

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2 Significant accounting policies ...continued

2.4 Financial assets and liabilities ...continued

Reclassification of financial assets

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2.5 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information disclosed and take into account the characteristics of those financial instruments. The classification hierarchy can be seen in the table below:

Financial assets	Loans and receivables	Cash and cash equivalents and deposit with other financial institutions	Bank accounts
		Treasury bills and originated debts	Government fixed rated bonds and long term note
		Loans and advances to customers	Primary lenders
	Available-for-sale financial assets	Investment securities – available-for-sale	Equity and debt securities
Financial liabilities	Financial liabilities at amortised cost	Customers' deposits and borrowings	
		Accumulated provisions, creditors and accruals	

2.6 Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of

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2 Significant accounting policies ...continued

2.6 Impairment of financial assets ...continued

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

impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

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

If there is objective evidence that an impairment loss on loans and receivables 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 has a variable interest rate, the discounted rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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2 Significant accounting policies ...continued

2.6 Impairment of financial assets ...continued

a) Assets carried at amortised cost ...continued

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

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

Loans and advances that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Management continuously reviews these accounts to ensure that all criteria are met and that future payments are likely to occur.

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.8 Employee benefits

(a) Gratuity

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

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2 Significant accounting policies ...continued

2.8 Employee benefit ...continued

(b) Pension plan

The Bank operates a defined benefit plan. The administration of the plan is conducted by National Caribbean Insurance Company Limited, a subsidiary of the Bank. The plan is funded through payments to trustee-administered deposit funds determined by periodic actuarial calculations. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement based on factors such as age, year of service and final salary. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period.

The asset figure recognised in the statement of financial position in respect of net defined benefit assets is the fair value of the plan assets less the present value of the defined benefit obligation at the reporting period. The retirement benefit asset recognised in the statement of financial position represents the actual surplus in the defined benefit plan. Re-measurements comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Re-measurement recorded in other comprehensive income is not recycled. However, the Bank may transfer those amounts recognised in other comprehensive income within equity.

2.9 Property and equipment

Land and buildings held for rendering of services, or for administrative purposes, are stated in the statement of financial position 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, usually every five years, such that the carrying amount does not differ materially from that which would be determined using fair values at the year end.

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 the statement of 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.

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2 Significant accounting policies ...continued

2.9 Property and equipment ...continued

Projects on going represents structures under construction and project development not yet completed and is stated at cost. This includes the costs of construction and other direct costs. Projects on going is not depreciated until such time that the relevant assets are ready for use.

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:

Buildings:	25 – 45 years
Leasehold improvements:	25 years, or over the period of lease if less than 25 years
Equipment, fixtures and fittings 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 and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in statement of comprehensive income.

2.10 Intangible assets

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

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

2.11 Impairment of non-financial assets

Non-financial assets that are subject to depreciation and amortisation 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 separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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Notes to Separate Financial Statements

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2 Significant accounting policies ...continued

2.12 Investment in subsidiaries

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

The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries. Users of these separate financial statements should read them together with the Bank's consolidated financial statements as of and for the year ended June 30, 2017 in order to obtain full information on the financial position, results of operations and changes in financial position of the Bank and its subsidiaries as a whole.

2.13 Borrowings

Borrowings are recognised initially at fair value (which is their issue proceeds and fair value of the considerations received), net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

2.14 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.

2.15 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Leases – Bank as a Lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Bank are primarily operating leases. The total payments made under the operating leases are charged to income on a straight-line basis over the period of the lease.

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Significant accounting policies ...continued

2.16 Leases – Bank as a Lessee ...continued

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.

2.17 Interest income and expense

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

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

2.18 Fees and commission income

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

2.19 Dividend income

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

2.20 Operating expenses and fees expenses

Operating expenses and fees expenses are recognised in statement of income upon utilisation of the service or as incurred.

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Notes to Separate Financial Statements

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2 Significant accounting policies ...continued

2.21 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the “functional currency”). The financial statements are presented in Eastern Caribbean dollars, which is the Bank’s functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within ‘Other income’.

2.21 Equity, reserves and dividend payments

(a) Issued share capital and share premiums

Share capital represents the nominal (par) value of shares that have been issued. Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are paid by the Board of Directors and or approved by the Bank’s shareholders.

(c) Other components of equity

Other components of equity include the following:

- Statutory reserves – comprises of reserve fund for regulatory requirement;
- Property revaluation reserve – comprises gains and losses from the revaluation of land;
- Available-for-sale investment revaluation reserves – comprises gains and losses relating to these types of financial instruments; and
- Other reserves – comprises the defined benefit plan reserve, regulatory reserve for loan impairment, regulatory reserve for interest accrued on non-performing loans and general reserve.

2.22 Current and deferred income tax

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

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

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2 Significant accounting policies ...continued

2.23 Current and deferred income tax ...continued

The principal temporary differences arise from depreciation of property, plant and equipment defined benefit assets, tax losses 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 reporting date are used to determine deferred income tax.

Deferred tax asset is recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. This is assessed based on the Bank's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax assets and liabilities are offset only when the Bank has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of available-for-sale investment securities) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

2.24 Events after the financial reporting date

Post year-end events that provide additional information about the Bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting (non-adjusting events) are disclosed in the notes to the financial statements when material.

3 Financial risk management

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

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

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

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

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3 Financial risk management ...continued

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparties will cause financial losses for the Bank by failing to discharge their obligations. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the reporting date. Management, therefore, carefully manages its exposure to such credit risks. Credit exposure arises principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio.

There is also credit risk in off-statement of financial position financial instruments, such as loan commitments. The credit risk management and control are centralised and reported to the Board of Directors.

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

(a) Loans and advances

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

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

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

(b) Debt securities and other bills

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

3.1.1 Risk limit control and mitigation policies

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

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Notes to Separate Financial Statements

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3 Financial risk management ...continued

3.1 Credit risk ...continued

3.1.1 Risk limit control and mitigation policies ...continued

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

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

Other specific controls and mitigation measures are outlined below:

(a) Collateral

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

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

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

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

(b) Credit-related commitments

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

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.1 Credit risk ...continued

3.1.1 Risk limit control and mitigation policies ...continued

(b) Credit-related commitments

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

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

3.1.2 Impairment and provisioning

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

Bank rating	2017		2016	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1 Pass	39.95	1.08	53.41	—
2 Special mention	0.96	0.14	16.10	0.01
3 Substandard	51.87	42.71	22.70	31.87
4 Doubtful	6.21	48.93	3.50	26.51
5 Loss	1.01	7.14	4.29	41.61
	100.00	100.00	100.00	100.00

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

(i) Loans

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

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

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(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.1 Credit risk ...continued

3.1.2 Impairment and provisioning ...continued

(ii) Advances (overdrafts)

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

The Bank requires the review of individual financial assets that are above materiality thresholds on an annual basis or more regularly when individual circumstances require.

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis and are applied where necessary. Assessments take into account collateral held and anticipated cash receipts for individually assessed accounts.

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

Credit risk exposure relating to on/off statement of financial position assets is as follows:

	Maximum exposure	
	2017	2016
	\$	\$
Cash and balances with Central Bank*	15,742,444	74,741,780
Treasury bills	107,303,739	135,370,549
Deposits with other financial institutions	755,731,009	895,478,694
Financial asset	823,124,144	798,480,221
Loans and receivables:		
Overdrafts	180,270,940	175,071,988
Corporate customers	281,609,268	289,386,864
Mortgages (personal)	151,897,085	148,757,334
Term loans	102,132,533	101,893,887
Originated debt	113,209,189	114,164,002
Investment securities – available-for-sale (debt)	352,558,754	150,348,429
Customers' liability under acceptances, guarantees and letters of credit	7,455,745	7,743,745
Other assets	9,345,163	11,180,715
	2,900,380,013	2,902,618,208
Credit risk exposure relating to off-balance sheet items:		
Credit commitments and financial guarantees	24,045,145	63,075,587
	2,924,425,158	2,965,693,795

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.1 Credit risk ...continued

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

**Excluding cash on hand and mandatory deposits with Central Bank.*

The above table represents a worst case scenario of credit risk exposure at the reporting dates, without taking account of any collateral held or other credit enhancements attached. For on-statement of financial position assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. As shown above, 25% (2016: 25%) of the total maximum exposure is derived from loans and advances to customers.

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

- Loans to corporate customers are backed by security – cash and real estate collateral and/or guarantees;
- 35% (2016: 64%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines; and
- A number of issuers and debt instruments in the region are not rated; consequently 37% (2016: 41%) of these investments are not rated (Government securities – treasury bills, etc.).

3.1.4 Loans and advances

Loans and advances are summarized as follows:

	2017	2016
	\$	\$
Loans and advances to customers		
Neither past nor impaired	275,235,949	490,146,415
Past due not impaired	46,623,405	78,769,260
Impaired	455,163,641	199,660,029
	<hr/>	<hr/>
	777,022,995	768,575,704
Interest receivable	1,474,111	1,372,096
Less allowance for impairment loss	(62,587,280)	(54,837,727)
	<hr/>	<hr/>
Net	715,909,826	715,110,073

The total allowance for impairment losses on loans and advances is \$62,587,280 (2016: \$54,837,727). Further information of the allowance for impairment losses on loans and advances to customers is provided in note 8.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.1 Credit risk ...continued

3.1.4 Loans and advances

(a) Loans and advances to customers 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.

As of June 30, 2017

	Overdrafts \$	Term loans \$	Mortgages \$	Corporate customers \$	Total \$
Classifications:					
1. Pass	27,232,138	22,936,134	102,778,037	114,693,290	267,639,599
2. Special mention	756,781	495,678	1,717,221	2,543,008	5,512,688
3. Sub-standard	149,798	320,351	406,896	1,206,617	2,083,662
Gross	28,138,717	23,752,163	104,902,154	118,442,915	275,235,949

As of June 30, 2016

	Overdrafts \$	Term loans \$	Mortgages \$	Corporate customers \$	Total \$
Classifications:					
1. Pass	26,730,037	21,951,704	99,880,225	186,444,884	335,006,850
2. Special mention	79,783,509	37,928,475	2,262,530	2,759,632	122,734,146
3. Sub-standard	159,885	31,363,090	882,444	–	32,405,419
Gross	106,673,431	91,243,269	103,025,199	189,204,516	490,146,415

(b) Loans and advances to customers 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. Loans and advances 90 days past due but not impaired are those with special arrangements.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.1 Credit risk ...continued

3.1.4 Loans and advances ...continued

(b) Loans and advances to customers past due but not impaired ...continued

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term loans \$	Mortgages \$	Corporate customers \$	Total \$
As of June 30, 2017				
Past due up to 30 days	1,580,961	11,556,626	15,270,537	28,408,124
Past due 31 – 60 days	420,244	3,682,683	–	4,102,927
Past due 61 – 90 days	776,023	429,125	–	1,205,148
Over 90 days	15,455	130,317	12,761,434	12,907,206
Gross	2,792,683	15,798,751	28,031,971	46,623,405
Fair value of collateral	10,983,240	30,161,333	74,437,630	115,582,203
	Term loans \$	Mortgages \$	Corporate customers \$	Total \$
As of June 30, 2016				
Past due up to 30 days	1,832,475	10,473,019	61,999,146	74,304,640
Past due 31 – 60 days	511,019	2,503,404	–	3,014,423
Past due 61 – 90 days	139,341	1,245,020	–	1,384,361
Over 90 days	65,836	–	–	65,836
Gross	2,548,671	14,221,443	61,999,146	78,769,260
Fair value of collateral	11,160,815	27,958,231	119,835,675	158,954,721

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.1 Credit risk ...continued

3.1.4 Loans and advances ...continued

(b) Loans and advances to customers past due but not impaired ...continued

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

(c) Loans and advances to customers individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is \$455,163,641 (2016: \$199,660,029).

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

	Overdrafts \$	Term loans \$	Mortgages \$	Corporate customers \$	Total \$
As of June 30, 2017					
Individually impaired	166,765,465	75,393,159	23,476,563	118,173,290	383,808,477
Interest receivable	12,099,451	3,956,388	16,176,797	39,122,528	71,355,164
Gross	178,864,916	79,349,547	39,653,360	157,295,818	455,163,641
Fair value of collateral	65,414,809	39,705,300	39,236,498	270,115,060	414,471,667
As of June 30, 2016					
Individually impaired	78,271,138	4,794,834	26,095,103	20,683,619	129,844,694
Interest receivable	12,030,650	4,266,374	16,471,022	37,047,289	69,815,335
Gross	90,301,788	9,061,208	42,566,125	57,730,908	199,660,029
Fair value of collateral	66,095,514	13,142,412	41,809,039	59,712,190	180,759,155

(d) Loans and advances to customers 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. Renegotiated loans at the reporting date stood at \$4,813,042 (2016: \$6,829,662).

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.1 Credit risk ...continued

3.1.5 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 the reporting date and based on Standard & Poor's ratings or equivalent:

	Treasury bills \$	Investment securities (AFS) \$	Loans and receivables – originated debt \$	Total \$
As of June 30, 2017				
AA- to AA+	–	3,122,035	–	3,122,035
A- to A+	–	9,770,774	–	9,770,774
Lower than A-	–	28,665,250	–	28,665,250
Unrated/internally rated	107,303,739	311,000,695	113,209,189	531,513,623
	107,303,739	352,558,754	113,209,189	573,071,682

	Treasury bills \$	Investment securities (AFS) \$	Loans and receivables – originated debt \$	Total \$
As of June 30, 2016				
AA- to AA+	–	10,768,334	–	10,768,334
A- to A+	–	12,575,952	–	12,575,952
Lower than A-	–	48,959,398	–	48,959,398
Unrated/internally rated	135,370,549	78,044,745	114,164,002	327,579,296
	135,370,549	150,348,429	114,164,002	399,882,980

As at June 30, 2017 the loans and receivables – originated debts includes long term notes, which were past due amounting to \$36,242,620. Refer to note 9.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

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(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.1 Credit risk ...continued

3.1.6 Geographical concentrations of on-statement of financial position and off-statement of financial position assets with credit risk exposure

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

The credit risk exposure is, therefore, spread geographically and over a diversity of personal and commercial customers.

	St. Kitts & Nevis \$	United States & Canada \$	Europe \$	Other Caribbean States \$	Total \$
As of June 30, 2017					
Cash and balances with Central Bank	15,742,444	—	—	—	15,742,444
Treasury bills	88,881,733	—	—	18,422,006	107,303,739
Deposits with other financial institutions	21,873,865	681,838,401	24,878,662	27,140,081	755,731,009
Financial asset	823,124,144	—	—	—	823,124,144
Loans and receivables:					
<i>Loans and advances to customers</i>	611,197,880	96,522,265	4,518,978	3,670,703	715,909,826
<i>Originated debt</i>	19,711,998	11,183,159	—	82,314,032	113,209,189
Customers' liability under acceptances, guarantees and letters of credit	7,455,745	—	—	—	7,455,745
Investment securities – available-for-sale (debt)	—	352,558,754	—	—	352,558,754
Other assets	2,668,377	6,676,786	—	—	9,345,163
	1,590,656,186	1,148,779,365	29,397,640	131,546,822	2,900,380,013

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.1 Credit risk ...continued

3.1.6 Geographical concentrations of on statement of financial position and off statement of financial position assets with credit risk exposure ...continued

	St. Kitts & Nevis \$	United States & Canada \$	Europe \$	Other Caribbean States \$	Total \$
As of June 30, 2016					
Cash and balances with Central Bank	74,741,780	–	–	–	74,741,780
Treasury bills	88,881,733	–	–	46,488,816	135,370,549
Deposits with other financial institutions	14,443,072	808,093,825	48,525,954	24,415,843	895,478,694
Financial asset	798,480,221	–	–	–	798,480,221
Loans and receivables:					
<i>Loans and advances to customers</i>	614,739,342	88,937,532	2,222,570	9,210,629	715,110,073
<i>Originated debt</i>	19,385,644	11,183,159	–	83,595,199	114,164,002
Customers' liability under acceptances, guarantees and letters of credit	7,743,745	–	–	–	7,743,745
Investment securities – available-for-sale (debt)	2,286,003	148,062,426	–	–	150,348,429
Other assets	3,758,497	7,422,218	–	–	11,180,715
	1,624,460,037	1,063,699,160	50,748,524	163,710,487	2,902,618,208

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.1 Credit risk ...continued

3.1.7 Concentration of risks of financial assets with credit exposure

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

	Public sector	Construction	Tourism	Financial institutions	Individuals	Other industries	Total
	\$	\$	\$	\$	\$	\$	\$
As of June 30, 2017							
Cash and balances with Central Bank	–	–	–	15,742,444	–	–	15,742,444
Treasury bills	107,303,739	–	–	–	–	–	107,303,739
Deposits with other financial institutions	15,220,822	–	–	740,476,903	33,284	–	755,731,009
Financial asset	823,124,144	–	–	–	–	–	823,124,144
Loans and receivables:							
<i>Originated debt</i>	102,026,030	–	–	11,183,159	–	–	113,209,189
<i>Loans and advances</i>	156,116,606	114,108,034	171,850,243	17,355,328	171,207,415	85,272,200	715,909,826
Investment securities – available-for-sale (debt)	2,347,894	–	685,981	301,174,010	–	48,350,869	352,558,754
Customers' liability under acceptances, guarantees and letters of credit	3,380,395	–	–	–	–	4,075,350	7,455,745
Other assets	–	–	–	1,022,851	1,139,252	7,183,060	9,345,163
	1,209,519,630	114,108,034	172,536,224	1,086,954,695	172,379,951	144,881,479	2,900,380,013

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.1 Credit risk ...continued

3.1.7 Concentration of risks of financial assets with credit exposure

	Public sector	Construction	Tourism	Financial institutions	Individuals	Other industries	Total
	\$	\$	\$	\$	\$	\$	\$
As of June 30, 2016							
Cash and balances with Central Bank	–	–	–	74,741,780	–	–	74,741,780
Treasury bills	135,370,549	–	–	–	–	–	135,370,549
Deposits with other financial institutions	–	–	–	895,313,191	165,503	–	895,478,694
Financial asset	798,480,221	–	–	–	–	–	798,480,221
Loans and receivables:							
<i>Originated debt</i>	102,678,377	–	–	11,485,625	–	–	114,164,002
<i>Loans and advances</i>	147,781,194	124,113,741	159,938,847	16,559,934	168,311,370	98,404,987	715,110,073
Investment securities – available-for-sale (debt)	2,417,348	–	697,265	82,568,225	–	64,665,591	150,348,429
Customers' liability under acceptances, guarantees and letters of credit	–	–	–	–	–	7,743,745	7,743,745
Other assets	–	–	–	1,309,223	226,456	9,645,036	11,180,715
	1,186,727,689	124,113,741	160,636,112	1,081,977,978	168,703,329	180,459,359	2,902,618,208

The Government of St. Kitts and Nevis accounts for \$1,106,435,698 (2016: \$1,053,730,263) or 38% (2016: 36%) of the total credit exposure, which represents a significant concentration of credit risk. The amounts due from the Government are included in the Public Sector category.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.2 Market risk

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

The Bank's exposures to market risks primarily arise from the interest rate management of the Bank retail and commercial banking assets and liabilities and equity risks arising from its available-for-sale investments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in the Board of Directors. The Board of Directors is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

3.2.1 Price risk

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

3.2.2 Foreign exchange risk

The Bank is exposed to foreign exchange risk through fluctuation in certain prevailing foreign exchange rates on its financial position and cash flows. The Board of Directors limits the level of exposure by currency and in total which are monitored daily. The Bank's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The Bank uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollars (EC\$).

The following table summarises the Bank's exposure to foreign currency exchange rate risk at reporting date. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.2 Market risk ...continued

3.2.2 Foreign exchange risk ...continued

Concentration of currency risk

As of June 30, 2017	ECD \$	USD \$	EURO \$	GBP \$	CAN \$	BDS \$	GUY \$	Total \$
Assets								
Cash and balances with Central Bank	200,850,754	5,156,267	35,740	57,931	10,040	14,953	–	206,125,685
Treasury bills	107,303,739	–	–	–	–	–	–	107,303,739
Deposits with other financial institutions	24,767,126	724,217,321	3,152,276	1,829,916	832,969	923,078	8,323	755,731,009
Financial asset	823,124,144	–	–	–	–	–	–	823,124,144
Loans and receivables:								
<i>Loans and advances to customers</i>	487,525,960	228,383,866	–	–	–	–	–	715,909,826
<i>Originated debt</i>	60,970,030	52,239,159	–	–	–	–	–	113,209,189
Investment securities – available-for-sale (debt)	8,990,781	907,354,972	–	–	–	–	–	916,345,753
Customers' liability under acceptances, guarantees and letters of credit	7,455,745	–	–	–	–	–	–	7,455,745
Other assets	2,668,377	6,676,786	–	–	–	–	–	9,345,163
Total financial assets	1,723,656,656	1,924,028,371	3,188,016	1,887,847	843,009	938,031	8,323	3,654,550,253
Liabilities								
Customers' deposits	2,511,645,686	709,001,515	132,616	89,446	1,837,457	–	–	3,222,706,720
Acceptances, guarantees and letters of credit	7,455,745	–	–	–	–	–	–	7,455,745
Other liabilities	14,911,142	11,016,842	42,514	480,382	39,839	128,196	–	26,618,915
Total financial liabilities	2,534,012,573	720,018,357	175,130	569,828	1,877,296	128,196	–	3,256,781,380
Net on-statement of financial position	(810,355,917)	1,204,010,014	3,012,886	1,318,019	(1,034,287)	809,835	8,323	397,768,873
Credit commitment	31,500,890	–	–	–	–	–	–	31,500,890

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.2 Market risk ...continued

3.2.2 Foreign exchange risk ...continued

Concentration of currency risk ...continued

As of June 30, 2016	ECD \$	USD \$	EURO \$	GBP \$	CAN \$	BDS \$	GUY \$	Total \$
Assets								
Cash and balances with Central Bank	263,519,998	5,535,723	32,796	29,618	20,197	13,481	–	269,151,813
Treasury bills	135,370,549	–	–	–	–	–	–	135,370,549
Deposits with financial institutions	17,145,792	873,004,729	1,393,344	1,742,590	1,779,659	388,578	24,002	895,478,694
Financial asset	798,480,221	–	–	–	–	–	–	798,480,221
Loans and receivables:								
<i>Loans and advances to customers</i>	491,731,179	223,378,894	–	–	–	–	–	715,110,073
<i>Originated debts</i>	61,935,957	52,228,045	–	–	–	–	–	114,164,002
Investment securities – available-for-sale (debt)	10,384,801	603,571,207	–	–	–	–	–	613,956,008
Customers' liability under acceptances, guarantees and letters of credit	7,743,745	–	–	–	–	–	–	7,743,745
Other assets	1,904,947	9,275,768	–	–	–	–	–	11,180,715
Total financial assets	1,788,217,189	1,766,994,366	1,426,140	1,772,208	1,799,856	402,059	24,002	3,560,635,820
Liabilities								
Customers' deposits	2,530,858,081	699,627,891	154,714	2,363	1,928,289	–	–	3,232,571,338
Due to other financial institutions	–	224,753	–	–	–	–	–	224,753
Acceptances, guarantees and letters of credit	7,743,745	–	–	–	–	–	–	7,743,745
Other liabilities	12,594,467	8,601,914	42,225	478,100	42,779	119,312	–	21,878,797
Total financial liabilities	2,551,196,293	708,454,558	196,939	480,463	1,971,068	119,312	–	3,262,418,633
Net on-statement of financial position	(762,979,104)	1,058,539,808	1,229,201	1,291,745	(171,212)	282,747	24,002	298,217,187
Credit commitment	70,506,728	–	–	–	–	–	–	70,506,728

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3 Financial risk management...*continued*

3.2 Market risk ...*continued*

3.2.3 Interest rate risk

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

St. Kitts-Nevis-Anguilla National Bank Limited

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3 Financial risk management ...continued

3.2 Market risk ...continued

3.2.3 Interest rate risk ...continued

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

As of June 30, 2017	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 and balances with Central Bank	–	–	–	–	–	206,125,685	206,125,685
Treasury bills	–	–	106,721,940	–	–	581,799	107,303,739
Deposits with other financial institutions	364,965,206	67,565,000	17,169,835	20,269,500	–	285,761,468	755,731,009
Financial asset	–	–	–	794,270,571	–	28,853,573	823,124,144
Loans and receivables:							
<i>Loans and advances to customers</i>	403,963,316	995,428	49,071,755	64,381,486	197,497,841	–	715,909,826
<i>Originated debt</i>	13,525,266	–	4,092,726	74,083,556	20,600,625	907,016	113,209,189
Customers' liability under acceptances, guarantees and letters of credit	–	–	–	–	–	7,455,745	7,455,745
Investment securities – available-for-sale (debt)	351,778,176	–	–	–	–	564,567,577	916,345,753
Other assets	287,606	–	–	–	–	9,057,557	9,345,163
Total financial assets	1,134,519,570	68,560,428	177,056,256	953,005,113	218,098,466	1,103,310,420	3,654,550,253
Liabilities							
Customers' deposits	1,045,921,449	201,706,014	1,059,032,783	–	–	916,046,474	3,222,706,720
Acceptances, guarantees and letters of credit	–	–	–	–	–	7,455,745	7,455,745
Other liabilities	517	–	–	–	–	26,618,398	26,618,915
Total financial liabilities	1,045,921,966	201,706,014	1,059,032,783	–	–	950,120,617	3,256,781,380
Total interest repricing gap	88,597,604	(133,145,586)	(881,976,527)	953,005,113	218,098,466	153,189,803	397,768,873

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3 Financial risk management ...continued

3.2 Market risk ...continued

3.2.3 Interest rate risk ...continued

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

As of June 30, 2016	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 and balances with Central Bank	–	–	–	–	–	269,151,813	269,151,813
Treasury bills	19,832,261	–	113,600,757	–	–	1,937,531	135,370,549
Deposits with other financial institutions	496,717,240	135,130,000	2,090,702	20,269,500	–	241,271,252	895,478,694
Financial asset	–	–	–	796,020,571	–	2,459,650	798,480,221
Loans and receivables:							
<i>Loans and advances to customers</i>	288,628,033	118,660,578	12,812,674	104,495,911	190,512,877	–	715,110,073
<i>Originated debt</i>	4,600	25,373,906	9,200	67,230,617	20,661,244	884,435	114,164,002
Customers' liability under acceptances, guarantees and letters of credit						7,743,745	7,743,745
Investment securities – available-for-sale (debt)	146,073,505	–	–	–	2,010,059	465,872,444	613,956,008
Other assets	–	–	2,074,157	–	–	9,106,558	11,180,715
Total financial assets	951,255,639	279,164,484	130,587,490	988,016,599	213,184,180	998,427,428	3,560,635,820
Liabilities							
Customers' deposits	1,026,096,786	239,045,542	1,036,436,007	455,019	–	930,537,984	3,232,571,338
Due to other financial institutions	224,753	–	–	–	–	–	224,753
Acceptances, guarantees and letters of credit	–	–	–	–	–	7,743,745	7,743,745
Other liabilities	2,531	–	–	–	–	21,876,266	21,878,797
Total financial liabilities	1,026,324,070	239,045,542	1,036,436,007	455,019	–	960,157,995	3,262,418,633
Total interest repricing gap	(75,068,431)	40,118,942	(905,848,517)	987,561,580	213,184,180	38,269,433	298,217,187

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(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.2.3 Interest rate risk ...continued

The Bank fair value interest rate risk arises from debt securities classified as available-for-sale. Had market interest rates at the reporting date been 100 basis points higher/lower with all variables held constant, equity for the year would have been \$590,943 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. Had variable rates at the reporting date been 100 basis points higher/lower with all other variables held constant, profits for the year would have been \$5,304,819 higher/lower, mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

3.3.1 Liquidity risk management

The Bank liquidity is managed and monitored by the Comptroller Division with guidance, where necessary, from the Board of Directors. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. This includes:

- Daily monitoring of the Bank liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers;
- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, industry and term;
- Daily monitoring of the statement of financial position liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Formalised arrangements with non-regional financial institutions to fund any liquidity needs that may arise.

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3 Financial risk management...*continued*

3.3.2 Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification of geography, currency, providers, products and terms. The Bank holds a diversified portfolio of cash loans and investment securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk include the following:

- Cash and balances with Central bank;
- Deposits with other financial institutions;
- Loans and advances to customers;
- Treasury bills; and
- Available-for-sale investment securities

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(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.3.3 Cash flows

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

	Up to 1 month \$	1 to 3 months \$	3 to 12 months \$	1 to 5 years \$	Over 5 years \$	Total \$
As of June 30, 2017						
Liabilities						
Customers' deposits , including interest until maturity	1,948,865,034	205,391,465	1,093,041,882	–	–	3,247,298,381
Acceptances, guarantees and letters of credit	–	–	–	7,455,745	–	7,455,745
Other liabilities	17,818,063	8,788,113	12,739	–	–	26,618,915
Total financial liabilities	1,966,683,097	214,179,578	1,093,054,621	7,455,745	–	3,281,373,041
Assets held to manage liquidity risk	2,183,038,452	97,799,441	190,374,669	966,720,921	220,188,655	3,658,122,138
Net liquidity gap	216,355,355	(116,380,137)	(902,679,952)	959,265,176	220,188,655	376,749,097
As of June 30, 2016						
Liabilities						
Customers' deposits , including interest until maturity	1,941,126,739	243,389,038	1,076,470,127	455,300	–	3,261,441,204
Acceptances, guarantees and letters of credit	468,247	7,275,498	–	–	–	7,743,745
Due to other financial institutions	224,753	–	–	–	–	224,753
Other liabilities	16,760,128	5,105,930	12,739	–	–	21,878,797
Total financial liabilities	1,958,579,867	255,770,466	1,076,482,866	455,300	–	3,291,288,499
Assets held to manage liquidity risk	1,917,028,062	280,028,217	148,737,275	988,816,600	218,281,921	3,552,892,075
Net liquidity gap	(41,551,805)	24,257,751	(927,745,591)	988,361,300	218,281,921	261,603,576

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(expressed in Eastern Caribbean dollars)

3 Financial risk management ...continued

3.3.4 Off- balance sheet items

Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (note 29), are summarised in the table below:

	Up to 1 year \$	1 to 3 years \$	Over 3 years \$	Total \$
As of June 30, 2017				
Loan commitments	8,806,216	460,950	6,190,992	15,458,158
Credit card commitments	8,586,987	–	–	8,586,987
	17,393,203	460,950	6,190,992	24,045,145
As of June 30, 2016				
Loan commitments	46,854,841	512,022	6,706,303	54,073,166
Credit card commitments	9,002,421	–	–	9,002,421
	55,857,262	512,022	6,706,303	63,075,587

3.4 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 statement of financial position commitments are also assumed to approximate the amount disclosed in note 30. Fair values of financial assets and financial liabilities are also determined as follows:

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

(a) Treasury bills

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

(b) Deposits with other financial institutions

Deposits with other financial institutions include cash on operating accounts and interest and non-interest bearing fixed deposits both with original maturity periods under 90 days. These deposits are estimated to approximate their carrying values due to their short term nature.

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3 Financial risk management ...continued

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

(c) *Loans and advances to customers and originated debts*

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 Initial loans values are taken as fair value and where observed values are different adjustments are made.

(d) *Originated debt*

Originated debt securities include only interest bearing financial assets.

(e) *Customers' deposits*

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

(f) *Due to financial institutions*

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

(g) *Other borrowed funds*

Other borrowed funds are short-term in nature therefore fair value in this category is estimated to approximate carrying value.

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3 Financial risk management ...continued

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

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

	Carrying value		Fair value	
	2017	2016	2017	2016
	\$	\$	\$	\$
Financial assets				
Cash and balances with Central Bank	206,125,685	269,151,813	206,125,685	269,151,813
Treasury bills	107,303,739	135,370,549	107,303,739	135,370,549
Deposits with other financial institutions	755,731,009	895,478,694	755,731,009	895,478,694
Financial asset	823,124,144	798,480,221	823,124,144	798,480,221
Loans and advances:				
<i>Overdraft</i>	180,270,940	175,071,988	211,467,349	192,146,401
<i>Corporate customers</i>	281,609,268	289,386,864	695,811,490	431,860,729
<i>Mortgages (personal)</i>	151,897,085	101,893,887	309,607,568	277,217,246
<i>Term loans</i>	102,132,533	148,757,334	224,492,911	154,314,332
<i>Originated debt</i>	113,209,189	114,164,002	113,209,189	114,164,002
Customers' liability under acceptances, guarantees and letters of credit	7,455,745	7,743,745	7,455,745	7,743,745
Other assets	9,345,163	11,180,715	9,345,163	11,180,715
	2,738,204,500	2,946,679,812	3,463,673,992	3,287,108,447
Financial liabilities				
Due to customer's Letters of credit	3,222,706,720	3,232,571,338	3,222,706,720	3,232,571,338
Due to other financial institutions	7,455,745	7,743,745	7,455,745	7,743,745
Other liabilities	–	224,753	–	224,753
	26,618,915	21,878,797	26,618,915	21,878,797
	3,256,781,380	3,262,418,633	3,256,781,380	3,262,418,633

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Notes to Separate Financial Statements

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3 Financial risk management ...continued

3.4.1 Fair value measurements recognised in the statement of financial position

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).

Available-for-sale financial assets

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
As of June 30, 2017				
Debt securities	341,679,976	4,555,055	5,543,145	351,778,176
Equities	555,819,542	43,876	–	555,863,418
	897,499,518	4,598,931	5,543,145	907,641,594
As of June 30, 2016				
Debt securities	135,251,289	2,342,539	8,479,678	146,073,506
Equities	455,635,297	48,701	–	455,683,998
	590,886,586	2,391,240	8,479,678	601,757,504

3.5 Fair value measurement of non-financial assets

The following table shows the level within the hierarchy of non-financial assets measured at fair value:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
As of June 30, 2017				
Land and property	–	22,931,198	–	22,931,198
As of June 30, 2016				
Land and property	–	23,561,502	–	23,561,502

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3 Financial risk management ...continued

3.5 Fair value measurement of non-financial assets ...continued

The fair value of the Bank's land and buildings is estimated based on appraisals performed by an independent property valuer. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the Board of Directors. The appraisal was carried out primarily using a market based approach that reflects the selling prices for similar properties and incorporates adjustments for factors specific to the properties in question, including square footage, location and current condition/use.

3.6 Capital management

The Bank objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

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

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

The Central Bank requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of \$20,000,000 and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the international agreed minimum of 8%.

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the two-year presentation. During those two years, the Bank complied with all of the externally imposed capital requirements to which it must comply.

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3 Financial risk management ...continued

3.6 Capital management ...continued

	2017	2016
	\$	\$
Tier 1 capital		
Share capital	135,000,000	135,000,000
Issued bonus shares from capitalisation of unrealised assets revaluation gain reserve	(4,500,000)	(4,500,000)
Reserves	321,545,228	258,637,739
Retained earnings	29,743,157	13,976,306
Total qualifying Tier 1 capital	481,788,385	403,114,045
	2017	2016
	\$	\$
Tier 2 capital		
Revaluation reserve – available-for-sale investment securities	(1,217,042)	(54,543,274)
Revaluation reserve – property and equipment	15,912,813	15,912,813
Bonus shares capitalisation	4,500,000	4,500,000
Accumulated impairment allowance	62,587,280	54,837,727
Total qualifying Tier 2 capital	81,783,051	20,707,266
Investment in subsidiaries	(26,750,000)	(26,750,000)
Total regulatory capital	535,336,069	397,071,311
	2017	2016
	\$	\$
Risk-weighted assets:		
On-statement of financial position	1,625,034,827	1,365,866,984
Off-statement of financial position	29,938,254	70,379,714
Total risk-weighted assets	1,654,973,081	1,436,246,698
Tier 1 capital ratio	29%	28%
Basel ratio	32%	28%

St. Kitts-Nevis-Anguilla National Bank Limited

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4 Critical accounting estimates and judgements

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements. 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.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below:

(a) Impairment losses on investment securities

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, when there is evidence of deterioration in the financial health of the investee industry and sector performance, changes in technology and operational and financing cash flows.

(b) Impairment losses on loans and advances

The Bank reviews its loan portfolio of assets for impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences in estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated as \$3,991,552 lower or \$4,207,931 higher.

(c) Pension benefits

The present value of the defined benefit pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation. Additional information is disclosed in note 32.

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4 Critical accounting estimates and judgements ...continued

(d) Recognition of deferred tax assets

Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The extent to which deferred tax assets and tax credits can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. The estimated deferred tax asset and tax credit may vary from the actual amounts recovered in the future.

5 Cash and balances with Central Bank

	2017 \$	2016 \$
Cash on hand	15,801,162	17,526,362
Balances with Central Bank other than mandatory deposits	15,742,444	74,741,780
Included in cash and cash equivalents (note 31)	31,543,606	92,268,142
Mandatory deposits with Central Bank	174,582,079	176,883,671
	206,125,685	269,151,813

The Bank is required to maintain an Automated Clearing Housing (ACH) collateral amount with the Central Bank. This amount can be in the form of cash and/or ECCU member government securities issued on the Regional Government Securities Market. The Bank's collateral amount held with the Central Bank at June 30, 2017 amounted to \$5,482,310 (2016: \$5,496,330).

Commercial banks are also required under Section 57 of the Banking Act, 2015 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.

Cash and balances with Central Bank which include mandatory and ACH collateral deposits are not interest bearing.

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6 Treasury bills

	2017 \$	2016 \$
Government of Antigua and Barbuda		
Term of one year, matured on October 8, 2016 at 5.95% interest	–	6,878,817
Term of one year, matured on July 1, 2016 at 5% interest	–	9,525,000
Government of St. Lucia		
Term of one year, maturing on May 21, 2018 (2016: matured on May 21, 2017) at 5% interest	4,750,000	4,750,000
Term of one year, maturing on May 2, 2018 (2016: matured on November 3, 2016) at 4.5% interest	11,530,000	11,530,000
Term of one year, maturing on June 5, 2018 (2016: matured on June 5, 2017 at 5% interest rate) at 4.5% interest	2,024,500	2,024,500
Government of Grenada		
Term of one year, matured on July 16, 2016 at 5% interest	–	10,307,261
Government of St. Kitts and Nevis		
Term of one year, maturing on May 15, 2018 (2016: matured on May 15, 2017) at 4% interest	88,417,440	88,417,440
	106,721,940	133,433,018
Interest receivable	581,799	1,937,531
	107,303,739	135,370,549

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

7 Deposits with other financial institutions

	2017 \$	2016 \$
Operating cash balances	362,649,843	501,729,204
Items in the course of collection	3,131,245	7,848,702
Interest bearing term deposits	354,994,835	339,915,702
	<hr/>	<hr/>
Included in cash and cash equivalents (note 31)	720,775,923	849,493,608
Special term deposits	21,065,239	21,065,239
Restricted term deposits	12,128,647	25,596,649
	<hr/>	<hr/>
Provision for impairment	753,969,809 (795,739)	896,155,496 (795,739)
	<hr/>	<hr/>
	753,174,070	895,359,757
	<hr/>	<hr/>
Interest receivable	2,556,939	118,937
	<hr/>	<hr/>
	755,731,009	895,478,694
	<hr/>	<hr/>
Current	743,602,362	869,882,045
Non-current	12,128,647	25,596,649
	<hr/>	<hr/>
	755,731,009	895,478,694
	<hr/>	<hr/>

The operating balances earn interest at rates of 0.05% to 4% (2016: 1% to 3%). The amounts held in these accounts are to facilitate the short-term commitments and day-to-day operations of the Bank.

Special term deposits are interest bearing fixed deposits with an original maturity period longer than 3 months.

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

Interest earned on both 'Special term deposits' and 'Restricted term deposits' is credited to the statement of income. The effective interest rate on 'Deposits with other financial institutions' at June 30, 2017 is 0.1836% (2016: 0.0256%).

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

8 Loans and advances to customers

	2017 \$	2016 \$
Demand	166,088,102	305,072,994
Mortgages	98,847,724	95,033,159
Other secured	22,956,600	23,772,003
Overdrafts	21,322,158	101,413,561
Credit cards	6,816,556	5,259,871
Consumer	5,828,214	6,568,459
Special term	–	31,795,628
	<hr/>	<hr/>
Performing loans and advances	321,859,354	568,915,675
Impaired loans and advances	455,163,641	199,660,029
Less: allowance for impairment	(62,587,280)	(54,837,727)
	<hr/>	<hr/>
	714,435,715	713,737,977
Interest receivable	1,474,111	1,372,096
	<hr/>	<hr/>
	715,909,826	715,110,073
	<hr/>	<hr/>
Current	454,030,499	420,101,285
Non-current	261,879,327	295,008,788
	<hr/>	<hr/>
	715,909,826	715,110,073
	<hr/>	<hr/>

The weighted average effective interest rate on performing loans and advances excluding overdrafts at June 30, 2017 was 7.03% (2016: 8.1%) and overdrafts were 10.04% (2016: 10.1%).

Allowance for loan impairment

The movement in allowance for loan impairment is as follows:

	2017 \$	2016 \$
Balance, beginning of year	54,837,727	57,124,816
Write offs during the year	–	(1,034,638)
Current year impairment expense/(recovery) – net (note 24)	7,749,553	(1,252,451)
	<hr/>	<hr/>
Balance, end of year	62,587,280	54,837,727
	<hr/>	<hr/>

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to \$68,664,805 (2016: \$50,985,879). Where the ECCB loan loss provision is greater than the loan loss provision calculated under IAS 39, the difference is set aside as a non-distributable reserve through equity. As of June 30, 2017, the loan loss provision calculated under IAS 39 was less than the ECCB provision. Therefore, a non-distributable reserve through equity was required at the reporting date and is included in the other reserves in equity (note 20). The gross carrying value of impaired loans at the year end was \$455,163,641 (2016: \$199,660,029). Interest receivable on loans that would not be recognised under ECCB guidelines amounted to \$57,157,002 (2016: \$46,239,725) and is included in Other Reserves in equity (note 20).

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

9 Originated debt

	2017 \$	2016 \$
Certificates of participation in Government of Antigua and Barbuda 7-year long term notes at 6.7% interest	36,242,620	37,534,902
Government of St. Lucia USD Fixed Rate Note maturing on September 5, 2018 at 5.0% interest (2016: September 1, 2016 at 4.5% interest)	25,404,440	25,369,306
Government of St. Kitts and Nevis bonds maturing on April 18, 2057 at 1.5% interest	19,680,228	19,051,408
Government of St. Lucia USD Fixed Rate Note maturing on July 19, 2017 at 5.5% interest	13,513,000	13,513,000
Wells Fargo Corporate Bonds maturing between January 1, 2018 and April 2019 at rates ranging from 1.5% to 6.3% interest	11,093,768	11,093,768
Government of St. Vincent & the Grenadines 10-year bond maturing on December 17, 2019 at 7.5% interest	5,000,000	5,000,000
Antigua Commercial Bank 9.0% interest rate Series A bond maturing on September 30, 2025	1,368,117	1,417,183
Caribbean Credit Card Corporation unsecured loan at 10.0 % interest with no specific terms of repayment	–	300,000
	112,302,173	113,279,567
Interest receivable	907,016	884,435
	113,209,189	114,164,002
Current	50,662,636	33,150,812
Non-current	62,546,553	81,013,190
	113,209,189	114,164,002

The movement in originated debt during the year is as follows:

	2017 \$	2016 \$
Balance, beginning of year	114,164,002	108,555,815
Additions	26,033,260	11,826,354
Disposals (sales/redemptions)	(27,010,654)	(6,949,204)
Movement in interest receivable	22,581	731,037
Balance, end of year	113,209,189	114,164,002

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

9 Originated debts ...continued

Certificates of participation in Government of Antigua and Barbuda 7-Year Long Term Note

The Bank placed funds on deposit with ABI Bank Limited (ABIB). These deposits were placed with ABIB, which at the time was facing serious liquidity challenges, at the request of the ECCB, having regard to the contagion effect on the ECCU and the Bank that would result if ABIB were unable to mitigate its liquidity risks.

By April 28, 2010, the Bank had placed total deposits of \$32,000,000 with ABIB. On May 7, 2010, these deposits, along with an additional \$6,710,000 were used to purchase from ABIB a series of certificates of participation (COPs) in the cash flows from a Long-Term Note issued by the Government of Antigua and Barbuda (GoAB), which had been securitized by ABIB.

On July 22, 2011, ECCB was directed by the Monetary Council to exercise the special emergency powers conferred on it by Part IIA, Article 5B of the ECCB Agreement Act 1983 to assume control of the ABIB. During the years of ECCB's control of ABIB, the Bank received an annual confirmation from ECCB of the total outstanding amounts of the COPs, with the stated objective of stabilizing the operations of ABIB so that all obligations would be settled in the normal course of business. ABIB was placed in receivership on November 27, 2015 by ECCB.

On March 2, 2017, the Monetary Council of the ECCU decided that ECCB would work in conjunction with the GoAB towards finding a resolution of the matter in the best interest and mutual benefit of all parties involved, including the Bank and that all efforts would be made to ensure that the Bank would not incur any impairment loss on the amount of the COPs it holds. The ECCB advised that the Monetary Council deemed the resolution of this matter as a priority for all stakeholders and indicated its intention to ensure that the matter was resolved expeditiously.

As of June 30, 2017, the Bank's interest under the COP's amounted to \$36,242,620 (2016: \$37,534,902). All of the COP's have now matured and are past due. During the current financial year, \$1,292,282 was received from the Receiver in respect of the COPs. As at the date of approval of these financial statements, the Bank has not been advised of any time frame for payment of the outstanding balance.

As mandated by the Monetary Council, ECCB engaged with the GoAB and, on July 25, 2017, advised the Bank that the GoAB offered the Bank a settlement of \$11,900,000 to be serviced with a 2%, 20-year bond with semi-annual payments, with the remaining balance of \$25,700,000 to be resolved by ABIB (in receivership). The Bank responded to the offer presented by the ECCB on July 28, 2017 indicating that, while it appreciated their efforts to obtain a resolution to this matter, the Bank was dissatisfied with the GoAB offer.

Discussions are ongoing between the Bank and the ECCB to find a resolution which, as mandated by the Monetary Council, is in the best interest and mutual benefit of all parties, including the Bank. The Bank is continuing to pursue its entitlement under the COPs, and is of the view that it would not be appropriate for the COPs to be written down at the reporting date.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

10 Investment securities – available-for-sale

(A) Available-for-sale investment securities

	2017	2016
	\$	\$
Unlisted securities	23,071,178	23,467,540
Listed securities at fair value	897,499,518	593,229,125
Total available-for-sale securities, gross	920,570,696	616,696,665
Less provision for impairment	(5,005,521)	(5,005,521)
	915,565,175	611,691,144
Interest receivable	780,578	2,264,864
Total available-for-sale securities, net	916,345,753	613,956,008

(B) The movement in available-for-sale investment securities during the year is as follows:

	2017	2016
	\$	\$
Balance, beginning of year	613,956,008	384,212,294
Additions	1,130,061,938	1,187,801,842
Disposals (sales/redemptions)	(903,769,240)	(926,598,373)
Fair value gains/(losses)	79,591,391	(33,193,574)
Impairment losses	(2,286,002)	(531,045)
Interest receivable	(1,208,342)	2,264,864
Balance, end of year	916,345,753	613,956,008

(C) Provision for impairment – available-for-sale investment securities include:

	2017	2016
	\$	\$
Balance, beginning of year	5,005,521	6,333,582
Provision (note 24)	2,286,002	531,045
Reversal of allowance	–	(151,059)
Write-down	(2,286,002)	(1,708,047)
Balance, end of year	5,005,521	5,005,521

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

10 Investment securities – available-for-sale ...continued

(C) Provision for impairment – available-for-sale investment securities include: ...continued

Provision for impairment includes the following:

	2017	2016
	\$	\$
Wireless Ventures (St. Kitts-Nevis) Limited	1,636,674	1,636,674
TCI Bank Limited	1,351,300	1,351,300
Cable Bay Hotel Development Co. Limited	1,018,548	1,018,548
Antigua & Barbuda Investment Bank	998,999	998,999
	<u>5,005,521</u>	<u>5,005,521</u>

(D) Available-for-sale financial assets are as follows:

	2017	2016
	\$	\$
Listed securities:		
- Equity securities – US	554,752,342	451,575,797
- Debt securities – US	341,679,976	137,593,828
- Equity securities – Caribbean	1,067,200	4,059,500
Total listed securities	<u>897,499,518</u>	<u>593,229,125</u>
Unlisted securities:		
- Equity securities – Caribbean	12,929,102	12,929,102
- Debt securities – Caribbean	–	2,010,059
- Debt securities – US	10,098,200	8,479,678
- Equity securities – US	43,876	48,701
Total unlisted securities	<u>23,071,178</u>	<u>23,467,540</u>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

10 Investment securities – available-for-sale ...continued

(D) Available-for-sale financial assets are as follows: ...continued

	2017 \$	2016 \$
Total available-for-sale securities, gross	920,570,696	616,696,665
Provision for impairment	<u>(5,005,521)</u>	<u>(5,005,521)</u>
	915,565,175	611,691,144
Interest receivable	<u>780,578</u>	<u>2,264,864</u>
Total available-for-sale securities, net	<u>916,345,753</u>	<u>613,956,008</u>

(E) AFS securities are denominated in the following currencies:

	2017 \$	2016 \$
<u>Listed:</u>		
US dollars	896,432,318	589,169,625
EC dollars	<u>1,067,200</u>	<u>4,059,500</u>
Total listed securities	<u>897,499,518</u>	<u>593,229,125</u>
<u>Unlisted:</u>		
US dollars	10,142,076	10,489,737
EC dollars	<u>12,929,102</u>	<u>12,977,803</u>
Total unlisted securities	<u>23,071,178</u>	<u>23,467,540</u>
Total available-for-sale securities, gross	920,570,696	616,696,665
Less: Provision for impairment	<u>(5,005,521)</u>	<u>(5,005,521)</u>
	915,565,175	611,691,144
Interest receivable	<u>780,578</u>	<u>2,264,864</u>
Total available-for-sale securities, net	<u>916,345,753</u>	<u>613,956,008</u>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

11 Investment in subsidiaries

	2017	2016
	\$	\$
National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited	5,750,000	5,750,000
National Caribbean Insurance Company Limited	9,000,000	9,000,000
St. Kitts and Nevis Mortgage and Investment Company Limited	12,000,000	12,000,000
	<u>26,750,000</u>	<u>26,750,000</u>

All subsidiaries are wholly owned by the Bank. For National Caribbean Insurance Company Limited (NCIC), 90 percent of the Company is owned directly by the Bank and National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited, which is a wholly owned subsidiary of the Bank owns the remaining 10 percent.

12 Customers' liability under acceptances, guarantees and letters of credit

	2017	2016
	\$	\$
Letters of credit	<u>7,455,745</u>	<u>7,743,745</u>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

13 Property and equipment

	Land and property \$	Equipment \$	Furniture & fittings \$	Motor vehicles \$	Reference books \$	Projects ongoing \$	Total \$
At June 30, 2015							
Cost or valuation	24,814,022	14,963,482	3,859,750	701,570	140,368	2,696,295	47,175,487
Accumulated depreciation	(849,711)	(13,329,452)	(2,903,959)	(336,866)	(140,283)	–	(17,560,271)
Net book value	23,964,311	1,634,030	955,791	364,704	85	2,696,295	29,615,216
Year ended June 30, 2016							
Opening net book value	23,964,311	1,634,030	955,791	364,704	85	2,696,295	29,615,216
Additions	105,712	–	109,407	–	–	1,347,881	1,563,000
Transfers	–	2,915,738	–	–	–	(2,915,738)	–
Write-off of projects ongoing to expense	–	–	–	–	–	(389,835)	(389,835)
Depreciation charge	(706,041)	(711,953)	(292,123)	(120,913)	–	–	(1,831,030)
Closing net book value	23,363,982	3,837,815	773,075	243,791	85	738,603	28,957,351
At June 30, 2016							
Cost or valuation	24,919,734	17,879,220	3,969,157	701,570	140,368	738,603	48,348,652
Accumulated depreciation	(1,555,752)	(14,041,405)	(3,196,082)	(457,779)	(140,283)	–	(19,391,301)
Net book value	23,363,982	3,837,815	773,075	243,791	85	738,603	28,957,351

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

13 Property and equipment ...continued

	Land and property \$	Equipment \$	Furniture & fittings \$	Motor vehicles \$	Reference books \$	Projects ongoing \$	Total \$
Year ended June 30, 2017							
Opening net book value	23,363,982	3,837,815	773,075	243,791	85	738,603	28,957,351
Additions	276,130	520,942	222,685	–	–	871,115	1,890,872
Disposals	–	(5,121,124)	(783,844)	(305,370)	–	–	(6,210,338)
Write-off of projects ongoing to expense	–	–	–	–	–	(201,594)	(201,594)
Depreciation charge	(708,914)	(1,039,480)	(292,661)	(55,979)	–	–	(2,097,034)
Write-back on disposals	–	5,120,368	766,726	188,311	–	–	6,075,405
Closing net book value	22,931,198	3,318,521	685,981	70,753	85	1,408,124	28,414,662
At June 30, 2017							
Cost or valuation	25,195,864	13,279,038	3,407,998	396,200	140,368	1,408,124	43,827,592
Accumulated depreciation	(2,264,666)	(9,960,517)	(2,722,017)	(325,447)	(140,283)	–	(15,412,930)
Net book value	22,931,198	3,318,521	685,981	70,753	85	1,408,124	28,414,662

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

13 Property and equipment ...continued

Included in Property is land at a carrying value of \$4,347,312. This is made-up as follows:

	2017	2016
	\$	\$
Headquarters (Basseterre)	2,206,260	2,206,260
Nevis	1,019,250	1,019,250
West Independence Square	809,589	809,589
Rosemary Lane (#1)	110,000	110,000
Rosemary Lane (#2)	102,975	102,975
Sandy Point (#1)	46,785	46,785
Saddlers	26,513	26,513
Sandy Point (#2)	26,040	26,040
Total	4,347,412	4,347,412

In 2015, the Bank's land and buildings were revalued based on the appraisal made by an independent firm of appraisers. Valuations were made on the basis of comparative recent market transactions on arm's length terms. The revaluation surplus was credited to 'property revaluation reserve' in shareholders' equity.

The following is the historical cost carrying amount of land and buildings carried at revalued amounts.

	Land	Buildings	Total
	\$	\$	\$
At June 30, 2017			
Cost	2,928,371	13,722,199	16,650,570
Accumulated depreciation	–	(2,989,121)	(2,989,121)
Net book value	2,928,371	10,733,078	13,661,449
	Land	Buildings	Total
	\$	\$	\$
At June 30, 2016			
Cost	2,928,371	13,446,069	16,374,440
Accumulated depreciation	–	(2,989,121)	(2,989,121)
Net book value	2,928,371	10,456,948	13,385,319

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

14 Intangible assets

	Computer software
	\$
At June 30, 2015	
Cost or valuation	6,159,191
Accumulated amortisation	<u>(5,685,951)</u>
Net book value	<u>473,240</u>
Year ended June 30, 2016	
Opening balance	473,240
Additions	166,353
Amortisation charge	<u>(215,669)</u>
Net book amount	<u>423,924</u>
At June 30, 2016	
Cost or valuation	6,325,544
Accumulated amortisation	<u>(5,901,620)</u>
Net book value	<u>423,924</u>
Year ended June 30, 2017	
Opening balance	423,924
Additions	114,985
Amortisation charge	<u>(248,215)</u>
Net book amount	<u>290,694</u>
At June 30, 2017	
Cost or valuation	6,440,529
Accumulated amortisation	<u>(6,149,835)</u>
Net book value	<u>290,694</u>

15 Other assets

	2017	2016
	\$	\$
Net defined benefit asset (note 32)	12,672,277	9,775,892
ePassporte receivable	7,107,800	8,107,800
Prepayments	2,283,951	2,144,876
Other receivables	1,351,809	2,522,066
Stationery	688,953	890,855
	24,104,790	23,441,489
Less: Provision for impairment	<u>(1,000,000)</u>	<u>(1,000,000)</u>
	<u>23,104,790</u>	<u>22,441,489</u>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

Current	4,324,713	5,557,797
Non-current	18,780,077	16,883,692
	23,104,790	22,441,489

15 Other assets ...continued

Provision for impairment

The movement in the provision for impairment during the year is as follows:

	2017	2016
	\$	\$
Balance, beginning of year	1,000,000	–
Provision (note 24)	1,000,000	1,000,000
Write-down	(1,000,000)	–
Balance, end of year	1,000,000	1,000,000

16 Customers' deposits

	2017	2016
	\$	\$
Fixed deposit accounts	1,570,239,395	1,612,194,987
Direct demand accounts	899,653,197	910,638,073
Savings accounts	460,572,782	418,448,491
Call accounts	275,848,069	271,389,876
	3,206,313,443	3,212,671,427
Interest payable	16,393,277	19,899,911
	3,222,706,720	3,232,571,338
Current	3,222,706,720	3,232,116,038
Non-current	–	455,300
	3,222,706,720	3,232,571,338

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

The Bank pays interest on all categories of customers' deposits except demand deposits. At the reporting date, total interest expense on deposit accounts for the year amounted to \$59,337,716 (2016: \$66,422,880). The average effective rate of interest paid on customers' deposits was 2.17% (2016: 2.35%).

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

17 Accumulated provisions, creditors and accruals

	2017	2016
	\$	\$
Suspense liabilities	10,687,696	8,365,430
Employee related payables	5,720,822	3,790,548
Other payables	6,648,436	4,857,793
Managers' cheques and bankers' payments	1,623,446	3,010,273
Unpaid drafts on other banks	1,938,515	1,854,753
	<u>26,618,915</u>	<u>21,878,797</u>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

18 Taxation

	2017 \$	2016 \$
18.1 Tax credit		
Income for the year before tax	31,903,317	23,443,410
Adjustment to deferred tax asset from prior years	17,183,365	–
Income tax at 33%	10,528,095	7,736,325
Non-deductible expenses and other permanent differences	9,755,371	4,069,902
Unrecognized deferred tax from tax losses carried forward and capital allowance	–	1,376,058
Income not subject to tax	(2,894,921)	(13,612,153)
Tax credit from discounted interest on government loans	(15,703,656)	–
Adjustment to income tax recoverable from prior years	(23,548,501)	–
Income tax credit	(4,680,247)	(429,868)
Represented as follows:		
Current income tax credit		
Current year's income tax expense	17,511,814	–
Tax credit from discounted interest on government loans	(15,703,656)	–
Adjustment to income tax recoverable from prior years	(23,548,501)	–
	(21,740,343)	–
Deferred tax expense/(credit)	17,060,096	(429,868)
	(4,680,247)	(429,868)
18.2 Deferred tax (liability)/asset		
Items recognized in profit or loss:		
Tax losses carried forward	–	15,127,806
Capital loss allowance carried forward	–	2,055,559
Accelerated depreciation	606,019	642,316
	606,019	17,825,681
Items recognized directly in other comprehensive income		
Unrealised losses on AFS securities	599,441	26,864,598
Net defined benefit asset	(4,181,847)	(3,226,043)
	(3,582,406)	23,638,555
	(2,976,387)	41,464,236

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

18 Taxation ...continued

18.2 Deferred tax (liability)/asset ...continued

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

	2017	2016
	\$	\$
Balance, beginning of year	41,464,236	29,567,800
Current year (charge)/credit	(17,060,096)	429,868
Movement in unrealised (gains)/losses on investment securities	(26,265,154)	10,953,880
(Gains)/losses on re-measurement of defined benefit asset	(1,115,373)	512,688
Balance, end of year	(2,976,387)	41,464,236

18.3 Tax losses

As of June 30, 2017 the Bank had incurred income tax losses amounting to nil (2016: \$50,011,712) which may be carried forward and applied to reduce taxable income by an amount not exceeding one half of taxable income in any one year of assessment within 5 years following the year in which the losses were incurred.

During the year, the Bank changed the calculation of the estimate of the current income tax expense based on its ongoing negotiations with the IRD. This resulted in the tax losses from the prior year's being utilised. The tax losses arose primarily from interest and investment income earned, which were exempted from income taxes.

18.4 Income tax recoverable

Included in the statement of financial position is amount of \$29,660,703 (2016: \$4,417,997) that relate income tax credits/advance tax payments due from the Inland Revenue Department in respect of tax assessments that were finalised up to the year ended June 30, 2014, and the change in the Bank's estimate of the current income tax expense based on a settlement agreement with the IRD. This resulted in a net tax credit of \$21,740,343, primarily arising from the benefit provided to Government of St. Kitts and Nevis as a result of the reduced interest rate on certain government loans. The amount may be applied against any future taxes payable by the Bank, with certain agreed restrictions.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

18 Taxation ...continued

18.4 Income tax recoverable ...continued

The movement in the income tax recoverable is as follows during the year:

	2017	2016
	\$	\$
Balance, beginning of year	4,417,997	4,417,997
Tax credit under accrued in prior years	23,548,501	–
Current year's income tax credit	15,703,656	–
Current year's income tax expense offset (limited to 80%)	(14,009,451)	–
Balance, end of year	29,660,703	4,417,997

18.5 Income taxes payable

	2017	2016
	\$	\$
Balance, beginning of year	–	–
Current year's income taxes (20%)	3,502,363	–
Balance, end of year	3,502,363	–

19 Share capital

	2017	2016
	\$	\$
Authorised		
270,000,000 Ordinary shares of \$1 each	270,000,000	270,000,000
Issued and fully paid		
135,000,000 Ordinary shares of \$1 each	135,000,000	135,000,000

20 Reserves

	2017	2016
	\$	\$
Statutory reserve	123,765,725	116,449,012
Revaluation reserve	14,695,771	(38,630,461)
Other reserves	183,083,732	180,819,188
	321,545,228	258,637,739

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

20 Reserves ...continued

a) Statutory reserves

	2017	2016
	\$	\$
Balance at beginning of year	116,449,012	111,674,356
Addition	<u>7,316,713</u>	<u>4,774,656</u>
Balance at end of year	<u>123,765,725</u>	<u>116,449,012</u>

In accordance with Section 45 (1) of Saint Christopher and Nevis Banking Act, 2015, the Bank is required to maintain a reserve fund into which it shall transfer not less than 20% of its net income of each year whenever the reserve fund is less than the Bank's paid-up capital.

b) Revaluation reserve

	2017	2016
	\$	\$
Balance at beginning year	(38,630,461)	(16,390,767)
Movement in market value of investment securities – available-for-sale, net	<u>53,326,232</u>	<u>(22,239,694)</u>
Balance at end of year	<u>14,695,771</u>	<u>(38,630,461)</u>
Revaluation reserve is represented by:		
Properties	15,912,813	15,912,813
Available-for-sale investment securities	<u>(1,217,042)</u>	<u>(54,543,274)</u>
Balance, ending of year	<u>14,695,771</u>	<u>(38,630,461)</u>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

20 Reserves ...continued

c) Other reserves

	2017 \$	2016 \$
Balance at beginning of year	180,819,188	181,860,099
Other comprehensive income	2,264,544	(1,040,911)
Balance at end of year	183,083,732	180,819,188
Other reserves is represented by:		
Regulatory reserve for loan impairment	6,077,524	–
Regulatory reserve for interest accrued on non-performing loans (note 8)	57,157,002	46,239,725
Defined benefit plan	8,430,146	6,165,602
General reserve	111,419,060	128,413,861
	183,083,732	180,819,188

Other reserves

Included in these reserves are the following individual reserves:

Regulatory reserve for loan impairment

Regulatory reserve represents cumulative amounts appropriated from retained earnings based on the prudential guidelines of the ECCB. When the ECCB loan for provision is greater than the loan provision calculated under IAS 39, the difference is set aside in equity.

Regulatory reserve for interest accrued 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 IAS 39. The prudential guidelines of the ECCB 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 collected.

Defined benefit pension plan reserve

This reserve is used to record the actuarial re-measurement of the defined benefit pension asset in other comprehensive income.

General reserve

General reserve is used from time to time to transfer profits from retained earnings at the discretion of the Board of Directors. There is no policy of regular transfer.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

21 Net interest income

	2017 \$	2016 \$
Interest income		
Loans and advances to customers	41,995,772	43,936,926
Financial asset (note 30)	27,492,978	27,863,502
Treasury bills	4,700,217	7,167,848
Originated debts	4,078,025	4,499,305
Deposits with other financial institutions	3,772,867	530,029
Available-for-sale securities	3,025,293	8,041,899
Interest income for the year	85,065,152	92,039,509
Interest expense		
Fixed deposits	49,763,993	56,209,189
Savings accounts	8,623,485	9,299,319
Debt and other related accounts	580,907	584,765
Call accounts	369,332	329,607
Interest expense for the year	59,337,717	66,422,880
Net interest income	25,727,435	25,616,629

22 Net fees and commission income

	2017 \$	2016 \$
Fees and commission income		
International business and foreign exchange	10,514,117	8,603,654
Credit related fees and commission	2,809,395	3,886,674
Brokerage and other fees and commission	2,338,061	3,028,312
Fees and commission income for year	15,661,573	15,518,640
Fee expenses		
International business and foreign exchange	7,607,164	7,045,630
Other fee expenses	2,271,004	1,454,734
Brokerage and other related fee expenses	129,451	83,113
Fee expenses for year	10,007,619	8,583,477
Net fees and commission income	5,653,954	6,935,163

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

23 Net realised gains and losses from investments

	2017 \$	2016 \$
Gains on AFS investments	39,517,294	20,656,282
Losses on AFS investments	(3,455,626)	(8,763,846)
	<u>36,061,668</u>	<u>11,892,436</u>

24 Impairment charges/write-offs – net

	2017 \$	2016 \$
Loans and advances to customers (note 8)	7,749,553	(1,252,451)
Investment securities – available-for-sale securities (note 10)	2,286,002	531,045
Other assets (note 15)	1,000,000	1,000,000
	<u>11,035,555</u>	<u>278,594</u>

25 Administrative and general expenses

	2017 \$	2016 \$
Employee cost	21,085,754	16,756,148
Repairs and maintenance	3,383,578	3,089,917
Other general	1,674,847	1,409,982
Sundry losses	648,546	499,568
Communication	899,079	926,256
Utilities	764,648	701,980
Stationery and supplies	745,434	697,721
Rent and occupancy	659,216	600,742
Insurance	545,332	589,463
Advertisement and marketing	526,268	529,647
Legal fees and expenses	356,944	324,448
Security services	333,815	300,628
Shareholders' expenses	189,016	196,194
Taxes and licences	150,742	111,462
Premises upkeep	32,756	29,880
	<u>31,995,975</u>	<u>26,764,036</u>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

25 Administrative and general expenses ...continued

25.1 Employee cost

	2017	2016
	\$	\$
Salaries and wages	13,443,467	11,608,767
Insurance and other benefits	1,455,065	1,735,356
Other staff cost	5,703,690	3,450,057
Pension expense/(credits) (note 32)	483,532	(38,032)
	<u>21,085,754</u>	<u>16,756,148</u>

26 Earnings per share

'Earnings 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.

	2017	2016
	\$	\$
Net income attributable to shareholders	<u>36,583,564</u>	23,873,278
Weighted average number of ordinary shares in issue	<u>135,000,000</u>	135,000,000
Basic and diluted earnings per share	<u>0.27</u>	0.18

27 Dividends

The financial statements reflect dividends of \$13,500,000 or \$0.10 per share in the financial year ended June 30, 2017 (2016: \$13,500,000 or \$0.10 per share) on March 31, 2017 and April 27, 2017 of \$6,750,000 or \$0.05 per share each payment. Approval of these payments was given at the Forty-Sixth Annual General Meeting held on April 27, 2017.

28 Related parties balances and transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making operational or financial decisions. A number of banking transactions are entered into with our subsidiaries and directors in the normal course of business. These transactions, which include deposits, loans and other transactions, are carried out on commercial terms and conditions, at market rates.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

28 Related parties balances and transactions ...continued

Government of St. Kitts and Nevis

The Government of St. Kitts and Nevis holds 51% of the Bank's issued share capital. The remaining 49% of the issued share capital is held by individuals and other institutions (approximately 5,500 shareholders). The Government is also a customer of the Bank and, as such, all transactions executed by the Bank on behalf of the Government are performed on strict commercial banking terms at existing market rates.

	2017	2016
	\$	\$
Central Government and statutory bodies (public sector)		
Loans and advances	287,579,866	255,249,947
Deposits	1,663,594,271	1,590,503,750
Interest on deposits	37,717,142	42,256,833
Interest on loans and advances	11,735,839	11,025,727
Interest on financial asset	27,492,978	27,863,502
<i>Subsidiaries</i>		
Deposits	234,353,742	219,760,500
Interest on deposits	7,867,111	8,782,405
Loans and advances	10,597,398	10,636,285
Interest from loans and advances	635,234	575,955
<i>Associated companies</i>		
Deposits	11,846,567	11,401,807
Interest on deposits	138,607	87,290
Loans and advances	70,008,225	70,294,661
Interest from loans and advances	10,988	30,397
<i>Directors and associates</i>		
Deposits	331,936	366,906
Interest on deposits	6,079	6,168
Loans and advances	1,044,929	1,100,708
Interest from loans and advances	72,133	58,021
Bank shares held	160,700	160,700
<i>Key management</i>		
Total remuneration	2,653,603	1,980,515
Deposits	560,903	1,052,026
Interest on deposits	8,316	54,570
Loans and advances	4,016,402	4,022,987
Interest from loans and advances	275,146	281,373
Number of Bank shares held	30,765	46,429

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

28 Related parties balances and transactions ...continued

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.0% (2016: 6.0%). Secured loans are collateralised by cash and mortgages over properties.

A provision of \$13,045,843 (2016: \$12,258,402) has been recognised in respect to advances made to a related party (associated company).

29 Contingent liability and commitments

Contingent tax liability

On January 29, 2016, the IRD assessed the Bank with additional corporate income taxes for the financial years 2012 to 2014. The Bank has accepted and accrued for additional income taxes payable amounting to \$1,586,000, that related to the disallowance of salaries in excess of the statutory limit. The Bank formally disputed the remaining assessment by filing an objection with the IRD. Subsequent to the year end, on April 27, 2018, a settlement agreement was reached with the IRD to resolve the dispute. Based on the settlement agreement, there are no further outstanding corporate tax liabilities to the IRD in respect of the financial years 2012 to 2014.

Commitments

At the statement of financial position date the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	2017 \$	2016 \$
Loan commitments	15,458,158	54,073,166
Credit card commitments	8,586,987	9,002,421
	<u>24,045,145</u>	<u>63,075,587</u>

30 Financial asset

The financial asset of \$823,124,144 (2016: \$798,480,221) represents the Bank's right to that amount of cash flows from the sale of certain lands pursuant to a Shareholder's Agreement (Agreement) dated April 18, 2012 and September 4, 2014 between the Bank and its majority shareholder, the Government of St. Kitts & Nevis ("GOSKN"), and the Nevis Island Administration ("NIA") respectively. Under the terms of the Agreement, the secured debt obligations owed to the Bank by the GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain land assets to the Bank. Further, the unsecured debt obligations owed to the Bank by GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain unencumbered land assets to a specially created entity, Special Land Sales Company (St. Kitts) Limited

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

30 Financial asset ...continued

("SLSC") and the allocation of certain shares in SLSC to the Bank. SLSC was incorporated for the purpose of selling land assets in order to fulfill the terms of the Agreement of the contracting parties. Other lands would be transferred to the SLSC for sale, if necessary, in order to satisfy the agreement of the contracting parties.

By way of supplement agreements the effective date of the Agreement was amended to July 1, 2013. Accordingly, the first step in the 'Land for Debt' swap took place on July 1, 2013 in the amount of \$565,069,905, which is the value of the 1,200 acres of land in the first tranche based on an independent valuation. The second and third tranches were completed during 2015 and the amounts swapped amounted to \$230,950,666 which is the value of 735 acres of land.

Based on the terms of the Agreement:

1. On the effective date, SLSC shall use all appropriate commercial efforts to sell the secured land assets that were vested to the Bank at the best price reasonably possible and as soon as reasonably practicable.
2. Commencing from the effective date of the Agreement, July 1, 2013, the Bank is entitled to receive interest payments at a rate of 3.5% per annum on the face value of the eligible secured debt that was exchanged for the secured land assets. The amount is to be paid by the GOSKN annually from the effective date.
3. Distribution of sales proceeds of the Bank land assets shall be applied as follows:
 - a. First towards the payment of selling and operational costs of SLSC;
 - b. Secondly to the Bank until the Bank has received the face amount of the eligible secured debt immediately prior to the effective date and the interest payments, less amounts paid to the Bank;
 - c. Thirdly to the Bank in exchange for the redemption of its relative interest in SLSC which was allotted for the release of eligible unsecured debt that was owed to the Bank prior to the effective date; and
 - d. Fourthly to the Government of St. Kitts and Nevis.

For the year ended June 30, 2017, the Bank's statement of income includes interest income amounting to \$27,492,978 (2016: \$27,863,502). The interest receivable amounted to \$28,853,573 (2016: \$2,459,650) and is due from the GOSKN of which \$1,099,055 (2016: \$27,780,030) was received and is a receivable.

Based on the terms of the Agreement, all of the risks and rewards of ownership of the secured land assets have not been transferred to the Bank. The Bank is only entitled to receive cash flows from the sales of said lands up to the face value of the eligible secured debt that was exchanged and any interest payments as noted above. Additionally, if the lands are sold for less than the value that was transferred, the GOSKN and NIA is obligated to transfer additional lands to make up for the shortfall. The Bank's interest in the land assets is not subject to variation of returns as there is no risk of loss for the Bank, and also the Bank does not stand to benefit should the lands be sold for more than the value. Therefore, the Bank has not classified the amounts received in exchange for the loans as inventory, but as a loan and receivable financial asset based on its rights to the cash flow from the sales of the land assets under the Agreement.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

30 Financial asset ...continued

The Bank has not included in these financial statements any investment in SLSC. As of June 30, 2017, SLSC is currently operational, however no unsecured land assets have been vested in the Company. Further, the Bank has not invested any funds in SLSC.

31 Cash and cash equivalents

	2017 \$	2016 \$
Cash and balances with Central Bank (note 5)	31,543,606	92,268,142
Deposits with other financial institutions (note 7)	720,775,923	849,493,608
	<u>752,319,529</u>	<u>941,761,750</u>

32 Defined benefit asset

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of June 30, 2017 by independent actuaries. The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2017 Per annum %	2016 Per annum %
Actuarial assumptions		
Discount rate	4.0	4.0
Expected return on plan assets	5.0	6.0
Future salary increases	3.5	3.5

Mortality table (UP94 table projected to 2020 using Scale AA) in both years

The present value of the funded obligations amounts \$27,134,619 (2016:\$29,665,229) which is supported by investments in fixed deposits, treasury bills and equity security. The fair value of these investments amounts to \$39,806,896.39 (2016: \$39,431,121).

	2017 \$	2016 \$
Plan asset allocation		
Certificate of deposits	100%	92.01%
Shares and treasury bills	—	7.99%
	<u>100%</u>	<u>100%</u>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

32 Defined benefit asset ...continued

	2017 \$	2016 \$
<i>Changes in the present value of defined benefit obligation</i>		
Opening defined benefit obligation	29,655,229	27,074,296
Actuarial (gains)/losses	(3,707,071)	781,399
Current service cost	1,180,941	1,180,941
Interest cost	1,186,209	1,082,972
Benefits paid	(1,180,689)	(464,379)
Closing defined benefit obligation	27,134,619	29,655,229
<i>Changes in the fair value of plan assets</i>		
Opening fair value of plan assets	39,431,121	38,365,755
Interest income	1,971,556	2,301,945
Return on plan assets (other than net interest)	(327,154)	(656,442)
Benefits paid	(1,180,689)	(464,379)
Management expenses	(87,938)	(115,758)
Closing defined benefit assets	39,806,896	39,431,121
<i>Benefit cost</i>		
Current service cost	1,180,941	1,180,941
Interest cost on net benefit assets	1,186,209	1,082,972
Return on plan assets	(1,883,618)	(2,301,945)
Pension expense/(credit) (note 25)	483,532	(38,032)
<i>Amount recognised in other comprehensive income</i>		
Actuarial (gains)/losses	(3,707,071)	781,399
Interest income on plan assets	1,971,556	2,301,945
Actual return on plan assets	(1,644,402)	(1,529,745)
Re-measurement of net defined benefit asset	(3,379,917)	1,553,599
<i>Net defined benefit asset recognised in the statement of financial position</i>		
Net defined benefit asset	39,806,896	39,431,121
Present value of funded	(27,134,619)	(29,655,229)
Net defined benefit asset (note 15)	12,672,277	9,775,892

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Separate Financial Statements

June 30, 2017

(expressed in Eastern Caribbean dollars)

32 Defined benefit asset ...continued

	2017 \$	2016 \$
<i>Reconciliation: Net defined benefit asset</i>		
Opening balance	9,775,892	11,291,459
Period recovery	(483,532)	38,032
Effect of other comprehensive income	3,379,917	(1,553,599)
	<hr/>	<hr/>
Closing balance (note 15)	12,672,277	9,775,892

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit obligation.

	Discount rate plus 50 basis points \$	Discount rate minus 50 basis points \$
(Decrease)/increase in obligation	<hr/> (1,356,731)	<hr/> 1,492,404
	<hr/>	<hr/>
	Mortality plus 10%	Mortality minus 10%
(Decrease)/increase in obligation	<hr/> (569,827)	<hr/> 624,096

33 Comparatives

The classification of certain items in the financial statements has been changed from the prior year to achieve a clearer or more appropriate presentation. The comparative figures have been similarly reformatted and reclassified in order to achieve comparability with the current year.

**St. Kitts-Nevis-Anguilla
National Bank Limited**

Consolidated Financial Statements
June 30, 2017
(expressed in Eastern Caribbean dollars)

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Financial Position

As of June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2017 \$	2016 \$
Assets			
Cash and balances with Central Bank	5	207,707	269,155
Treasury bills	6	120,756	147,197
Deposits with other financial institutions	7	755,345	897,625
Loans and receivables – Loans and advances to customers	8	705,312	703,897
– Originated debt	9	113,209	114,164
Investment securities – available-for-sale	10	916,845	614,422
Financial asset	32	823,124	798,480
Property inventory	11	7,902	7,954
Investment property	12	4,040	4,040
Income tax recoverable	19	30,134	4,541
Property, plant and equipment	13	36,543	37,177
Intangible assets	14	299	479
Other assets	15	57,113	60,212
Deferred tax asset	19	–	37,716
Total assets		3,778,329	3,697,059
Liabilities			
Customers' deposits	16	3,032,091	3,049,273
Other borrowed funds	17	7,456	7,968
Accumulated provisions, creditors and accruals	18	178,987	172,246
Income tax liability	19	3,624	–
Deferred tax liability	19	6,732	–
Total liabilities		3,228,890	3,229,487
Shareholders' equity			
Issued share capital	20	135,000	135,000
Share premium		3,877	3,877
Retained earnings		49,509	32,366
Reserves	21	361,053	296,329
Total shareholders' equity		549,439	467,572
Total liabilities and shareholders' equity		3,778,329	3,697,059

The notes on pages 1 to 92 are an integral part of these consolidated financial statements.

Approved for issue by the Board of Directors on

Chairman

Director

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Income

For the year ended June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2017 \$	2016 \$
Interest income		85,643	92,372
Interest expense		(53,614)	(60,188)
Net interest income	22	32,029	32,184
Fees and commission income		16,652	16,649
Fees expense		(11,351)	(9,890)
Net fees and commission income	23	5,301	6,759
Other income	24	79,381	52,215
Operating income		116,711	91,158
Non-interest expenses			
Administrative and general expenses	25	44,845	38,039
Other expenses	27	24,920	22,743
Impairment expense	26	11,091	304
Total operating expenses		80,856	61,086
Net income before tax		35,855	30,072
Income tax credit/(expense)	19	3,595	(1,698)
Net income for the year		39,450	28,374
Earnings per share (basic and diluted)	28	0.29	0.21

The notes on pages 1 to 92 are an integral part of these consolidated financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Comprehensive Income

For the year ended June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2017 \$	2016 \$
Net income for the year		39,450	28,374
Other comprehensive income:			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Available-for-sale financial assets:			
Unrealised fair value gains/(losses) on investment securities, net of tax		53,586	(48,170)
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year		(238)	25,876
	21	53,348	(22,294)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement gain/(loss) on defined benefit asset, net of tax	21	2,569	(825)
Net other comprehensive income/(loss)		55,917	(23,119)
Total comprehensive income for the year		95,367	5,255

The notes on pages 1 to 92 are an integral part of these consolidated financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Changes in Shareholders' Equity

For the year ended June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

	Notes	Issued share capital \$	Share premium \$	Statutory reserves \$	Other reserves \$	Revaluation reserves \$	Retained earnings \$	Total \$
Balance at July 1, 2015		135,000	3,877	111,674	213,748	(12,406)	23,924	475,817
Net income for the year		–	–	–	–	–	28,374	28,374
Other comprehensive income		–	–	–	(825)	(22,294)	–	(23,119)
Total comprehensive income for the year		–	–	–	(825)	(22,294)	28,374	5,255
Transfer to reserves	21	–	–	4,775	1,657	–	(6,432)	–
<i>Transaction with owners:</i>								
Dividends	29	–	–	–	–	–	(13,500)	(13,500)
Balance at June 30, 2016		135,000	3,877	116,449	214,580	(34,700)	32,366	467,572
Net income for the year		–	–	–	–	–	39,450	39,450
Other comprehensive income		–	–	–	2,569	53,348	–	55,917
Total comprehensive income for the year		–	–	–	2,569	53,348	39,450	95,367
Transfer to reserves	21	–	–	7,317	1,490	–	(8,807)	–
<i>Transaction with owners:</i>								
Dividends	29	–	–	–	–	–	(13,500)	(13,500)
Balance at June 30, 2017		135,000	3,877	123,766	218,639	18,648	49,509	549,439

The notes on pages 1 to 92 are an integral part of these consolidated financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Cash Flows

For the year ended June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2017 \$	2016 \$
Cash flows from operating activities			
Net income before tax		35,855	30,072
Adjustments for:			
Interest expense		53,614	60,188
Impairment expense		11,091	304
Depreciation and amortisation		3,079	2,801
Write-off of projects ongoing to expense		202	389
Loss/(gain) on disposal of equipment and intangible assets		160	(18)
Retirement benefit expense/(credit)		518	(134)
Dividend income		(5,822)	(3,760)
Interest income		(85,643)	(92,372)
Operating income/(loss) before changes in operating assets and liabilities		13,054	(2,530)
<i>(Increase)/decrease in operating assets:</i>			
Loans and advances to customers		(9,066)	(56,146)
Mandatory deposits with Central Bank		2,301	8,576
Financial asset		1,750	–
Other assets		5,901	2,772
<i>Increase/(decrease) in operating liabilities:</i>			
Customers' deposits		(15,783)	58,526
Accumulated provisions, creditors and accruals		6,740	2,423
Cash generated from operations		4,897	13,621
Interest received		44,892	72,444
Pension contributions paid		(486)	(461)
Income tax paid		(1,517)	(1,271)
Interest paid		(55,012)	(65,534)
Net cash (used in)/from operating activities		(7,226)	18,799
Cash flows from investing activities			
Proceeds from sale of investment securities and originated debts		973,568	930,607
Decrease in restricted term deposits and treasury bills		40,197	7,879
Interest received		14,336	19,969
Dividends received		5,822	3,760
Proceeds from disposal of equipment and intangible assets		7	18
Purchase of equipment and intangible assets		(2,634)	(1,971)
Purchase of investment securities and originated debt		(1,198,833)	(1,199,475)
Net cash used in investing activities		(167,537)	(239,213)
Subtotal carried forward		(174,763)	(220,414)

St. Kitts-Nevis-Anguilla National Bank Limited

Consolidated Statement of Cash Flows ...*continued*

For the year ended June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2017 \$	2016 \$
Subtotal brought forward		(174,763)	(220,414)
Cash flows from financing activities			
(Decrease)/increase in other borrowed funds		(512)	472
Dividends paid	29	(13,500)	(13,500)
Net cash used in financing activities		(14,012)	(13,028)
Net decrease in cash and cash equivalents		(188,775)	(233,442)
Cash and cash equivalents, beginning of year		952,871	1,186,313
Cash and cash equivalents, end of year	33	764,096	952,871

The notes on pages 1 to 92 are an integral part of these consolidated financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

1 Incorporation and principal activity

St. Kitts-Nevis-Anguilla National Bank Limited (the “Bank”) was incorporated as a public limited company on February 15, 1971 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 1999. The Bank operates in both St. Kitts and Nevis and is subject to the provisions of the Banking Act of 2015. The Bank is listed on the Eastern Caribbean Securities Exchange.

The Bank’s registered office is at Central Street, Basseterre, St. Kitts. 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 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.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.2 Changes in accounting policies

New and revised standards that are effective for annual periods beginning on or after July 1, 2016

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year.

- IAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative*. The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.2 Changes in accounting policies ...continued

New and revised standards that are effective for annual periods beginning on or after July 1, 2016
...continued

- IAS 16 (Amendment), *Property, Plant and Equipment*, and IAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*. The amendment in IAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to IAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

- Annual Improvements to IFRS (2012-2014 Cycle) (effective from January 1, 2016). Among the improvements, the following amendments are relevant to the Group but management does not expect these to have material impact on the Group's consolidated financial statements:
 - IFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of IFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

 - IAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

These new and amendments to standards do not have a significant impact on these consolidated financial statements and therefore disclosures have not been made.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.2 Changes in accounting policies ...continued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these consolidated financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's consolidated financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11, *Construction Contracts*, and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition.

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.2 Changes in accounting policies ...continued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group ...continued

IFRS 15, Revenue from Contracts with Customers ...continued

The directors have not yet fully assessed the impact of IFRS 15 in these financial statements, and are not yet in a position to provide quantified information. It is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

IFRS 9, Financial Instruments (2014)

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are in the scope of IAS 39, *Financial Instruments: Recognition and Measurement*, are required to be substantially at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are sole payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.2 Changes in accounting policies ...continued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group ...continued

IFRS 9, Financial Instruments (2014) ...continued

- With regard to the measurement of financial liabilities designated as fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

Under IAS 39, the entire amount of the change in the fair value in the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transaction eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the type of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the application of IFRS 9 in the future may have a material impact on the disclosures or on the amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group undertakes a detailed review. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.2 Changes in accounting policies ...continued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group ...continued

Amendments to IFRS 4 – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*

In September 2016, the IASB published Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* which makes narrow scope amendments to IFRS 4, *Insurance Contracts*. The IASB issued the amendments to address the temporary accounting consequences of the different effective dates of IFRS 9, *Financial Instruments*, and the new insurance contracts Standard, IFRS 17. The new insurance contracts Standard is yet to be finalised and will have an effective date January 1, 2021. Therefore, its mandatory effective date will be after the 2018 effective date of IFRS 9. Considerable concerns were raised over the practical challenges of insurance companies implementing both new standards on different dates as a result of the significant accounting changes. Further concerns were raised over the potential for increased volatility in profit or loss if IFRS 9's new requirements for financial instruments come into force before the new insurance accounting rules. To address these concerns while still fulfilling the needs of users of financial statements, the IASB has responded by amending IFRS 4 and introducing the following alternatives:

- an overlay approach – an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of IFRS 9; and
- a temporary exemption – an optional temporary exemption from applying IFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of IAS 39 until the application of IFRS 17 on January 1, 2021.

The amendments are effective as follows:

- the overlay approach is applied when entities first apply IFRS 9 from its effective date of January 1, 2018; and
- a temporary exemption from IFRS 9 is applied for accounting periods on or after January 1, 2018.

The Group does not plan to elect the use of temporary exemption from IFRS 9 on its effective date, as the Group's activities overall are not predominantly connected with insurance.

IFRS 17, *Insurance Contracts*

The IASB has recently published IFRS 17, *Insurance Contracts*. The new Standard replaces IFRS 4 which was published in 2004. IFRS 17 requires all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.2 Changes in accounting policies ...continued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group ...continued

IFRS 17, Insurance Contracts ...continued

The Standard introduces insurance contract measurement principles requiring:

- current, explicit and unbiased estimates of future cash flows;
- discount rates that reflect the characteristics of the contracts' cash flows; and
- explicit adjustment for non-financial risk.

Day one profits should be deferred as a contractual service margin and allocated systematically to profit or loss as entities provide coverage and are released from risk. Revenue is no longer equal to written premiums but to the change in the contract liability covered by consideration. A separate measurement model applies to reinsurance contracts held. Modifications are allowed for qualifying short-term contracts and participating contracts. Increased disclosure requirements also apply.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021 but may be applied earlier. The directors anticipate that the application of IFRS 17 in the future may have a material impact on the amounts reported and the disclosures made in the consolidated financial statements. However, management has not yet fully assessed the impact of IFRS 17 on these consolidated financial statements.

IFRS 16, Leases

IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-statement of financial position finance leases and off-statement of financial position operating leases. Instead, there is a single, on-statement of financial position accounting model that is similar to current finance lease accounting.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. For lessees, the lease becomes an on-statement of financial position liability that attracts interest, together with a right-of-use assets also being recognized on the statement of financial position. In other words, lessees will appear to become more asset-rich but also more heavily indebted.

The impacts are not limited to the consolidated statement of financial position. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019. The impact of IFRS 16 is being assessed by the directors of the Group.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.3 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of June 30, 2017. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of June 30. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.4 Cash and cash equivalents

Cash comprises cash on hand and demand and call deposits with banks. Cash equivalents are short-term, highly liquid investments with original maturities of ninety (90) days or less that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents are subject to an insignificant risk of change in value. Cash and cash equivalents exclude balances held to meet statutory requirements and restricted deposits.

2.5 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – are recognised in the statement of financial position and measured in accordance with their assigned category.

Financial assets

The Group allocates its financial assets to the IAS 39 category of: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

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

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.5 Financial assets and liabilities ...continued

Financial assets ...continued

(i) Loans and receivables ...continued

Loans and receivable are recognised when cash or the right to cash is advanced to a borrower and are carried at amortised cost using the effective interest method. The Group's loans and receivables include cash in bank and cash equivalents, treasury bills, deposits with other financial institutions, loans and advances to customers, originated debt, financial asset and other receivables within "other assets".

(ii) Available-for-sale financial assets

Available-for-sale financial assets 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 available-for-sale financial assets are recognised on settlement date – the date that an asset is delivered to or received by the Group.

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

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

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

The Group's available-for-sale financial assets are separately presented in the consolidated statement of financial position.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.5 Financial assets and liabilities ...continued

Financial liabilities

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

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

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Reclassification of financial assets

The Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.6 Classes of financial instruments

The Group classifies the financial instruments into classes that reflect the nature of information disclosed and take into account the characteristics of those financial instruments. The classification hierarchy can be seen in the table below:

Financial assets	Loans and receivables	Cash and cash equivalents and deposits with other financial institutions		Bank accounts
		Treasury bills and originated loans		Government fixed rated bonds and long term note
		Loans and advances to customers		Primary lenders
	Available-for-sale financial assets	Investment securities – Available-for-sale investments	Equity and debt securities	
Financial liabilities	Financial liabilities at amortised cost	Customers' deposits and other borrowed funds		
		Other accumulated provisions, creditors and accruals		

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.7 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a 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 loss event (or events) has an impact on the estimated future cash flows of the financial asset 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.

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.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.7 Impairment of financial assets ...continued

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

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

(b) Assets classified as available-for-sale

The Group assesses at each reporting 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 consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated 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 consolidated statement of income.

(c) Renegotiated loans

Loans and advances that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Management continuously reviews these accounts to ensure that all criteria are met and that future payments are likely to occur.

2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.9 Employee benefits

(a) Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in accumulated provisions, creditors and accruals, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

(b) Gratuity

The Group provides a gratuity plan to its employees after fifteen (15) years of employment. The amount of the gratuity payment to eligible employees at retirement is computed with reference to final salary and calibrated percentage rates based on the number of years of service. Provisions for these amounts are included in the consolidated statement of financial position.

(c) Pension plan

The Group operates a defined benefit plan. The administration of the plan is conducted by National Caribbean Insurance Company Limited, one of the subsidiaries. The plan is funded through payments to trustee-administered deposit funds determined by periodic actuarial calculations. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement based on factors such as age, years of service and final salary. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period.

The asset figure recognised in the consolidated statement of financial position in respect of net defined benefit asset is the fair value of the plan assets less the present value of the defined benefit obligation at the reporting date. The retirement benefit asset recognised in the consolidated statement of financial position represents the actual surplus in the defined benefit plan. Re-measurements comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the consolidated statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Re-measurement recorded in other comprehensive income is not recycled. However, the Group may transfer those amounts recognised in other comprehensive income within equity.

2.10 Property, plant and equipment

Land and buildings held for use in the rendering of services, or for administrative purposes, are stated in the consolidated statement of financial position 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, usually every five (5) years, such that the carrying amount does not differ materially from that which would be determined using fair values at the year end.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

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2 Significant accounting policies ...continued

2.10 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.

Projects ongoing represents structures under construction and project development not yet completed and is stated at cost. This includes the costs of construction and other direct costs. Projects ongoing is not depreciated until such time that the relevant assets are ready for use.

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:

Buildings:	25 – 45 years
Leasehold improvements:	25 years, or over the period of lease if less than 25 years
Equipment, fixtures and fittings 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 the consolidated statement of income.

2.11 Intangible assets

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

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

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

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(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.12 Impairment of non-financial assets

Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Insurance contracts

i) Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

ii) Recognition and measurement

Insurance contracts issued are classified as short-term insurance contracts and long-term insurance contracts with fixed and guaranteed payments.

Short-term insurance contracts

Property and casualty insurance business

- Property and casualty insurance contracts are generally one year renewable contracts issued by the Group covering insurance risks over property, motor, accident and marine.

Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of the property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damages (public liability).

Premiums are recognized as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unexpired insurance risk. Premiums are shown before deduction of commissions.

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Notes to Consolidated Financial Statements

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(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies ...continued

2.13 Insurance contracts ...continued

ii) Recognition and measurement ...continued

Short-term insurance contracts ...continued

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using:

- the input of assessments for individual cases reported to the Group; and
- statistical analyses for the claims incurred but not reported.

These are used to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

- Health insurance business

Health insurance contracts are generally one year renewable contracts issued by the Group 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.

Long-term insurance contracts with fixed and guaranteed terms

- Life insurance business

These contracts insure events associated with human life (for example, death and survival) over a long duration. Premiums are recognized as revenue when they are received or become receivable from the policyholder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

The determination of actuarial liabilities on life 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 utilises an actuary for the determination of the actuarial liabilities. These liabilities consist 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.

The liabilities are recalculated at each end of the reporting period using the assumptions established at inception of the contracts.

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Notes to Consolidated Financial Statements

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2 Significant accounting policies...continued

2.13 Insurance contracts...continued

iii) Reinsurance contracts held

The Group obtains reinsurance contracts coverage for insurance risks underwritten. The Group 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 Group of its liability. The benefits to which the Group are entitled under reinsurance contracts held are recognised as reinsurance assets. Reinsurance assets are assessed for impairment and if evidence that the asset is impaired exists, the impairment is recorded in the consolidated statement of income. The obligations of the Group under reinsurance contracts held are included under insurance contract liabilities.

iv) Liability adequacy test

At the end of the reporting period, liability adequacy tests are performed by the Group to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows.

If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. The deficiency is included in the consolidated statement of income under claims and benefits.

v) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated statement of income. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated under the same method used for these financial assets.

vi) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets until the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

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Notes to Consolidated Financial Statements

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2 Significant accounting policies ...continued

2.13 Insurance contracts ...continued

vi) Salvage and subrogation reimbursements ...continued

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets until the liability is settled. The allowance is the amount of the assets that can be recovered from the action against the liable third party.

2.14 Borrowings

Borrowings are recognised initially at fair value (which is their issue proceeds and fair value of the considerations received), net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

2.15 Guarantees and letters of credit

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

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Leases – Group as a Lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Group are primarily operating leases. The total payments made under the operating leases are charged to income on a straight-line basis over the period of the lease.

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

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2 Significant accounting policies ...continued

2.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services rendered, stated net of discounts and taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities as described below.

a) Interest income and expense

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

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

b) 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.

c) Dividend income

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

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Notes to Consolidated Financial Statements

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2 Significant accounting policies ...continued

2.18 Revenue recognition ...continued

d) Premiums

Written premiums for non-life insurance relate to contracts beginning in the financial year and are stated gross of commissions payable to intermediaries and exclusive of taxes levied on premiums. Written premiums for life contracts are recognised when due from the policyholder. Unearned premiums are those proportions of the premium which relate to periods of risk after the reporting date.

e) Property sales

Revenue from property sales are recognized when title of the properties has passed to the buyer.

2.19 Operating expenses and fees expenses

Operating expenses and fees expenses are recognised in the consolidated statement of income upon utilisation of the services or as incurred.

2.20 Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates (the “functional currency”). The consolidated financial statements are presented in Eastern Caribbean dollars, which is the Group’s functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of income within ‘Other income’.

2.21 Equity, reserves and dividend payments

(a) Issued share capital and share premium

Issued share capital represents the nominal (par) value of shares that have been issued. Share premium includes any premiums received on issued share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are paid by the Board of Directors and or approved by the Bank’s shareholders.

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2 Significant accounting policies...continued

2.21 Equity, reserves and dividend payments ...continued

(c) Other components of equity

Other components of equity include the following:

- Statutory reserve – comprises of reserve fund for regulatory requirement;
- Revaluation reserves – comprises of:
 - unrealized gains and losses from the fair value of available-for-sale investment securities,
 - gains and losses from the revaluation of land and buildings, and
- Other reserves – comprises the defined benefit pension plan reserve, regulatory reserve for loan impairment, regulatory reserve for interest accrued collected on non-performing loans, insurance and claims equalization reserves and general reserve.

(d) Retained earnings

Retained earnings include cumulative balance of net income or loss, dividend distributions, effect of changes in accounting policy and other capital adjustments.

2.22 Current and deferred income tax

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted by the reporting 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 reporting date are used to determine deferred income tax.

Deferred tax asset is recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of available-for-sale investment securities) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

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2 Significant accounting policies ...continued

2.22 Current and deferred income tax ...continued

The Group is subjected to the following tax rates:

(i) *Income tax rates*

The Group is subject to corporate income taxes at a rate of 33%.

(ii) *Premium tax rates*

Insurers are subject to tax on premium revenues generated in certain jurisdictions. The principal rate of premium tax is 5% for general insurance and nil for life insurance.

2.23 Deposit funds

Deposit administration contracts are issued by the Group to registered pension schemes for the deposit of pension plan assets with the Group.

Deposit administration liabilities are recognised initially at fair value and are subsequently stated at:

- amortised cost where the insurer is obligated to provide investment returns to the pension scheme in the form of interest;
- fair value through income where the Group is obligated to provide investment returns to the pension scheme in direct proportion to the investment returns on specified blocks of assets.

Deposit administration contributions are recorded directly as liabilities. Withdrawals are deducted directly from the liability. The interest or investment return provided is recorded as an interest expense.

2.24 Investment property

Investment property is property held to earn rental and/or for capital appreciation, including property under construction for such purposes. Investment property is measured at cost, including transaction cost.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in income in the period in which the property is derecognised.

2.25 Property inventory

Property inventory is measured at the lower of cost and net realizable value (NRV). The cost of property inventory comprises all costs incurred in bringing the properties to their present condition. NRV represents the estimated selling price less all estimated costs necessary to make the sale.

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Notes to Consolidated Financial Statements

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2 Significant accounting policies...continued

2.26 Business segments

Business segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2.27 Events after the financial reporting date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting (non-adjusting events) are disclosed in the notes to the financial statements when material.

3 Management of financial and insurance risk

The Group's activities expose it to a variety of financial and insurance risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the commercial banking business and insurance, 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 Group'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 and Comptroller Division under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as approved policies covering specific areas, such as foreign exchange, interest rate, insurance 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, insurance risk (property, casual and life insurance risk) and other operational risk. Market risk includes currency risk, interest rate risk and other price risk.

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparties will cause financial losses for the Group by failing to discharge their obligations. 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 reporting date. Management, therefore, carefully manages its exposure to such credit risks. Credit exposure arises principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio.

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3 Management of financial and insurance risk ...continued

3.1 Credit risk ...continued

There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised and reported to the Board of Directors.

The 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.

(a) Loans and advances

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

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

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

(b) Debt securities and other bills

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

3.1.1 Risk limit control and mitigation policies

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

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

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3 Management of financial and insurance risk...*continued*

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

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

(a) *Collateral*

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

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

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

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

(b) *Credit-related commitments*

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

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

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

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3 Management of financial and insurance risk...continued

3.1.2 Impairment and provisioning

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

		2017		2016	
Group's rating		Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1	Pass	39.95	1.08	53.41	—
2	Special mention	0.96	0.14	16.10	0.01
3	Sub-standard	51.87	42.71	22.70	31.87
4	Doubtful	6.21	48.93	3.50	26.51
5	Loss	1.01	7.14	4.29	41.61
		100.00	100.00	100.00	100.00

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

(i) *Loans*

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

(ii) *Advances (overdrafts)*

- Approval limit has been exceeded for three months;
- Interest charges for three (3) months or more have not been covered by deposits; and
- Account has developed a hardcode which was not converted.

The Group requires the review of individual financial assets that are above materiality thresholds on an annual basis or more regularly when individual circumstances require.

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis and are applied where necessary. Assessments take into account collateral held and anticipated cash receipts for individually assessed accounts.

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3 Management of financial and insurance risk...continued

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

Credit risk exposure relating to on/off balance sheet assets is as follows:

	Maximum exposure	
	2017	2016
	\$	\$
Cash and balances with Central Bank*	15,742	74,742
Treasury bills	120,756	147,197
Deposits with other financial institutions	755,345	897,625
Loans and receivable:		
Overdrafts	169,673	163,841
Corporate customers	281,609	289,387
Term loans	102,133	101,894
Mortgages (personal)	151,897	148,775
Originated debt	113,209	114,164
Available-for-sale debt investments	352,559	150,348
Financial asset	823,124	798,480
Other assets	32,078	49,793
Credit risk exposures relating to off-balance sheet assets are as follows:		
Credit commitments	24,045	63,076
Total	2,942,170	2,999,322

*Excluding cash on hand and mandatory deposits with Central Bank.

The above table represents a worst case scenario of credit risk exposure at end of reporting period, 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 statement of financial position. As shown above 24% (2016: 24%) of the total maximum exposure is derived from loans and advances to customers. Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loans and advances portfolio and debt securities based on the following:

- 41% (2016: 70%) of the loans and advances portfolio are categorized in the top two grades of the internal rating system;
- Corporate customers, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees;
- 34% (2016: 63%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- The Group continues to grant loans and advances in accordance with its lending policies and guidelines; and
- A number of issuers and debt instruments in the region are not rated; consequently 40% (2016: 63%) of these investments are not rated (Government securities – treasury bills, etc.).

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3 Management of financial and insurance risk...continued

3.1.4 Loans and advances

Loans and advances to customers are summarized as follows:

	2017 \$	2016 \$
Loans and advances to customers		
Neither past due nor impaired	264,639	478,934
Past due not impaired	46,622	78,770
Impaired	456,116	200,637
	767,377	758,341
Interest receivable	1,474	1,372
Less allowance for impairment loss	(63,539)	(55,816)
Net	705,312	703,897

The total allowance for impairment losses on loans and advances is \$63,539 (2016: \$55,816). Further information of the allowance for impairment losses on loans and advances to customers is provided in note 8.

(a) Loans and advances to customers 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 Group.

As of June 30, 2017	Overdrafts \$	Term loans \$	Mortgages \$	Corporate customers \$	Total \$
Classifications:					
1. Pass	16,635	22,936	102,778	114,693	257,042
2. Special mention	757	496	1,717	2,543	5,513
3. Sub-standard	150	320	407	1,207	2,084
Gross	17,542	23,752	104,902	118,443	264,639
As of June 30, 2016					
Classifications:					
1. Pass	15,499	21,952	99,898	186,445	323,794
2. Special mention	79,784	37,928	2,263	2,759	122,734
3. Sub-standard	160	31,363	883	–	32,406
Gross	95,443	91,243	103,044	189,204	478,934

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3 Management of financial and insurance risk...continued

3.1.4 Loans and advances...continued

(b) Loans and advances to customers past due but not impaired

Loans and advances less than ninety (90) days past due are not considered impaired, unless other information is available to indicate the contrary. Loans and advances ninety (90) days past due but not impaired are those with special arrangements.

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term loans	Mortgages	Corporate customers	Total
	\$	\$	\$	\$
As of June 30, 2017				
Past due up to 30 days	1,581	11,556	15,270	28,407
Past due 31 – 60 days	420	3,683	–	4,103
Past due 61 – 90 days	776	429	–	1,205
Over 90 days	15	131	12,761	12,907
Gross	2,792	15,799	28,031	46,622
Fair value of collateral	10,983	30,161	74,438	115,582
	Term loans	Mortgages	Corporate customers	Total
	\$	\$	\$	\$
As of June 30, 2016				
Past due up to 30 days	1,833	10,473	61,999	74,305
Past due 31 – 60 days	511	2,503	–	3,014
Past due 61 – 90 days	139	1,245	–	1,384
Over 90 days	67	–	–	67
Gross	2,550	14,221	61,999	78,770
Fair value of collateral	11,161	27,958	119,836	158,955

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3 Management of financial and insurance risk...continued

3.1.4 Loans and advances...continued

(b) Loans and advances to customers past due but not impaired...continued

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

(c) Loans and advances to customers individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is \$456,116 (2016: \$200,637).

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

	Overdrafts \$	Term loans \$	Mortgages \$	Corporate customers \$	Total \$
As of June 30, 2017					
Individually impaired Interest receivable	166,765 12,099	76,052 4,250	23,477 16,177	118,173 39,123	384,467 71,649
Gross	178,864	80,302	39,654	157,296	456,116
Fair value of collateral	65,415	39,705	39,237	270,115	414,472
As of June 30, 2016					
Individually impaired Interest receivable	78,271 12,031	4,795 4,266	26,718 16,825	20,684 37,047	130,468 70,169
Gross	90,302	9,061	43,543	57,731	200,637
Fair value of collateral	66,095	12,574	42,302	59,648	180,619

(d) Loans and advances to customers 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. Renegotiated loans at the reporting date stood at \$4,813 (2016: \$6,830).

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3 Management of financial and insurance risk...continued

3.1.5 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 the reporting date and based on Standard & Poor's ratings or equivalent:

	Treasury bills \$	Available- for-sale debt investments \$	Loans and Receivables – originated debt \$	Total \$
As of June 30, 2017				
AA- to AA+	–	3,122	–	3,122
A- to A+	–	9,771	–	9,771
Lower than A-	–	28,665	–	28,665
Unrated/internally rated	120,756	311,001	113,209	544,966
	120,756	352,559	113,209	586,524

	Treasury bills \$	Available- for-sale debt investments \$	Loans and Receivables – originated debts \$	Total \$
As of June 30, 2016				
AA- to AA+	–	10,768	–	10,768
A- to A+	–	12,576	–	12,576
Lower than A-	–	48,959	–	48,959
Unrated/internally rated	147,197	78,045	114,164	339,406
	147,197	150,348	114,164	411,709

As of June 30, 2017, the loans and receivables – originated debt includes certificates of participation in Government of Antigua and Barbuda long term notes, which were past due amounting to \$36,243. Refer to note 9.

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3 Management of financial and insurance risk...continued

3.1.6 Geographical concentrations of on balance sheet and off balance sheet assets with credit risk exposure

The Group operates three (3) business segments as follows:

- commercial and retail banking;
- insurance coverage, investment and real estates; and
- long term financing and trust services.

These are predominantly localised to St. Kitts and Nevis. Commercial banking activities, however, account for a significant portion of credit risk exposure.

The credit risk exposure is, therefore, spread geographically and over a diversity of personal and commercial customers.

	St. Kitts & Nevis \$	United States & Canada \$	Europe \$	Other Caribbean States \$	Total \$
As of June 30, 2017					
Cash and balances with Central Bank	15,742	–	–	–	15,742
Treasury bills	102,334	–	–	18,422	120,756
Deposits with other financial institutions	21,488	681,838	24,879	27,140	755,345
Loans and advances to customers	600,600	96,522	4,519	3,671	705,312
Originated debt	19,712	11,183	–	82,314	113,209
Available-for-sale debt investments	–	352,559	–	–	352,559
Financial asset	823,124	–	–	–	823,124
Other assets	25,401	6,677	–	–	32,078
	1,608,401	1,148,779	29,398	131,547	2,918,125
As of June 30, 2016					
Cash and balances with the Central Bank	74,742	–	–	–	74,742
Treasury bills	100,708	–	–	46,489	147,197
Deposits with other financial institutions	15,448	808,094	48,526	25,557	897,625
Loans and advances to customers	603,526	88,937	2,223	9,211	703,897
Originated debt	19,386	11,183	–	83,595	114,164
Available-for-sale debt investments	2,286	148,062	–	–	150,348
Financial asset	798,480	–	–	–	798,480
Other assets	41,776	7,422	–	595	49,793
	1,656,352	1,063,698	50,749	165,447	2,936,246

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3 Management of financial and insurance risk...continued

3.1.7 Concentration of risks of financial assets with credit exposure

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

	Public sector	Construction	Tourism	Financial institutions	Individuals	Other industries	Total
	\$	\$	\$	\$	\$	\$	\$
As of June 30, 2017							
Cash and balances with Central Bank	–	–	–	15,742	–	–	15,742
Treasury Bills	120,756	–	–	–	–	–	120,756
Deposits with other financial institutions	15,221	–	–	740,091	33	–	755,345
Loans and receivables:							
<i>Originated debt</i>	102,026	–	–	11,183	–	–	113,209
<i>Loans and advances</i>	156,117	114,108	171,850	6,758	171,207	85,272	705,312
Available-for-sale debt investments	2,348	–	686	301,174	–	48,351	352,559
Financial asset	823,124	–	–	–	–	–	823,124
Other assets	3,380	–	–	16,300	1,139	11,259	32,078
	1,222,972	114,108	172,536	1,091,248	172,379	144,882	2,918,125

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3 Management of financial and insurance risk ...continued

3.1.7 Concentration of risks of financial assets with credit exposure ...continued

	Public sector	Construction	Tourism	Financial institutions	Individuals	Other industries	Total
	\$	\$	\$	\$	\$	\$	\$
As of June 30, 2016							
Cash and balances with Central Bank	–	–	–	74,742	–	–	74,742
Treasury bills	147,197	–	–	–	–	–	147,197
Deposit with financial institutions	–	–	–	897,459	166	–	897,625
Loans and receivables:							
<i>Loans and advances</i>	147,781	124,114	159,939	16,560	168,329	87,174	703,897
<i>Originated debts</i>	102,678	–	–	11,486	–	–	114,164
Available-for-sale debt investments	2,417	–	697	82,568	–	64,666	150,348
Financial asset	798,480	–	–	–	–	–	798,480
Other assets	–	–	–	12,899	226	36,668	49,793
	1,198,553	124,114	160,636	1,095,714	168,721	188,508	2,936,246

St. Kitts-Nevis-Anguilla National Bank Limited

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3 Management of financial and insurance risk ...continued

3.1.7 Concentration of risks of financial assets with credit exposure ...continued

The Government of St. Kitts and Nevis accounts for \$1,222,972 (2016: \$1,198,533) or 42% (2016: 41%) of \$2,918,125 (2016: \$2,936,246) the total credit exposure, which represents a significant concentration of credit risk. The amounts due from the Government are included in the Public Sector category.

3.2 Market risk

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

The Group's exposure to market risks primarily arise from the interest rate management of the Group's retail and commercial banking assets and liabilities, debt investment securities and equity risks arising from its available-for-sale investments.

3.2.1 Price risk

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

3.2.2 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 (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 the reporting date. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

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3 Management of financial and insurance risk...continued

3.2.2 Foreign exchange risk...continued

Concentration of currency risk

As of June 30, 2017	ECD \$	USD \$	EURO \$	GBP \$	CAN \$	BDS \$	GUY \$	Total \$
Assets								
Cash and balances with Central Bank	202,432	5,156	36	58	10	15	–	207,707
Treasury bills	120,756	–	–	–	–	–	–	120,756
Deposits with other financial institutions	24,382	724,217	3,152	1,830	833	923	8	755,345
Loans and receivables:								
Loans and advances to customers	476,928	228,384	–	–	–	–	–	705,312
Originated debt	60,970	52,239	–	–	–	–	–	113,209
Available-for-sale debt investments	9,490	907,355	–	–	–	–	–	916,845
Financial asset	823,124	–	–	–	–	–	–	823,124
Other assets	25,401	6,677	–	–	–	–	–	32,078
Total financial assets	1,743,483	1,924,028	3,188	1,888	843	938	8	3,674,376
Liabilities								
Customers' deposits	2,321,030	709,002	133	89	1,837	–	–	3,032,091
Other borrowed funds	7,456	–	–	–	–	–	–	7,456
Other liabilities	157,550	11,017	43	480	40	128	–	169,258
Total financial liabilities	2,486,036	720,019	176	569	1,877	128	–	3,208,805
Net on-consolidated statement of financial position	(742,553)	1,204,009	3,012	1,319	(1,034)	810	8	465,571
Credit commitments	24,045	–	–	–	–	–	–	24,045

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3 Management of financial and insurance risk ...continued

3.2.2 Foreign exchange risk ...continued

Concentration of currency risk ...continued

As of June 30, 2016	ECD \$	USD \$	EURO \$	GBP \$	CAN \$	BDS \$	GUY \$	Total \$
Assets								
Cash and balances with Central Bank	263,523	5,536	33	30	20	13	–	269,155
Treasury bills	147,197	–	–	–	–	–	–	147,197
Deposits with other financial institutions	19,291	873,005	1,393	1,743	1,780	389	24	897,625
Loans and receivables:								
Loans and advances to customers	480,518	223,379	–	–	–	–	–	703,897
Originated debt	61,936	52,228	–	–	–	–	–	114,164
Available-for-sale debt investments	10,851	603,571	–	–	–	–	–	614,422
Financial asset	798,480	–	–	–	–	–	–	798,480
Other assets	40,517	9,276	–	–	–	–	–	49,793
Total financial assets	1,822,313	1,766,995	1,426	1,773	1,800	402	24	3,594,733
Liabilities								
Customers' deposits	2,347,560	699,628	155	2	1,928	–	–	3,049,273
Other borrowed funds	–	7,968	–	–	–	–	–	7,968
Other liabilities	148,919	8,602	42	478	43	119	–	158,203
Total financial liabilities	2,496,479	716,198	197	480	1,971	119	–	3,215,444
Net on-consolidated statement of financial position	(674,166)	1,050,797	1,229	1,293	(171)	283	24	379,289
Credit commitment	63,076	–	–	–	–	–	–	63,076

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3 Management of financial and insurance risk ...continued

3.2.3 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.

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3 Management of financial and insurance risk...continued

3.2.3 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 of June 30, 2017	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 and balances with Central Bank	–	–	–	–	–	207,707	207,707
Treasury bills	10,255	3,069	106,722	–	–	710	120,756
Deposit with other financial institutions	364,965	67,565	17,170	20,270	–	285,375	755,345
Loans and receivables:							
<i>Loans and advances to customers</i>	393,366	995	49,072	64,381	197,498	–	705,312
<i>Originated debt</i>	13,524	–	4,093	74,084	20,601	907	113,209
Available-for-sale debt investments	351,778	–	–	–	–	565,067	916,845
Financial asset	–	–	794,270	–	–	28,854	823,124
Other assets	4,197	–	3,680	7,221	–	16,980	32,078
Total assets	1,138,085	71,629	975,007	165,956	218,099	1,105,600	3,674,376
Liabilities							
Customers' deposits	1,045,921	201,706	878,107	–	–	906,357	3,032,091
Other borrowed funds	–	–	–	–	–	7,456	7,456
Other liabilities	1	–	–	–	42,622	126,635	169,258
Total liabilities	1,045,922	201,706	878,107	–	42,622	1,040,448	3,208,805
Total interest repricing gap	92,163	(130,077)	96,900	165,956	175,477	65,152	465,571

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3 Management of financial and insurance risk...continued

3.2.3 Interest rate risk ...continued

As of June 30, 2016	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 and balances with Central Bank	–	–	–	–	–	269,155	269,155
Treasury bills	28,486	3,066	113,601	–	–	2,044	147,197
Deposits with other financial institutions	497,722	135,130	3,232	20,270	–	241,271	897,625
Loans and receivables:							
<i>Loans and advances to customers</i>	277,397	118,660	12,813	104,514	190,513	–	703,897
<i>Originated debt</i>	5	25,374	9	67,231	20,661	884	114,164
Available-for-sale debt investments	146,074	–	–	–	2,010	466,338	614,422
Financial asset	–	–	–	796,020	–	2,460	798,480
Other asset	3,598	–	14,074	7,055	–	25,066	49,793
Total assets	953,282	282,230	143,729	995,090	213,184	1,007,218	3,594,733
Liabilities							
Customers' deposits	1,010,464	239,046	868,770	455	–	930,538	3,049,273
Other borrowed funds	7,968	–	–	–	–	–	7,968
Other liabilities	2	–	–	–	42,041	116,160	158,203
Total liabilities	1,018,434	239,046	868,770	455	42,041	1,046,698	3,215,444
Total interest repricing gap	(65,152)	43,184	(725,041)	994,635	171,143	(39,480)	379,289

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3 Management of financial and insurance risk...continued

3.3 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 and fulfil commitments to lend.

3.3.1 Liquidity risk management

The Group's liquidity is managed and monitored by the Comptroller Division with guidance, where necessary, from the Board of Directors. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. 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.
- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, industry and term.
- Daily monitoring of the statement of financial position 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.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification of geography, currency, providers, products and terms. The Group holds a diversified portfolio of cash loans and investment securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk include the following:

- Cash and balances with Central Bank;
- Deposits with other financial institutions;
- Loans and advances to customers
- Treasury bills; and
- Available-for-sale investment securities

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3 Management of financial and insurance risk...continued

3.3.3 Cash flows

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

	Up to 1 month \$	1 to 3 months \$	3 to 12 months \$	1 to 5 years \$	Over 5 years \$	Total \$
As of June 30, 2017						
Financial liabilities						
Customers' deposits	1,939,176	205,391	912,116	–	–	3,056,683
Other borrowed funds	–	–	7,456	–	–	7,456
Other liabilities	160,457	8,788	13	–	–	169,258
Total financial liabilities	2,099,633	214,179	919,585	–	–	3,233,397
Assets held to manage liquidity risk	2,238,498	71,629	983,853	165,348	218,099	3,677,427
As of June 30, 2016						
Financial liabilities						
Customers' deposits	1,913,610	218,751	896,928	–	–	3,029,289
Other borrowed funds	693	6,803	–	–	–	7,496
Other liabilities	103,146	2,892	4,035	43,932	–	154,005
Total financial assets	2,017,449	228,446	900,963	43,932	–	3,190,790
Assets held to manage liquidity risk	1,975,079	207,023	162,683	995,920	210,295	3,551,000

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(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk...continued

3.3.4 Off-balance sheet items

Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (note 31), are summarised in the table below.

	Up to 1 year \$	1 to 3 years \$	Over 3 years \$	Total \$
As of June 30, 2017				
Loan commitments	8,806	461	6,191	15,458
Credit card commitments	8,587	–	–	8,587
	17,393	461	6,191	24,045
As of June 30, 2016				
Loan commitments	46,855	512	6,706	54,073
Credit card commitments	9,003	–	–	9,003
	55,858	512	6,706	63,076

3.4 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

To limit the Group's exposure of potential loss on an insurance policy, the Group ceded certain levels of risk to a reinsurer. The Group selects reinsurers which have a well-established capability to meet their contractual obligations and which generally have high credit ratings.

For its property risks, the Group uses quota share and excess of loss catastrophe reinsurance treaties to obtain reinsurance coverage. Catastrophe reinsurance is obtained for multiple claims arising from one event or occurring within a specified time period. However, treaty limits may apply and may expose the insurer to further claim exposure.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefits payments exceed the carrying amount of the insurance liabilities. This could occur because of the frequency or severity of claims and if benefits payments are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate.

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3 Management of financial and insurance risk ...continued

3.4 Insurance risk ...continued

The concentration of insurance risk before and after reinsurance by risk category is summarised below, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from insurance contracts:

	Gross liability		Reinsurers' share		Net liability	
	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$
St. Kitts	5,007	5,402	–	–	5,007	5,402
Nevis	136	242	–	–	136	242
Anguilla	91	368	–	–	91	368
	5,234	6,012	–	–	5,234	6,012
Motor	2,528	3,032	–	–	2,528	3,032
Health & Life	2,326	2,616	–	–	2,326	2,616
Property	332	332	–	–	332	332
Liability	48	32	–	–	48	32
	5,234	6,012	–	–	5,234	6,012

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3 Management of financial and insurance risk ...continued

3.4 Insurance risk ...continued

i) Property insurance

Property insurance contracts are underwritten using the following main risk categories: fire, business interruption, weather damage and theft.

Frequency and severity of claims

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, flooding, hurricanes, earthquake, etc), increase the frequency and severity of claims and their consequences. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from fire, hurricane and earthquake damage. The Group has reinsurance cover for such damage to limit losses to \$500 in any one occurrence, per individual property risk.

Sources of uncertainty in the estimation of future claim payments

Claims on property contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. There are several variables that affect the amount and timing of cash flows from these contracts. The compensation paid on these contracts is the monetary awards granted for property damage caused by insured perils as stated in the contract of insurance.

The estimated costs of claims include direct expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Property claims are less sensitive as the shorter settlement period for these claims allows the Group to achieve a higher degree of certainty about the estimated cost of claims. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported (IBNR) and a provision for reported claims not yet paid (outstanding claims) at the reporting date.

ii) Casualty insurance

The Group's casualty insurance is motor, marine and liability insurance.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The most significant is the number of cases coming to Court that have been inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period required to settle these cases.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

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(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk ...continued

3.4 Insurance risk ...continued

ii) Casualty insurance ...continued

Frequency and severity of claims...continued

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Furthermore, the Group's strategy limits the total exposure to the Group only by the use of reinsurance treaty arrangements. The reinsurance arrangements include excess of loss cover. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance loss of more than \$750 per risk for casualty insurance.

Sources of uncertainty in the estimation of future claim payments

Claims on casualty contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. As a result, casualty and financial risk claims are settled over a longer period of time. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employers' liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur because of the accident.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported (IBNR) and a provision for reported claims not yet paid (outstanding claims) and a provision for unexpired risks at the reporting date. The Group's IBNR loss reserves are derived using paid loss development estimation method (triangular method). Each business classes' IBNR was calculated using claims data and loss history. The quantum of casualty claims is particularly sensitive to the level of Court awards and to the development of legal precedent on matters of contract and tort.

iii) Life insurance contracts

The Group is exposed to potential loss on its life insurance policies from the possibility that an insured event occurs. The Group has no reinsurance on its life insurance contracts. Hence, this risk is fully borne by the Group.

iv) Claims development

The Group employs loss (claims) development tables as a means of measuring actual claims compared with previous estimates. Claims are typically resolved within one year and are assessed on a case-by-case basis. The claims that tend to extend beyond one year are normally from the Accident line of business and to a lesser extent, the Motor line.

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3 Management of financial and insurance risk ...continued

3.4 Insurance risk ...continued

iv) Claims development ...continued

Claims reserve for the individual accident years at the respective reporting dates (gross)

EC\$	Accident year										Total
Date	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
30/6/2008	5,568	–	–	–	–	–	–	–	–	–	5,568
30/6/2009	3,838	14,797	–	–	–	–	–	–	–	–	18,635
30/6/2010	3,442	13,167	1,646	–	–	–	–	–	–	–	18,255
30/6/2011	3,237	12,573	267	2,698	–	–	–	–	–	–	18,775
30/6/2012	2,011	12,113	198	542	2,526	–	–	–	–	–	17,390
30/6/2013	830	1,196	195	521	747	4,422	–	–	–	–	7,911
30/6/2014	246	752	195	505	693	1,571	2,707	–	–	–	6,669
30/6/2015	110	195	175	461	523	1,307	358	3,384	–	–	6,513
30/6/2016	93	–	–	355	432	758	561	358	3,455	–	6,012
30/6/2017	93	–	–	–	374	675	380	212	256	3,244	5,234

Claims reserves are made up as follows:

Outstanding claims – life	\$
Non-life	168
Claims IBNR – non-life	2,754
	<u>2,312</u>
	<u>5,234</u>

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3 Management of financial and insurance risk ...continued

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

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

(a) *Treasury bills*

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

(b) *Deposits with other financial institutions*

Deposits with other financial institutions include cash on operating accounts fixed deposits. These deposits are estimated to approximate their carrying values due to their short-term nature.

(c) *Loans and advances to customers*

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. Initial loan values are taken as fair value and where observed values are different, adjustments are made.

(d) *Originated debt*

Originated debt securities include only interest bearing financial assets.

(e) *Customers' deposits*

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

(f) *Due to financial institutions*

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

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3 Management of financial and insurance risk ...continued

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

(g) *Other borrowed funds*

Other borrowed funds are short-term in nature therefore 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 consolidated statement of financial position at their fair value.

	Carrying value		Fair value	
	2017	2016	2017	2016
	\$	\$	\$	\$
Financial assets				
Cash and balances with Central Bank	207,707	269,155	207,707	269,155
Treasury bills	120,756	147,197	120,756	147,197
Deposits with other financial institutions	755,345	897,625	755,345	897,625
Financial asset	823,124	798,480	823,124	798,480
<i>Loans and advances:</i>				
Overdrafts	169,673	163,841	200,870	192,146
Corporate	281,609	289,387	695,811	431,861
Mortgage	151,897	148,775	309,608	277,217
Term	102,133	101,894	224,493	154,314
Originated debt	113,209	114,164	113,209	114,164
Other assets	32,078	49,793	32,078	49,793
	2,757,531	2,980,311	3,483,001	3,331,952
Financial liabilities				
Customers' deposits	3,032,091	3,049,273	3,032,091	3,049,273
Other borrowed funds	7,456	7,968	7,456	7,968
Other liabilities	169,258	158,203	169,258	158,203
	3,208,805	3,215,444	3,208,805	3,215,444

3.5.1 Fair value measurements recognised in the consolidated statement of financial position

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).

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3 Management of financial and insurance risk...continued

3.5.1 Fair value measurements recognised in the consolidated statement of financial position ...continued

Available-for-sale financial assets

	Level 1	Level 2	Level 3	Total
As of June 30, 2017	\$	\$	\$	\$
Debt securities	341,680	4,555	5,543	351,778
Equities	555,820	543	12,929	569,292
	897,500	5,098	18,472	921,070
As of June 30, 2016				
Debt securities	137,515	2,343	10,490	150,348
Equities	456,102	49	–	456,151
	593,617	2,392	10,490	606,499

3.6 Fair value measurement of non-financial assets

The following table shows the level within the hierarchy of non-financial assets measured at fair value:

	Level 1	Level 2	Level 3	Total
As of June 30, 2017	\$	\$	\$	\$
Land and property	–	30,921	–	30,921
As of June 30, 2016				
Land and property	–	30,921	–	30,921

The fair value of the Group's land and buildings included in property, plant and equipment is estimated based on appraisals performed by an independent property valuer. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the Board of Directors. The appraisal was carried out primarily using a market based approach that reflects the selling prices for similar properties and incorporates adjustments for factors specific to the properties in question, including square footage, location and current condition/use.

3.7 Capital management

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

- To comply with the capital requirement set by the Eastern Caribbean Central Bank (the "Central Bank" or "ECCB");
- 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's management, employing techniques based on the guidelines developed by the Central Bank for supervisory purposes.

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3 Management of financial and insurance risk ...continued

3.7 Capital management ...continued

In addition, there are also capital requirements for the insurance business based on the Insurance Act No. 8 of 2009. According to the Act, the required paid-up capital is \$2,000 (2016: \$2,000). The Group has met this capital requirement for its insurance business.

The Central Bank requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of \$20,000 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 commercial bank's regulatory capital as managed by management is divided into two tiers:

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the two-year presentation. During those two years, the commercial bank complied with all of the externally imposed capital requirements to which it must comply.

	2017 \$	2016 \$
Tier 1 capital		
Share capital	135,000	135,000
Issued bonus shares from capitalisation of unrealised assets revaluation gain reserve	(4,500)	(4,500)
Share premium	3,877	3,877
Reserves	361,053	296,329
Less reserve for interest accrued collected on non-performing loans (note 21)	(57,157)	(46,240)
Retained earnings	49,509	32,366
Total qualifying Tier 1 capital	487,782	416,832
Tier 2 capital		
Revaluation reserve – available-for-sale investment securities	(1,013)	(54,361)
Revaluation reserve – property, plant and equipment	19,661	19,661
Bonus shares capitalisation	4,500	4,500
Accumulated impairment allowance	63,539	55,816
Total qualifying Tier 2 capital	86,687	25,616
Total regulatory capital	574,469	442,448

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3 Management of financial and insurance risk ...continued

3.7 Capital management ...continued

	2017	2016
	\$	\$
Risk-weighted assets:		
On-balance sheet	1,625,035	1,365,867
Off-balance sheet	29,938	54,073
	<hr/>	<hr/>
Total risk-weighted assets	1,654,973	1,419,940
	<hr/>	<hr/>
Tier 1 capital ratio	29%	29%
Basel ratio	35%	31%

4 Critical accounting estimates and judgements

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. 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. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below:

(a) Impairment losses on investment securities

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 judgement. In making this judgement, 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.

(b) Impairment losses on loans and advances

The Group reviews its loan portfolio of assets for impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences in estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated as \$3,992 lower or \$4,208 higher.

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4 Critical accounting estimates and judgements ...continued

(c) Pension benefits

The present value of the pension benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 34.

(d) Estimate of insurance actuarial liabilities

The Group issues whole life, limited payment life, endowment, term insurance, health and medical insurance policies. The estimation of the actuarial liabilities arising under these insurance contracts is dependent on estimates made by the Group. The estimate is subject to several sources of uncertainty that need to be considered in determining the future benefit payments.

Mortality – Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to the risk. The Group bases these estimates on the UK A67/70 for assured lives. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments. An increase in the rate of mortality will lead to a larger number of claims, resulting in lower income. Were the mortality rate to differ by 10% from management's estimate, the actuarial liabilities would increase by approximately \$4,601 or decrease by approximately \$4,615.

Discount rate – Estimates are also made as to the discount rate use in the valuation of the insurance plans to determine the actuarial liabilities. A net rate of 2.9% (2016 – 2.9%) was used as the discount rate in the valuation of insurance plans having a reversionary bonus, which is used to distribute profits to the policies. A net rate of 3.65% (2016 – 3.65%) is used in the valuation for plans which do not participate in profits. Were the discount rate to differ by +/-50 basis points from management's estimate, the actuarial liabilities would decrease by approximately \$10,828 or increase by approximately \$15,348.

The estimation of the ultimate liability arising from claims incurred under property and casualty insurance contracts is subject to several sources of uncertainty that need to be considered in determining the amount that the insurer will ultimately pay for such claims. Provisions are made at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. These are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions, economic conditions and changes in medical condition of claimants.

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4 Critical accounting estimates and judgements ...continued

(d) Estimate of insurance actuarial liabilities ...continued

However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (“IBNR”) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claims has happened.

If the IBNR rates were adjusted by +/-1%, the change in the statement of income would be to decrease or increase reported profits by approximately -/+\$238.

Management engages loss adjusters and independent actuaries, either to assist in making or to confirm the estimate of claim liabilities. The ultimate liability arising from claims incurred under property and casualty insurance contracts may be mitigated by recovery arising from reinsurance contracts held.

(e) Fair value measurement of land and buildings

Management uses valuation techniques to determine the fair value of its non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the asset. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm’s length transaction at the reporting date (see Note 13). Additional information is disclosed in note 3.6.

(f) Current and deferred income taxes

Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The extent to which deferred tax assets and tax credits can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. The estimated deferred tax asset and tax credit may vary from the actual amounts recovered in the future.

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5 Cash and balances with Central Bank

	2017 \$	2016 \$
Cash on hand	17,383	17,530
Balances with Central Bank other than mandatory deposits	15,742	74,742
Included in cash and cash equivalents (note 33)	33,125	92,272
Mandatory deposits with Central Bank	174,582	176,883
	<u>207,707</u>	<u>269,155</u>

The Group is required to maintain an Automated Clearing Housing (ACH) collateral amount with the Central Bank. This amount can be in the form of cash and/or ECCU member Government securities issued on the Regional Government Securities Market. The Bank's collateral amount held with the Central Bank at June 30, 2017 amounted to \$5,482 (2016: 5,496).

Commercial banks are also required under Section 57 of the Banking Act, 2015 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.

Cash and balances with Central Bank, which include mandatory and ACH collateral deposits are not interest bearing.

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6 Treasury bills

	2017 \$	2016 \$
Government of Antigua and Barbuda		
Term of one year, matured on July 1, 2016 at 5% interest	–	9,525
Term of one year, matured on October 8, 2016 at 5.95% interest	–	6,879
Government of St. Lucia		
Term of one year, maturing on May 21, 2018 (2016: matured on May 21, 2017) at 5% interest	4,750	4,750
Term of one year, maturing on May 2, 2018 (2016: matured on May 2, 2017) at 4.5% interest	11,530	11,530
Term of one year, maturing on June 5, 2018 (2016: matured on June 5, 2017) at 4.5% interest (2016: 5%)	2,025	2,025
Government of Grenada		
Term of one year, matured on July 16, 2016 at 5% interest	–	10,307
Government of St. Kitts and Nevis		
Term of one year, maturing on May 15, 2018 (2016: matured on May 15, 2017) at 4% interest	88,417	88,417
Term of 90 days, maturing on August 9, 2017 at 3.75% interest	198	198
Term of one year, maturing on August 14, 2017 (2016: matured on August 14, 2016) at 4% interest (2016: 5%)	2,871	2,868
Nevis Island Administration		
Term of 90 days, maturing on July 12, 2017 at 5.5% interest	10,255	1,380
Term of 90 days, matured on July 12, 2016 at 5.5% interest	–	7,274
	120,046	145,153
Interest receivable	710	2,044
	120,756	147,197
	2017 \$	2016 \$
Treasury bills with original maturities of 3 months or less	10,453	8,852
Interest receivable	128	107
Treasury bills included in cash and cash equivalents (note 33)	10,581	8,959
Treasury bills with original maturities of more than 3 months	109,593	136,301
Interest receivable	582	1,937
	120,756	147,197

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

7 Deposits with other financial institutions

	2017 \$	2016 \$
Operating cash balances	362,264	503,876
Items in the course of collection	3,131	7,848
Interest bearing term deposits	354,995	339,916
Included in cash and cash equivalents (note 33)	720,390	851,640
Special term deposits	21,065	21,065
Restricted term deposits	12,129	25,597
	753,584	898,302
Provision for impairment	(796)	(796)
	752,788	897,506
Interest receivable	2,557	119
	755,345	897,625

The operating balances earn interest at rates of 0.05% to 4% (2016: 1% to 3%). The amounts held in these accounts are to facilitate the short-term commitments and day-to-day operations of the Group.

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

Restricted term deposits are interest bearing fixed deposits collateral used in the 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, 2017 was 0.1836% (2016: 0.0256%).

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

8 Loans and advances to customers

	2017 \$	2016 \$
Demand	166,088	305,074
Special term	–	31,796
Mortgages	98,848	95,033
Overdrafts	10,723	90,183
Other secured	22,957	23,790
Consumer	5,828	6,568
Credit cards	6,817	5,260
	<hr/>	<hr/>
Performing loans and advances	311,261	557,704
Impaired loans and advances	456,116	200,637
Less: allowance for impairment	(63,539)	(55,816)
	<hr/>	<hr/>
	703,838	702,525
Interest receivable	1,474	1,372
	<hr/>	<hr/>
	705,312	703,897
	<hr/>	<hr/>
Current	443,433	408,888
Non-current	261,879	295,009
	<hr/>	<hr/>
	705,312	703,897
	<hr/>	<hr/>

The weighted average effective interest rate on performing loans and advances excluding overdrafts at June 30, 2017 was 7.03% (2016: 8.1%) and overdrafts were 10.04% (2016: 10.1%).

Allowance for loan impairment

The movement in allowance for loan impairment is as follows:

	2017 \$	2016 \$
Beginning balance	55,816	57,979
Current year impairment losses/(recoveries), net (note 26)	7,753	(1,228)
Write-offs during the year	(30)	(935)
	<hr/>	<hr/>
Ending balance	63,539	55,816

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to \$68,665 (2016: \$50,986). When the ECCB loan loss provision is greater than the loan loss provision calculated under IAS 39, the difference is set aside as a non-distributable reserve through equity. As of June 30, 2017, the loan loss provision calculated under IAS 39 was less than the ECCB provision. Therefore, a non-distributable reserve reserve through equity was required at the reporting date and is included in other reserves in equity (note 21). The gross carrying value of impaired loans at the year-end was \$456,116 (2016: \$200,637).

Interest receivable on loans that would not be recognised under ECCB guidelines amounted to \$57,157 (2016: \$46,240) and is included in other reserves in equity (note 21).

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debt

	2017 \$	2016 \$
Certificates of participation in Government of Antigua and Barbuda 7-year long-term notes at 6.7% interest	36,243	37,535
Government of St. Lucia USD Fixed Rate Note maturing on September 5, 2018 at 5.0% interest (2016: September 1, 2016 at 4.5% interest)	25,404	25,369
Government of St. Kitts and Nevis bonds maturing on April 18, 2057 at 1.5% interest	19,680	19,052
Government of St. Lucia USD Fixed Rate Note maturing on July 18, 2019 at 5.0% interest (2016: 5.5%)	13,513	13,513
Wells Fargo Corporate Bonds maturing between January 1, 2018 and April 2019 at rates ranging from 1.5% to 6.3% interest	11,094	11,094
Government of St. Vincent & the Grenadines 10-year bond maturing on December 17, 2019 at 7.5% interest	5,000	5,000
Antigua Commercial Bank 9% interest rate Series A bond maturing on September 30, 2025	1,368	1,417
Caribbean Credit Card Corporation unsecured loan at 10.0% interest with no specific terms of repayment	–	300
	112,302	113,280
Interest receivable	907	884
	113,209	114,164
Current	50,663	34,568
Non-current	62,546	79,596
	113,209	114,164

The movement in originated debt during the year is as follows:

	2017 \$	2016 \$
Balance, beginning of year	114,164	108,556
Additions	26,033	13,289
Disposals (sales/redemptions)	(27,011)	(6,949)
Movement in interest receivable	23	(732)
Balance, end of year	113,209	114,164

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debt ...continued

Certificates of participation in Government of Antigua and Barbuda 7-Year Long Term Note

The Bank placed funds on deposit with ABI Bank Limited (ABIB). These deposits were placed with ABIB, which at the time was facing a serious liquidity challenges, at the request of the ECCB, having regard to the contagion effect on the ECCU and the Bank that would result if ABIB were unable to mitigate its liquidity risks.

By April 28, 2010, the Bank had placed total deposits of \$32,000 with ABIB. On May 7, 2010, these deposits, along with an additional \$6,710 were used to purchase from ABIB a series of certificates of participation (COPs) in the cash flows from a Long-Term Note issued by the Government of Antigua and Barbuda (GoAB), which had been securitized by ABIB.

On July 22, 2011, ECCB was directed by the Monetary Council to exercise the special emergency powers conferred on it by Part IIA, Article 5B of the ECCB Agreement Act 1983 to assume control of the ABIB. During the years of ECCB's control of ABIB, the Bank received an annual confirmation from ECCB of the total outstanding amounts of the COPs, with the stated objective of stabilizing the operations of ABIB so that all obligations would be settled in the normal course of business. ABIB was placed in receivership on November 27, 2015 by ECCB.

On March 2, 2017, the Monetary Council of the ECCU decided that ECCB would work in conjunction with the GoAB towards finding a resolution of the matter in the best interest and mutual benefit of all parties involved, including the Bank and that all efforts would be made to ensure that the Bank would not incur any impairment loss on the amount of the COPs it holds. The ECCB advised that the Monetary Council deemed the resolution of this matter as a priority for all stakeholders and indicated its intention to ensure that the matter was resolved expeditiously.

As of June 30, 2017, the Bank's interest under the COP's amounted to \$36,243 (2016: \$37,535). All of the COP's have now matured and are past due. During the current financial year, \$1,292 was received from the Receiver in respect of the COPs. As at the date of approval of these consolidated financial statements, the Bank has not been advised of any time frame for payment of the outstanding balance.

As mandated by the Monetary Council, ECCB engaged with the GoAB and, on the July 25, 2017, advised the Bank that the GoAB offered the Bank a settlement of \$11,900 to be serviced with a 2%, 20-year bond with semi-annual payments, with the remaining balance of \$25,700 to be resolved by ABIB (in receivership). The Bank responded to the offer presented by the ECCB on July 28, 2017 indicating that, while it appreciated their efforts to obtain a resolution to this matter, the Bank was dissatisfied with the GoAB offer.

Discussions are ongoing between the Bank and the ECCB to find a resolution which, as mandated by the Monetary Council, is in the best interest and mutual benefit of all parties, including the Bank. The Bank is continuing to pursue its entitlement under the COPs, and is of the view that it would not be appropriate for the COPs to be written down at the reporting date.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities – available-for-sale

	2017 \$	2016 \$
(A) Available-for-sale securities		
<i>Securities at fair value</i>		
Listed	897,999	593,695
Unlisted	23,071	23,468
Total available-for-sale securities, gross	921,070	617,163
Less provision for impairment	(5,006)	(5,006)
	916,064	612,157
Interest receivable	781	2,265
Total available-for-sale securities, net	916,845	614,422

(B) The movement in available-for-sale during the year is as follows:

	2017 \$	2016 \$
Balance, beginning of year	614,422	384,758
Additions	1,172,800	1,187,802
Disposals (sales/redemption)	(946,508)	(926,598)
Fair value gains/(losses)	79,625	(33,273)
Impairment losses	(2,286)	(532)
Interest receivable	(1,208)	2,265
Balance, end of year	916,845	614,422

(C) Provision for impairment – available-for-sale investment securities include:

	2017 \$	2016 \$
Beginning balance	5,006	6,333
Addition for the year (note 26)	2,286	532
Reversal of allowance	–	(151)
Write-offs during the year	(2,286)	(1,708)
Ending balance	5,006	5,006

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities ...continued

(D) Available-for-sale investment securities are as follows:

	2017 \$	2016 \$
Listed securities:		
- Equity securities – US	554,752	451,576
- Debt securities – US	341,680	137,593
- Equity securities – Caribbean	1,567	4,526
Total listed securities	897,999	593,695
Unlisted securities:		
- Equity securities – Caribbean	12,929	12,929
- Debt securities – US	10,098	8,480
- Equity securities – US	44	49
- Debt securities – Caribbean	–	2,010
Total unlisted securities	23,071	23,468
Total available-for-sale investment securities, gross	921,070	617,163
Provision for impairment	(5,006)	(5,006)
	916,064	612,157
Interest receivable	781	2,265
Total available-for-sale investment securities, net	916,845	614,422

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities ...continued

(E) Available-for-sale investment securities are denominated in the following currencies:

	2017 \$	2016 \$
Listed:		
US dollars	896,432	589,169
EC dollars	1,567	4,526
Total listed securities	897,999	593,695
Unlisted:		
US dollars	10,142	8,529
EC dollars	12,929	14,939
Total unlisted securities	23,071	23,468
Total available-for-sale investment securities, gross	921,070	617,163
Less: Provision for impairment loss	(5,006)	(5,006)
	916,064	612,157
Interest receivable	781	2,265
Total available-for-sale investment securities, net	916,845	614,422

11 Property inventory

	2017 \$	2016 \$
Balance at beginning of year	7,954	7,954
Provision for impairment (note 26)	(52)	–
Balance at end of year	7,902	7,954

Property inventory 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.

	2017 \$	2016 \$
Cost	8,193	8,193
Net realisable value	7,902	7,954

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

12 Investment property

	2017 \$	2016 \$
Land at Camps	2,021	2,021
Land at Brighton	2,019	2,019
	<u>4,040</u>	<u>4,040</u>

All of the Group's investment property is held under freehold interests. The estimated fair market value of the investment property is \$4,573 based on an independent valuation that was performed in 2015.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

13 Property, plant and equipment

	Land and Buildings \$	Equipment, furniture and fittings \$	Motor vehicles \$	Reference books \$	Projects ongoing \$	Total \$
Year ended June 30, 2016						
Opening net book value	31,723	3,350	526	1	2,696	38,296
Additions	106	224	126	–	1,348	1,804
Transfers	–	2,916	–	–	(2,916)	–
Write-off of projects ongoing to expense	–	–	–	–	(389)	(389)
Disposals	–	–	(88)	–	–	(88)
Depreciation charge	(1,106)	(1,214)	(214)	–	–	(2,534)
Write-back on disposals	–	–	88	–	–	88
Closing net book value	30,723	5,276	438	1	739	37,177
At June 30, 2016						
Cost or valuation	32,779	25,736	1,328	161	739	60,743
Accumulated depreciation	(2,056)	(20,460)	(890)	(160)	–	(23,566)
Net book value	30,723	5,276	438	1	739	37,177

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

13 Property, plant and equipment ...continued

	Land and Buildings \$	Equipment, furniture and fittings \$	Motor vehicles \$	Reference books \$	Projects ongoing \$	Total \$
Year ended June 30, 2017						
Opening net book value	30,723	5,276	438	1	739	37,177
Additions	277	1,234	137	–	871	2,519
Write-off of projects ongoing to expense	–	–	–	–	(202)	(202)
Disposals	–	(6,009)	(442)	–	–	(6,451)
Depreciation charge	(1,109)	(1,549)	(126)	–	–	(2,784)
Write-back on disposals	–	5,991	293	–	–	6,284
Closing net book value	29,891	4,943	300	1	1,408	36,543
At June 30, 2017						
Cost or valuation	33,056	20,961	1,023	161	1,408	56,609
Accumulated depreciation	(3,165)	(16,018)	(723)	(160)	–	(20,066)
Net book value	29,891	4,943	300	1	1,408	36,543

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

13 Property, plant and equipment ...continued

In 2015, the Group's land and buildings were revalued based on the appraisal made by an independent firm of appraisers. Valuations were made on the basis of comparative recent market transactions on arm's length terms. The revaluation surplus was credited to 'revaluation reserve' in shareholders' equity.

The following is the historical cost carrying amount of land and buildings carried at revalued amounts.

	Land \$	Buildings \$	Total \$
Cost	3,792	17,935	21,727
Accumulated depreciation	–	(5,408)	(5,408)
Net book value as of June 30, 2017	3,792	12,527	16,319
Net book value as of June 30, 2016	3,792	12,762	16,554

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

14 Intangible assets

	Computer software \$
At June 30, 2015	
Cost or valuation	7,198
Accumulated amortisation	<u>(6,619)</u>
Net book value	<u>579</u>
Year ended June 30, 2016	
Opening balance	579
Additions	167
Amortisation charge	<u>(267)</u>
Net book amount	<u>479</u>
At June 30, 2016	
Cost or valuation	7,365
Accumulated amortisation	<u>(6,886)</u>
Net book value	<u>479</u>
Year ended June 30, 2017	
Opening balance	479
Additions	115
Disposal	(2,375)
Amortisation charge	(295)
Write-back amortisation on disposal	<u>2,375</u>
Net book amount	<u>299</u>
At June 30, 2017	
Cost or valuation	5,105
Accumulated amortisation	<u>(4,806)</u>
Net book value	<u>299</u>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

15 Other assets

	2017	2016
	\$	\$
Net defined benefit asset (note 34)	20,832	17,664
Insurance and other receivables	19,427	24,318
Customer's liability under acceptances, guarantees and letters of credit	7,456	7,744
ePassporte receivable	7,108	8,108
Prepayments	2,601	2,487
Stationery and card stock	689	891
	<hr/>	<hr/>
	58,113	61,212
Less: provision for impairment	(1,000)	(1,000)
	<hr/>	<hr/>
	57,113	60,212
	<hr/>	<hr/>
Current	32,663	37,658
Non-current	24,450	22,554
	<hr/>	<hr/>
	57,113	60,212
	<hr/>	<hr/>

Provision for impairment

The movement in the provision for impairment during the year is as follows:

	2017	2016
	\$	\$
Balance, beginning of year	1,000	–
Provision during the year (note 26)	1,000	1,000
Write-down	(1,000)	–
	<hr/>	<hr/>
Balance, end of year	1,000	1,000
	<hr/>	<hr/>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

16 Customers' deposits

	2017	2016
	\$	\$
Fixed deposit accounts	1,388,013	1,441,900
Direct demand accounts	899,653	910,638
Savings accounts	452,295	407,665
Call accounts	275,848	271,390
	3,015,809	3,013,593
Interest payable	16,282	17,680
	3,032,091	3,049,273
Current	3,032,091	3,048,818
Non-current	–	455
	3,032,091	3,049,273

Customers' deposits represent all types of deposit accounts held by the Group on behalf of customers. The deposits include demand deposit accounts, call accounts, savings accounts and fixed deposits. All balances that comprise 'Customers' deposits' at the reporting date represent current amounts.

As of the reporting date, total interest paid on deposit accounts for the year amounted to \$59,338 (2016: \$65,534). The average effective rate of interest paid on customers' deposits was 2.17% (2016: 2.2%).

17 Other borrowed funds

	2017	2016
	\$	\$
Acceptances guarantees and letters of credit	7,456	7,744
Due to other financial institutions	–	224
	7,456	7,968

All balances that comprise 'Other borrowed funds' at the reporting date represent current amounts.

Total interest expense during the year amounted to \$nil (2016: \$nil).

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

18 Accumulated provisions, creditors and accruals

	2017	2016
	\$	\$
Actuarial liabilities	85,608	80,965
Deposit pension funds	42,622	42,041
Insurance contract liabilities	18,508	23,277
Other payables	28,687	21,098
Unpaid drafts on other banks	1,939	1,855
Managers' cheques and bankers' payments	1,623	3,010
	178,987	172,246
	2017	2016
	\$	\$
Current	136,365	128,722
Non-current	42,622	43,524
	178,987	172,246

Actuarial liabilities

Actuarial liabilities comprise the reserves maintained on the Group's individual life insurance business. The actuarial liabilities are calculated using the Net Level Premium (NLP) reserve method. This reserve method is a net premium reserve method that does not use lapse rates or expenses.

	2017	2016
	\$	\$
Whole life plans	73,715	69,900
Endowment plans	7,456	6,941
Limited payment life plans	3,132	2,829
Other plans	1,305	1,295
Total actuarial liabilities	85,608	80,965

The actuarial liabilities are largely backed by short-term deposits, cash and treasury bills. The valuation rate for insurance plans is based on an expected ultimate short-term (one year or less) reinvestment rate assumption. Non-participating plans use an ultimate rate of 3.65% (2016: 3.65%). A spread of 0.75% is deducted for the plans with reversionary bonuses in support of bonus payments for a net rate of 2.9% (2016: 2.9%).

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

18 Accumulated provisions, creditors and accruals ...continued

Insurance contract liabilities

The insurance contract liabilities primarily relate to the non-life insurance business and are comprised of the following:

	2017	2016
	\$	\$
Life		
Outstanding claims	<u>168</u>	290
Non-life		
Unexpired risks	8,783	12,732
Reinsurance premiums payable	3,545	3,332
Outstanding claims	2,754	3,587
IBNR	2,312	2,135
Premiums received in advance	<u>946</u>	1,201
	<u>18,340</u>	22,987
	<u>18,508</u>	23,277

Deposit pension funds

The deposit pension funds represent pension funds which the Group manages for its employees and certain other entities. The fund provides a guaranteed minimum rate of 5% (2016: 5%). The fund balance represents the amount standing on account of the contributors to the fund and those liabilities are supported by term deposits and treasury bills.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation

	2017	2016
	\$	\$
Net income before tax	<u>35,855</u>	<u>30,072</u>
Income tax expense at rate of 33%	11,832	9,924
Adjustment to deferred tax asset from prior years	17,183	–
Non-deductible expenses and other permanent differences	12,829	7,183
Prior year's current income tax	87	–
Effect of losses utilised	43	(39)
Deferred tax movement not recorded	25	1,624
Effect of capital allowances carried forward	–	(1)
Prior year's deferred income tax	(11)	–
Income not subject to tax	(6,330)	(16,993)
Tax credit from discounted interest on government loans	(15,704)	–
Adjustment to income tax recoverable from prior years	<u>(23,549)</u>	<u>–</u>
Income tax (credit)/expense	<u>(3,595)</u>	<u>1,698</u>
Represented as follows:		
Current income tax (credit)/expense		
Current year's income tax expense	18,750	2,087
Tax credit from discounted interest on government loans	(15,704)	–
Adjustment to income tax recoverable from prior years	<u>(23,549)</u>	<u>–</u>
	<u>(20,503)</u>	<u>2,087</u>
Deferred tax expense/(credit)	<u>16,908</u>	<u>(389)</u>
	<u>(3,595)</u>	<u>1,698</u>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation ...continued

Deferred tax (liability)/ asset

The net deferred tax (liability)/asset is comprised as follows:

	2017	2016
	\$	\$
<i>Items recognized in profit or loss:</i>		
Tax loss carried forward	–	15,128
Capital loss allowance carried forward	–	2,055
Accelerated depreciation	(127)	(402)
	<u>(127)</u>	<u>16,781</u>
<i>Items recognized directly in other comprehensive income:</i>		
Unrealised loss on AFS securities	488	26,764
Net defined benefit asset	(7,093)	(5,829)
	<u>(6,605)</u>	<u>20,935</u>
	<u>(6,732)</u>	<u>37,716</u>

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

	2017	2016
	\$	\$
Balance, beginning of year	37,716	25,940
Current year change	(17,060)	586
Net unrealised gain/(loss) in movement for the year	(26,276)	10,980
Deferred tax movement for pension asset in profit and loss	59	–
Deferred taxes on depreciation of property and equipment	93	–
Re-measurement (gain)/loss of defined benefit asset	(1,264)	210
Balance, ending of year	(6,732)	37,716

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation ...continued

The movement in the current income tax liability is as follows:

	2017	2016
	\$	\$
Balance at beginning of year	–	–
Tax expense for the year (not offset against the income tax recoverable)	3,618	2,087
Tax paid during the year	(45)	(1,271)
Income tax penalties and interest	51	–
Excess payment transferred to income tax recoverable	–	(816)
	<hr/>	<hr/>
Balance at end of year	3,624	–

Tax losses

The Group has incurred income tax losses amounting to \$12,958 (2016: \$54,316) which may be carried forward and applied to reduce taxable income by an amount not exceeding one half of taxable income in any one year of assessment within 5 years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the IRD.

During the prior year, the Bank refiled its tax returns for the years 2012 to 2016 as a result of a change in the treatment of the tax free Government loans. The refiled tax returns were agreed and accepted by the IRD subsequent to the year end on April 27, 2018. The change in treatment of the tax free loans resulted in the elimination of the brought forward tax losses from the prior years. The calculation of the estimate of the current income tax expense of the subsidiaries has not changed during the year.

The losses expire as follows:

	\$
2018	883
2019	1,785
2020	2,674
2021	3,522
2022	4,094
	<hr/>
	12,958

Income tax recoverable

Included in the consolidated statement of financial position is an amount of \$30,134 (2016: \$4,541) that relate to income tax credits/advance tax payments due from the IRD in respect of tax assessments that were finalised up to the year ended June 30, 2016 and the change in the Bank's estimate of the current income tax expense based on a settlement agreement with the IRD. This resulted in a net tax credit of \$20,503, primarily arising from the benefit received by the Government as a result of the reduced interest rate on tax free Government loans. The amount may be applied against any future taxes payable by the Bank. The amount may be applied against any future taxes payable by the Group, with certain agreed restrictions.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation ...continued

The movement in the income tax recoverable is as follows during the year:

	2017	2016
	\$	\$
Balance, beginning of year	4,541	4,541
Tax credit under accrued in prior years	23,549	–
Current year's income tax credit	15,704	–
Tax paid during the year	1,472	–
Current year's income tax expense offset (limited to 80%)	(15,132)	–
	<hr/>	<hr/>
Balance, end of year	30,134	4,541

20 Issued share capital

	2017	2016
	\$	\$
Authorised		
270,000,000 ordinary shares of \$1 each	270,000	270,000
	<hr/>	<hr/>
Issued and fully paid		
135,000,000 ordinary shares of \$1 each	135,000	135,000

21 Reserves

The reserves are comprised as follows:

	2017	2016
	\$	\$
Statutory reserve	123,766	116,449
Revaluation reserve	18,648	(34,700)
Other reserves	218,639	214,580
	<hr/>	<hr/>
	361,053	296,329

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

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(expressed in thousands of Eastern Caribbean dollars)

21 Reserves ...continued

a) Statutory reserve

	2017 \$	2016 \$
Balance at beginning of year	116,449	111,674
Addition	7,317	4,775
Balance at end of year	123,766	116,449

In accordance with Section 45 (1) of Saint Christopher and Nevis Banking Act, 2015, the Bank is required to maintain a reserve fund into which it shall transfer not less than 20% of its net income of each year whenever the reserve fund is less than the Bank's paid-up capital.

b) Revaluation reserve

	2017 \$	2016 \$
Balance at beginning of year	(34,700)	(12,406)
Movement in market value of investment securities available-for-sale, net	53,348	(22,294)
Balance at end of year	18,648	(34,700)
Revaluation reserve is represented by:		
Properties (note 13)	19,661	19,661
Investment securities – available-for-sale (note 10)	(1,013)	(54,361)
Balance at end of year	18,648	(34,700)

c) Other reserves

	2017 \$	2016 \$
Balance at beginning of year	214,580	213,748
Transfers from retained earnings	1,490	1,657
Other comprehensive income	2,569	(825)
Balance at end of year	218,639	214,580
Other reserves is represented by:		
General reserve	112,269	129,264
Insurance and claims equalization reserves	33,652	32,162
Regulatory reserve for loan impairment (note 8)	6,078	–
Regulatory reserve for interest accrued collected on non-performing loans (note 8)	57,157	46,240
Defined benefit pension plan reserve	9,483	6,914
Balance at end of year	218,639	214,580

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves ...continued

c) Other reserves ...continued

Insurance and claims equalization reserves

The insurance reserve is a discretionary reserve for the health and public liability insurance business. The underlying assets are included in the Group's cash balances which form part of 'Cash and cash equivalents' (note 33).

Claims equalisation reserves represent cumulative amounts appropriated from retained earnings based on the discretion of the Board of Directors as part of the subsidiary's risk management strategies to mitigate against catastrophic events. Annually the claims equalisation reserves are assessed and transfers made as considered necessary by the Board of Directors. These reserves are in addition to the catastrophe reinsurance cover.

General reserve

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

Regulatory reserve for loan impairment

Regulatory reserve represents cumulative amounts appropriated from retained earnings based on the prudential guidelines of the ECCB. When the ECCB loan for provision is greater than the loan provision calculated under IAS 39, the difference is set aside in equity

Reserve for interest accrued 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 IAS 39. The prudential guidelines of the ECCB 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.

Defined benefit pension plan reserve

This reserve is used to record the actuarial re-measurement of the defined benefit pension asset in other comprehensive income.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

22 Net interest income

	2017	2016
	\$	\$
Interest income		
Loans and advances	41,412	43,361
Financial asset (note 32)	27,493	27,864
Deposits with other financial institutions	4,921	1,438
Others	4,701	7,168
Originated debts	4,078	4,499
Available-for-sale investments	3,038	8,042
Interest income for the year	85,643	92,372
Interest expense		
Fixed deposits	44,131	50,558
Savings accounts	8,623	8,715
Current and other deposit accounts	491	585
Call accounts	369	330
Interest expense for the year	53,614	60,188
Net interest income	32,029	32,184

23 Net fees and commission income

	2017	2016
	\$	\$
Fees and commission income		
International business and foreign exchange	10,515	8,604
Brokerage and other fees and commission	3,799	4,158
Credit related fees and commission	2,338	3,887
Fees and commission income for year	16,652	16,649
Fee expenses		
International business and foreign exchange	7,607	7,046
Other fee expenses	2,271	1,455
Brokerage and other related fee expenses	1,473	1,389
Fee expenses for year	11,351	9,890
Net fees and commission income	5,301	6,759

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

24 Other income

	2017	2016
	\$	\$
Net gain on AFS investments at fair value	36,062	11,892
Net insurance premium income	32,068	31,103
Dividend income	5,822	3,760
Foreign exchange gain	4,418	4,863
Other operating income	1,011	597
	<hr/>	<hr/>
	79,381	52,215
	<hr/>	<hr/>

25 Administrative and general expenses

	2017	2016
	\$	\$
Employee cost	31,507	25,225
Repairs and maintenance	5,713	5,650
Sundry losses	1,627	564
Communication	899	926
Utilities	778	720
Stationery and supplies	753	703
Other general	748	1,507
Rent and occupancy	692	641
Insurance	545	589
Advertisement and marketing	526	530
Legal fees and expenses	357	324
Security services	334	301
Shareholders' expenses	189	196
Taxes and licences	156	116
Premises upkeep	44	43
Property management	7	4
	<hr/>	<hr/>
	44,875	38,039
	<hr/>	<hr/>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

25 Administrative and general expenses ...continued

Employee cost

	2017	2016
	\$	\$
Salaries and wages	19,131	16,869
Insurance and other benefits	7,572	3,977
Other staff cost	4,286	4,513
Pension expense/(credit) (note 34)	518	(134)
	<hr/>	<hr/>
	31,507	25,225
	<hr/>	<hr/>

26 Impairment expense

	2017	2016
	\$	\$
Loans and advances to customers, net (note 8)	7,753	(1,228)
Investment securities – available-for-sale (note 10)	2,286	532
Other assets (note 15)	1,000	1,000
Property inventory (note 11)	52	–
	<hr/>	<hr/>
	11,091	304
	<hr/>	<hr/>

27 Other expenses

	2017	2016
	\$	\$
Net claims incurred	20,115	18,595
Depreciation and amortisation	3,079	2,801
Directors fees and expenses	902	821
Professional fees and expenses	824	526
	<hr/>	<hr/>
	24,920	22,743
	<hr/>	<hr/>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

28 Earnings per share

'Earnings 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.

	2017	2016
	\$	\$
Net income attributable to shareholders	39,450	28,374
Weighted average number of ordinary shares in issue (in thousands)	135,000	135,000
Basic and diluted earnings per share	0.29	0.21

29 Dividend

The consolidated financial statements reflect dividends of \$13,500 or \$0.10 per share for the financial year ended June 30, 2017 (2016: \$13,500 or \$0.10 per share). Approval of the payment was given at the Forty-sixth Annual General Meeting held on April 27, 2017 and was subsequently paid.

30 Related parties balances and transactions

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 held by individuals and other institutions (over 5,200 shareholders). The Government is a customer of the Group and, as such, all transactions executed by the Group on behalf of the government are performed on strict commercial banking terms at existing market rates.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

30 Related parties balances and transactions ...continued

	2017	2016
	\$	\$
Public sector		
Loans and advances	282,580	255,250
Deposits	1,663,594	1,590,504
Interest on deposits	37,717	42,257
Interest on loans, advances and other	11,736	11,026
Interest on special financial asset	27,493	27,864
Insurance contract liabilities	1,125	2,962
Gross premium written	16,076	15,954
Gross claims incurred	8,101	7,352
Associated companies		
Loans and advances	70,008	70,295
Deposits	11,847	11,402
Interest on deposits	139	87
Interest from loans and advances	11	30
Directors and associates		
Loans and advances	1,045	1,059
Deposits	332	367
Interest on deposits	6	6
Interest from loans and advances	72	55
SKNANB \$1 shares held by directors	161	161
Directors fees and expenses	625	563
Insurance premium written	1	1
	2017	2016
	\$	\$
Key management		
Number of company shares held	31	46
Loans and advances	4,016	4,020
Deposits	561	1,052
Interest on deposits	8	55
Interest from loans and advances	275	281
Salaries and short-term benefits	5,030	4,276
Insurance premium written	73	100
Outstanding insurance balances	8	7

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.0% (2016: 6.0%). Secured loans are collateralised by cash and mortgages over properties.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

30 Related parties balances and transactions ...continued

A provision of \$13,046 (2016: \$12,258) has been recognised in respect to advances made to related parties (associated company).

31 Contingent liabilities and commitments

Contingent tax liability

On January 29, 2016, the IRD assessed the Group with additional corporate income taxes for the financial years 2012 to 2014. The Group has accepted and accrued for additional income taxes payable amounting to \$1,586 that related to the disallowance of salaries in excess of the statutory limit. The Group formally disputed the remaining assessment by filing an objection with the IRD. Subsequent to the year end, on April 27, 2018, a settlement agreement was reached with the IRD to resolve the dispute. Based on the settlement agreement, there are no further outstanding corporate tax liabilities to the IRD in respect of the financial years 2012 to 2014.

Commitments

As of the reporting date the Group had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	2017	2016
	\$	\$
Loan commitments	15,458	54,073
Credit card commitments	8,587	9,003
	<u>24,045</u>	<u>63,076</u>

32 Financial asset

The financial asset of \$823,124 (2016: \$798,480) represents the Bank's right to that amount of cash flows from the sale of certain lands pursuant to a Shareholder's Agreement (Agreement) dated April 18, 2012 and September 4, 2014 between the Bank and its majority shareholder, the Government of St. Kitts & Nevis ("GOSKN"), and the Nevis Island Administration (NIA) respectively. Under the terms of the Agreement, the secured debt obligations owed to the Bank by the GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain land assets to the Bank. Further, the unsecured debt obligations owed to the Bank by GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain unencumbered land assets to a specially created entity, Special Land Sales Company (St. Kitts) Limited ("SLSC") and the allocation of certain shares in SLSC to the Bank. SLSC was incorporated for the purpose of selling land assets in order to fulfill the terms of the Agreement of the contracting parties. Other lands would be transferred to the SLSC for sale, if necessary, in order to satisfy the agreement of the contracting parties.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

32 Financial asset ...continued

By way of supplement agreements the effective date of the Agreement was amended to July 1, 2013. Accordingly, the first step in the 'Land for Debt' swap took place on July 1, 2013 in the amount of \$565,070, which is the value of the 1,200 acres of land in the first tranche based on an independent valuation. The second and third tranches were completed during the year and the amounts swapped amounted to \$230,951 which is the value of 735 acres of land.

Based on the terms of the Agreement:

1. On the effective date, SLSC shall use all appropriate commercial efforts to sell the secured land assets that were vested to the Bank at the best price reasonably possible and as soon as reasonably practicable.
2. Commencing from the effective date of the Agreement, July 1, 2013, the Bank is entitled to receive interest payments at a rate of 3.5% per annum on the face value of the eligible secured debt that was exchanged for the secured land assets. The amount is to be paid by the GOSKN annually from the effective date.
3. Distribution of sales proceeds of the land assets Bank shall be applied as follows:
 - a. First towards the payment of selling and operational costs of SLSC;
 - b. Secondly to the Bank until the Bank has received the face amount of the eligible secured debt immediately prior to the effective date and the interest payments, less amounts paid to the Bank;
 - c. Thirdly to the Bank in exchange for the redemption of its relative interest in SLSC which was allotted for the release of eligible unsecured debt that was owed to the Bank prior to the effective date; and
 - d. Fourthly to the Government of St. Kitts and Nevis.

For the year ended June 30, 2017, the Group's consolidated statement of income includes interest income amounting to \$27,493 (2016: \$27,864). The interest receivable amounted to \$28,853 (2016: \$2,480) and is due from the Government of St. Kitts and Nevis.

Subsequent to the reporting date on November 23, 2017, \$26,808 of the interest receivable was paid by the GOSKN.

Based on the terms of the Agreement, all of the risks and rewards of ownership of the secured land assets have not been transferred to the Bank. The Bank is only entitled to receive cash flows from the sales of said lands up to the face value of the eligible secured debt that was exchanged and any interest payments as noted above.

Additionally, if the lands are sold for less than the value that was transferred, the GOSKN and NIA is obligated to transfer additional lands to make up for the shortfall. The Bank's interest in the land assets is not subject to variation of returns as there is no risk of loss for the Bank, and also the Bank does not stand to benefit should the lands be sold for more than the value. Therefore, the Bank has not classified the amounts received in exchange for the loans as inventory, but as a loan and receivable financial asset based on its rights to the cash flows from the sales of the land assets under the Agreement.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

32 Financial asset ...continued

The Bank has not included in these consolidated financial statements any investment in SLSC. As of June 30, 2017, SLSC is currently operational, however no unsecured land assets have been vested in the Bank. Further, the Bank has not invested any funds in SLSC and its interest in SLSC.

33 Cash and cash equivalents

	2017	2016
	\$	\$
Deposits with other financial institutions (note 7)	720,390	851,640
Cash and balances with Central Bank (note 5)	33,125	92,272
Treasury bills (note 6)	10,581	8,959
	<hr/>	<hr/>
	764,096	952,871
	<hr/>	<hr/>

34 Defined benefit asset

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of June 30, 2017 by independent actuaries. The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2017	2016
	Per annum	Per annum
	%	%
Actuarial assumptions		
Discount rate	4.0	4.0
Return on plan assets	5.0	6.0
Future salary increases	3.5	3.5

Mortality table - (UP94 table projected to 2020 using Scale AA) in both years.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset ...continued

	2017	2016
	\$	\$
<i>Changes in the present value of the defined benefit obligation</i>		
Opening defined benefit obligation	40,644	37,816
Current service cost	1,669	1,666
Interest cost	1,625	1,513
Actuarial (gains)/losses	(4,345)	180
Benefits paid	(1,435)	(531)
	<hr/>	<hr/>
Closing defined benefit obligation	38,158	40,644
<i>Changes in the fair value of the plan assets</i>		
Opening fair value of plan assets	58,308	56,116
Interest income	2,915	3,367
Return on plan assets (other than net interest)	(511)	(936)
Employer's contribution	486	461
Benefit paid	(1,435)	(518)
Management fees	(139)	(182)
Remeasurement	(634)	-
	<hr/>	<hr/>
Closing defined benefit assets	58,990	58,308
<i>Benefit cost</i>		
Current service cost	1,669	1,666
Interest cost	1,676	430
Interest on plan assets	(2,827)	(2,230)
	<hr/>	<hr/>
Increase/(decrease) in employee benefit expense (note 25)	518	(134)
<i>Amount recognised in other comprehensive income</i>		
Actuarial (gains)/losses	(4,345)	180
Interest on plan assets	2,915	3,367
Actual return on plan assets	(2,404)	(2,316)
	<hr/>	<hr/>
(Gain)/loss on re-measurement of net defined benefit asset	(3,834)	1,231
<i>Net defined benefit asset recognised in the consolidated statement of financial position</i>		
Fair value of plan assets	58,990	58,308
Present value of defined benefit obligation	(38,158)	(40,644)
	<hr/>	<hr/>
Net defined benefit asset	20,832	17,664

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset ...continued

	2017 \$	2016 \$
<i>Reconciliation: Net defined (credit)/benefit asset</i>		
Opening balance	17,664	18,300
Period cost	(518)	134
Effect of other comprehensive income	3,834	(1,231)
Remeasurement	(634)	–
Employer's contribution	486	461
	<hr/>	<hr/>
Closing balance (note 15)	20,832	17,664

Plan assets allocation is as follows:

	2017 %	2016 %
Cash and cash equivalents	99.64	98.9
Equity	0.36	1.1

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit obligation.

	Discount rate plus 50 basis points \$	Discount rate minus 50 basis points \$
Increase/(decrease) in obligation	(1,900)	2,083
	<hr/>	<hr/>
	Mortality plus 10% \$	Mortality minus 10% \$
Increase/(decrease) in obligation	(877)	874
	<hr/>	<hr/>

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

35 Subsidiaries

	Percentage of direct and indirect equity interest held	
	2017	2016
	%	%
National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited	100	100
National Caribbean Insurance Company Limited	100	100
St. Kitts and Nevis Mortgage and Investment Company Limited	100	100

36 Business segments

As of June 30, 2017, 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. These operating segments are monitored by the Group's chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results.

St. Kitts-Nevis-Anguilla National Bank Limited

Notes to Consolidated Financial Statements

June 30, 2017

(expressed in thousands of Eastern Caribbean dollars)

36 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, 2017					
Total segment revenues	147,841	39,290	821	–	187,952
Intersegment revenues	(636)	(5,407)	(233)	–	(6,276)
Revenue for the year from external customers	147,205	33,883	588	–	181,676
Cost of revenue generation	(110,304)	(34,738)	(779)	–	(145,821)
Income tax credit (expense)	4,680	(970)	(115)	–	3,595
	41,581	(1,825)	(306)	–	39,450
Property, plant and equipment and intangible assets	28,705	8,133	4	–	36,842
Depreciation and amortisation	2,345	734	–	–	3,079
Segment assets	3,753,425	246,300	7,101	(228,497)	3,778,329
Segment liabilities	3,263,259	165,763	615	(200,747)	3,228,890
June 30, 2016					
Total segment revenues	128,432	38,686	938	–	168,056
Intersegment revenues	(806)	(5,780)	(234)	–	(6,820)
Revenue for the year from external customers	127,626	32,906	704	–	161,236
Cost of revenue generation	(98,754)	(31,690)	(720)	–	(131,164)
Income tax credit (expense)	430	(2,089)	(39)	–	(1,698)
	29,302	(873)	(55)	–	28,374
Property, plant, equipment and intangible assets	29,381	8,274	1	–	37,656
Depreciation and amortisation	2,047	754	–	–	2,801
Segment assets	3,673,910	238,549	7,035	(222,435)	3,697,059
Segment liabilities	3,262,419	161,276	477	(194,685)	3,229,487

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.