THE BANK OF NEVIS LIMITED

Improving the Quality of Life

Annual Report 2018

A BETTER BANK...BECAUSE OF YOU!

A BETTER BANK... BECAUSE OF YOU!

> A customer is the most important visitor on our premises, he is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favor by serving him. He is doing us a favor by giving us an opportunity to do so.
>
> **Mahatma Gandhi**

At The Bank of Nevis Limited we understand the value that our customers bring to the institution. They are the centre of our business universe. Our successes over the years are due in great part to their loyalty and confidence. It is in this light that we continue to provide the level of service and innovation to ensure that we remain relevant to their needs. This year's Annual Report shines a bright light on OUR CUSTOMERS and recognises their importance to our existence...this is why they are our greatest INTEREST!

CORE VALUES

OUR CUSTOMERS

We will build relationships with our customers by meeting our commitments, exceeding service requirements whenever possible, providing good values, responding in a timely manner to their needs and being innovative in helping them to realise their financial goals.

OUR COLLEAGUES

We will provide a working environment of fairness, equity and transparency which facilitates trust, respect and team work and afford all staff opportunities for meaningful, challenging and rewarding work.

OUR SHAREHOLDERS

We will achieve consistent growth and profitability over a long term with returns that result in increasing shareholder value.

OUR SUPPLIERS

We will treat suppliers fairly and forthrightly and fully live up to our agreements.

OUR COMMUNITIES

We will be good corporate citizens, respected and recognised as much for our integrity, commitment insight and progressiveness, as for financial success. We will take an active interest in the communities in which we serve.

OUR WORK

Integrity

We value integrity in our employees, in our relationships with our customers and in our business practices. We believe in conducting business and maintaining all relationships with the highest ethical standards.

Respect

We recognize and appreciate the uniqueness of each individual. We are driven by shared goals and expectations and respect each other in our daily interactions.

Service Excellence

We take pride in delivering superior service that consistently exceeds expectations. We are committed to providing personalized, relationship oriented service that our customers value.

Open Communication Line

We foster open communication throughout the organization. We support healthy debate and personal participation. Employee, customer and shareholder feedback are critical to our development.

VISION

To be the preferred financial institution in the markets we serve.

MISSION

To be a profitable and compliant financial institution, proactive in exceeding our stakeholders' expectations, with a committed and empowered team.

At A Glance

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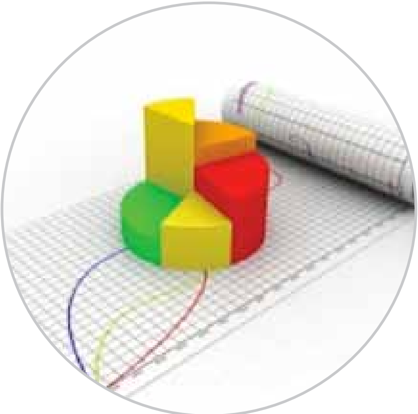
GROUP FINANCIAL HIGHLIGHTS



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Notice of Meeting

Notice is hereby given that the thirty-second Annual General Meeting of The Bank of Nevis Limited ('the Company') will be held at Occasions located on the Pinneys By-pass Road, Nevis on Tuesday December 18, 2018 at 5:00 p.m.

AGENDA

1. To approve the Minutes of the thirty-first Annual General Meeting held on December 20, 2017.
2. To receive the Report of the Board of Directors.
3. To receive the Report of the Auditors.
4. To receive and consider the accounts for the year ended June 30, 2018.
5. To elect two (2) non-independent directors:
   i. Spencer Hanley and Vernel Powell retire by rotation and being eligible offer themselves for re-election.
6. To elect one (1) independent director:
   i. Jacqueline Lawrence retires by rotation and being eligible offers herself for re-election.
7. To declare a dividend of 20 cents per share.
8. To appoint Deloitte and Touche, Chartered Accountants, as auditors for the year ending June 30, 2019.
9. Any other business.

By Order of the Board

CHerbert

Cindy C.T Herbert (Mrs.)
CORPORATE SECRETARY

NOTES

1. Votes at meetings of shareholders may be given either personally or by proxy or, in the case of a shareholder who is a body corporate or association, by an individual authorised by a resolution of the directors or governing body of that body corporate or association to represent it at meetings of shareholders of the Company.

2. A shareholder who is entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxy holder, or one or more alternate proxy holders, none of whom need be shareholders, to attend and act at the meeting or any adjournment thereof, in the manner and to the extent authorized by the proxy and with the authority conferred by the proxy. A corporation being a member of the company may appoint as a proxy one of its officers or any other person though not a member of the Company.

3. A proxy is valid only at the meeting in respect of which it is given or any adjournment of that meeting.

4. Shareholders are directed to clause 4.4.1 of the Company's By-Laws in relation eligibility for directorship. Clause 4.4.1 reads:

   Eligibility: No person shall be eligible for election as a director of the Company if:

   a. ***he is prohibited from being a director by reason of any provision in or any order made under, the Ordinance, the Banking Act or any other applicable legislation; or***
   b. ***he does not satisfy qualifying criteria/guidelines of the Eastern Caribbean Central Bank;***
   c. ***he does not hold at least five hundred (500) shares in the Company.***
   d. ***unless he or some other shareholder intending to propose him, at least seven clear days before the meeting, leaves at the registered address of the Company a notice in writing duly signed, specifying his candidature for the office and the intention of such shareholder to propose him.***

5. In proposing candidates for nomination as independent directors, shareholders are asked to have regard to the definition ascribed to and determining considerations for an 'Independent Director' in the Eastern Caribbean Central Bank's (ECCB) **Enforced Guidelines on Corporate Governance for Institutions licensed to conduct Banking Business** (the 'Guidelines'). The Guidelines define 'Independent Director' as a director who is independent of management and free of any business or other relationships that would materially interfere with, or could reasonably be perceived to materially interfere with the exercise of his unfettered and independent judgment. The guidelines go on to state that in the determination of independence, consideration should be given to whether the person:

   a. ***Was employed by the institution within the last five years; or***
   b. ***Within the last five years, had a material relationship with the institution either directly, or as an advisor, partner, shareholder, director or senior employee or a body that has or had such relationship with the institution; or***
   c. ***Received or receives additional remuneration from the institution apart from a director's fee, participates in the institution's share option or a performance-related pay scheme, or is a member of the institution's pension scheme, or receives other forms or deferred compensation not contingent upon continued service; or***
   d. ***Represents a significant shareholder on the board; or***
   e. ***Has served on the board for more than ten years.***

6. In proposing candidates for nomination to directorship generally, shareholders are asked to have regard to the following subsections of the **Banking Act, No.1 of 2015**:

97. (1)Every person who is, or is likely to be a director, significant shareholder, or officer of a licensed financial institution or licensed financial holding company must be a fit and proper person to hold the particular position which he holds or is likely to hold.

(2) In determining whether a person is a fit and proper person to hold any particular position, regard shall be had to:

a. the person's probity, competence and soundness of judgment for fulfilling the responsibilities of that position;

b. the academic or professional qualifications or effective experience in banking, finance, business or administration or any other relevant discipline of the person concerned;

c. the diligence with which the person is fulfilling or likely to fulfill the responsibilities of that position;

d. whether the interests of depositors or potential depositors of the licensed financial institution are, or are likely to be, in any way threatened by that person holding the position;

e. whether the person is a significant shareholder, director or officer or holds any position of authority in any licensed financial institution locally or elsewhere whose licence has been suspended, or revoked otherwise than as a result of an amalgamation or voluntary liquidation or which has been or is being wound up or compulsorily liquidated;

f. whether the person has failed to satisfy any judgment or order of a court locally or abroad including the repayment of a debt;

g. whether the person is an un-discharged bankrupt or has been declared a bankrupt locally or abroad; and

h. whether the person has been removed or suspended by a regulatory authority from serving as a director or officer in a licensed financial institution or any body corporate locally or abroad

(3) Without prejudice to the generality of the foregoing provisions, regard may be had to the previous conduct and activities in business or financial matters of the person in question and, in particular, to any evidence that the person has:

a. committed an offence involving fraud or other dishonesty or violence;

b. contravened any provision made by or under an enactment designed for protecting members of the public against financial loss due to dishonesty, incompetence or malpractice by persons concerned in the provision of banking, insurance, investment or other financial services or the management of companies or against financial loss due to the conduct of a discharged or undischarged bankrupt;

c. engaged in any business practices appearing to the board to be deceitful or oppressive or otherwise improper (whether unlawful or not) or which otherwise reflect discredit on the person's method of conducting business;

d. an employment record which leads the board to believe that the person carried out an act of impropriety in the handling of his employer's business; or

e. engaged in or been associated with any other business practices or otherwise conducted himself in a manner as to cast doubt on his competence and soundness of judgment.

Corporate Information

DIRECTORS

Laurie Lawrence (Chairman)

Rawlinson Isaac

Spencer Hanley

Jacqueline Lawrence

Vernel Powell

Damion Hobson

Adrian Daniel

Jessica Boncamper

SECRETARY

Cindy Herbert

REGISTERED OFFICE

Bank of Nevis Building
Main Street, Charlestown
Nevis, West Indies

AUDITORS

Deloitte & Touche
3rd Floor, The Goddard Building
Haggatt Hall, St. Michael, BB11059
Barbados, W. I.

IN-HOUSE COUNSEL

Cindy Herbert, LLM (Merit), LEC, LLB (Hons), NP, C.Dir

SUBSIDIARIES

Bank of Nevis International Limited
Bank of Nevis International Fund Limited
Bank of Nevis International Fund Managers Limited
Bank of Nevis International Trust Services Inc.
Bank of Nevis Mutual Fund Limited
Bank of Nevis Fund Managers Limited

CORRESPONDENT BANKS

Antigua	Antigua Commercial Bank
Barbados	Republic Bank (Barbados) Ltd
Canada	Royal Bank of Canada
St. Kitts	SKNA National Bank CIBC/First Caribbean International Bank RBC Royal Bank of Canada
St. Lucia	Bank of St. Lucia Limited
St. Maarten	The Windward Island Bank Ltd
St. Vincent & the Grenadines	Bank of St. Vincent and the Grenadines Ltd.
United Kingdom	Lloyds TSB Bank PLC Crown Agents Bank

INVESTMENT BROKERS

First Citizens Investment Services Ltd.
MorganStanley
Raymond James and Associates
Sterling Asset Management
JMMB Bank (Jamaica) Limited

BOARD COMMITTEES

Audit and Compliance
Business and Product Development
Credit
Human Resources and Compensation
Investment
Risk Management

ATM LOCATIONS

Charlestown Main Office
Best Buy Supermarket, Gingerland
XPetrol Gas Station, Camps

Group Financial Highlights

Expressed in Eastern Caribbean Dollars

	2018 (000)	2017 (000)	2016 (000)	2015 (000)	2014 (000)
Total assets	579,604	576,437	605,173	577,000	525,658
Due from banks and other financial institutions	78,787	100,611	133,217	224,094	190,278
Investment securities	77,085	67,359	76,063	122,965	100,834
Loans & advances	242,896	212,151	203,804	197,361	203,180
Customers' deposits	348,042	341,716	384,753	515,550	441,632
Paid-up share capital	24,340	13,818	9,348	9,348	9,348
Shareholders' equity	84,374	69,396	57,985	54,654	58,771
Gross operating income	21,137	20,551	19,946	21,030	24,490
Total expenses & provisions (excl. tax)	19,385	16,515	19,121	23,168	23,248
Interest income	17,863	17,502	17,170	16,559	19,211
Interest expense	7,019	6,587	7,790	10,496	11,618
Staff costs	5,904	5,585	4,567	5,547	5,343
Operating income / (loss) before tax	7,870	4,035	3,953	(2,138)	1,242
Income tax expense / (credit)	(408)	1,606	1,801	365	154
Net profit / (loss)	8,300	7,000	3,686	(2,504)	1,088
Earnings / (loss) per share ($)	0.47	0.70	0.30	(0.27)	0.12
Dividend per share (cents)	20.00	15.00	15.00	-	7.50
Return on average assets (%)	1.44	1.19	0.62	(0.45)	0.22
Return on average equity (%)	10.80	11.07	6.54	(4.42)	1.85
Number of employees	65	62	63	61	59

BOARD OF DIRECTORS

TOP ROW [LEFT TO RIGHT]

Adrian Daniel - Director, Rawlinson Isaac - Director, Damion Hobson - Director, Spencer W. Hanley - Director, Vernel Powell - Director

SEATED [LEFT TO RIGHT]

Jacqueline Lawrence - Director, Laurie Lawrence - Chairman, Jessica Boncamper - Director

Directors' Profiles

LAURIE LAWRENCE (CHAIRMAN) - MBA IN FINANCE, BSC. MANAGEMENT, C. DIR

Mr. Laurie Lawrence is an Advisor to the Nevis Island Administration (NIA). He holds an MBA in Finance from the University of Bradford in England and a Bachelor of Science Degree in Management Studies from the University of the West Indies, Mona, Jamaica.

He was employed as the Permanent Secretary of Finance (NIA) for twenty three (23) years from 1992 to 2015 and had overall responsibility for marketing and regulation of financial services, international banking, revenue collection, and budgeting and financial management.

His experience includes serving as a director on several Boards including the St. Kitts and Nevis Development Bank, the Foundation for National Development, and the Nevis Historical and Conservation Society. He was also Treasurer of the Nevis Co-Operative Credit Union for four (4) years, Deputy Chairman of the St. Kitts and Nevis Financial Services Regulatory Commission (FSRC) for four (4) years and Chairman of the Nevis Air and Seaport Authority for six (6) years. He is presently a priest warden at the St. Paul's Anglican Church in Nevis.

JESSICA BONCAMPER - LLB, A.C.C

Mrs. Jessica Boncamper has over 18 years' experience in the financial sector. She started her career in 1997 working at the Bank of Nova Scotia as a Bank's Clerk. A year later, she then moved on to the international financial sector working at Nevis American Trust Company Ltd. In 2001, she was transferred to Guardian Trust Company, the sister company of Nevis American Trust. She worked at Myrna R. Walwyn & Associates from 2008 to 2010 before furthering her career at First Nevis Trust Company Ltd from 2010 to 2014. She is currently the Owner and Managing Director of Acme Trust Services Limited, a licenced Registered Agent company which began operating in January 2015.

Mrs. Boncamper holds a Bachelor of Laws, with Upper Second Class Honours from the University of Huddersfield, England. She is also an Affiliate Member of the Society of Trust and Estate Practitioners (STEP) and is currently pursuing a STEP diploma.

JACQUELINE LAWRENCE - BSC. ACCOUNTING, CERTIFIED PUBLIC ACCOUNTANT (CPA), C. DIR, A.C.C

Mrs. Jacqueline Lawrence has served in the banking industry for over 20 years. She was employed by The Eastern Caribbean Central Bank from 1994 to 2014, where she held several positions including Deputy Director and Director. Presently, Mrs. Lawrence is the General Manager at Lawrence Associates Ltd and Chief Executive Officer and Principal at CaribTrust Ltd.

Mrs. Lawrence is a Certified Public Accountant. She holds a Bachelor of Science degree in Accounting from Eastern Connecticut State University, USA.

SPENCER W. HANLEY - MASTERS - PUBLIC ADMINISTRATION, BSC. BUSINESS ADMINISTRATION, C. DIR

Mr. Spencer W. Hanley is a Businessman and Personal Financial Consultant. He holds an Associate Degree in Accounting; a Bachelor Degree in Business Administration; and a Master Degree in Public Administration.

Mr. Hanley's work experiences span more than 30 years and include internal auditor for Liberty Mutual Insurance Company (Boston) and Miami-Dade County (Florida); Branch Manager, St. Kitts-Nevis-Anguilla National Bank Limited; Loans Manager, The Bank of Nevis Limited; CEO/General Manager, Nevis Air and Sea Ports Authority; Owner/operator of Lindbergh Landing (self catering cottages, bar, restaurant). He also served as a Director at Nevis Tourism Authority for six years.

He is a past President of St. Kitts and Nevis Red Cross Society, and currently serves as the society's Liaison Officer for United Nations High Commission for Refugees.

Directors' Profiles

RAWLINSON ISAAC - BA (HONS), MBA, FAIA, FFA, FCIB, FIPA, FLSBF, DIPFS, DTEP, FCMI, ACC.DIR., CIS (AFFILIATE)

Mr. Rawlinson A. Isaac is a Financial Consultant and owner of a consulting practice for the past 12 years. Mr. Isaac holds a BA(Hons.) in Accounting, and MBA in Finance, a Post graduate Diploma in Financial Studies (Dip FS) and a Diploma in Trust and Estate Practice (DTEP). He is a Fellow of the following institutes: Chartered Institute of Bankers, Association of International Accountant, Chartered Management Institute, Institute of Financial Accountants, and the Institute of Public Accountants, and the London Institute of Banking and Finance. He is an Affiliate of the Institute of Chartered Secretaries and Associations (ICSA).

Mr. Isaac is an accredited Director of ICSA (Canada) and has served on several Boards including Eastern Caribbean Securities Exchange (ECSE), Caribbean Credit Card Corporation (4Cs), Eastern Caribbean Home Mortgage Bank (ECHMB), West Indies Power (Nevis) Ltd.

He has a long and distinguished career in Banking and Finance spanning 35 years. He was the Manager of the Nevis Branch of the SKNA National Bank (1983-1990), General Manager of The Bank of Nevis Limited (1990-2006) and served on its Board for 22 years – 6 years as Chairman.

Mr. Isaac also served as the President of the Nevis Lions Club, Chairman of Culturama Committee and Chairman of the Offshore Development Task Force (Nevis). He is a founder of the Sea Bridge Ferry Service.

VERNEL POWELL - MSC.

Mr. Vernel Powell is the Assistant Director of the Nevis Branch of the St. Christopher and Nevis Social Security Board and has served in this capacity since 1992.

ADRIAN S. DANIEL - A.C.C., C. DIR, A.A, U.V.I., LL.B (HONS.) KINGSTON, C.L.E

Mr. Adrian S. Daniel is an Associate Attorney and the Compliance Officer at Daniel Brantley, Attorneys-At-Law. He was called to the Bar of St. Christopher and Nevis in 2011 and appointed as a Notary Public for St. Christopher and Nevis in 2016 by the Chief Justice of the Eastern Caribbean Supreme Court. Mr. Daniel was elected to the Board on 20th December 2017.

Mr. Daniel read law at Kingston University in the United Kingdom and in 2008 obtained his Bachelor of Laws degree with Honours. Further, he successfully completed the Bar Professional Training Course at The College of Law, England (now known as the University of Law) and was called to the Bar of England and Wales in 2009 as a member of the Honourable Society of the Inner Temple. He subsequently attended the Norman Manley Law School in Jamaica where he obtained his Legal Education Certificate in 2011. Mr. Daniel also holds an Associate Degree in Business Management from the University of the Virgin Islands.

In May 2017, Mr. Daniel was awarded the designation of Chartered Director by the Caribbean Governance Training Institute. In May 2018, he was awarded the designation of Audit Committee Certified.

DAMION HOBSON

Mr. Damion Hobson served one term, (2015-2016), as President of the St. Kitts & Nevis Chamber of Industry & Commerce, (CIC), which is the main private sector organization representing the corporate sector on both islands.

He also served for a number of years as a Director and is now a special advisor to the current CIC president.

Mr. Hobson is the Managing Director of the leading shipping and brokerage firm in St. Kitts & Nevis, Hobson Enterprises. His firm also represent leading brands such as MoneyGram, Crowley Shipping, and UPS.

Before assuming the leadership of Hobson Enterprises, he worked at the Eastern Caribbean Central Bank, as Banking Officer, from 1990-1992.

He has been serving on the Board of Directors of The Bank of Nevis Limited since 2017.

At present, Mr. Hobson is also a member of the Board of Directors of the St. Kitts & Nevis Social Security.

Chairman's Remarks

I am happy to report on another satisfactory year of performance for The Bank of Nevis Limited which continues to generate adequate profits despite very difficult market conditions.

We operate in an environment with intense competition from foreign banks and non-bank financial institutions, with predatory lending practices by some institutions, and with the direct targeting of competitors' customers by financial institutions. The banking system is also very liquid resulting in low interest rates and very narrow spreads between lending and deposit rates. In spite of these challenges, The Bank of Nevis Limited has continued to perform well by providing excellent service and products to customers, investing in various community activities, and helping to catalyse entrepreneural development on the island.

The Bank has continued to play a transformative role in the development of Nevis by providing distinctive financing solutions to all sectors of the economy including the public sector. However, the banking environment is changing rapidly and thus we must develop innovative and customer centric solutions to ensure that the institution continues to grow from strength to strength and to enhance its partnership role in the development of Nevis.

To achieve these goals, I will discuss our successes, and opportunities as well as our challenges and responses.

Increase in Shares

+4,262,699

THE ECONOMY

The International Monetary Fund's (IMF) World Economic Outlook, July 2018 update, indicated that global growth is estimated to have grown by 3.7% in 2017 and is projected to reach 3.9% in 2018 and 2019. However, the update suggested that the expansion is still uncertain and risks that may stymie the proposed growth are increasing. The update further notes that the "rate of expansion appears to have peaked in some major economies and growth has become less synchronized."

In the United States of America, the Caribbean's largest trading partner, growth appears to be strengthening in the short-term and the US dollar has been appreciating in recent weeks. By comparison, growth forecasts have been revised downward for the Euro Area, Japan and the United Kingdom. Emerging and developing economies are expected to maintain robust performances, growing by 6.5% in 2018-2019. However, projections are becoming more uncertain associated with rising oil prices, higher yields in the United States, escalating trade tensions, and market pressures on the currencies of some economies with weaker fundamentals. "Growth projections have been revised downward for Argentina, Brazil, and India, while the outlook for some oil exporters has strengthened." The growth rate in China is expected to fall marginally from 6.9% in 2017 to 6.6% in 2018 as external demand softens and the regulatory tightening of the financial sector takes hold.

St. Kitts and Nevis

According to the Eastern Caribbean Central Bank's Annual Economic and Financial Review 2017, the economy of St. Kitts and Nevis grew by a slower rate in 2017 compared to 2016. Real gross domestic product (GDP) is estimated to have risen by 1.7% in 2017 compared to a growth rate of 2.2% in 2016. Consumer prices rose by 0.2% mainly attributable to moderate international commodity price pressures and low domestic price pressures. The fiscal performance of the Federal Government moderated which resulted in a smaller overall surplus which was primarily associated with a fall in non-tax revenue and a rise in capital expenditure. Public sector debt also increased during the review period. The report also notes that "in the banking system, monetary liabilities, and net foreign assets fell while domestic credit increased. The commercial banking system remained liquid and the spread between the weighted average interest rates on loans and deposits narrowed."

For 2018, the economy is expected to expand at an accelerated pace compared to 2017. The IMF has projected growth of 3.5%. This will be fuelled by private sector investments in luxury accommodation; public sector projects including road enhancement and housing; agriculture; and tourism especially with investment in the cruise industry.

Tax revenues of the Federal Government are expected to increase as the real sector activity grows but the fiscal operation is expected to decline resulting in a narrower surplus. This is a direct result of an expected increase in both current and capital expenditures.

The downside risks to the prospects for St. Kitts and Nevis include the likely strengthening of commodity prices; decrease in receipts from the Citizenship by Investment Programme; the potential impact of hurricanes and flooding; and increase in interest rates in the United States which could increase the cost of our dollar denominated debt and also reduce foreign direct investment.

The growth in the global economy and improvement in economic activity in the United States are expected to positively impact the St. Kitts and Nevis economy through increase in tourism and the knock-on effects on other sectors such as real estate, renting and business activity.

Accordingly, the Bank's restaurant, hotel, and commercial customers are expected to experience an improvement in business activity which will put them in a stronger position to fund their overdrafts, repay their debts and increase deposits.

CORPORATE GOVERNANCE

At the 2017 Annual General Meeting, three new directors were elected to the Board of Directors. They are Mr. Damion Hobson, Businessman, Mr. Adrian Daniel, Attorney-at-Law, and Mrs Jessica Boncamper, Businesswoman. They bring a wealth of knowledge and experience to the Board in law, business and financial services and have been making valuable contributions to the management of the Bank.

The Board is continually trying to improve the corporate governance of the institution to ensure that there are proper systems of management and control. In this regard, three directors received training and were certified by the Caribbean Governance Training Institute as Audit Committee Members. In the near future, two of the new directors will also be required to complete the chartered directors' programme with the same institute.

The Board members take corporate governance very seriously recognizing that we have a legal duty to protect the assets and reputation of the institution, and have ultimate liability and responsibility for its operations and actions. Consequently, we have spent considerable time developing a strategic plan which involves reviewing our mission, vision and values and establishing new objectives to expand the business and ensure the integrity of financial reporting and compliance. In this regard, we have increased the staff complement in the compliance and internal audit departments. We have also allocated resources to ensure that all the senior compliance staff members become certified anti-money laundering specialist (CAMS) in an effort to implement international standards and meet all the legislative and statutory requirements. We have also employed a professional internal auditor to lead the internal audit division so that the Board and management can be provided with timely and accurate information on the effectiveness of risk management, control and governance processes.

FINANCIAL RESULTS

The Bank of Nevis Limited has produced another successful year of operation. Based on the consolidated position, we earned $8.3 million in net income representing an increase of 17.45% over the 2017 financial year. The Bank of Nevis Limited (BON) contributed $2,160,108 and Bank of Nevis International Limited (BONI) contributed $6,118,436 continuing the trend of BONI being the larger contributor to profits. In 2017, BON contributed $2.4 million which indicates that there was a decline of 11.1% in BON's profits for 2018. However, the difference in profits is as a result of adjustments made for provision for loan impairment.

In 2017, there was actually a reduction in provision by $542,762 while in 2018 the provision increased by $1,418,676. The provision adjustment is not directly as a result of any increase in non-performing loans but is related to the inherent risk provision which is associated with performing loans where the past performance for the loan portfolio is used as an indicator to provide for potential future losses. The methodology applied is a prudent approach to loan loss provisioning and is a good segue for the implementation of IFRS 9 which would be effective in the 2019 financial year.

The return on average equity (ROE) fell from 11.07% in 2017 to 10.8% in 2018. This is still a very attractive ROE in today's market and shows that the shareholders' funds have been employed profitably when compared to similar investment opportunities at home and abroad where a 5% return is regarded as reasonable. The return on assets has increased slightly from 1.2% to 1.4% indicating that the Bank has continued to utilize its assets efficiently. The Bank delivered $0.47 in earnings per share which is a large drop from $0.70 in 2017. However, this is not as a result of lower profits but more a reflection of the increase in the number of shares from 13,833,945 to 18,096,644 after the additional public offering in 2017.

Using anyone of the profitability metrics highlighted above, the Bank (consolidated position) has performed creditably in 2018 and has the reserves to propel growth in the future.

CHALLENGES

Despite the financial success that we have enjoyed during this accounting period, there are challenges and downside risks that must be monitored closely so that appropriate remedial actions could be taken in a timely manner. The most critical is the sale of BONI. In 2016, the shareholders authorized the sale of part or the whole of BONI by 30th September 2016. The Board entered into an agreement to sell 60% of BONI to Petrodel Investment Advisers (Nevis) Limited (PIAN). A fresh mandate was sought from the shareholders at the 2017 meeting to sell an additional 15% shares in BONI with authorization to dispose of the remaining shareholders, one of the rationales being to eliminate the potential reputational risks that an international bank could pose to the parent. We have made steady progress with the sale of BONI and are expected to execute an agreement during the month of November to initiate the sale of the remaining 40% of BONI.

However, as can be seen from previous reports, BONI has delivered significantly higher profits than BON. This is not surprising since BONI does not engage in cash transactions and consequently has a lower operating cost and superior efficiency ratio. To maintain a reasonable return on equity for BON in the future, we will have to increase its market share by expanding its asset base significantly over the next five years. The reason being that the sale of BONI will reduce the asset base by about $150 million and thus we will have to try to make up the short fall. However, a key advantage is that the bank is very stable with shareholders' equity of over $84 million which could support a significant expansion in assets. I will address the prospect later in the report.

The Bank is still experiencing significant challenges with the high level of Non-Performing Loans (NPL). There was a negligible increase from 12.63% in June 2017 to 12.65% in June 2018. However, the progress is very slow considering that the ECCB's target for NPL is 5%. In addition, we are already preparing for the implementation of IFRS 9 accounting standard in 2019 which may result in larger provisions as the new standard forces the bank to undertake a more exhaustive assessment of the impairment of financial assets focusing not just on incurred loss but factoring the potential future risk. This has the potential to significantly reduce profits if not carefully managed. We can assure you that the bank will continue to aggressively pursue delinquent loan customers with the objective of achieving the 5% delinquency rate. To this end, the Board has approved a delinquency management strategy which involves improvement in underwriting, enhanced monitoring of all loans, and the potential discounted sale of delinquent debts to asset management companies. We have also mandated the legal department to aggressively pursue legal action against individuals and entities that have refused to service their debts despite persistent efforts by the bank to collect.

We have made some progress in the area of correspondence banking. We have continued relationships with Lloyds Bank, and Crown Agents on-boarded the domestic bank in March 2018. The evaluation of the international bank is ongoing. We have also held discussions with several US banking institutions but to date our efforts have not borne fruit. However, we will continue to work assiduously in this regard, and based on feedback, we have high confidence for a favourable outcome.

Lastly, the Bank has been receiving several complaints from our high valued commercial customers about the inefficiency of the compliance function which is negatively impacting their business. It must be understood that compliance is a very important area of banking necessary to deter money laundering and other financial crimes as well as to ensure that we are able to maintain our correspondent banking relationships. However, it is important that we find the right balance between managing the risks and meeting our customers' expectation in terms of efficiency. In this regard, we are undertaking a review of this function with the objective of moving to a risk based system which will help to improve efficiency, minimize delays and improve the quality of service to our customers.

STRATEGIC INITIATIVES

The banking system globally is changing rapidly resulting in major disruptions in the way we do business. Banks are aggressively cutting costs and improving efficiency ratios in an effort to improve their bottom line. Paper cheques and cash are increasingly being replaced with the use of credit and debit cards. With the advent of Fintech Companies, faster and more efficient means of settlement such as PayPal and crypto currency are emerging and rendering traditional payment systems obsolete. With the growing use of block chain technology, fewer intermediaries will be needed and some experts are predicting that that there will be a diminished need for centralized banking.

The Board and Management had a strategic meeting in June 2018 and agreed that in order to meet the challenges head on, our strategy cannot preserve the status quo. We must create an agile strategy that draws on a diversity of talents, and forces us to be innovative and creative and to come up with new approaches that place the bank ahead of its competition. I shall give a synopsis of some of the most important components of our strategy which is focused mainly on organic growth and strategic alliances.

- To expand the asset base, we intend to spread our tentacles wider into the St. Kitts market which is growing and is quite lucrative. We have already started serious discussions with a non-bank financial institution in St. Kitts with a view to establishing a strategic alliance through which we can offer a range of banking services to St. Kitts customers including loans, deposit taking, ATM machines and other services.

- The bank is also exploring functional co-operation with another banking institution in St. Kitts to cut cost and improve efficiency. This will involve loan syndications and collaboration on training and the purchase of technology in areas such Internal Audit, Information Technology, and Risk and Compliance.

- To boost revenue and expand the service options, we are working on establishing a strategic partnership with an insurance company. The bank will offer insurance services to customers when concluding loans and obtain a fee from the insurance company for the service. This initiative will provide a one-stop option for customers especially those who require mortgage insurance.

- The bank intends to radically transform the customer service experience. This will involve empowering staff by using training modules to ensure that they have easy access to accurate, relevant and consistent information so that they can provide immediate answers to questions. In addition, the bank will organize workshops to educate our customers in financial literacy to help build goodwill and strengthen relationships. The plan also includes redesigning the interior of the customer area to make it more customer friendly and to advertise the bank products. A consultant has already been contracted to review the Operations Department and to help improve these areas of the customer service experience.

- We have already started to work on a risk based compliance system to improve efficiency and the quality of service. After due diligence has been conducted on an account, it will be assigned a risk rating that will determine the level of scrutiny for transactions. This will certainly help to expedite incoming and outgoing wires, reduce bottlenecks and minimize processing times.

- Perhaps the most important initiative will be enhancing our technology to improve customer service, reduce cost and improve operational efficiency. We will be revolutionizing the bank by utilizing technology in every area of its operations. This will include upgrading and expanding the network of ATM machines so that most transactions could be conducted without standing in long lines; the use of more sophisticated mobile and online banking applications so that bank accounts could be accessed on phone, tablets and computers to transfer money and pay for goods and services; and implementation of propriety software which will speed up loan approvals and help to improve risk management, internal audit, and compliance.

- The bank will segment its customer base and create personalized marketing and services. We have already started to explore the use of data analytics so that we can analyse the massive amount of data in our possession to offer high quality products designed to meet the specific needs of our customers.

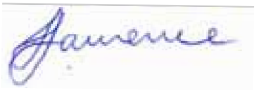
With these initiatives and others, the Board and management are very confident that the Bank will be able to respond positively to the changing external and internal environment and continue to generate adequate return for its shareholders.

CONCLUSION

I have given an overview of the result of BON for 2018 and have highlighted the many challenges that lie ahead in the banking industry both externally and locally. I have given an objective assessment of the present situation. With the sale of BONI pending, the board has had to rethink its strategy for the continued prosperity of the Bank. However, we are not fearful and do not believe that the challenges ahead are beyond our capabilities. We are confident that with the new strategic direction that the Bank is taking, it will continue to play a very important role in the development of St. Kitts and Nevis, to provide high quality employment opportunities and to generate significant returns for shareholders in the future.

However, I would be remiss if I did not point out that the transformation of the Bank will take time and will require the patience and understanding of shareholders as we utilize time, energy and resources to facilitate technological advancement and organic growth. We will also have to reduce our staffing levels over time to keep up with our competitors who are methodically replacing staff with machines. I believe it is now well established that machines are smarter, faster, less prone to mistakes and much more economically viable. However, where this Board departs from the competition is the firm belief that machines cannot extend the level of courtesy that people do. The Staff that will thrive in this very dynamic environment are the ones who are willing to learn new skills and can easily adapt to the new environment. They will have to learn the company's products and deliver timely, accurate, and consistent responses to customers in a friendly and caring manner. In the near future, we will not require the staff to undertake the mundane back office work but instead they must be able to interface with the customers effectively and undertake higher order skills which require detailed analysis, interpretation of data and the exercising of good judgment. These are the skills that will be needed to ensure that The Bank of Nevis Limited can surpass its competitors. We have finalized a three-year strategic plan which we are positive will reap the rewards that we all seek. I believe that we have a Board and members of management with the talent, diversity, vision and skills to keep the Bank on the path of success.

I wish to thank the members of Staff, management and the Board for their hard work over the past year, and the shareholders and other stakeholders for their support and for the confidence reposed in the leadership of the institution. We will have differences of opinions about what is best for the organisation but if we continue to work together in an environment of mutual respect and trust, this institution will continue to be a shining light in the Federation of St. Kitts and Nevis and an emblem of local entrepreneurship.



Laurie Lawrence
CHAIRMAN

Convenience

Services like credit cards to make life easier.

A BETTER BANK...BECAUSE OF YOU!

We invest heavily in banking technology and convenience services to enhance your life - From our online banking to ATMS and more still to come.

Directors' Report

DEAR SHAREHOLDERS,

We are pleased to present to you our report on The Bank of Nevis Limited and its subsidiaries for the financial year ended June 30, 2018.

The theme for this year's annual report is **A Better Bank…Because of You!** The Bank of Nevis Limited is committed to its customers, shareholders and stakeholders and recognizes that their support is vital for the Bank's operation. The Board of Directors therefore wishes to express gratitude to all for your continued support and trust in The Bank of Nevis Limited.

CORPORATE GOVERNANCE

The Bank of Nevis Limited is fully cognisant of and recognises the importance of adhering to corporate governance best practices. The Board is mindful that sound corporate governance policies and practices are important to the creation of shareholder value and the maintenance of depositor and investor confidence. As such, the Bank's corporate governance policies are designed to ensure the independence of the Board and its ability to effectively supervise management's operation of the Bank.

The Board of Directors

The Board comprises eight (8) elected directors; six (6) non-independent directors and two (2) independent directors, who govern the affairs of the Bank. The Board continuously monitors and updates, as necessary, the Bank's internal systems in order to ensure its standards reflect best international practices while tailored to the specific needs of the Bank. At all times, the Board seeks to exercise leadership, enterprise, integrity and good judgment in directing the Bank to achieve continuing prosperity for its stakeholders.

The Board provides leadership to the Bank within a framework of prudent and effective controls that enables risk to be assessed and managed. It sets the Bank's strategic aims, ensuring that the necessary financial and human resources are in place for it to meet its objectives and review management performance. The Bank's values and standards are set to ensure that obligations to its shareholders and other stakeholders are met.

The Role of the Board

The Board is responsible for:

- oversight of the Bank, including its control and accountability systems;
- appointing and removing members of senior management;
- formulation of policy;
- input into, and final approval of management's development of corporate strategy and performance objectives;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- monitoring senior management's performance, implementing strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- approving and monitoring financial and other reporting; and
- approving credit facilities in excess of a defined amount.

The Board delegates the daily management of the Bank to the General Manager. The General Manager's responsibilities and authorities are documented and approved by the Board. Limits on credit dispensation, capital and operating expenditures are stated specifically in the General Manager's Authorities which are reviewed by the Board annually.

Meetings of the Board

Pursuant to the mandate to ensure that the interests of the various stakeholders are considered, the Board meets on a monthly basis. Directors are expected to attend Board meetings, meetings of committees on which they serve, and annual meetings of the shareholders. Information and data that are important to the Board's understanding of the business to be conducted at a Board or Committee Meeting are usually distributed to the Directors in advance of each meeting in order to allow time to review these materials. In addition to its monthly scheduled meetings, the Board meets at such other times as the situation warrants. Before the commencement of every meeting, members disclose their conflicts of interests in any matter on the agenda.

Board Meeting Attendance Report

Director	Number of Meetings	Percentage
H. Ron Daniel II#	9 / 9	100%
Rawlinson Isaac	18 / 18	100%
Laurie Lawrence	17 / 18	94%
Spencer Hanley	16 / 18	89%
Kevin Huggins +	0/1	0%
Jacqueline Lawrence	18 / 18	100%
Vernel Powell	14 / 18	78%
Damion Hobson*	8 / 9	89%
Adrian Daniel*	9 / 9	100%
Jessica Boncamper*	9 / 9	100%

Percentages are to the nearest whole number

#Director H. Ron Daniel II retired by rotation at the Bank's Annual General Meeting on 20th December 2017 and was unsuccessful in his bid for re-election..

**Directors Damion Hobson, Adrian Daniel and Jessica Boncamper were elected to the Board on 20th December 2017.*

+ Director Kevin Huggins was suspended from his position as a director by the Eastern Caribbean Central Bank (ECCB)on 15th December 2016. During the financial year, he was removed as a director. As a result, he did not attend any meeting during the financial year. Director Huggins commenced judicial review proceedings against the ECCB and by judgment dated 24th October 2018 emanating from the Nevis High Court Circuit, he was granted leave to apply for judicial review for an order of certiorari to quash the ECCB's decision.

Committees of the Board

The current standing committees of the Board are the Audit & Compliance Committee, Business and Product Development Committee, Credit Committee, Human Resource & Compensation Committee, Investment Committee and Risk Management Committee. Due to the impending sale of Bank of Nevis International Limited (BONI), the Board appointed a BONI Sale Transition Committee to ensure the smooth transition of the sale.

Each Committee reports directly to the Board. Subject to their availability, each director should serve on one or more Board committees. Committee members and chairpersons are appointed by the Board. Committee chairpersons and members are reappointed annually. The Chairman of the Board is an ex officio member of all Committees.

Each Committee has its own written charter which complies with all applicable laws and regulations. The charters set forth the mission and responsibilities of the committees as well as procedures for committee member appointment, committee structure and operations and reporting to the Board. Committee charters are reviewed annually.

The Board may from time to time, establish or maintain additional committees as necessary or appropriate.

Audit & Compliance Committee

The Audit & Compliance Committee is chaired by Jacqueline Lawrence. Other members include Rawlinson Isaac, Spencer Hanley, Jessica Boncamper and Adrian Daniel. Hanzel Manners (Independent Member) resigned effective on 4th June 2018.

The Audit & Compliance Committee of the Board meets at least quarterly and has oversight of the following duties:

- the integrity of the Bank's financial reporting;
- the Bank's internal controls over financial reporting and disclosure controls;
- the performance of the Bank's internal audit function and the qualifications and independence of the Bank's Internal Auditor;
- the qualifications, independence and performance of the External Auditors;
- the Bank's compliance with legal and regulatory requirements; and
- such other duties as the Board may from time to time delegate to it.

Credit Committee

The Credit Committee is chaired by Spencer W. Hanley. Other members include Laurie Lawrence, Damion Hobson, Jacqueline Lawrence and Rawlinson Isaac.

The Credit Committee meets monthly and at such other times as may be necessary. The Committee is responsible for overseeing the credit and lending strategies and objectives of the Bank, including oversight of the credit risk management of the Bank, reviewing internal credit policies and establishing portfolio limits, reviewing the quality and performance of the Bank's credit portfolio and such other duties as the Board may from time to time delegate to it.

Business and Product Development Committee

The Business and Product Development Committee is chaired by Damion Hobson. Other members include Vernel Powell and Jessica Boncamper.

The Business and Product Development Committee meets at least quarterly and at such other times as may be necessary. The Committee is responsible for formulating the overall marketing policies and strategies of the Bank, subject to approval by the Board, and establishing customer service and marketing guidelines in furtherance of those policies. The Committee monitors the management of the Bank's marketing plan for compliance with the customer service charter and marketing policies and guidelines and for meeting performance objectives over time.

Human Resource & Compensation Committee

The Human Resource & Compensation Committee is chaired by Laurie Lawrence. Other members include Rawlinson Isaac, Jessica Boncamper and Vernel Powell. The Committee meets at least quarterly and at such other times as may be necessary.

The mandate of the Human Resources & Compensation Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing the management of human resources within the Bank, and to provide recommendations and advice to the Board on the Bank's human resources management strategies, initiatives, and policies.

Investment Committee

The Investment Committee is chaired by Rawlinson Isaac, with other members being Laurie Lawrence, Jacqueline Lawrence and Adrian Daniel. The Investment Committee meets monthly and at such other times as may be necessary.

The Investment Committee is responsible for formulating the overall investment policies of the Bank, subject to approval of the Board, and establishing investment guidelines in furtherance of those policies. The Committee monitors the management of the portfolio for compliance with the investment policies and guidelines and for meeting performance objectives over time.

Risk Management Committee

The Risk Management Committee is chaired by Vernel Powell, with other members being Adrian Daniel, Spencer Hanley and Damion Hobson. The Risk Management Committee meets at least quarterly and at such other times as may be necessary. The following are the duties and responsibilities of the Risk Management Committee:

- recommending the risk profile and risk appetite of the Bank, for approval by the Board;
- receiving and reviewing reports from management concerning the Bank's risk management strategies;
- recommending and overseeing the process developed by management to identify principal risks, evaluating their potential impact, and implementing appropriate strategies to manage those risks;
- recommending principles, strategies, policies and processes for managing risk;
- receiving and reviewing reports from management regarding resolution of significant risk exposures and risk events;
- reviewing and monitoring the risk implications of new and emerging risks, organisational change, regulatory change and major initiatives;
- providing a formal forum for communication between the Board and Senior Management; and
- such other duties as the Board may from time to time delegate to it.

DIRECTORS' REMUNERATION

Governance Group	The Bank of Nevis Limited (EC$)	The Bank of Nevis Limited International Limited (EC$)
Board of Directors Meeting		
Chairman of the Board	$3,500.00 per month	$2,695.00 per month
Directors	$2,500.00 per month	$1,886.00 per month
Committees		
Chairman of the Committee	$375.00 per meeting	$375.00 per meeting
Directors	$250.00 per meeting	$250.00 per meeting

BOARD TRAINING & DEVELOPMENT

During the financial year, directors participated in the following conferences and training:

- Caribbean Association of Banks Annual General Meeting and Conference.
- Anti-money laundering/Countering Terrorist Financing Conference- Nevis Financial Services Department.
- "Audit Committee Certified" from the Caribbean Governance and Training Institute.
- The 22nd Annual Conference of Commercial Banks.
- The Raymond James Bond School.
- Society of Trust and Estate Practitioners (STEP) Caribbean Conference.
- The 28th Annual Conference of Commercial Banks.

DIRECTORS' OWNERSHIP INTEREST

The Directors' ownership interests in the ordinary shares of the Bank as at 30th June 2018 are as follows:

Shareholdings of Directors

30th June, 2018

Director	Number of Shares Held
Adrian Daniel	35,200
Rawlinson Isaac	11,250
Jacqueline Lawrence	4,000
Spencer Hanley	4,000
Vernel Powell	1,362
Jessica Boncamper	1,000
Laurie Lawrence	1,000
Damion Hobson	550
TOTAL	**58,362**

The directors have no right to subscribe for any equity or debt securities of the Bank and its subsidiaries.

During the year under review, there were no instances wherein a director had any material interest in any contract or other arrangement in relation to the business affairs of the Bank

CHIEF EXECUTIVE OFFICER'S OWNERSHIP INTEREST

The Chief Executive Officer's ownership interest in the ordinary shares of the Bank as at 30th June 2018 is as follows:

Shareholdings of the Chief Executive Officer

30th June, 2018

Name	Number of Shares Held
L. Everette Martin	1,000
TOTAL	**1,000**

OWNERSHIP INTEREST- ASSOCIATES OF DIRECTORS AND CHIEF EXECUTIVE OFFICER

The ownership interests of associates of directors and chief executive officer in the ordinary shares of the Bank as at 30th June 2018 are as follows:

Shareholdings

30th June, 2018

Name	Number of Shares Held
Associate of Director Jacqueline Lawrence+	4,000
Associate of Director Rawlinson Isaac.	1,053,540
TOTAL	**1,057,540**

+ Shares are held jointly with Director Jacqueline Lawrence.

Associate is defined in section 2 of the Securities (Continuing Disclosure Obligations of Issuers) Regulations 2001 as

1. *Spouse*
2. *Children or step children under 18 years old of the director or chief executive or of the spouse of such director or chief executive*
3. *Any company of which the director or chief executive is a substantial shareholder, and the holding company or subsidiary of the company of which the Director or chief executive is a substantial shareholder. Substantial shareholder means owning 5% or more voting power.*

SIGNIFICANT SHAREHOLDERS AS AT JUNE 30, 2018

(Over 5%)

Shareholder	Number of Shares Held	% of Total
St. Christopher & Nevis Social Security Board	4,000,000	22.1%
Nevis Island Administration	2,002,500	11.1%
David A. Straz, Jr. Foundation	1,743,783	9.64%
Tiger Holdings Inc.	1,053,540	5.82%
St. Kitts & Nevis Sugar Industry Diversification Fund	1,000,000	5.53%
TOTAL	**9,799,823**	**54.19%**

Share Capital- Subsidiaries

The information for the share capital of the subsidiaries are detailed below:

Name of Entity	Share Capital	Principal Country of Operation	Country of Incorporation	Main Business
Bank of Nevis International Limited	US$2,226,428	Nevis, St. Christopher and Nevis	Nevis, St. Christopher and Nevis	International Banking
Bank of Nevis International Fund Limited	US$3	Nevis, St. Christopher and Nevis	Nevis, St. Christopher and Nevis	Mutual Funds
Bank of International Fund Managers Limited	US$134,745	Nevis, St. Christopher and Nevis	Nevis, St. Christopher and Nevis	Mutual Funds
Bank of Nevis Mutual Fund Limited	EC$1,500,000	Nevis, St. Christopher and Nevis	Nevis, St. Christopher and Nevis	Mutual Funds
Bank of Nevis Fund Managers Limited	EC$250,000	Nevis, St. Christopher and Nevis	Nevis, St. Christopher and Nevis	Mutual Funds
Bank of Nevis International Trust Services Inc.	US$200,000	Nevis, St. Christopher and Nevis	Nevis, St. Christopher and Nevis	Mutual Funds

SHAREHOLDINGS BY SIZE AS AT JUNE 30, 2018

SIZE OF SHAREHOLDING	NUMBER OF SHAREHOLDERS PER ACCOUNT WITH THE ECSE*	PERCENTAGE OF SHAREHOLDERS	TOTAL SHARES HELD	PERCENTAGE OF SHARES HELD
1 - 500	359	34.03%	80,625	0.45%
501 - 1,000	181	17.16%	154,992	0.86%
1,001 - 2,500	181	17.16%	315,473	1.74%
2,501 - 5,000	111	10.52%	431,649	2.39%
5,001 - 10,000	74	7.01%	538,581	2.98%
10,001 - 25,000	80	7.58%	1,315,025	7.27%
25,001 - 50,000	34	3.22%	1,311,769	7.25%
50,001 - 100,000	16	1.52%	1,097,677	6.07%
100,001 - 250,000	9	0.85%	1,559,905	8.62%
250,001 - 500,000	5	0.47%	1,491,125	8.24%
500,001 and above	5	0.47%	9,799,823	54.15%
TOTAL	1,055	100.00%	18,096,644	100.00%

**Number of Shareholders are calculated per account with the ECSE*

DIVIDENDS

Your Directors recognise the importance of dividends in building and maintaining investor and shareholder confidence. Notwithstanding, your Directors are aware that dividend payments reduce the level of profits retained in the company and ultimately impact the level of capital. The maintenance of adequate capital is imperative in ensuring that the strategic objectives of the institution is achieved while complying with the capital adequacy requirements as outlined in the 2015 Banking Act.

The Bank of Nevis Limited's capital adequacy policy stipulates that the Board of Directors is responsible for declaring a dividend payment at its discretion to the shareholders. Dividends will only be paid from realised earnings of the Bank. Dividends payments must not exceed a maximum of 40% of The Bank of Nevis Limited's ordinary realised profits. Where the payout is less than 40% in any one year, the Board of Directors may increase future distributions proportionately. Additionally, the Board may at its discretion payout the full amount of any and all realised gains resulting from extraordinary transactions. No dividends shall be paid other than out of profits. Dividends cannot be paid from any capital or revaluation reserves.

The Board of Directors has declared a cash dividend of 20 cents per share for the year ended June 30 2018. This dividend rate represents a total payment of $3,619,329.00 (issued shares of 18,096,644) or a payout ratio of 56.4%.

CORPORATE SOCIAL RESPONSIBILITY

During the 2018 financial year, The Bank of Nevis Limited remained committed to its mandate as a corporate social partner. Accordingly, the Bank contributed to several initiatives in the area of education, sports, health, culture and social endeavours.

Education

The Bank continues its sponsorship of the Tourism Youth Congress in conjunction with the local Ministry of Tourism for the seventh consecutive year. The Bank views this sponsorship as critical to the development of the tourism industry as it provides an opportunity for the youth to contribute to the vision of the sector. The Bank congratulates the winner and pledges its continued support to this endeavour.

BON Marketing Officer and Ministry of Tourism Officials with participants of the Tourism Youth Congress

The Bank continues to provide educational assistance through The Bank of Nevis Limited Dr. Simeon Daniel Scholarship. Three students, two from the Charlestown Secondary School and one from the Gingerland Secondary School were awarded The Bank of Nevis Limited Dr. Simeon Daniel Scholarship for 2017. Also, the Bank rewarded the top students in Cape and CSEC examinations through its Academic Excellence Awards.

Best CSEC Student and recipient of The Right Excellent Dr. Sir Simeon Daniel Scholarship, Miss. Kervincia Webbe

The Bank of Nevis Limited's Board Director and Marketing Officer with recipients of The Right Excellent Dr. Sir Simeon Daniel Scholarship

The Bank also provided assistance to the Nevis Sixth Form College to facilitate participation in the 2018 Leeward Island Debating Competition and graduation for a majority of the primary schools on the island.

Sports

Staff Sponsor and Teacher of the Charlestown Secondary School and participating students who were victorious in the 2018 Leeward Island Debating Competition

The Bank of Nevis Limited recognises the importance of Sports in the development of our nation's youth. During the 2018 financial year, the Bank contributed to the Annual Emmanuel Richards Summer Football Programme. This programme is conducted every year for children under the age of 12 years. Additionally, The Bank of Nevis Limited High School Championship was a success.

BON Marketing Officer playing football with participants in the Emmanuel Richards Summer Football Programme

BON Marketing Officer handing over official Cheque to The Director of Sports in The Nevis Island Administration

Health

The Bank continued to provide support to charitable organisations geared towards the health of our people. In particular, the Bank provided support to The Nevis Renal (Kidney) Society. Additionally, the bank had several other health initiatives throughout the year.

Participants in the Nevis Renal Society Charity Walk

Culture

In the area of culture, The Bank of Nevis Limited contributed to Culturama, the cultural festival, by sponsoring representatives of the Mr. and Miss. Talented Youth Pageant. The BAADAYE children Troupe was also sponsored by The Bank of Nevis Limited and also won first place. Also, the Bank supported the Shekhinah Dance Theatre Annual Production.

The BAADAYE children Troupe who were sponsored by The Bank of Nevis Limited and also won first place

ACKNOWLEDGEMENTS

We express appreciation to our staff members who continue to ensure the viability of this institution. We thank those staff members who have decided to pursue other endeavours and have contributed significantly to The Bank of Nevis Limited. The Directors thank all the staff members for their contribution to the success of this institution.

Finally, we thank our customers, shareholders and other stakeholders for your continued patronage and look forward to your support as we seek to ensure the continued success of The Bank of Nevis Limited.

BY ORDER OF THE BOARD

C Herbert

CINDY HERBERT
Corporate Secretary

Management Team

Back Row (left to right): Dixon Phillips (Chief Internal Auditor), Monique F. Williams (Investment and Treasury Manager), Regis Wiltshire (Information Technology Manager), Cindy Herbert (In-house Legal Counsel), Shirletta Byron (Human Resources Manager), Denrick Liburd (Loans Manager)

Bottom Row (left to right): Sonia Bowen-Tuckett (Operations Manager), Petal Parry (Chief Financial Officer), Cecelia Harewood-Hanley (Accounting Manager)

L. Everette Martin – General Manager, Paula Wallace – Operations Manager (Bank of Nevis International Limited)

Management Discussion and Analysis on the Group's Financial Performance

The ensuing discussion and analysis is provided to enable stakeholders to obtain a clearer understanding of the consolidated financial position and results of operations of The Bank of Nevis Limited and its subsidiaries (the 'Group' or the 'Bank') in respect of the financial year ended June 30, 2018 (as compared to the previous financial year ended June 30, 2017). This discussion and analysis should be read in conjunction with the Group's audited Financial Statements and related Notes for the financial year ended June 30, 2018. The discussion and analysis reflects the financial position and results of the Group which comprises The Bank of Nevis Limited and its subsidiaries including Bank of Nevis International Limited. Unless otherwise stated, all amounts are expressed in Eastern Caribbean Dollars.

OVERVIEW

The Bank of Nevis Limited Group continues to focus on active strategic management to ensure its growth and stability. The 2018 financial year commenced the journey of a three year Corporate Strategic Plan under the theme ***Seizing the Opportunity – Transformation through Technological Innovation*** in recognition of the rapidly changing financial landscape in which the Bank operates. With the recent growth in the number of financial technology (FinTech) companies traditional banking is gradually becoming outdated. Accordingly, the Bank has decided to recalibrate its business model which will be underpinned by a digital banking platform that will create growth, efficiency, better customer experience, strategic talent acquisition and management buttressed by a strong risk and compliance framework, robust cyber security defensive mechanisms, cutting-edge security tools and an effective corporate governance and regulatory culture. The Bank's strategic focus will concentrate on technological innovation to deliver faster, simpler and cheaper banking services and products to customers.

Despite operating in an economic environment characterized by marginal growth and a competitive market, the Group continues to be profitable. For the financial year ended 30 June 2018 we recorded after tax profits of $8.3 million and our total assets grew to $580 million or an increase of $1.4 million or 0.2%. We achieved return on average equity of 10.80% compared to 11.07% at 30 June 2017 and return on average assets of 1.44% up from 1.19% in the prior year.

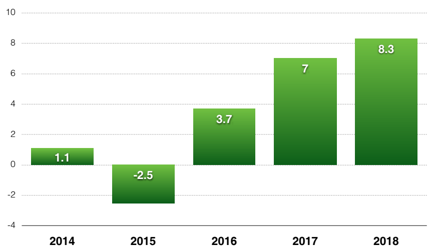
RESULTS OF OPERATIONS

The Bank of Nevis Limited Group recorded a net profit after tax of $8.3 million for the 2018 financial year, an increase of $1.2 million or 17.45% compared to the 2017 financial year after tax profit of $7.0 million.

$1.4M

Increase in Assets

Group Net Income: 2014 - 2018 (EC$ Million)



The increase in profitability was primarily driven by continued growth in Bank of Nevis International Limited's (BONI) profits, increase interest income from loans and advances and a tax credit. . Following negotiations with the Nevis Island Administration we were able to record a tax credit of $1.14 million which was mainly associated with interest income on eligible facilities being designated as tax free. Bank of Nevis International Limited (BONI) recorded profits of $6.1 million, an increase of $1.5 million or 32.5% compared to the prior year's profits. This continued improved performance was reflected in gains in the investment portfolio and an increase in fees and commissions from transactions.

The domestic bank, The Bank of Nevis Limited, contributed net profit of $2.2 million; a decline of $0.3 million

Performance Growth

+17.45%

or 11.1% compared to $2.4 million in 2017. The decrease in profits was largely due to the increase impairment on allowance for loans and advances.

OPERATING INCOME

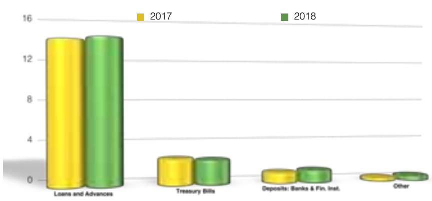
For the 2018 financial year, the Bank recorded total operating income of $14.1 million representing an increase of $0.2 million or 1.1% over the prior financial year. Although net interest income was the largest contributor to the operating income, accounting for 76.8%, this figure represented a marginal decline from the 78.2% recorded in the 2017 financial year. Other operating income amounted to $3.2 million and represented 23.0% compared to the 22% contributed in the 2017 financial year.

Net interest income declined marginally by 0.7% to $10.8 million for the 2018 financial year. This decline was associated with an increase in interest expense as the Bank attracted more high priced fixed deposits from its institutional depositors.

Interest Income

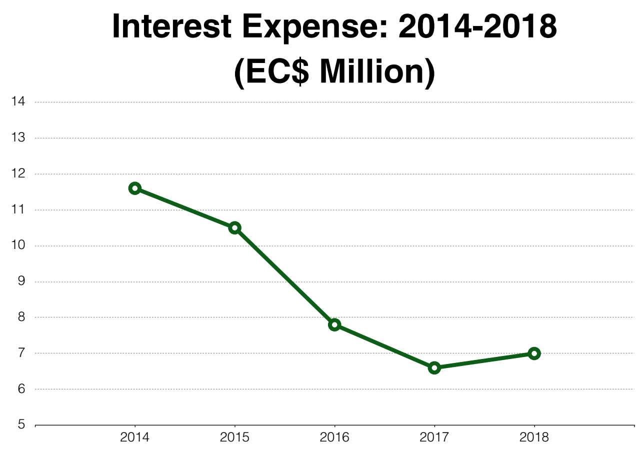
Interest income continued to expand during the 2018 financial year recording an increase of $0.4 million or 2.1% to $17.9 million compared to the prior financial year. This increase resulted primarily from income generated on the loans portfolio as we continued to intensify our loans promotions. The graph below depicts the sources of interest income.

Group Sources of Interest Income - 2017 vs. 2018
EC$ Million



Interest Expense

The Group's interest expense has been decreasing over the last several years (see graph below) as we continued to implement our interest rate reduction strategy in an environment of high liquidity within the banking sector. However, during the 2018 financial year the Bank attracted significant higher priced fixed deposits from institutional depositors resulting in an increase in interest expense of $0.4 million or 6.6% to $7.0 million. Interest expense on savings deposits and demand deposits continued to remain flat.



Other Operating Income

Other operating income comprises mainly of fees and commissions, net foreign exchange gains, dividend income on available-for-sale investments and net card services commissions and fees. During the 2018 financial year, other operating income expanded marginally by $0.2 million or 6.2% to $3.2 million and was mainly associated with growth in fees and commissions and miscellaneous revenue. Fees and commissions and net foreign exchange gains contributed the major portion of other operating income with 65% ($2.1 million) and 30% ($1.0 million) respectively.

OPERATING EXPENSES

During the 2018 financial year, operating expenses grew by $2.4 million or 24.6% to $12.4 million driven mainly by provisions for loan losses. At 30 June 2018, based on the Bank's assessment, provision for loans losses amounted to $1.4 million compared to a loan loss recovery of $0.5 million in the prior year. The increase in loan loss provisions was reflected in the inherent risk provision on the performing loan portfolio as the Bank adopted a more prudent approach to provisioning considering the impending implementation of IFRS 9 which would be effective during the Bank's 2019 financial year.

General and administrative expenses which remained the major expense item in operating expenses expanded by $0.5 million or 6.6% to $8.8 million primarily influenced by a $0.3 million or 5.7% increase in salaries and related costs. Salaries and wages grew by $0.1 million or 3.6% to $4.1 million and other staff related costs increased by $0.2 million or 14.4% to $1.2 million. These increases were related to the recruitment of one senior level employee who commencement employment during the 2018 financial year as well as the recruitment of several part time employees to assist with projects.

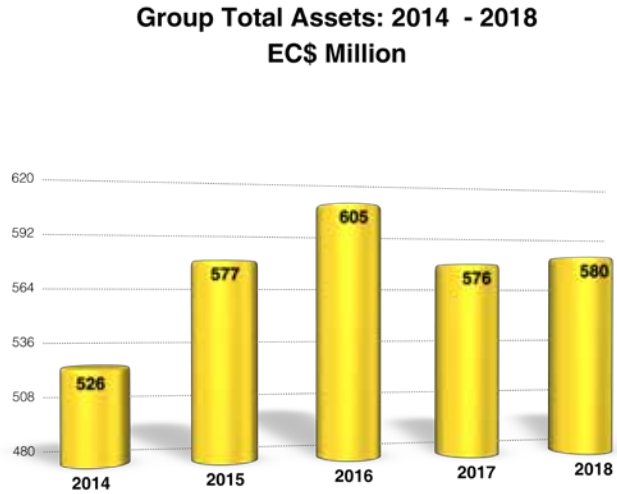
Correspondent bank charges decreased by $0.3 million or 76.7% to $0.1 million due to the loss of business from a large trust company resulting in reduced international payment transactions. The Group continues to process United States (US) dollar transactions through Lloyds Bank and earlier this year was on-boarded by Crown Agents Bank; both institutions are located in the United Kingdom (UK). We continue to actively seek a replacement correspondent bank in the US.

FINANCIAL POSITION

Total Assets

Despite the decline in the assets of Bank of Nevis International Limited, the Group's total asset base increased by $1.4 million or 0.2% to $580 million during the 2018 financial year. The graph below shows the movement in the Group's assets over the last five years.

The growth in the Group's asset base was largely influenced by significant increases in the loan portfolio and



investment securities. Although the loan and investment portfolios expanded significantly, cash and bank balances and the assets of BONI declined, partially offsetting the increases. We continue to implement our strategy of lending promotions and partnering with institutions to expand the loan portfolio and actively managing the investment portfolio to achieve increased yields.

Bank of Nevis International Limited's total asset base amounted to $154.8 million as at 30 June 2018; a reduction of $21.1 million or 12.0% over the prior financial year. The growth in the asset base of BONI has largely been stymied by the proposed sale of the institution as marketing has not been as robust as in previous years in an effort to curtail major expenses. Notwithstanding, we noted an uptick in business towards the end of the financial year and we have decided to focus marketing through social media and partnership with local service providers.

Cash, Bank Balances and Investment Securities

Cash and balances due from banks and other financial institutions decreased significantly over the 2018 financial year as funds were drawn down from correspondent banks to increase the investment portfolio and provide lending as part of the continued strategy to increase earning assets. At 30 June 2018, cash and balances due from banks and other financial institutions reduced significantly by $21.8 million or 21.7% to $78.8 million. The reduction in this category of asset was mainly attributable to decreases in cash and current accounts with other banks ($7.6 million or 30%); short term fixed deposits ($4.6 million or 20.9%) and long term fixed deposits ($4.7 million or 36.5%).

At 30 June 2018, the reserve deposits maintained with the Eastern Caribbean Central Bank (ECCB) was $27.6 million; a decline of $6.1 million or 18%. Commercial banks operating in the Eastern Caribbean Currency Union (ECCU) are mandated to hold 6% of their deposits with the ECCB. At the end of the financial year, the reserves held at the ECCB represented 8% of deposits.

The investment portfolio amounted to $77.1 million, representing a growth of $9.7 million or 14.5% as the Bank continued its active investment management strategy. The main categories contributing to this growth were fixed income securities quoted at market value, treasury bills and bonds and other debt instruments which increased by $4.9 million or 36.6%; $4.0 million or 26.9%; and $3.9 million or 43.3% respectively. At 30 June 2018, BONI's investment portfolio was $112.0 million; an expansion of $17.0 million or 18%. BONI's investment portfolio continues to be managed through a discretionary relationship with an investment firm in the United States and our internal investment team.

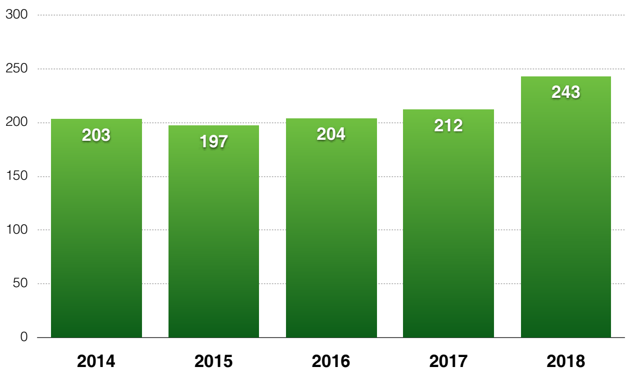
Loans and Advances

During the 2018 financial year, the Bank of Nevis Limited Group continued to grow the loan portfolio through a continuous strategy of loan promotions as well as partnering with institutions. At 30 June 2018, total loans and advances amounted to $243.0 million, representing an increase of $30.8 million or 14.5%. The growth in the loan portfolio was primarily associated with increases in the mortgage loans particularly residential mortgages and a partnership with a local financial institution for the purchase of a portion of its loan portfolio.

The non-performing loan (NPL) portfolio amounted to $31.1 million; an increase of $3.8 million or 13.8%. The increase in the NPL portfolio was mainly attributable to the migration of some large loan facilities towards the end of the financial year. Despite significant efforts non-performing loans remains a major challenge. At the end of the 2018 financial year, the NPL ratio (NPL loans to total loans) increased marginally from 12.63% to 12.65%.

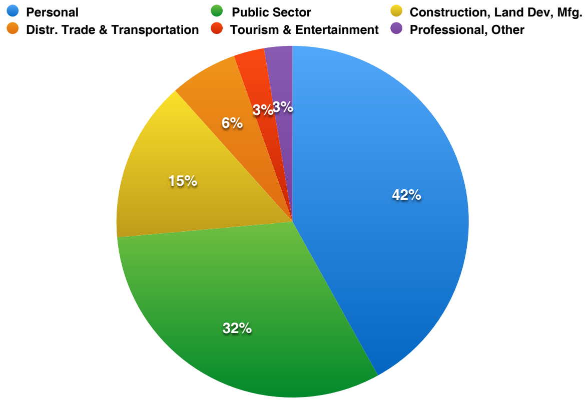
The following graph shows the trend in the Group's loan portfolio over the last five years.

Group Loans and Advances 2014 - 2018 (EC$ Million)



The allocation of the loans and advances portfolio was relatively unchanged as at the end of the 2018 financial year (see graph below). The Personal loan sector continued to maintain the lead position with 42% of the total portfolio as individual loan applications for residential mortgages and consumer goods remained dominant. However, as part of our loan sales strategy we intend to focus on expanding our commercial loan portfolio. The public sector loan portfolio was second with 31% of the loans portfolio, marginally above the institution's benchmark of 30% of the total loan portfolio of lending to the public sector. We expect public sector lending to reduce within the benchmark as the temporary increase in the public sector overdraft is reduced.

Loans and Advances Portfolio Allocation: 2018

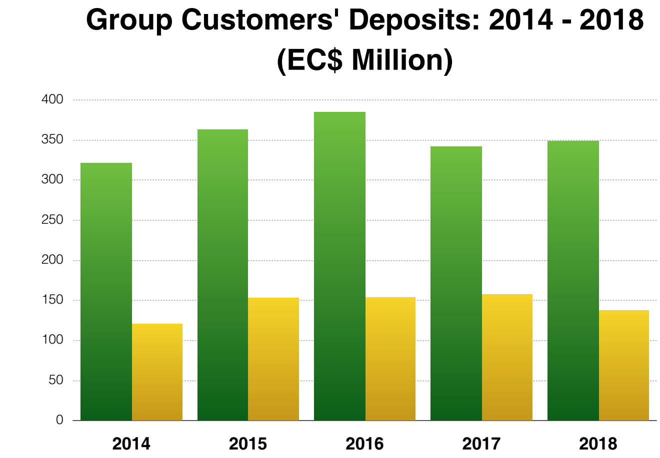


Customers' Deposits

Customers' deposits grew marginally during the 2018 financial year amounting to $348.0 million which was an improvement of $6.3 million or 1.9% compared to the significant decline of $43.0 million or 11.2% during the 2017 financial year. The growth in the deposits portfolio was largely attributable to increases in the fixed deposits and savings categories as institutional deposits continued to grow. Fixed deposits increased by $10.9 million or 6.7% to $175.6 million while savings expanded by $1.8 million or 1.5% to $122.5 million. These increases were partially offset by a decline in current accounts of $6.4 million or 11.7% to $48.3 million.

Bank of Nevis International Limited's customers' deposit amounted to $137.5 million at June 30, 2018; a reduction of $19.9 million or 12.7%. The decline in deposits was attributable to limited marketing during the 2018 financial year in an effort to contain spending considering the impending sale of BONI.

The graph below illustrates the trend in customers' deposits growth in BON and BONI.



Capital

The Group's total shareholders' equity amounted to $84.4 million at the end of the 2018 financial year; a growth of $15 million or 21.6%. This growth was primarily associated with increases in share capital, statutory reserves and retained earnings by $10.5 million or 76.2%; $3 million or 22.3%; and $2.9 million or 12.0% respectively.

The growth in the share capital was due to the sale of shares during the additional public offering which commenced on 15 May 2017 and was completed on 28 July 2017. At 30 June 2018, share capital amounted to $24.3 million which is above the minimum capital requirement of $20.0 million stipulated by the 2015 Banking Act. The total number of shares now stands at 18,096,644.

Bank of Nevis International Limited remains compliant with the 2014 Nevis International Banking Ordinance with share capital of US$2.3 million.

Home Ownership

The freedom of owning your piece of the rock

At The Bank of Nevis Limited we don't just give mortgages, we build homes and make your dreams of home ownership a reality. We believe that there is no greater personal achievement than getting the keys to your very own home.

A BETTER BANK...BECAUSE OF YOU!

We've transformed our approach to attracting, training and developing our staff, to ensure we've got the talent we need for the future.

Accounting & Investment Department

Back Row (left to right): Nikesia Pemberton, Cecelia Hanley-Harewood, Melissa Martin, Judy Claxton, Shamoya McKoy, Desteny Williams-Howell

Bottom Row (left to right): Monique F. Williams, Sherillia Massicot, La Crissa Richardson, Denicia Small, Petal Parry

Information Technology Department

(left to right) Kyle Weeks, Regis Wiltshire and Grason Philips

Credit Department

Back Row (left to right): Verencia Maynard, Keannie Browne, Natacha Wyatt, Chavil Archibald, Patricia Lescott, Kimon Gellineau

Bottom Row (left to right): Valarie Mills, Jasmine Herbert, Denrick Liburd, Kasie David, Diedrea Walters

Bank Of Nevis International Limited (BONI)

(left to right)Jondelle Mills, Kathy Jones, Denise Williams, Paula Wallace

THE BANK OF NEVIS LIMITED

Improving the Quality of Life

Human Resource Department

(left to right) Dyan Newton, Delleon Bartlette, Shirletta Byron

Operations Department

Back Row (left to right) Shevon Williams, Jewella Queeley, Pheon Jones, Shinda Boston, Maia Hibbert, Sonia Bowen-Tuckett, K-Jel Smithen, Arin Warner, Zahra Jones, Ke-Ondra Hanley, Castin Stokes, Derez Morton, Renford Baker

Bottom Row (left to right): Sulan Sturge, Lettisha Smithen, Ajay Willams, Devaughna Jacobs, Shantel Powell

Legal Department

(left to right) Maureen Archibald, Cindy Herbert, Glyniss Daniel

Internal Audit Department

(left to right) Brian Carey, Dixon Phillips

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Independent Auditors' Report

To the Shareholders of The Bank of Nevis Limited

Opinion

We have audited the consolidated financial statements of the Bank of Nevis Limited and its subsidiaries (the "Bank"), which comprise the consolidated statement of financial position as at June 30, 2018, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at June 30, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated 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 the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Summary of the key audit matter	Our audit response
Provision for impairment on loans and advances	At June 30, 2018, the gross value of loans and advances was $248,956,493 against which the Bank recognized a $6,060,583 provision for impairment (refer to note 9 of the consolidated financial statements). The provision for impairment is considered a matter of key significance as it requires the application of judgment and use of subjective assumptions by management. The Bank assesses the provision for impairment both individually and collectively, in accordance with the accounting policy set out in note 3 to the consolidated financial statements. We have focused on the following critical judgments and estimates which could give rise to material misstatements or are potentially subject to management bias:	We tested the design and implementation of the key controls around the Bank's process to determine which loans and advances are impaired and determine the extent to which impairments should be recognised considering the potential for management override of controls. These key controls include: • Automated identification of loans and advances that meet the criteria for default. • Assessment and approval of material impairment provisions including estimation of the discounted cash flows. • Governance over the impairment process, including assessment of suitability of assumptions. • Model validation and calculation accuracy.

Deloitte.

Independent Auditors' Report (Continued)

To the Shareholders of The Bank of Nevis Limited

Key audit matter	Summary of the key audit matter	Our audit response
	• Consideration of loss events in accordance with the criteria set out in IAS 39. • For individually assessed provisions, the measurement of the provision is dependent on the estimated forced sale value of the underlying which is primarily determined by the "haircut" applied to the market value of the collateral and the estimated timing of the resultant cash flows. • For the collective (general) provisions, the measurement is dependent upon key assumptions relating to probability of default and recovery rates.	For collective provisions, we tested on a sample basis the data used in the Bank's models, assessed the model methodology and also tested the calculations within the models. We assessed whether the modelling assumptions were reasonable in light of historical experience and known circumstances of the customers. We also tested the accuracy and completeness of the data used in the model calculations. For individually assessed provisions, verified the accuracy of the reported value of collateral, assessed the reasonableness of the haircut applied to derive the anticipated cash flow, assessed the reasonableness of the timing of the cash flows and the effective interest rate used to discount the cash flows. For timing assumptions we considered to be more subjective, we performed a sensitivity analysis to an adverse variation in the timing of the projected cash inflow. We assessed the appropriateness and presentation of disclosures with relevant accounting standards.

Other information

Management and those charged with governance are responsible for the other information. The other information comprises the information presented in The Bank of Nevis Limited's Annual Report (Annual Report) (but does not include the consolidated financial statements and summary non-consolidated financial statements and our auditors' reports thereon), which we obtained prior to the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work we have performed, on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated 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.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Deloitte.

Independent Auditors' Report (Continued)

To the Shareholders of The Bank of Nevis Limited

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 financial statements.

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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the 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.

The engagement partner on the audit resulting in this independent auditors' report is Steve Clarke.

Deloitte & Touche

November 15, 2018

THE BANK OF NEVIS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Assets		
Cash and balances due from banks and other financial institutions (note 7)	**78,786,682**	100,610,719
Investment securities (note 8)	**77,084,807**	67,359,441
Assets of subsidiary classified as held for sale (note 30)	**151,950,137**	167,207,184
Loans and advances (note 9)	**242,895,910**	212,150,603
Other assets (note 10)	**1,086,028**	1,666,757
Property, plant and equipment (note 11)	**26,900,578**	27,388,845
Intangible assets (note 12)	**265,675**	326,887
Income tax receivable (note 15)	**53,605**	-
Deferred tax asset (note 15)	**581,052**	1,465,222
Total assets	**579,604,474**	578,175,658
Liabilities		
Customers' deposits (note 13)	**348,042,075**	341,716,101
Liabilities of subsidiary classified as held for sale (note 30)	**139,784,159**	158,298,776
Other liabilities and accrued expenses (note 14)	**6,614,846**	5,994,739
Income tax payable (note 15)	**-**	1,738,535
Deferred tax liability (note 15)	**789,529**	1,031,228
Total liabilities	**495,230,609**	508,779,379
Shareholders' Equity		
Share capital (note 16)	**24,339,943**	13,817,584
Statutory reserves (note 17)	**16,203,026**	13,244,603
Revaluation reserves (note 18)	**13,003,612**	12,968,405
Other reserves (note 19)	**4,045,754**	4,371,559
Amounts recognised directly in equity relating to assets of subsidiary classified as held for sale (note 18)	**(669,624)**	474,192
Retained earnings	**27,451,154**	24,519,936
Total shareholders' equity	**84,373,865**	69,396,279
Total liabilities and shareholders' equity	**579,604,474**	578,175,658

Approved on behalf of the Board of Directors on November 14, 2018

Chairman of the Board

Chairman of the Audit Committee

The attached notes are an integral part of these consolidated financial statements.

THE BANK OF NEVIS LIMITED

CONSOLIDATED STATEMENT OF INCOME

As of June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Continuing operations		
Interest income (note 20)	**17,863,057**	17,502,156
Interest expense (note 21)	**(7,018,766)**	(6,587,237)
Net interest income	**10,844,291**	10,914,919
Net gains from investment securities	**36,736**	-
Other operating income (note 22)	**3,236,939**	3,048,746
Operating income	**14,117,966**	13,963,665
Operating expenses		
General and administrative expenses (note 28)	**8,800,262**	8,260,457
Impairment/(Recovery) on allowance for loans and advances impairment (note 9)	**1,418,676**	(542,762)
Directors' fees and expenses	**566,862**	474,946
Audit fees	**358,869**	311,432
Depreciation (note 11)	**901,601**	795,436
Amortisation (note 12)	**214,517**	178,758
Correspondent bank charges	**105,258**	450,209
	12,366,045	9,928,476
Operating profit for the year before taxation from continuing operations	**1,751,921**	4,035,189
Taxation (note 15)		
Current tax expense: - Current year	**1,927,093**	2,669,961
Prior year	**(3,038,150)**	(772,665)
Deferred tax expense/(credit)	**702,870**	(291,604)
Tax (credit)/expense	**(408,187)**	1,605,692
Net profit for the year from continuing operations	**2,160,108**	2,429,497
Discontinued operations		
Net profit for the year from discontinued operations (note 32)	**6,118,436**	4,619,326
Net profit for the year	**8,278,544**	7,048,823
Earnings per share (note 24)		
From continuing and discontinued operations	**0.47**	0.70
From continuing operations	**0.12**	0.24

The attached notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Net profit for the year	**8,278,544**	7,048,823
Other comprehensive income for the year, net of tax:		
Items that may be reclassified subsequently to profit or loss:		
Realised gains on investment securities, transferred to the consolidated statement of income	**(1,416,245)**	(1,040,253)
Movement in market value of available-for-sale investments	**307,636**	2,335,077
Total other comprehensive (loss)/income for the year	**(1,108,609)**	1,294,824
Total comprehensive income for the year	**7,169,935**	8,343,647

The attached notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2018

(expressed in Eastern Caribbean dollars)

	Share capital $	Statutory reserves $	Continuing operations revaluation reserve $	Discontinued operations revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance June 30, 2016`	**9,347,687**	**10,934,354**	**13,013,771**	**(865,998)**	**4,147,221**	**21,407,846**	**57,984,881**
Total comprehensive income for the year	-	-	(45,366)	1,340,190	-	7,048,823	8,343,647
Transfers to reserves (notes 17 and 19)	-	2,310,249	-	-	224,338	(2,534,587)	-
Issuance of ordinary shares (note 16)	4,469,897	-	-	-	-	-	4,469,897
Dividends paid (note 26)	-	-	-	-	-	(1,402,146)	(1,402,146)
Balance at June 30, 2017	**13,817,584**	**13,244,603**	**12,968,405**	**474,192**	**4,371,559**	**24,519,936**	**69,396,279**
Total comprehensive income for the year	-	-	35,207	(1,143,816)	-	8,278,544	7,169,935
Transfers to reserves (notes 17 and 19)	-	2,958,423	-	-	(325,805)	(2,632,618)	-
Issuance of ordinary shares (note 16)	10,522,359	-	-	-	-	-	10,522,359
Dividends paid (note 26)	-	-	-	-	-	(2,714,708)	(2,714,708)
Balance at June 30, 2018	**24,339,943**	**16,203,026**	**13,003,612**	**(669,624)**	**4,045,754**	**27,451,154**	**84,373,865**

The attached notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Cash flows from operating activities		
Operating profit for the year before taxation from continuing and discontinued operations	**7,991,644**	8,715,678
Items not affecting cash:		
Provision/(Recovery) for loan impairment	**1,700,506**	(839,802)
Depreciation	**945,423**	833,324
Amortisation	**285,727**	249,968
Realised gains from investment securities	**(1,483,620)**	(386,008)
Losses from movement in foreign currency exchange rates	**7,292**	68,145
Net gain on disposal of plant and equipment	**(10,000)**	-
Interest income	**(21,395,475)**	(20,943,737)
Interest expense	**7,737,446**	7,413,337
Cash flows used in operating income before changes in operating assets and liabilities	**(4,221,057)**	(4,889,095)
Changes in operating assets and liabilities		
Decrease/(Increase) in deposits held for regulatory purposes	**6,045,450**	(5,202,756)
Increase in loans and advances	**(31,813,817)**	(11,236,755)
Decrease/(Increase) in other assets	**1,943,532**	(2,493,925)
Decrease in customers' deposits	**(13,751,045)**	(39,961,348)
Increase in other liabilities and accrued expenses	**2,009,143**	425,885
Interest paid	**(7,665,429)**	(795,837)
Interest received	**21,050,837**	20,843,083
Income tax paid	**(681,083)**	(7,429,604)
Net cash used in operating activities	**(27,083,469)**	(50,740,352)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(451,960)**	(300,571)
Sale of plant and equipment	**10,000**	-
Purchase of intangible assets	**(153,305)**	(35,182)
Purchase of investment securities	**(65,319,146)**	(106,536,621)
Disposals of investment securities	**34,256,710**	95,458,109
Decrease in fixed deposits	**13,000,919**	2,149,855
Decrease in other deposits	**418,734**	2,156,122
Net cash used in investing activities	**(18,238,048)**	(7,108,288)

The attached notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS ... CONTINUED

For the year ended June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Cash flows from financing activities		
Issuance of shares	**10,531,364**	4,460,892
Dividends paid	**(2,714,708)**	(1,402,145)
Net cash from financing activities	**7,816,656**	3,058,747
Decrease in cash and cash equivalents	**(37,504,861)**	(54,789,893)
Net foreign currency rate movements on amounts from cash balances and banks	**55,315**	(115,923)
Cash and cash equivalents, beginning of year	**120,130,047**	175,035,863
Cash and cash equivalents, end of year (note 27)	**82,680,501**	120,130,047

The attached notes are an integral part of these consolidated financial statements

1 Incorporation and principal activities

The Bank of Nevis Limited ("BON") is a public company incorporated on August 29, 1985 under the laws of the Federation of St. Christopher and Nevis. BON is subject to the provisions of the Banking Act No. 1 of 2015 of St. Christopher and Nevis and its principal activity is the provision of financial services. Its registered office is Main Street, Charlestown, Nevis.

In July 1998, BON's offshore activities and operations were transferred into a newly formed subsidiary company, Bank of Nevis International Limited which is licensed to carry on the business of International Banking as contemplated by the Nevis International Banking Ordinance of 2014.

On July 29, 2004 the Bank of Nevis International Fund Limited was incorporated. The Fund is an open-ended public mutual fund approved to be registered under the Nevis International Mutual Fund Ordinance, 2004. It commenced operations on February 9, 2005. The Fund ceased operations on January 31, 2008.

On July 29, 2004, the Bank of Nevis International Fund Managers Limited was incorporated in Nevis in accordance with the Nevis Business Corporation Ordinance, 1984 as amended and is a licensed and regulated investment manager under the Nevis International Mutual Fund Ordinance, 2004. The company is the investment manager for its related Fund – Bank of Nevis International Fund Limited, and manages the investment activities of the Fund when it was in operation.

On February 3, 2005, the Bank of Nevis Mutual Fund Limited was incorporated. The Fund is an open-ended public investment fund approved to be registered under the Securities Act 2001 of St. Christopher and Nevis. The Fund has not yet commenced its mutual fund activities.

On April 25, 2005, the Bank of Nevis Fund Managers Limited was incorporated under the laws of the Federation of St. Christopher and Nevis, through the Companies Ordinance 1999 of St. Christopher and Nevis. The company will be engaged to provide investment management service to its related Fund, Bank of Nevis Mutual Fund Limited, when the Fund commences its mutual fund activities.

On April 15, 2013 Bank of Nevis International Trust Services Inc. ("BONITS") was incorporated in accordance with the Companies Ordinance, Nevis, 1999 and licensed by the Minister of Finance pursuant to the Nevis Limited Liability Company Ordinance to be a registered agent. The company is engaged in trust services, registered agent and corporate services activities and is an authorised person to act as an agent for citizenship by investment applications.

BON's shares are listed on the Eastern Caribbean Securities Exchange (ECSE).

2 Adoption and amendments of published accounting standards and interpretations

Standards, amendments and interpretations effective on or after July 1, 2017

Several new and revised accounting standards came into effect during the current period. The adoption of these new and revised accounting standards did not have a material impact on these consolidated financial statements:

- International Accounting Standards (IAS) 7 – Statement of Cash Flows – Amendments resulting from the disclosure initiative (effective for annual periods beginning on or after January 01, 2017)
- International Auditing Standards (IAS) 12 – Income taxes – Amendments: Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after January 01, 2017)

Standards and interpretations issued but not yet effective

The following new and revised accounting standards which are relevant to the Bank of Nevis Limited and its subsidiaries (the "Bank") have been issued, but are not yet effective. With the exception of International Financial Reporting Standard (IFRS) 9, as highlighted below, these standards are not expected to have a material impact on the Bank's financial statements.

2 Adoption and amendments of published accounting standards and interpretations (continued)

Standards and interpretations issued but not yet effective (continued)

- International Financial Reporting Standards (IFRS) 9 – Financial Instruments (effective for year ends beginning on or after January 01, 2018).

  International Financial Reporting Standards (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 within the scope of IFRS 9 are required to be subsequently measured 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 solely 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 that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
  - with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes 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 of 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 credit 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.

2 Adoption and amendments of published accounting standards and interpretations (continued)

Standards and interpretations issued but not yet effective (continued)

- 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 transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types 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.

Based on an analysis of the Bank's financial assets and financial liabilities as at 30 June 2018 on the basis of the facts and circumstances that exist at that date, the management of the Bank have assessed the impact of IFRS 9 to the Bank's consolidated financial statements as follows:

Classification and measurement

- Loans carried at amortised cost as disclosed in notes 7 and 8: upon implementation of IFRS 9 these will be held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;
- Listed redeemable notes classified as available-for-sale investments carried at fair value as disclosed in note 8: these will be held within a business model whose objective is achieved both by collecting contractual cash flows and selling the notes in the open market, and the notes' contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed redeemable notes will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed redeemable notes are derecognised or reclassified;
- Unlisted shares classified as available-for-sale investments carried at cost as disclosed in note 8: these shares qualify for designation as measured at FVTOCI under IFRS 9; however, the fair value gains or losses accumulated in the investment revaluation reserve will no longer be subsequently classified to profit or loss under IFRS 9 when they are derecognised, which is different from the current treatment. This will affect the amounts recognised in the Bank's profit or loss and other comprehensive income but will not affect total comprehensive income;
- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment

- Financial assets measured at amortised cost, listed redeemable notes that will be carried at FVTOCI under IFRS 9 (note 8) (see classification and measurement section above) will be subject to the impairment provisions of IFRS 9.

2 Adoption and amendments of published accounting standards and interpretations (continued)

Standards and interpretations issued but not yet effective (continued)

- For International listed redeemable notes, as disclosed in note 8, the management of the Bank considers that they have low credit risk given their strong external credit rating and hence expect to recognise 12-month expected credit losses for these items. In relation to loans and advances, loan commitments, letters of credits, guarantees and marginal redeemable notes (note 8), management has assessed that it is probable that a significant increase in the credit risk, from initial recognition to 30 June 2019. Accordingly, management expects to recognise lifetime where applicable and 12-month expected credit losses for these items respectively.
- In general, management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items.

- IFRS 15 – Revenue from contracts with customers (effective for annual periods beginning on or after January 01, 2018)

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue 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 recognize 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 entitles 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.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue from interest income from financial assets, dividend income, fees and commission. The recognition of revenue associated with financial assets is generally in the scope of IFRS 9. In accordance with IFRS 15 fees and commissions will be recognised as performance obligations are satisfied which would be on a point in time basis.

There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Apart from these disclosure changes, management anticipates that the application of IFRS 15 will not have a material effect on the accounting for revenue from its contracts with customers.

2 Adoption and amendments of published accounting standards and interpretations (continued)

Standards and interpretations issued but not yet effective (continued)

- IFRS 16 Leases (effective for annual periods beginning on or after January 01, 2018)

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for the interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Bank has no leases and there is no financial statement impact of IFRS 16.

3. Significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

Inter-company transactions, balances and intragroup gains on transactions between group companies are eliminated. Intragroup losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

The principal accounting policies applied in the preparation of these financial statements are set out below.

3. Significant accounting policies (continued)

3.3 Foreign currency translation

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

Transactions and balances
Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the closing rates of exchange prevailing at the reporting date. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

3.4 Financial assets

The Bank classifies its financial assets into the following specified categories: 'loans and receivables' and 'available-for-sale'. Management determines the classification of its financial instruments at initial recognition.

(a) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including cash and balances due from banks and other financial institutions, loans and advances, investment securities (treasury bills, treasury notes and bonds) and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment.

Interest income on loans and receivables is recognised by applying the effective interest rate, and is included in the consolidated statement of income.

(b) Available-for-sale financial assets
Available-for-sale instruments are non-derivative financial assets that are 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, or that are not classified as loans and receivables.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value. Changes in the carrying amount of available-for-sale financial assets relating to changes in foreign currency rates are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of 'revaluation reserves'. Where the financial asset is disposed of or determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

Available-for-sale financial assets that do not have a quoted market price, and whose fair value cannot be reliably measured, are measured at cost less any impairment losses at the end of each reporting period.

Dividends on available-for-sale financial assets are recorded in the consolidated statement of income when the Bank's right to receive the dividends is established. Interest income on available-for-sale financial assets is calculated using the effective interest method, and recognised in the consolidated statement of income.

3 Significant accounting policies (continued)

3.4 Financial assets (continued)

3.4.1 Impairment of financial assets

At the end of each reporting period, the Bank's financial assets are assessed for indicators of impairment. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

(a) Assets classified as available-for-sale
For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

1. significant financial difficulty of the issuer or counterparty; or
2. breach of contract, such as a default or delinquency in interest or principal payments; or
3. the Bank granting to the issuer or counterparty, for economic or legal reasons related to the issuer's/counterparty's financial difficulty, a concession that the Bank would not otherwise consider
4. it becoming probable that the borrower will enter bankruptcy or financial re-organisation;
5. the disappearance of an active market for that financial asset because of financial difficulties.
6. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group including:
    i. Adverse changes in the payment status of borrowers in the group
    ii. National or local economic conditions that correlate with defaults on the assets in the group

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of "revaluation reserves".

In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3 Significant accounting policies (continued)

3.4 Financial assets (continued)

3.4.1 Impairment of financial assets *(continued)*

(b) *Assets carried at amortised cost*
Loans and receivables are assessed on both individual and collective bases. Objective evidence of impairment of a portfolio of loans and receivable could include the Bank's past experience of payment within the portfolio, as well as observable changes in national or local economic conditions that correlate with defaults on loans and receivables.

If there is objective evidence that an impairment loss on as asset carried at amortised cost exists, 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 a 'provision for loan loss' account and the amount of the loss is recognised in the consolidated statement of income. If an asset carried at amortised cost has a variable interest rate, the discount 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. Statutory and other regulatory loan loss reserve requirements that exceed these amounts are recognised in other reserves as an appropriation of retained earnings.

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

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 was 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.

When a loan is uncollectible, it is written off against the related provision for loan losses. Such loans are written off after all of the available options have been exhausted, the necessary procedures have been completed and the amount of the loss has been determined. If in a subsequent period, amounts previously written off are recovered, the amounts collected are recognised in profit or loss through the 'bad debts recovered' account.

(c) *Renegotiated Loans*
Loans 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.

3.4.2 Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to receive the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all of the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3 Significant accounting policies (continued)

3.4 Financial assets (continued)

3.4.2 Derecognition of financial assets

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Bank retains control), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under the continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3.5 Financial liabilities and equity instruments

Debt and equity instruments issued by the Bank are classified as either financial liabilities or as equity in accordance with the substance of the contractual agreements and the definitions of financial liability and on equity instrument.

3.5.1 Equity instruments

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

3.5.1.1 Ordinary shares

Ordinary shares are classified in the financial statements as equity.

3.5.1.2 Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year which are approved after the date of the consolidated statement of financial position are disclosed in the notes to the financial statements.

3.5.2 Other financial liabilities

Financial liabilities are classified as 'other financial liabilities', and are initially recognised at cost. Other financial liabilities (including customers' deposits and amounts due from subsidiaries) are subsequently recognised at amortised cost using the effective interest method.

3.5.3 Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged or cancelled, or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3 Significant accounting policies (continued)

3.6 Interest income and expense

Interest income and expenses are recognised in the consolidated statement of income for all interest bearing financial assets and liabilities 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 liability on initial recognition. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

3.7 Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans which are likely to be drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan.

Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the acquisition of shares or other securities are recognised on completion of the underlying transaction.

3.8 Dividend income

Dividend income from investment securities is recognised in the consolidated statement of income when the Bank's right to receive the payment has been established (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

3.9 Property, plant and equipment and depreciation

Land and buildings held for use in the production or supply of services, or 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 such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

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

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3 Significant accounting policies (continued)

3.9 Property, plant and equipment and depreciation (continued)

Furniture, fixtures, vehicles and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The following annual depreciation rates are applied:

Buildings	2.5%
Furniture and fixtures	15%
Equipment	15%
Computer equipment	20%
Land improvement	10%

Land is not depreciated.

All repairs and maintenance to property, plant and equipment are charged to operating expenses during the financial period in which they are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.10 Intangible assets – computer software

Acquired computer software is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful lives of the computer software, which is three to five years, using the straight line method. The estimated useful lives and method of amortisation are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Costs associated with maintaining computer software programs are charged to operating expenses during the financial period in which they are incurred.

3.11 Impairment of property, plant, equipment and intangible assets

Property, plant, equipment and intangible assets are periodically reviewed for impairment. An impairment loss is recognised for the amount by which the carrying amount of the asset is greater than its estimated recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell, and value in use.

3.12 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3 Significant accounting policies (continued)

3.12 Provisions (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.13 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition. These include cash, unrestricted balances with banks and other financial institutions, treasury bills, and other short term highly liquid investment securities.

3.14 Pension costs

The Bank maintains a defined contribution pension plan for its eligible employees.

The Bank's contributions to the defined contribution pension plan are charged to the consolidated statement of income in the period to which the contributions relate.

3.15 Taxation

a) *Current income tax*

Income tax receivable/payable is calculated on taxable profit for the year, based on the enacted tax rates within the Federation of St. Christopher and Nevis. Taxable profit differs from net profit as reported in the consolidated statement of income because of items of income or expense that are taxable or deductible in other years and items that are not taxable or deductible.

b) *Deferred income tax*

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using the enacted tax rates by the date of the consolidated statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from the depreciation of plant and equipment and the revaluation of certain financial assets and liabilities.

Income tax payable on profits, based on the applicable tax law is recognised as an expense in the period in which profits arise. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

3.16 Non-current assets held for sale

Assets and liabilities of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

An extension of the one year condition to sell a disposal group is allowable when a delay is caused by events outside the owner's control and the commitment to the plan to sell the non-current asset or disposal group can be substantiated.

Non-current assets of the subsidiary, Bank of Nevis International Limited currently classified as held for sale has extended beyond the one year time-frame from initial classification. Management has determined that the classification remains relevant because the disposal of majority interest in the subsidiary could not have occurred until approval by the Regulator of the subsidiary to transfer the majority shares to the investor was granted. Approval was granted on July 28, 2017 and it is expected that the sale of majority interest in the subsidiary will be completed on or before June 30, 2019.

3 Significant accounting policies (continued)

3.16 Non-current assets held for sale (continued)

When the Bank is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Bank will retain a non-controlling interest in its former subsidiary after the sale.

When the Bank is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Bank discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Bank discontinues the use of the equity method at the time of disposal when the disposal results in the Bank losing significant influence over the associate or joint venture.

3.17 Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

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

The Bank defines risk as the possibility of losses of profits foregone, which may be caused by internal or external factors.

Risk management is carried out by the Accounting and Investment and Risk and Compliance departments under policies approved by the Board of Directors. A risk management committee is also established to oversee the risk management process of the group. The Accounting and Investment department identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board and risk management committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risks (which are discussed below) and operational risk.

4.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, and settlement balances with market counterparties.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are conducted by management of the Credit and Accounting and Investments departments and Internal

4 Financial risk management (continued)

4.1 Credit risk (continued)

Management Investment Committee which reports to the investment and credit committees and Board of Directors regularly.

4.1.1 Credit risk management

(a) Loans and advances

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of the counterparty. They have been developed based on the Eastern Caribbean Central Bank's guidelines. Customers of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The ratings tools are kept under review and upgraded as necessary.

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

(b) Debt securities and other bills

The Bank's portfolio of debt securities and other bills consists of St Christopher and Nevis Federal Government, Nevis Island Administration, and Governments of Antigua and Barbuda, Grenada, Dominica, St. Lucia and St. Vincent and the Grenadines treasury bills, and other debt obligations by regional banking and non-banking financial institutions, all of which are unrated. The Bank assesses the risk of default on these obligations by regularly monitoring the performance of the St. Kitts and Nevis Federal Government, the Nevis Island Administration and other regional governments through published government data, information received directly from government departments and information published by international agencies such as the International Monetary Fund (IMF) and the World Bank.

The risk of default on regional corporate debt is assessed by continuous monitoring of the performance of these companies through published financial information, and other data gleaned from various sources.

4.1.2 Risk limit control and mitigation policies

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to regular review by the Board of Directors.

The exposure to any one borrower, including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored, on an ongoing basis.

Lending limits are reviewed in light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

4. Financial risk management (continued)

4.1.2 Risk limit control and mitigation policies (continued)

Some other specific control 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 a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are as follows:

- Mortgages over 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 as well as individual credit facilities are generally secured.

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 shipment 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, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, 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 to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter term commitments.

4.1.3 Impairment and provisioning policies

The internal rating system described in Note 4.1.1 focuses on expected credit losses – that is, taking into account the risk of future events giving rise to losses. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the date of the consolidated statement of financial position, based on the objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the consolidated financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.3 Impairment and provisioning policies (*continued*)

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

	2018		2017	
Bank's rating	**Loans and advances (%)**	**Impairment Provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
Pass	**82.1**	**29.2**	73.0	14.5
Special mention	**4.6**	**2.1**	14.3	2.5
Sub-standard	**9.9**	**19.0**	8.9	20.5
Doubtful	**3.4**	**49.7**	3.8	62.5
Loss	**-**	**-**	-	-
Total	**100.0**	**100.0**	100.0	100.0

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

	2018 $	2017 $
Credit risk exposures relating to on-statement of financial position assets:		
Deposits with other banks	**29,824,084**	42,510,200
Deposits with non-bank financial institutions	**16,601,861**	19,275,044
Restricted deposits with non-bank financial institutions	**808,470**	808,470
Investment securities:		
– Treasury bills and other eligible bills	**41,514,358**	42,480,529
– Bonds and other debt instruments	**12,992,064**	9,051,496
– Available-for-sale investments quoted	**18,564,491**	13,545,176
Loans and advances	**242,895,910**	212,150,603
Other assets	**141,468**	868,211
	363,342,706	340,689,729
Credit exposures relating to off-statement of financial position items:		
– Loan commitments and other credit related facilities	**21,324,588**	18,225,708
Total	**384,667,294**	358,915,437

The above table represents a worst case scenario of credit exposure to the Bank at June 30, 2018 and 2017, without taking account of any collateral held or other credit enhancements attached. For consolidated statement of financial position assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

4 Financial risk management (continued)

4.1 Credit risk (continued)

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

- 63.2% of the total maximum exposure is derived from loans and advances (2017: 59.1%) and 19.0% from investment in securities (2017: 18.1%).

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 investment securities, based on the following:

- 87.1% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2017: 87.3%).
- 83.3% of the loans and advances portfolio are considered to be neither past due nor impaired (2017: 80.6%).
- 12.5% of loans and advances are considered impaired (2017: 12.6%).
- The impairment provision on the balance sheet increased during the year to $6,060,583 (2017: $5,076,179).

4.1.5 Credit quality of loans and advances

Loans and advances are summarised as follows:

	2018		2017	
	Loans and advances to customers $	Loans and advances to financial institutions $	Loans and advances to customers $	Loans and advances to financial institutions $
Neither past due nor impaired	196,163,990	10,753,825	174,989,267	24,422
Past due but not impaired	10,577,066	-	14,844,905	-
Impaired	31,461,612	-	27,368,188	-
Gross	**238,202,668**	**10,753,825**	**217,202,360**	**24,422**
Less: allowance for impairment	(6,060,583)	-	(5,076,118)	(61)
Net	**232,142,085**	**10,753,825**	**212,126,242**	**24,361**

The total impairment provision for loans and advances is $6,060,583 (2017: $5,076,179) of which $4,123,635 (2017: $4,214,807) represents the individually impaired loans provision, and the remaining amount of $1,936,948 (2017: $861,372) represents the portfolio provision. Further information on the impairment provision for loans and advances to banks and to customers is provided in Note 9.

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances (*continued*)

(a) Loans and advances neither past due nor impaired

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

As at June 30, 2018

	Overdraft $	Personal $	Commercial $	Public sector $	Total $
Grades:					
Pass	17,467,024	77,844,101	44,636,226	62,373,737	202,321,088
Special mention	3,863,794	732,933	-	-	4,596,727
Total	**21,330,818**	**78,577,034**	**44,636,226**	**62,373,737**	**206,917,815**

As at June 30, 2017

	Overdraft $	Personal $	Commercial $	Public sector $	Total $
Grades:					
Pass	1,216,377	70,191,776	40,173,521	54,339,319	165,920,993
Special mention	8,454,840	637,856	-	-	9,092,696
Total	**9,671,217**	**70,829,632**	**40,173,521**	**54,339,319**	**175,013,689**

(b) Loans and advances past due but not impaired

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

As at June 30, 2018

	Personal $	Commercial $	Total $
Past due up to 30 days	4,603,712	2,403,401	7,007,113
Past due 31-60 days	485,908	-	485,908
Past due 61-89 days	1,699,516	1,384,529	3,084,045
Total	**6,789,136**	**3,787,930**	**10,577,066**

As at June 30, 2017

	Personal $	Commercial $	Total $
Past due up to 30 days	3,045,409	8,866,429	11,911,838
Past due 31-60 days	13,199	-	13,199
Past due 61-89 days	1,382,014	1,537,854	2,919,868
Total	**4,440,622**	**10,404,283**	**14,844,905**

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances (*continued*)

(c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security is as follows:

As at June 30, 2018

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Individually impaired loans	816,468	13,929,658	16,715,486	-	31,461,612
Fair value of collateral	**1,025,504**	**33,683,431**	**28,387,715**	**-**	**63,096,650**

As at June 30, 2017

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Individually impaired loans	1,013,209	8,162,306	18,192,673	-	27,368,188
Fair value of collateral	**2,102,296**	**21,562,251**	**33,015,849**	**-**	**56,680,396**

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $31,461,612 (2017: $27,368,188).

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferred payments. Following restructuring, a previously overdue account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators of criteria which, in the judgement 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 that would otherwise be past due or impaired totalled $437,657 at June 30, 2018 (2017: $7,241,029).

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.6 Debt securities, treasury bills and other eligible bills

The table below represents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at June 30, 2018 and 2017 based on Standard & Poor's rating or their equivalent:

	Treasury bills $	Bonds and other debt instruments $	Available-for-sale $	Total $
Aa1—Baa3	-	-	17,491,127	17,491,127
Lower than Baa3	4,709,086	12,992,064	1,073,364	18,774,514
Unrated	36,805,272	-	-	36,805,272
As at June 30, 2018	**41,514,358**	**12,992,064**	**18,564,491**	**73,070,913**

	Treasury bills $	Bonds and other debt instruments $	Available-for-sale $	Total $
Aa1—Baa3	4,726,971	8,021,746	2,370,624	15,119,341
Lower than Baa3	-	-	4,410,750	4,410,750
Unrated	37,753,558	1,029,750	6,763,802	45,547,110
As at June 30, 2017	**42,480,529**	**9,051,496**	**13,545,176**	**65,077,201**

4.1.7 Repossessed collateral

During the year ended June 30, 2018, the Bank took possession of collateral held as security for credit facilities with carrying value of $Nil (2017: $101,975).

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.8 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, (without taking into account any collateral held or other credit support) as categorised by geographical region as at June 30, 2018 and 2017. For all classes of assets, the Bank has allocated exposures to regions based on country of domicile of the counterparties.

	St. Christopher & Nevis $	Other Caribbean $	North America $	Europe $	Total $
Credit risk exposures relating to on- statement of financial position assets:					
Deposits with other banks	5,126,773	10,052,103	1,127,408	13,517,800	29,824,084
Deposits with non-bank financial institutions	256,771	10,923,864	5,421,226	-	16,601,861
Restricted deposits with non-bank financial institutions	808,470	-	-	-	808,470
Investment securities:					
– Treasury bills and other eligible bills	35,821,552	5,692,806	-	-	41,514,358
– Bonds and other debt instruments	2,008,876	10,983,188	-	-	12,992,064
– Available for sale securities-quoted	-	-	18,564,491	-	18,564,491
Loans and advances	233,448,252	2,726,115	5,096,851	1,624,692	242,895,910
Other assets	141,468	-	-	-	141,468
	277,612,162	**40,378,076**	**30,209,976**	**15,142,492**	**363,342,706**
Credit exposures relating to off statement of financial position items:					
Loan commitments and other credit related facilities	21,324,588	-	-	-	21,324,588
As at June 30, 2018	**298,936,750**	**40,378,076**	**30,209,976**	**15,142,492**	**384,667,294**

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.8 Concentration of risks of financial assets with credit risk exposure (*continued*)

(a) Geographical sectors (continued)

	St. Christopher & Nevis $	Other Caribbean $	North America $	Europe $	Total $
Credit risk exposures relating to on- statement of financial position assets:					
Deposits with other banks	6,371,407	16,707,291	992,561	18,438,941	42,510,200
Deposits with non-bank financial institutions	241,287	18,123,524	910,233	-	19,275,044
Restricted deposits with non-bank financial institutions	-	-	808,470	-	808,470
Investment securities:					
– Treasury bills and other eligible bills	29,785,221	12,695,308	-	-	42,480,529
– Bonds and other debt instruments	3,023,672	6,027,824	-	-	9,051,496
– Available for sale securities-quoted	-	-	13,545,176	-	13,545,176
Loans and advances	201,580,914	2,992,204	5,741,697	1,835,788	212,150,603
Other assets	868,211	-	-	-	868,211
	241,870,712	**56,546,151**	**21,998,137**	**20,274,729**	**340,689,729**
Credit exposures relating to off statement of financial position items:					
Loan commitments and other credit related facilities	15,234,908	-	2,990,800	-	18,225,708
As at June 30, 2017	**257,105,620**	**56,546,151**	**24,988,937**	**20,274,729**	**358,915,437**

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.8 Concentration of risks of financial assets with credit risk exposure (*continued*)

Economic risk concentrations within the customer loan portfolio were as follows:

	2018 $	%	2017 $	%
Personal	**104,428,743**	**42.0**	92,550,442	42.7
Public Sector	**78,664,295**	**31.6**	59,810,210	27.5
Construction and land development	**31,516,839**	**12.7**	29,891,332	13.8
Distributive trades, transportation and storage	**15,434,075**	**6.2**	14,424,206	6.6
Tourism, entertainment, and catering	**6,957,997**	**2.8**	7,169,647	3.3
Professional and other services	**6,565,814**	**2.6**	7,431,245	3.4
Agriculture and manufacturing	**5,388,730**	**2.1**	5,949,700	2.7
Total	**248,956,493**	**100.0**	217,226,782	100

4.2 Market risk

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

The market risks arising from trading and non-trading portfolios are monitored by the Risk Management Committee, Investment and Internal Management Investment Committee and by management. Regular reports are submitted to the Board of Directors and department heads.

4.2.1 Price risk

The Bank is exposed to equity securities price risk because of equity investments held by the Bank and classified in the consolidated statement of financial position as available-for-sale. The Bank's portfolio includes securities that are quoted on the Eastern Caribbean Securities Exchange (ECSE) in addition to mutual funds that are quoted in the United States. Its exposure to equity securities price risk in respect of ECSE traded securities is minimal because the total of these securities is insignificant in relation to its consolidated statement of financial position and because of the limited volatility in this market. The mutual funds' exposure to equity securities price risk is managed by setting maximum exposure limits and the close monitoring of these securities. The Bank is not exposed to commodity price risk.

If market rates at June 30, 2018 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $7,115 (2017: $6,735) lower/ higher as a result of the increase/decrease in the fair value of available-for-sale investment securities.

	2018 $	2017 $
Available-for-sale		
Equity securities quoted at market value	**1,619,256**	2,010,435
Mutual Funds, quoted at market value	**890,348**	-
Total	**2,509,604**	2,010,435

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Most of the Bank's assets and liabilities in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar (XCD$) to the United States dollar (US$) has been formally pegged at XCD$2.7 = US$1.00 since 1974.

The following table summarises the Bank's exposure to foreign currency risk at June 30, 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (*continued*)

	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
As at June 30, 2018							
Assets							
Cash and balances with ECCB	30,723,269	611,586	74,467	113,280	4,806	24,858	31,552,266
Deposits with banks	5,313,926	21,123,382	1,536,307	651,792	1,127,408	71,269	29,824,084
Deposits with non-bank financial institutions	2,218,498	14,383,363	-	-	-	-	16,601,861
Restricted deposits with non-bank financial Institutions	-	808,470	-	-	-	-	808,470
Investment securities:							
– Treasury bills and other eligible bills	27,494,630	14,019,728	-	-	-	-	41,514,358
– Bonds and other debt securities	6,137,632	6,854,432	-	-	-	-	12,992,064
– Available-for-sale investments – unquoted	271,806	-	-	-	-	-	271,806
– Available-for-sale investments – quoted	3,077,610	19,228,969	-	-	-	-	22,306,579
Loans and advances to customers	207,928,967	34,966,943	-	-	-	-	242,895,910
Other assets	141,468	-	-	-	-	-	141,468
Total financial assets	**283,307,806**	**111,996,873**	**1,610,774**	**765,072**	**1,132,214**	**96,127**	**398,908,866**
Liabilities							
Customer deposits	237,542,711	110,499,364	-	-	-	-	348,042,075
Other liabilities	5,010,177	-	-	-	-	-	5,010,177
Total financial liabilities	**242,552,888**	**110,499,364**	**-**	**-**	**-**	**-**	**353,052,252**
Net on-balance sheet position	**40,754,918**	**1,497,509**	**1,610,774**	**765,072**	**1,132,214**	**96,127**	**45,856,614**
Credit and capital commitments	**17,595,990**	**1,383,576**	**-**	**-**	**-**	**-**	**18,979,566**

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (*continued*)

As at June 30, 2017	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
Assets							
Cash and balances with ECCB	36,969,275	901,263	61,161	61,987	13,941	9,378	38,017,005
Deposits with banks	7,665,678	32,983,520	50,140	634,569	992,561	183,732	42,510,200
Deposits with non-bank financial institutions	2,195,442	17,079,602	-	-	-	-	19,275,044
Restricted deposits with non-bank financial Institutions	-	808,470	-	-	-	-	808,470
Investment securities:							
– Treasury bills and other eligible bills	29,178,357	13,302,172	-	-	-	-	42,480,529
– Bonds and other debt securities	1,053,422	7,998,074	-	-	-	-	9,051,496
– Available-for-sale investments – unquoted	271,806	-	-	-	-	-	271,806
– Available-for-sale investments – quoted	2,010,435	13,545,176	-	-	-	-	15,555,611
Loans and advances to customers	179,738,057	32,412,546	-	-	-	-	212,150,603
Other assets	868,211	-	-	-	-	-	868,211
Total financial assets	**259,950,683**	**119,030,823**	**111,301**	**696,556**	**1,006,502**	**193,110**	**380,988,975**
Liabilities							
Customer deposits	222,576,330	119,139,771	-	-	-	-	341,716,101
Other liabilities	4,081,429	-	-	-	-	-	4,081,429
Total financial liabilities	**226,657,759**	**119,139,771**	**-**	**-**	**-**	**-**	**345,797,530**
Net on-balance sheet position	**33,292,924**	**(108,948)**	**111,301**	**696,556**	**1,006,502**	**193,110**	**35,191,445**
Credit and capital commitments	**13,986,800**	**4,238,909**	**-**	**-**	**-**	**-**	**18,225,709**

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (*continued*)

If at June 30, 2018, the Eastern Caribbean dollar had weakened /strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been $107,921 (2017: $7,457) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro denominated loans and receivables and foreign exchange losses/gains on translation of customer deposits denominated in Euro.

The contribution to profit before taxation of foreign exchange gains/losses on assets and liabilities held in Euro currency in 2017 was a gain of $119,910 (2017: gain of $141,728).

The Bank holds no Euro denominated available-for-sale investment securities. Hence, there would have been no impact on equity if the Eastern Caribbean Dollar had weakened/strengthened against the Euro at June 30, 2018.

If at June 30, 2018, the Eastern Caribbean dollar had weakened/strengthened by 10% against the Pound Sterling with all other variables held constant, post-tax profit for the year would have been $51,260 (2017: $46,670) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Pound Sterling denominated loans and receivables, and foreign exchange losses/gains on translation of customer deposits denominated in Pounds Sterling.

The contribution of profit before taxation of foreign exchange gains/losses is on assets and liabilities held in Pound Sterling in 2017 was a loss of $113,037 (2017: loss of $57,588).

Because the Bank holds no Pound Sterling denominated available-for-sale investment securities, there would have been no impact on equity, if the Eastern Caribbean dollar had weakened/strengthened against the Pound Sterling at June 30, 2018.

If at June 30, 2018, the Eastern Caribbean dollar had weakened /strengthened by 10% against the Canadian dollar with all other variables held constant, post-tax profit for the year would have been $75,858 (2017: $67,435) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Canadian dollar denominated loans and receivables and foreign exchange losses/gains on translation of customer deposits denominated in Canadian dollars.

The contribution to profit before taxation of foreign exchange gains on assets and liabilities held in Canadian currency in 2017 was $Nil (2017: loss of $8,179).

Because the Bank holds no Canadian dollar denominated available-for-sale investment securities, there would have been no impact on equity, if the Eastern Caribbean dollar had weakened/strengthened against the Canadian dollar at June 30, 2018.

4.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair 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 level of market interest rates on both its fair value and cash flow risks. Interest margins may increase or decrease as a result of such changes. The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the Assets and Liabilities Management Committee. Several other committees are involved in the management of interest rate risk which includes the internal management investment committee, investment committee and risk management committees which meets and reports to the Board on a regular basis.

The following table 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 re-pricing or maturity dates.

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 Interest rate risk (*continued*)

	Under 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-Interest bearing $	Total $
As at June 30, 2018							
Assets							
Cash and balances with the Central Bank	44,350	-	-	-	-	31,507,916	31,552,266
Deposits with banks	4,624,181	1,352,711	3,455,475	-	-	20,391,717	29,824,084
Deposits with non-bank financial institutions	11,571,949	3,740,454	1,102,970	-	-	186,488	16,601,861
Restricted deposits with non-bank financial institutions	-	-	808,470	-	-	-	808,470
Investment securities:							
– Treasury bills	24,849,623	9,070,550	7,594,185	-	-	-	41,514,358
– Bonds and other debt instruments	5,122,528	3,739,718	4,129,818	-	-	-	12,992,064
– Available-for-sale investments – unquoted	-	-	-	-	-	271,806	271,806
– Available-for-sale securities – quoted	612,179	354,952	6,544,316	11,053,044	-	3,742,088	22,306,579
Loans and advances to customers	36,679,400	4,880,024	6,267,795	23,647,119	144,931,266	26,490,306	242,895,910
Other assets	-	-	-	-	-	141,468	141,468
Total financial assets	**83,504,210**	**23,138,409**	**29,903,029**	**34,700,163**	**144,931,266**	**82,731,789**	**398,908,866**
Liabilities							
Customer deposits	136,049,641	11,881,649	152,678,761	83,955	10,000	47,338,069	348,042,875
Other liabilities	-	-	-	-	-	5,010,177	5,010,177
Total financial liabilities	**136,049,641**	**11,881,649**	**152,678,761**	**83,955**	**10,000**	**52,348,246**	**353,053,252**
Total interest repricing gap	**(52,545,431)**	**11,256,760**	**(122,775,732)**	**34,616,208**	**144,921,266**	**30,383,543**	**45,856,614**

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 Interest rate risk (*continued*)

	Under 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-Interest bearing $	Total $
As at June 30, 2017							
Assets							
Cash and balances with the Central Bank	44,350	-	-	-	-	37,972,655	38,017,005
Deposits with banks	4,606,521	2,721,336	8,662,518	-	-	26,519,825	42,510,200
Deposits with non-bank financial institutions	8,915,866	9,154,585	1,102,970	-	-	101,623	19,275,044
Restricted deposits with non-bank financial institutions	-	-	808,470	-	-	-	808,470
Investment securities:							
– Treasury bills	3,995,942	13,548,875	24,935,712	-	-	-	42,480,529
– Bonds and other debt instruments	1,029,750	3,892,237	4,129,509	-	-	-	9,051,496
– Available-for-sale investments – unquoted	-	-	-	-	-	271,806	271,806
– Available-for-sale securities – quoted	18,290	733,501	6,084,668	6,708,717	-	2,010,435	15,555,611
Loans and advances to customers	13,218,355	6,471,313	3,509,179	22,454,693	151,915,431	14,581,632	212,150,603
Other assets	-	-	-	-	-	868,211	868,211
Total financial assets	**31,829,074**	**36,521,847**	**49,233,026**	**29,163,410**	**151,915,431**	**82,326,187**	**380,988,975**
Liabilities							
Customer deposits	127,766,072	12,925,457	141,132,111	115,883	-	59,776,578	341,716,101
Other liabilities	-	-	-	-	-	4,081,429	4,081,429
Total financial liabilities	**127,766,072**	**12,925,457**	**141,132,111**	**115,883**	**-**	**63,858,007**	**345,797,530**
Total interest repricing gap	**(95,936,998)**	**23,596,390**	**(91,899,085)**	**29,047,527**	**151,915,431**	**18,468,180**	**35,191,445**

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 Interest rate risk (*continued*)

The Bank's fair value interest rate risk arises from fixed income debt securities classified as available-for-sale. If market rates at June 30, 2018 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $92,822 (2017: $6,735) lower/higher as a result of the increase/decrease in the fair value of available-for-sale securities.

Cash flow interest rate risk arises from loans and advances to customers, and other interest bearing assets at variable rates. If at June 30, 2018, variable interest rates on loans and advances to customers and other interest bearing assets had been 0.5% higher/lower, with all other variables held constant, post-tax profit for the year would have been $1,121,314 higher/lower (2017: $1,180,063), mainly as a result of higher/lower interest income. Cash flow interest rate risk also arises from customers' deposits, at variable interest rates. If at June 30, 2018 variable interest rates on customers' deposits had been 0.5% higher/lower, with all other variables held constant, net profit for the year would have been $1,176,336 (2017: $1,189,848) lower/higher, mainly as a result of higher/lower interest expense.

4.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the consolidated 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, merger and acquisition activity, systemic shocks and natural disasters.

4.3.1 Liquidity risk management process

The Bank's liquidity management process is carried out within the Bank by the Accounting and Investment Department, and monitored by management. Oversight includes the following:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Monitoring liquidity ratios of the consolidated statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement, and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Accounting and Investment Department also monitors unmatched medium term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

4.3.2 Funding approach

Sources of liquidity are regularly reviewed by management and the Board of Directors and primarily consist of deposits from customers, share capital and lines of credit with other financial institutions.

4 Financial risk management (continued)

4.3 Liquidity risk (continued)

4.3.3 Non derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual and undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash flows.

	Under 1 month $	1-3 months $	3-12 months $	1-5 years $	Over 5 years $	Total $
As at June 30, 2018						
Deposits from customers	183,015,311	12,203,364	154,119,097	80,600	-	349,418,372
Other liabilities	5,010,177	-	-	-	-	5,010,177
Total financial liabilities (contractual maturity dates)	**188,025,488**	**12,203,364**	**154,119,097**	**80,600**	**-**	**354,428,549**
Assets held for managing liquidity risk (contractual maturity dates)	**158,807,183**	**23,643,823**	**30,740,704**	**34,210,930**	**150,985,754**	**398,388,394**
As at June 30, 2017						
Deposits from customers	185,724,136	13,417,209	142,560,683	101,990	-	341,804,018
Other liabilities	3,909,133	172,347	-	-	-	4,081,480
Total financial liabilities (contractual maturity dates)	**189,633,269**	**13,589,556**	**142,560,683**	**101,990**	**-**	**345,885,498**
Assets held for managing liquidity risk (contractual maturity dates)	**98,706,864**	**37,575,412**	**40,995,790**	**43,519,057**	**158,128,744**	**378,925,867**

4 Financial risk management (continued)

4.3 Liquidity risk (continued)

4.3.4 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Loans and advances;
- Cash and balances with central banks;
- Certificates of deposit; and
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks.

4.3.5 Off statement of financial position items

(a) Loan commitments
The dates of the contractual amounts of the Bank's off statement of financial position financial instruments that commit to extend credit to customers and other facilities are summarised in the table below.

	Up to 1 year $	Total $
As at June 30, 2018		
Loan commitments	21,314,588	21,324,588
	21,324,588	**21,324,588**
As at June 30, 2017		
Loan commitments	18,225,708	18,225,708
	18,225,708	**18,225,708**

(b) Financial guarantees and other financial facilities
The Bank had financial guarantees of $Nil at June 30, 2018 (2017: $Nil).

(c) Operating Lease Commitments
The Bank had no operating lease commitments as at June 30, 2018 (2017: $Nil).

(d) Capital commitments
The Bank had contractual capital commitments totalling $Nil as at June 30, 2018 (2017: $Nil).

4 Financial risk management (continued)

4.4 Fair value of financial assets and liabilities (continued)

(a) The table below summarises the carrying amounts and fair values of the Bank's financial assets and liabilities

	Carrying value		Fair value	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with the Central Bank	31,552,266	38,017,005	31,552,266	38,017,005
Deposits with other banks	29,824,084	42,510,200	29,824,084	42,510,200
Deposits with non-bank financial institutions	16,601,861	19,275,044	16,601,861	19,275,044
Restricted deposits with non-bank financial institutions	808,470	808,470	808,470	808,470
Investment securities:				
– Treasury bills and other eligible bills	41,514,358	42,480,529	41,514,358	42,480,529
– Bonds and other debt instruments	12,992,064	9,051,496	12,992,064	9,051,496
– Available-for-sale investments – unquoted	271,806	271,806	271,806	271,806
– Available-for-sale investments – quoted	22,306,579	15,555,611	22,306,579	15,555,611
Loans and advances	242,895,910	212,150,603	242,895,910	212,150,603
Other Assets	141,468	868,211	141,468	868,211
	398,908,866	**380,988,975**	**398,908,866**	**380,988,975**
Financial liabilities				
Customer deposits	348,042,075	341,716,101	348,042,075	341,716,101
Other liabilities	5,010,177	4,081,429	5,010,177	4,081,429
	353,052,252	**345,797,530**	**353,052,252**	**345,797,530**

4 Financial risk management (continued)

4.4 Fair value of financial assets and liabilities (continued)

(a) The table below summarises the carrying amounts and fair values of the Bank's financial assets and liabilities (continued)

(i) Due from other banks
Due from other banks includes inter-bank placements and items in the course of collection. It is assumed that the fair value of this category of financial assets is a reasonable estimate of the fair value due to the relatively short term maturities.

(ii) Loans and advances to customers
Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine their fair value.

(iii) Investment securities
Investment securities include assets classified as available-for-sale which are measured at fair value based on quoted market prices. For available-for-sale investment securities for which no active market exists, the fair value is estimated at cost, net of any assessed impairment. Loans and receivables are carried at amortised cost using the effective interest rate method.

(iv) Due to other banks and customers, other depositors and other borrowings
The estimated value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The fair value of fixed-interest bearing deposits and other borrowings is assumed to approximate the carrying values.

(v) Loans payable
The fair value of the loan payable is estimated to approximate the carrying value.

4.4.1 Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes debt instruments listed on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

4 Financial risk management (continued)

4.4. Fair value of financial assets and liabilities (continued)

4.4.1 Fair value hierarchy *(continued)*

The standard requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

	Level 1 $	Total $
Financial assets at fair value		
Investment securities		
Fixed income securities, quoted at market value	18,564,491	18,564,491
Equity securities	2,851,740	2,851,740
Mutual Funds	890,348	890,348
Balance as at June 30, 2018	**22,306,579**	**22,306,579**

	Level 1 $	Total $
Financial assets at fair value		
Investment securities		
Fixed income securities, quoted at market value	13,545,176	13,545,176
Equity securities	2,010,435	2,010,435
Balance as at June 30, 2017	**15,555,611**	**15,555,611**

4.5 Capital management

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

- To comply with the capital requirements set by the Eastern Caribbean Central Bank (the ECCB);
- To safeguard the Bank'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 Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the ECCB, for supervisory purposes. The required information is filed with the ECCB on a quarterly basis.

The Banking Act No.1 of 2015 ("the Act") which regulates the Bank's activities came into effect on May 20, 2016. The Act has increased the minimum paid up capital from $5 million to $20 million, with an allowance of 450 days from the effective implementation date to achieve compliance. The Bank's paid up capital at June 30, 2018 is $13,817,584. As part of the strategy to ensure compliance with the Act, the Board of Directors sought and received approval from the Bank's shareholders to raise additional share capital via a right issue, and immediately thereafter, an additional public offering ("APO"). The rights issue was held during the period February 1, 2017 to April 18, 2017 and the paid up capital raised was $4,486,258. The APO commenced on May 15, 2017 and was completed on July 28, 2017 and additional paid up capital of $10,522,359 was raised. As at June 30, 2018 the Bank has paid up capital of $24,339,943 which exceeds the minimum paid up capital requirement of EC$20 million. This additional paid up capital was raised within the required time established of August 13, 2017.

4 Financial risk management (continued)

4.5 Capital management (continued)

The Act further states that a licensed financial holding company is required to maintain paid up capital of at least $60,000,000. The Bank of Nevis Limited based on definition provided by the Act is deemed to be a holding company due to its ownership interest in its subsidiary Bank of Nevis International. The Bank of Nevis is in the process of disposing its interest in Bank of Nevis International Limited. Approval for disposal of the interest was granted by the Regulator of The Bank of Nevis Limited on December 8, 2016 on the condition that approval was granted by the Regulator of Bank of Nevis International Limited. Approval from the Regulator of Bank of Nevis International Limited to transfer its majority shares to the external investor in the subsidiary was received on July 28, 2017. It is expected that the sale will be concluded on or before June 30, 2019.

The Nevis International Banking Ordinance 2014, No.1 of 2014 ("NIBO 2014") which governs the operations of the subsidiary Bank of Nevis International ("BONI") came into effect on August 1, 2014. NIBO 2014 repealed the Nevis Offshore Banking Ordinance Cap. 7.05. Section 11(1) (b) of 1996. NIBO 2014 stipulates that a licensee shall maintain not less than US$2,000,000 (EC$5,400,000) in fully paid up capital. At June 30, 2018, the Bank held fully paid up capital of $2,226,428.

The Bank's regulatory capital as managed by the Board of Directors is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of treasury shares), retained earnings and reserves created by appropriations of retained earnings.
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of securities held as available-for-sale.

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

The following table summarises the composition of the regulatory capital and the Basel ratios for the years ended June 30, 2018 and June 30, 2017.

	2018 $	2017 $
Tier 1 capital		
Share capital	**24,339,943**	13,817,584
Statutory reserve	**16,203,026**	13,244,603
Retained earnings	**27,451,154**	24,519,936
Total qualifying tier 1 capital	**67,994,123**	51,582,123
Tier 2 capital		
Revaluation reserve	**12,333,988**	13,442,597
Reserve for loan impairment	**1,155,538**	1,481,343
Reserve for items in-transit on correspondent bank accounts	**2,890,216**	2,890,216
Total qualifying tier 2 capital	**16,379,743**	17,814,156
Total regulatory capital	**84,373,865**	69,396,279

4 Financial risk management (continued)

4.5 Capital management (continued)

	2018 $	2017 $
Risk weighted assets		
On- statement of financial position	**259,227,776**	280,900,276
Off- statement of financial position	**21,324,588**	18,225,709
Total risk weighted assets	**280,552,364**	299,125,985
Basel ratio	**32.2%**	23.2%

4.6 Financial assets and liabilities by category

The table below analyses the Bank's financial assets and liabilities by category:

	Loans and receivables $	Available-for-sale $	Total $
As at June 30, 2018			
Assets			
Cash and Balances with the Central Bank	31,552,266	-	31,552,266
Restricted deposits	808,470	-	808,470
Due from banks and other financial institutions	46,149,795	-	46,149,795
Investment securities	54,506,422	22,578,385	77,084,807
Loans and advances	242,895,910	-	242,895,910
Other assets	141,468	-	141,468
Total financial assets	**376,054,331**	**22,578,385**	**398,632,716**
Liabilities			
Customer deposits	348,042,075	-	348,042,075
Other liabilities	5,010,177	-	5,010,177
Total financial liabilities	**353,052,252**	**-**	**353,052,252**
As at June 30, 2017			
Assets			
Cash and Balances with the Central Bank	38,017,005	-	38,017,005
Restricted deposits	808,470	-	808,470
Due from banks and other financial institutions	61,785,244	-	61,785,244
Investment securities	51,532,024	15,827,417	67,359,441
Loans and advances	212,150,603	-	212,150,603
Other assets	868,211	-	868,211
Total financial assets	**365,161,557**	**15,827,417**	**380,988,974**
Liabilities			
Customer deposits	341,716,101	-	341,716,101
Other liabilities	4,081,429	-	4,081,429
Total financial liabilities	**345,797,530**		**345,797,530**

5 Critical accounting estimates, and judgements in applying accounting policies and key sources of estimation uncertainty

The Bank's consolidated financial statements and its financial result 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.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Certain accounting policies and management's judgements are especially critical for the Bank's results and financial situation due to their materiality.

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes judgements 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, or local economic conditions that correlate with defaults on assets in the Bank.

Loans and advances which are more than 90 days in arrears are assessed for impairment on an individual basis. The impairment losses on the individually impaired loans and advances within the portfolio are based upon the Bank's estimate of the present value of the expected cash flows, using the value of the underlying collateral held as a base. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be estimated $352,006 lower or $561,801 higher respectively.

For loans and advances which are not considered to be individually impaired, general allowance for impairment is assessed on a percentage basis, based on several factors including facility type and economic sector. In estimating the percentage allowance, Management makes assumptions based on historical performance of the respective categories as well as current economic conditions and forecasts.

(b) Impairment of available-for-sale investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in fair value below cost. This determination of what is significant or prolonged requires judgement, and in making this judgement, the Bank evaluates among other factors, historical market and industry trends, the investments' historical performance against benchmarks, as well as the short term performance outlook. In addition, impairment may be appropriate 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.

5 Critical accounting estimates, and judgements in applying accounting policies and key sources of estimation uncertainty (continued)

(c) Impairment of fixed deposits

The Bank holds fixed deposits with certain institutions that have been experiencing liquidity challenges, and were therefore unable to fulfil all the Bank's requests to redeem the fixed deposits. The Bank reviews its fixed deposits to assess impairment on a regular and periodic basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from the fixed deposit. Such observable data may indicate that there has been an adverse change in the payment ability and financial condition of the counterparty. Management uses experience, judgment and estimates based on objective evidence of impairment when assessing future cash flows. Were the net present value of estimated cash flows of these fixed deposits to differ by +/-10%, the impairment would remain unchanged.

6 Business segments

The Bank has three operating segments:

- Retail and Corporate banking – incorporating private banking services, customer current accounts, savings, deposits, consumer loans and mortgages and other credit facilities, overdrafts, debit cards;
- International Banking – incorporating private banking services, customer current accounts, savings, deposits, consumer loans and mortgages and other credit facilities, overdrafts to non-residents of Nevis; and
- Mutual Funds – Open-ended public mutual funds.

The mutual funds segment is not a significant operation. As detailed in note 30, the Bank is in the process of disposing of its majority interest in its wholly-owned subsidiary, which operates the international banking segment. The results of this segment is presented in the consolidated statement of comprehensive income as net profit from discontinued operations with supporting note 31. The assets and liabilities are presented in the consolidated statement of financial position as assets and liabilities of subsidiary classified as held for sale. Consequently, separate business segment disclosures have not been presented.

7 Cash and balances due from banks and other financial institutions

	2018 $	2017 $
Cash on hand	**1,656,073**	2,075,360
Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits	**44,350**	44,350
Cash and current accounts with other banks	**17,837,343**	25,472,811
Cheques in the course of collection	**2,740,861**	1,148,636
Short term fixed deposits	**17,467,974**	22,068,857
Included in cash and cash equivalents (note 27)	**39,746,601**	50,810,014
Dormant account reserve	**465,933**	464,597
Mandatory reserve deposits with the ECCB	**27,569,589**	33,616,375
ACH reserve with the ECCB	**1,816,323**	1,816,323
Restricted fixed deposits	**808,470**	808,470
Fixed deposits	**8,163,495**	12,852,571
	78,570,411	100,368,350
Interest receivable	**216,271**	242,369
	78,786,682	100,610,719
Current	**48,126,368**	63,904,955
Non-current	**30,660,314**	36,705,764
	78,786,682	100,610,719

The interest rates on balances due from banks and other financial institutions range from 0.0% to 4.25% per annum (2017: 0.0% to 4.85% per annum).

7 Cash and balances due from banks and other financial institutions (continued)

Under the Banking Act, commercial banks are required to transfer to the ECCB balances on accounts which are inactive for a period of over 15 years. The balances transferred to the ECCB are held in a special account and are not available for use in the Bank's day-to-day operations.

Commercial banks doing banking business in the Eastern Caribbean Currency Union (ECCU) are required to maintain a mandatory non-interest bearing reserve deposit with the ECCB, which when combined with the EC dollar cash on hand should be equivalent to a minimum 6% of their total deposit liabilities (excluding inter-bank deposits). This reserve deposit relates only to The Bank of Nevis Limited (non-consolidated), and is not available for use in its day-to-day operations. At June 30, 2018 the minimum required amount was $20,790,000.

The restricted fixed deposits comprise deposits held with Caribbean Credit Card Corporation Limited of $808,470 (2017: $808,470) bearing interest of 2% (2017: 2%) per annum. These deposits are not available for use in the Bank's day-to-day operations and are used as security deposits primarily for the credit card operations.

The Bank has deposits held with the ECCB as a reserve requirement for the Eastern Caribbean Automated Clearing House ("ECACH"). The ECACH requires participating banks to maintain collateral equivalent to three days exposure to cheque settlements.

Fixed deposit held with TCI Bank Limited

The Bank holds a fixed deposit with TCI Bank Limited, incorporated and operating in the Turks and Caicos Islands, in the amount of $2,411,378 (originally $3,014,221).

On April 09, 2010, by petition of the Financial Services Commission (FSC) in the Turks and Caicos Islands to the Supreme Court, TCI Bank Limited was placed in liquidation and joint liquidators were appointed. After consideration of the foregoing, and also considering the present value of future cash flows to be derived from the fixed deposit during a liquidation process based on varying scenarios, Management determined that a prudent approach should be adopted, and an impairment provision of 53% of the value of the fixed deposit (amounting to $1,597,537) was recorded in the financial statements at June 30, 2010.

In 2012, the Turks and Caicos Supreme Court approved an interim dividend distribution of 20 cents on the dollar. This payment in the amount of $602,843 was received by the Bank on September 27, 2012. This dividend distribution resulted in a net carrying value of $813,841 for the fixed deposit.

On August 06, 2015, a second dividend distribution payment, also in the amount of $602,843 was received by the Bank. This dividend distribution further reduced the carrying value of the fixed deposit to $210,998.

Having reviewed the reports of the liquidators, and considering the payment made by the liquidators, Management has determined that the impairment provision of $1,597,537 (i.e. carrying value of $210,998) should be maintained in the financial statements at June 30, 2018. The aforementioned amount has been reclassified with the assets held for sale in the subsidiary.

8 Investment securities

Loans and receivables	2018 $	2017 $
Treasury bills, included in cash and cash equivalents (note 27)	**21,815,634**	27,055,471
Treasury bills	**18,742,687**	14,775,286
Bonds and other debt instruments	**12,744,369**	8,893,297
Total loans and receivables	**53,302,690**	50,724,054
Available-for-sale		
Fixed income securities, quoted at market value	**18,367,722**	13,445,859
Mutual funds, quoted at market value	**890,348**	-
Equity securities, unquoted	**1,619,256**	1,619,256
Equity securities, quoted at market value	**2,851,740**	2,010,435
Total available-for-sale	**23,729,066**	17,075,550
Total investment securities before interest receivable	**77,031,756**	67,799,604
Interest receivable	**1,400,501**	907,287
	78,432,257	68,706,891
Allowance for impairment	**(1,347,450)**	(1,347,450)
Total investment securities	**77,084,807**	67,359,441
Current	**62,017,869**	63,946,146
Non-current	**15,066,938**	3,413,295
	77,084,807	67,359,441

Allowance for impairment on investment securities

The movement in allowance for impairment on investment securities is as follows:

	2018 $	2017 $
Balance, beginning of year	**1,347,450**	1,572,084
Investments written off as collectible	**-**	(224,634)
	1,347,450	1,347,450

8 Investment securities (continued)

Treasury bills

Included in the amounts for treasury bills are treasury bills issued by the Government of St. Christopher and Nevis in the amount of $8,749,920 (2017: $8,749,920) earning interest at 4.0% per annum (2017: 4% per annum).

Also included in the amounts for treasury bills are treasury bills issued by The Nevis Island Administration in the amount of $25,633,709 (2017: $20,458,539) earning interest from 5.5% per annum to 7.0% per annum (2017: 5.5% per annum to 7.0% per annum).

Equity investment in TCI Bank Limited

The Bank holds an equity investment in TCI Bank Limited in the amount of $1,347,450 (2017: $1,347,450).

On April 09, 2010, by petition of the Financial Services Commission (FSC) in the Turks and Caicos Islands to the Supreme Court, TCI Bank Limited was placed in liquidation and joint liquidators were appointed. After consideration of the foregoing, and other details available at that time, a provision for impairment of 100% of the value of the share capital in TCI Bank Limited in the amount of $1,347,450 was made in the financial statements as at June 30, 2010. This provision has been maintained in the financial statements at June 30, 2018.

Net gains from investment securities comprise:

	2018 $	2017 $
Net realised gains from disposal of available-for-sale financial assets	**36,736**	-

The movement in investment securities, net, excluding interest receivable may be summarised as follows:

	Loans and receivables $	Available-for-sale $	Total $
Balance as of June 30, 2017	**50,724,054**	**15,728,100**	**66,452,154**
Additions	15,654,963	24,515,909	40,170,872
Disposals (sale and redemption)	(12,927,398)	(17,896,607)	(30,824,005)
Losses from changes in fair value, net	(148,928)	34,214	(114,714)
Balance as of June 30, 2018	**53,302,691**	**22,381,616**	**75,684,307**

8 Investment securities (continued)

	Loans and receivables $	Available-for-sale $	Total $
Balance as of June 30, 2016	**52,493,113**	**22,633,106**	**75,126,219**
Additions	56,314,733	5,407,065	61,721,798
Disposals (sale and redemption)	(58,083,792)	(12,235,574)	(70,319,366)
Losses from changes in fair value, net	-	(76,497)	(76,497)
Balance as of June 30, 2017	**50,724,054**	**15,728,100**	**66,452,154**

9 Loans and advances

	2018 $	2017 $
Reducing balance loans	**220,894,050**	201,066,699
Overdrafts	**22,149,022**	10,684,427
Credit card advances	**5,622,972**	4,973,455
	248,666,044	216,724,581
Interest receivable	**290,449**	502,201
	248,956,493	217,226,782
Less: Allowance for loans and advances impairment	**(6,060,583)**	(5,076,179)
Total loans and advances	**242,895,910**	212,150,603
Current	**46,557,476**	52,191,503
Non-current	**196,338,434**	159,959,100
	242,895,910	212,150,603

	2018 $	2017 $
The movement in allowance for loans and advances impairment is as follows:		
Balance, beginning of year	**5,076,179**	5,859,761
Provision/(Recovery) for the year – continuing operations	**1,418,676**	(542,762)
Loans and advances written off during the year	**(434,272)**	(240,820)
Balance, end of year	**6,060,583**	5,076,179

The total value of non-productive loans and advances at the end of the year amounted to $31,461,612 (2017: $27,368,188). The interest accrued on non-productive loans and advances but not recorded in these financial statements is $11,958,170 (2017: $11,061,169). Included in loans and advances is an amount due from other financial institutions of $10,753,825 (2017: $24,422).

9 Loans and advances (continued)

According to the Eastern Caribbean Central Bank loan provisioning guidelines, the calculated allowance for loan impairment amounts to $7,216,121 (2017: $6,557,522). The additional reserve of $1,155,538 (2017: $1,481,343) is recognised through a reserve for loan impairment (see note 19).

10 Other assets

	2018	**2017**
	$	**$**
Prepayments	**992,312**	774,213
Items in-transit	**93,716**	734,853
Other receivables	**-**	157,691
Total other assets	**1,086,028**	1,666,757
Current	**1,086,028**	1,509,067
Non-current	**-**	157,690
	1,086,028	1,666,757

11 Property, plant and equipment

	Land and Buildings $	Land Improvements $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Total $
Year ended June 30, 2018							
Opening net book amount	26,294,320	113,434	164,667	628,579	187,845	-	27,388,845
Additions	7,977	-	36,823	196,347	110,187	62,000	413,334
Disposals	-	-	-	(73,708)	-	(71,000)	(144,708)
Depreciation charge	(325,247)	(11,343)	(96,660)	(367,662)	(88,289)	(12,400)	(901,601)
Depreciation eliminated on disposal	-	-	-	73,708	-	71,000	144,708
Closing net book amount	**25,977,050**	**102,091**	**104,830**	**457,264**	**209,743**	**49,600**	**26,900,578**
At June 30, 2018							
Cost/valuation	27,684,897	113,434	1,377,950	2,248,165	1,085,984	62,000	32,572,430
Accumulated depreciation	(1,707,847)	(11,343)	(1,273,120)	(1,790,901)	(876,241)	(12,400)	(5,671,852)
Net book amount	**25,977,050**	**102,091**	**104,830**	**457,264**	**209,743**	**49,600**	**26,900,578**

11 Property, plant and equipment (continued)

	Land and Buildings $	Land Improvements $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Total $
Year ended June 30, 2017							
Opening net book amount	26,621,368	-	248,292	871,739	174,437	-	27,915,836
Additions	-	113,434	38,678	35,962	80,371	-	268,445
Disposals	-	-	-	-	-	-	-
Depreciation charge	(327,048)	-	(122,303)	(279,122)	(66,963)	-	(795,436)
Closing net book amount	**26,294,320**	**113,434**	**164,667**	**628,579**	**187,845**	**-**	**27,388,845**
At June 30, 2017							
Cost/valuation	27,676,920	113,434	1,341,127	2,125,526	975,799	71,002	32,303,808
Accumulated depreciation	(1,382,600)	-	(1,176,460)	(1,496,947)	(787,954)	(71,002)	(4,914,963)
Net book amount	**26,294,320**	**113,434**	**164,667**	**628,579**	**187,845**	**-**	**27,388,845**

11 Property, plant and equipment (continued)

The land and buildings were revalued in June 2013 by an independent property appraiser. The valuation was based on the current replacement cost method based on the values and market conditions at the time of the valuation. The Bank has determined that there have been no significant changes in the market conditions since the valuation, and therefore considers the revalued amounts as being a reasonable assessment of the fair values at reporting date.

The fair value hierarchy for land and buildings is assessed at Level 2, which includes direct and indirect observable inputs.

The following is the carrying amount of land and buildings carried at revalued amounts had they been measured at historical cost:

	Land and Buildings $	Total $
Cost	15,941,396	15,941,396
Accumulated Depreciation	(2,897,617)	(2,897,617)
Net book values as at June 30, 2018	**13,043,779**	**13,043,779**

	Land and Buildings $	Total $
Cost	15,941,396	15,941,396
Accumulated Depreciation	(2,897,617)	(2,897,617)
Net book values as at June 30, 2017	**13,043,779**	**13,043,779**

12 Intangible assets

	2018 $	2017 $
Computer Software:		
Year ended June 30,		
Opening net book amount	326,887	470,463
Additions	153,305	35,182
Amortisation charge – continuing operations	(214,517)	(178,758)
Closing net book amount	**265,675**	**326,887**
At June 30,		
Cost	3,957,776	3,804,471
Accumulated amortisation	(3,692,101)	(3,477,584)
Net book amount	**265,675**	**326,887**

13 Customers' deposits

	2018 $	2017 $
Time deposits	**175,564,351**	164,620,875
Savings accounts	**122,445,802**	120,679,477
Current accounts	**48,303,183**	54,662,741
	346,313,336	339,963,093
Interest payable	**1,728,739**	1,753,008
Total customers' deposits	**348,042,075**	341,716,101
Current	**348,042,075**	341,716,101
Non-current	**-**	-
	348,042,075	341,716,101

Included in the customers deposits at year end are balances for other financial institutions amounting to $34,258,211 (2017: $25,726,597).

14 Other liabilities and accrued expenses

	2018 $	2017 $
Accounts payable and accrued expenses	**2,609,714**	1,780,714
Manager's cheques	**1,700,448**	1,338,939
Deferred loan fees	**918,126**	**796,371**
Fair value adjustment on employee loans	**449,014**	385,938
Items-in-transit	**446,087**	947,826
Fair value adjustment on employee loans	**449,014**	385,938
Advance deposits on credit cards	**215,288**	403,360
Government stamp duty	**204,949**	300,046
Staff bonus payable	**71,220**	41,545
Total other liabilities and accrued expenses	**6,614,846**	5,994,739
Current	**5,292,720**	4,827,568
Non-current	**1,322,126**	1,167,171
	6,614,846	5,994,739

15 Taxation

The deferred income tax asset and liability on the consolidated statement of financial position are related to the following:

	2018 $	2017 $
Property, plant and equipment	**(776,514)**	(948,809)
Available-for-sale investment securities	**(13,015)**	(82,419)
Deferred tax liability	**(789,529)**	(1,031,228)
Tax losses carried forward	**-**	248,097
Share issue transaction costs	**-**	9,005
Interest on non-performing loans	**581,052**	1,208,120
Deferred income tax asset	**581,052**	1,465,222

The deferred tax expense / (credit) in the consolidated statement of income is comprised of the following:

	2018 $	2017 $
Deferred tax on depreciation of property, plant and equipment	**(172,295)**	(43,507)
Deferred tax on tax losses	**248,097**	-
Interest on non-performing loans	**627,068**	-
Under accrual for prior year deferred tax income		(248,097)
Deferred income tax expense/(credit)	**702,870**	(291,604)

The deferred tax income recognised in other comprehensive income is composed of the following:

	2018 $	2017 $
Deferred tax on movement in market value of available-for-sale- investment securities	**(69,404)**	(22,344)
Deferred tax on share issue transaction cost	**9,005**	(9,005)
	(60,399)	(31,349)
Income tax receivable / (payable)		
Income tax payable net, beginning of year	**(1,738,535)**	(480,678)
Payments made during year, net of refunds	**681,083**	639,438
Current tax expense	**(1,927,091)**	(473,571)
Prior year tax expense over-accrual	**542,536**	524,568
Current tax expense in dispute	**-**	(1,948,292)
Tax credit	**2,495,612**	-
Income tax receivable / (payable), at end of year	**53,605**	(1,738,535)

15 Taxation (continued)

	2018 $	2017 $
Income tax expense		
Operating profit from continuing operations before taxation	**6,013,765**	4,035,189
Income tax (credit) / expense at standard rate of 33% (2016: 33%)	**1,984,542**	1,331,612
Tax effect of:		
Non-deductible expenses	**1,989,468**	865,673
Untaxed interest income	**(681,693)**	(1,085,196)
Untaxed dividend income	**(1,104,045)**	(34,391)
Over-accrual for prior year current tax	**(542,536)**	(524,568)
Under/Over-accrual for prior year deferred tax expense	**-**	(248,097)
Effect of movement in deferred taxes	**702,870**	(43,507)
Effect of tax losses and capital cost allowances (utilised) and carried forward (net)	**(276,691)**	(621,548)
Effect of withholding taxes paid	**15,510**	17,422
Current tax expense in dispute	**-**	1,948,292
Tax credit	**(2,495,612)**	-
Actual income tax (credit) / expense	**(408,187)**	1,605,692

Tax Losses

The Bank has carried forward income tax losses of $Nil (2017: $751,809). The tax losses have not been confirmed by the tax authorities. Losses may be carried forward and deducted against future taxable income within five years following the year which the losses were incurred. Losses are restricted to 50% of the taxable income in any one year. The tax loss has resulted in a deferred tax asset of $Nil (2017: $248,097).

Capital cost allowances

The Bank has carry-forward capital cost allowances of $Nil (2017: $ Nil). The additions and claims for capital cost allowances during the current year have not been confirmed by the tax authorities.

Unclaimed capital cost allowances may be carried forward indefinitely and deducted against future taxable income. The amount claimed is restricted to 50% of the taxable income in any one year.

	2018 $	2017 $
Under-accrual from the prior year	**-**	665,100
Balance at beginning of year	**-**	-
Additions during the year	**838,461**	738,057
Claims during the year	**(838,461)**	(1,403,157)
Balance at end of year	**-**	-

15 Taxation (continued)

In April 2012 the Income Tax Act (ITA) was amended to include a specific provision to restrict the claiming of expenses used to generate exempt income without defining what it considered to be exempt income. Subsequently, during the financial year ended June 30, 2016, the Bank of Nevis Limited received assessments from the tax authorities for the financial years ended June 30, 2012, 2013 and 2014, claiming additional taxes as a result of the disallowance of expenses used to generate exempt income. These assessments were subsequently settled during the financial year ended June 30, 2016. However, the Bank reserved the right to object to the tax authority's interpretation provisions of the ITA and the terms of the Public Sector tax free loans for all subsequent periods.

In June 2017, the Bank resubmitted revised tax returns for income years 2015, 2016 and 2017 on the basis of (1) its understanding of the terms agreed with Government in relation to the Public Sector tax free loans, (2) its interpretation of what income should be classified as exempt income and (3) using what the Bank determined to be a fair and equitable formula to compute expenses to be disallowed on the basis that they were incurred to generate exempt income.

After discussions with the tax authorities in relation to the treatment of the Public Sector tax free loans, the classification of exempt income and an equitable formula to compute expense used to make exempt income, the Bank met with the tax authorities in August 2018 to discuss and settle the issues. On October 5, 2018 written communication was received from the tax authorities confirming that the interest foregone on the eligible facilities or Public Sector tax free loans would be treated as an advance tax payment. Subsequently, on October 30, 2018 the Bank received tax assessments from the tax authorities for income years 2015 to 2017 with an overall tax liability of $654,917, however the basis for the assessment was not in accordance with the agreed treatment of interest income foregone on Public Sector loans as an advance tax payment to the Government. Therefore, the tax assessment for 2015, 2016 and 2017 are still in dispute and the Bank will be filing an objection with the tax authorities on the basis that the assessments issued were not in accordance with the agreed position that the interest foregone on the restructured Public sector loans were in fact an advance tax payment and that the formula used to disallow expenses used to generate exempt income was not fair or equitable.

16 Share capital

Authorised share capital - 50,000,000 shares (2017: 50,000,000 shares) at no par value.

Issued and fully paid -18,096,644 shares (2017: 13,833,945 shares) at no par value.

The Company's Ordinance, Nevis 1999 (section 26) stipulates that shares in a company are to be without nominal or par value. The Ordinance further stipulates that where a former-Act company is continued under the Ordinance, a share with nominal or par value issued by the company before it was continued is deemed to be a share without nominal or par value. The Bank continued under the Companies Ordinance of Nevis on December 31, 2001 and would have adopted the no par value requirement as prescribed by the Ordinance. The par value prior to continuance under the Companies Ordinance was EC$1.00.

The movement in share capital is summarised as follows:

	Number of Shares	Share Capital
Balance as at June 30, 3016	**9,347,687**	**9,347,687**
Issue of shares (net of transaction costs)	4,486,258	4,469,897
Balance as at June 30, 2017	**13,833,945**	**13,817,584**
Issue of shares (net of transaction costs)	4,262,699	10,522,359
Balance as at June 30, 2018	**18,096,644**	**24,339,943**

16 Share capital (continued)

The Banking Act No. 1 of 2015 ("the Act") which regulates the activities of the Parent Company ("BON") came into effect on May 20, 2016. The Act has increased the minimum capital requirement for licensees from $5 million to EC$20 million, with an allowance of 450 days from the Act's effective date to achieve compliance. The Bank's paid up capital at June 30, 2017 was $13,817,584. As part of the strategy to ensure compliance with the Act, the Board of Directors of BON sought and received approval from its shareholders to raise additional share capital via a rights issue and immediately thereafter, an additional public offering ("APO").

The rights issue was held during the period February 1, 2017 to April 18, 2017 and the paid up capital raised was $4,486,258. The APO commenced on May 15, 2017 and was completed on July 28, 2017, subsequent to June 30, 2017. The additional capital of $6,182,416 required to meet the minimum paid up capital requirement of $20 million was raised via the APO.

17 Statutory reserves

Section 45 (1) of the St. Christopher and Nevis Banking Act No. 1 of 2015 provides that not less than 20% of each year's net earnings shall be set aside to a reserve fund whenever the fund is less than the paid-up capital of the Bank.

Section 12 (1) of the Nevis International Banking Ordinance 2014 provides that the Bank is to maintain a reserve fund and shall out of its net profits of each year and before any dividend is paid, transfer to the said fund a sum equal to not less than 25% of those profits whenever the amount of the reserve fund is less than the paid-up capital of the Bank.

There was a transfer $2,958,423 of the statutory reserves for the year ended June 30, 2018 and $2,310,249 for the year ended June 30, 2017.

18 Revaluation reserves

	2018 $	**2017 $**
The revaluation reserve is comprised of the following:		
Amounts relating to discontinued operations	**(669,624)**	474,192
Amounts relating to continuing operations	**13,003,612**	12,968,405
Balance, end of year	**12,333,988**	13,442,597
Represented by revaluation reserves attributable to:		
Continuing Operations		
Available-for-sale investment securities	**199,785**	164,578
Property	**12,803,827**	12,803,827
	13,003,612	12,968,405
Discontinued Operations		
Available-for-sale investment securities	**(669,624)**	474,192

18 Revaluation reserves (continued)

This reserve is unrealised and hence not available for distribution to shareholders. The deferred tax impact on the appreciation/ (depreciation) in market values of investment securities is shown below:

	2018 $	2017 $
Depreciation in market value	**(34,197)**	(67,710)
Less: deferred tax	**69,404**	22,344
	35,207	(45,366)

19 Other reserves

	2018 $	2017 $
Other reserves:		
Balance at beginning of year	**4,371,559**	4,147,221
Reserve for loan impairment	**(325,805)**	224,338
Total other reserves	**4,045,754**	4,371,559
Other reserves is represented by:		
Reserve for loan impairment	**1,155,538**	1,481,343
Reserve for items in-transit on correspondent bank accounts	**2,890,216**	2,890,216
	4,045,754	4,371,559

Reserve for loan impairment

This reserve is created to set aside the amount by which the loan loss provision calculated under the Prudential Guidelines of the Eastern Caribbean Central Bank exceeds the loan loss provision calculated in accordance with IAS 39.

Reserve for items in-transit on correspondent bank accounts

This reserve is created to set aside the amount for items in-transit on correspondent bank account which have been statute barred and have been recognised in the profit and loss account but is not available for distribution to shareholders.

20 Interest income

	2018 $	2017 $
Interest income on loans and receivables		
Loans and advances	**13,913,885**	13,695,576
Treasury bills	**2,120,448**	2,496,717
Deposits with banks and other financial institutions	**1,174,755**	1,012,504
Other investment securities	**615,168**	194,176
Total interest income on loans and receivables	**17,824,256**	17,398,973
Interest income on available-for-sale investment securities	**38,801**	103,183
Total interest income	**17,863,057**	17,502,156

21 Interest expense

	2018 $	2017 $
Time deposits	**4,645,430**	4,251,869
Savings deposits	**2,250,614**	2,208,987
Demand deposits	**122,722**	126,381
Total interest expense on other financial liabilities	**7,018,766**	6,587,237

22 Other operating income

	2018 $	2017 $
Fees and commissions	**2,095,763**	2,027,731
Foreign exchange gains (net)	**966,057**	971,425
Dividend income on available-for-sale investments	**113,267**	104,215
Net Card services commissions and fees	**(21,299)**	(67,604)
Gain on disposal of assets	**10,000**	-
Miscellaneous revenue	**71,951**	8,113
Bad debts recovered	**1,200**	4,866
Total other operating income	**3,236,939**	3,048,746

23 Related party transactions

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

A number of banking transactions were entered into with related parties. These include loans, deposits and other transactions. The details of related party transactions, outstanding balances at the year end and relating expenses and income for the year are as follows:

Directors key management personnel, and related entities

	2018 $	2017 $
Balances at June 30, 2018		
Loans and advances outstanding	**2,032,847**	7,994,191
Undrawn credit commitments	**-**	495,626
Collateral held on balances outstanding	**21,541,881**	22,953,011
Deposits held	**37,332,753**	37,373,197
Transactions for the year ended June 30, 2018		
Interest income earned on loans and advances	**311,614**	494,317
Interest expense incurred on deposits held	**1,987,669**	1,413,982
Interest rates on loans and advances	**5.0% - 19.5%**	5.0% - 19.5%
Interest rates on deposits held	**0.0% - 4.0%**	0.0% - 5.25%

Loans and advances to directors are granted on commercial terms and are secured by cash and/or mortgages over real estate.

23 Related party transactions (continued)

Loans and advances to key management personnel are granted on terms outlined in the Bank's Staff Advances Policy, which provides for the application of certain preferential terms, including interest rates and collateral arrangements. Collateral arrangements for loans and advances to key management personnel include cash and/or mortgages over properties.

During the year, salaries and related benefits of $1,873,019 (2017: $2,032,020) were paid to key members of management and were allocated as follows:

	2018 $	2017 $
Salaries and short term benefits	**1,797,161**	1,964,194
Pension and post-employment benefits	**75,858**	67,826
	1,873,019	2,032,020

24 Earnings per share

Basic earnings per share from continuing and discontinued operations

This is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year as follows.

	2018 $	2017 $
Net profit attributable to shareholders	**8,278,542**	7,048,823
Weighted average number of ordinary shares in issue	**17,688,068**	10,134,320
	0.47	0.70

Basic earnings per share from continuing operations

This is calculated by dividing the net profit from continuing operations attributable to shareholders by the weighted average number of ordinary shares in issue during the year as follows:

	2018 $	2017 $
Net profit from continuing operations attributable to shareholders	**2,160,106**	2,429,497
Weighted average number of ordinary shares in issue	**17,688,068**	10,134,320
	0.12	0.24

25 Contingencies and commitments

Credit related and capital commitments

The following table indicates the contractual amounts of the Banks' off statement of financial position financial instruments:

	2018 $	2017 $
Undrawn commitments to extend advances	**21,324,588**	18,225,708
	21,324,588	18,225,708

Included in the amount of undrawn commitments to extend advances above are credit card commitments totalling $5,096,679 (2017: $4,257,929) at the year end.

26 Dividends

During the year, a cash dividend of $0.15 per share (2017: $0.15 per share) amounting to $2,714,708 was paid (2017: $1,402,146).

27 Cash and cash equivalents

	2018 $	2017 $
Cash and balances due from banks and other financial institutions (note 7)	**39,746,601**	50,810,014
Investment securities (note 8)	**21,815,634**	27,055,471
Cash and cash equivalents classified as assets of subsidiary held for sale	**21,118,266**	42,264,562
Total cash and cash equivalents	**82,680,501**	120,130,047

28 General and administrative expenses

	2018 $	2017 $
Salaries and related costs (note 29)	**5,903,742**	5,585,653
Building and equipment maintenance and repairs	**823,266**	627,339
Other general and administrative expenses	**489,985**	315,372
Stationery, printing and postage	**342,423**	325,479
Advertisement and promotion	**260,985**	323,058
Utilities	**238,254**	206,478
Professional fees	**205,388**	305,521
Telephone, telex and cables	**181,850**	158,447
Insurance expense	**155,706**	173,836
Security services	**109,895**	109,463
Taxes and licences	**88,768**	98,098
Legal Fees	**-**	31,713
Total general and administrative expenses	**8,800,262**	8,260,457

29 Salaries and related costs

	2018 $	2017 $
Salaries and wages	**4,072,367**	3,933,015
Other staff costs	**1,209,226**	1,057,410
Social security costs	**385,902**	340,174
Pension costs	**236,247**	255,054
Total salaries and related costs	**5,903,742**	5,585,653

Contributions to the pension plan for the year ended June 30, 2018 amounted to $236,247 (2017: $255,054).

30 Disposal group held for sale

During a special meeting held on February 18, 2016, the shareholders of the Bank of Nevis Limited ("BON") resolved that the Directors of BON be authorised to dispose of BON's majority interest in its wholly owned subsidiary Bank of Nevis International Limited ("BONI") by way of the sale of the majority or full (100%) shareholding in BONI, such authority being granted up to September 30th, 2016 failing which, the Directors of BON be authorised to proceed with a spin-off whereby each shareholder of BON will be allotted an interest in BONI proportionate to their existing shareholding.

Following the passing of the aforementioned resolution and the establishment of the criteria and process for selecting a potential investor, the Directors of BON received and considered several inquiries and offers from external parties in relation thereto and entered into a Memorandum of Understanding for the sale of Majority Shareholding in BONI ("MOU") with one of the aforementioned parties.

The sale and purchase agreement was executed between the parties to the MOU on September 30, 2016. The sale of BON's majority interest (60%) in BONI has been approved by the regulatory authorities.

On January 23, 2017 the Board of Bank of Nevis International Limited approved the increase of its authorised ordinary share capital from 200,000 to 1,000,000. Based on approval of the shareholder, The Bank of Nevis Limited, a 5:1 bonus issue of EC$10.00 per share was executed.

On December 20, 2017 at an extraordinary general meeting of the shareholders it was resolved that the Directors of BON were granted authority to dispose of the remaining interest in BONI. The authority has been granted up to December 31, 2018. Approval of the disposal of the remaining interest is pending from the regulatory authorities.

It is anticipated that the sale of the full shareholding in BONI will be completed on or before June 30, 2019.

30 Disposal group held for sale (continued)

	2018 $	2017 $
Cash and current accounts with other banks	**19,300,114**	28,330,129
Short term fixed deposits	**1,818,152**	13,934,433
Included in cash and cash equivalents (note 27)	**21,118,266**	42,264,562
Balances due from banks and other financial institutions	**7,953,359**	16,713,136
Investment securities	**111,969,433**	94,955,637
Loans and advances	**10,160,738**	11,003,754
Income tax receivable	**83,276**	204,563
Other assets	**422,191**	1,746,252
Property, plant and equipment	**101,481**	106,677
Intangible Assets	**141,393**	212,603
Assets of Subsidiary Classified as Held for Sale	**151,950,137**	167,207,184
Customers' deposits	**137,486,188**	157,428,582
Other liabilities and accrued expenses	**2,297,971**	870,194
Liabilities of subsidiary business associated with assets classified as held for sale	**139,784,159**	158,298,776
Net assets of subsidiary classified as held for sale	**12,165,978**	8,908,408

31 Assets and liabilities of subsidiary classified as held for sale

Fixed deposits held with British American Insurance Company Limited (BAICO)

The Bank holds fixed deposits with British American Insurance Company Limited (BAICO) in the amount of $3,764,886.

On July 31, 2009 the local High Court, upon application by the Registrar of Insurance, directed that the business of BAICO carried out in St. Christopher and Nevis be placed under judicial management. Subsequently, Judicial Managers were appointed to the branches in St. Lucia, St. Vincent and the Grenadines, Antigua and Barbuda, Grenada, Montserrat and an administrator to BAICO'S branch in Anguilla. All of these are branches of BAICO and are not separate non-consolidated legal entities.

The Judicial Manager's report was filed with the local High Court on October 30, 2009. After reviewing the Judicial Manager's report, Management determined that the most prudent approach should be adopted, thereby making a provision for impairment of 100% of the value of these deposits ($3,764,886) in the financial statements at June 30, 2009.

A Plan Act (the Plan of Arrangement) was passed by the legislature of the Bahamas on April 4, 2017. The EC Acts (the acts of legislature in those EC territories which have enacted legislation to provide for a Plan in that EC Territory, to effect a plan for the Company or grant recognition of a Plan for the Company sanctioned in The Bahamas) would have been passed in the respective territories. The Plan and EC Acts establishes a new process to ensure that the available assets are distributed to plan creditors fairly across the region in an efficient manner, using one claim filing system and one payment system for all creditors with Plan Claims.

On October 30, 2017 BAICO convened a meeting with its Plan Creditors to consider and if thought fit approving (with or without modification) the Plan proposed to be made between the Company and its Plan Creditors. The Plan proposed that the available assets of BAICO be distributed to Plan Creditors only. Payment of the final distribution of the Plan would operate as a full and final release by the Plan Creditor of any and all claims against the Company. With a total of 94% of votes in favour of the Plan the Supreme Court in Bahamas sanctioned the Plan of Arrangement on November 7, 2017. An initial distribution of 10% was received in the amount of XCD$1,165,455 and recorded in other operating income.

32 Discontinued operations

Plan to dispose of subsidiary

As described in note 30, the Bank plans to dispose of BON's interest in its wholly owned subsidiary Bank of Nevis International Limited. The Bank has not recognised any impairment loss on reclassification of the assets and liabilities as held for sale as at June 30, 2018.

Analysis of profit for the year from discontinued operations

The results of the discontinued operations included in the profit for the year are set out below.

Profit for the year from discontinued operations

	2018 $	2017 $
Net interest income	**2,813,738**	2,620,744
Other operating income	**5,983,608**	3,935,926
	8,797,346	6,556,670
Operating expenses	**(2,557,623)**	(1,876,181)
Operating profit for the year before taxation	**6,239,723**	4,680,489
Attributable taxation	**(121,287)**	(61,163)
Profit for the year from discontinued operations	**6,118,436**	4,619,326

Cash flows from discontinued operations

	2018 $	2017 $
Net cash flows from operating activities	**(12,621,457)**	6,839,400
Net cash flows used in investing activities	**(7,901,013)**	(15,449,212)
Net cash flows used in financing activities	**(6,849,441)**	(77,155)
Net cash flows	**(27,371,911)**	(8,686,967)

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Independent auditors' report

To the shareholders of The Bank of Nevis Limited

Opinion

The accompanying summary non-consolidated financial statements, which comprise the summary non-consolidated statement of financial position as at June 30, 2018, the summary non-consolidated statement of income, summary non-consolidated statement of comprehensive income, summary non-consolidated statement of changes in equity and summary non-consolidated statement of cash flows for the year then ended, are derived from the audited non-consolidated financial statements of The Bank of Nevis Limited for the year ended June 30, 2018.

In our opinion, the accompanying summary non-consolidated financial statements are consistent, in all material respects, with the audited non-consolidated financial statements, prepared in accordance with International Financial Reporting Standards.

Summary non-consolidated financial statements

The summary non-consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards applied in the preparation of the audited non-consolidated financial statements of The Bank of Nevis Limited. Reading the summary non-consolidated financial statements and the auditors' report thereon, therefore, is not a substitute for reading the audited non-consolidated financial statements and the auditors' opinion thereon.

The audited non-consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited non-consolidated financial statements in our report dated November 15, 2018. That audit report also includes the communication of key audit matters. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the non-consolidated financial statements of the current year.

Management's responsibility for the summary non-consolidated financial statements

Management is responsible for the preparation of the summary non-consolidated financial statements in accordance International Financial Reporting Standards.

Independent auditors' report (continued)

To the shareholders of The Bank of Nevis Limited

Auditors' responsibility

Our responsibility is to express an opinion on whether the summary non-consolidated financial statements are consistent, in all material respects, with the audited non-consolidated financial statements, based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), "Engagements to Report on Summary Financial Statements."

Deloitte & Touche

St. Michael
Barbados

November 15, 2018

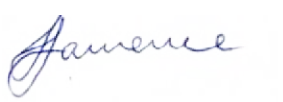
SUMMARY NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Assets		
Cash and balances with the Central Bank	**31,552,267**	38,017,005
Due from other banks and other financial institutions	**47,234,415**	62,593,714
Investment securities	**76,534,754**	66,859,441
Disposal group held for sale	**1,000,000**	1,000,000
Loans and advances	**242,895,910**	212,150,603
Other assets	**1,086,029**	1,867,018
Investment in subsidiaries	**1,350,000**	1,350,000
Property, plant and equipment	**26,900,578**	27,388,845
Intangible assets	**265,675**	326,887
Income tax receivable	**64,977**	-
Deferred tax asset	**581,052**	1,465,222
Due from subsidiaries	**178,791**	3,488,495
Total assets	**429,644,448**	416,507,230
Liabilities		
Customers' deposits	**351,376,886**	351,114,189
Other liabilities and accrued expenses	**6,576,104**	5,994,739
Deferred tax liability	**789,529**	1,031,228
Income tax payable	**-**	1,721,456
Total liabilities	**358,742,519**	359,861,612
Shareholders' Equity		
Share capital	**24,339,943**	13,817,584
Statutory reserve	**12,698,985**	11,043,277
Revaluation reserve	**13,003,612**	12,968,405
Other reserves	**2,204,043**	2,529,848
Retained earnings	**18,655,346**	16,286,504
Total shareholders' equity	**70,901,929**	56,645,618
Total liabilities and shareholders' equity	**429,644,448**	416,507,230

Approved for issue on behalf of the Board of Directors on November 14, 2018



Chairman of the Board

Chairman of the Audit Committee

THE BANK OF NEVIS LIMITED

SUMMARY NON-CONSOLIDATED STATEMENT OF INCOME

For the year ended June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Interest income	**17,862,237**	17,496,331
Interest expense	**(7,046,602)**	(6,733,287)
Net interest income	**10,815,635**	10,763,044
Net gains from investment securities	**36,736**	-
Other operating income	**7,288,401**	6,999,120
	18,140,772	17,762,164
Operating expenses		
General and administrative expenses	**8,589,273**	7,962,485
Depreciation	**901,601**	795,436
Amortisation	**214,517**	178,758
Directors' fees and expenses	**551,501**	460,394
Audit fees	**358,869**	311,432
Provision/(recovery) for loan impairment	**1,418,676**	(542,762)
Correspondent bank charges	**105,258**	450,209
	12,139,695	9,615,952
Operating profit before tax for the year	**6,001,077**	8,146,212
Taxation		
Current tax credit expense: – Current year	**1,922,904**	2,417,772
– Prior year	**(3,038,150)**	(524,568)
Deferred tax expense/(credit)	**702,870**	(291,604)
	(412,376)	1,601,600
Net profit for the year – attributable to shareholders of the bank	**6,413,453**	6,544,612
Earnings per share	**0.36**	0.65

SUMMARY NON-CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Net profit for the year	**6,413,453**	6,544,612
Other comprehensive income for the year, net of tax:		
Items that may be reclassified subsequently to profit or loss:		
Net change in market value of investment securities, net of tax	**71,943**	(45,366)
Realised gains and losses on investments securities, transferred to the statement of income	**(36,736)**	-
Total other comprehensive income/(loss) for the year	**35,207**	(45,366)
Total comprehensive income for the year	**6,448,660**	6,499,246

SUMMARY NON-CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2018

(expressed in Eastern Caribbean dollars)

	Share capital $	Statutory reserves $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance June 30, 2016	**9,347,687**	**9,734,355**	**13,013,771**	**2,305,510**	**12,677,297**	**47,078,620**
Total comprehensive income for the year	-	-	(45,366)	-	6,544,612	6,499,246
Transfers to reserves	-	1,308,922	-	224,338	(1,533,260)	-
Issue of ordinary shares	4,469,897	-	-	-	-	4,469,897
Dividends paid	-	-	-	-	(1,402,145)	(1,402,145)
Balance June 30, 2017	**13,817,584**	**11,043,277**	**12,968,405**	**2,529,848**	**16,286,504**	**56,645,618**
Total comprehensive income for the year	-	-	35,207	-	6,413,453	6,448,660
Transfers to reserves	-	1,655,708	-	(325,805)	(1,329,903)	-
Issue of ordinary shares	10,522,359	-	-	-	-	10,522,359
Dividends paid	-	-	-	-	(2,714,708)	(2,714,708)
Balance June 30, 2018	**24,339,943**	**12,698,985**	**13,003,612**	**2,204,043**	**18,655,346**	**70,901,929**

SUMMARY NON-CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Cash flows from operating activities		
Operating profit before tax for the year	**6,001,077**	8,146,212
Items not affecting cash		
Provision/(Recovery) of loan impairment	**1,418,676**	(542,762)
Depreciation	**901,601**	795,436
Amortisation	**214,517**	178,758
Losses on cash and cash equivalents from movements in foreign currency exchange rates	**11,038**	66,109
Net gain on disposal of property, plant and equipment	**(10,000)**	-
Interest income	**(17,862,237)**	(17,496,331)
Interest expense	**7,046,602**	6,733,287
Cash flows from operating income before changes in operating assets and liabilities	**(2,278,726)**	(2,119,291)
Changes in operating assets and liabilities		
Decrease/(increase) in mandatory and restricted deposits held with Central Bank	**6,045,450**	(5,202,756)
Decrease/(increase) in other assets	**780,990**	(1,274,095)
Increase in loans and advances, net of repayments received	**(32,375,735)**	(9,053,769)
Increase/(decrease) in customers' deposits	**286,965**	(35,941,131)
Increase in other liabilities and accrued expenses	**581,365**	1,266,223
Cash used in operations before interest and tax	**(26,959,691)**	(52,324,819)
Interest paid	**(7,070,871)**	(6,764,438)
Interest received	**17,606,872**	18,666,047
Income tax paid	**(671,189)**	(638,546)
Net cash used in operating activities	**(17,094,879)**	(41,061,756)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(413,335)**	(268,445)
Disposal of property, plant and equipment	**10,000**	-
Purchase of intangible assets	**(153,305)**	(35,182)
Purchase of investment securities	**(40,120,819)**	(46,639,021)
Disposals of investment securities	**23,662,765**	56,407,255
Increase/(decrease) in fixed deposits, net	**4,689,076**	(2,119,899)
Net cash (used in) / from investing activities	**(12,325,618)**	7,344,708
Cash flows from financing activities		
Dividends paid	**(2,714,708)**	(1,402,145)
Proceeds from issue of equity instruments	**10,531,364**	4,460,892
Repayments from /(advances to) related parties	**3,309,704**	(8,652,564)
Net cash from/ (used in) financing activities	**11,126,360**	(5,593,817)
Decrease in cash and cash equivalents	**(18,294,137)**	(39,310,865)
Net effect of foreign currency exchange rate movements on cash and amounts due from other banks	**(11,038)**	(66,109)
Cash and cash equivalents, beginning of year	**77,365,485**	116,742,459
Cash and cash equivalents, end of year	**59,060,310**	77,365,485

NOTES

A Better Bank Because of You.

THE BANK OF NEVIS LIMITED

Improving the Quality of Life

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