FORGING AHEAD WITH
A NEW ARCHITECTURE

2014 ANNUAL REPORT

The Bank Of Nevis Limited
Improving the Quality of Life

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.

CORE VALUES

OUR CUSTOMERS

We will build relationships with our customers by meeting our commitments, exceeding service requirements when-ever possible, providing good values, responding in a timely manner to their needs and being innovative in helping them to realize 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 recognized 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 LINES

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

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NOTICE OF MEETING

Notice is hereby given that the Twenty Eighth 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 Wednesday, April 29, 2015 at 5:00 p.m.

AGENDA

1. To approve the Minutes of the twenty-seventh Annual General Meeting held on March 19, 2014
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, 2014
5. To elect one independent director; Sonya Parry retires by rotation, and does not offer herself for re-election
6. To elect one non-independent director; C. Steve Wrensford retires by rotation, and being eligible, offers himself for re-election
7. To declare a dividend of 7.5 cents per share
8. To appoint Deloitte and Touche, Chartered Accountants, as auditors for the year ending June 30, 2015
9. Any other business

BY ORDER OF THE BOARD

AIANDRA E. KNIGHTS (MS.)
Secretary

NOTICE OF MEETING…cont'd

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; orb) 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.

NOTICE OF MEETING…cont'd

6. In proposing candidates for nomination to directorship generally, shareholders are asked to have regard to the following subsections of the Banking Act, Cap. 21.01 of the Revised Laws of St. Christopher and Nevis:

26.(1) Every person who is, or is likely to be a director, significant shareholder, or manager of the licensed financial institution shall 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) that person's probity, competence and soundness of judgment for fulfilling the responsibilities of that position;
b) the diligence with which that person is fulfilling or likely to fulfill the responsibilities of that position; and
c) whether the interest of depositors or potential depositors of the licensed financial institution are, or are likely to be, in any way threatened by that person holding that position.

CORPORATE INFORMATION

DIRECTORS
Rawlinson Isaac (Chairman)
Financial Consultant

Richard Lupinacci Sr.
Hotelier

Janice Daniel-Hodge
Businesswoman

Sonya Parry
Solicitor

Dr. Telbert Glasgow
Engineer

Vernel Powell
Businessman

C. Steve Wrensford
Businessman

H. Ron Daniel II
Businessman

SECRETARY
Aiandra E. Knights

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

AUDITORS
Deloitte & Touche
3rd floor
The Goddard Building
Haggatt Hall, St. Michael
Barbados

PKF
Independence House
North Independence Square
Basseterre
St. Kitts

IN-HOUSE COUNSEL
Aiandra E. Knights, LL.B (Hons.) UWI, LEC
General Counsel

SUBSIDIARIES
Bank of Nevis International Limited
Bank of Nevis International Fund Limited
Bank of Nevis International Fund Managers Limited
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
	Royal Bank of Canada
St. Lucia	Bank of Saint Lucia Ltd.
St. Maarten	Windward Island Bank
St. Vincent & Grenadines	Bank of St. Vincent and the Grenadines Ltd.
United Kingdom	Lloyds TSB Bank PLC
United States	Bank of America
	Deutsche Bank Trust Company Americas

INVESTMENT BROKERS
First Citizens Investment Services Ltd.
Morgan Stanley Wealth Management

BOARD COMMITTEES
Audit
Building
Credit
Customer Service and Marketing
Human Resource
Investment
Risk Management

BOARD OF DIRECTORS

Rawlinson Isaac
BA(Hons),MBA,FCIB,FAIA,FIFA,DIPFS, DTEP, Acc. Dir
Chairman

Richard Lupinacci Sr.
BA
Director

Janice Daniel-Hodge
BSc. MSc.
Director

Sonya Parry
LL.B(UWI),LLM(UCL),DipITM, TEP,Acc Dir.
Independent Director

Telbert Glasgow
BSc,PhD
Independent Director

Vernel Powell
MSc
Director

C. Steve Wrensford
BA,MBA,Acc Dir.
Director

H. Ron Daniel II
BSc.
Director

Aiandra Knights
LL.B(Hons) UWI,LEC,TEP,Acc. Dir.
Secretary

GROUP FINANCIAL HIGHLIGHTS

GROUP FINANCIAL HIGHLIGHTS

Expressed in Eastern Caribbean Dollars

	2014 (000)	2013 (000)	Restated 2012 (000)	Restated 2011 (000)	Restated 2010 (000)
Total assets	525,658	455,754	414,387	411,551	385,072
Due from banks and other financial institutions	190,278	130,132	94,728	97,979	95,030
Investment securities	100,834	90,925	93,116	89,729	85,402
Loans & advances	203,180	204,595	200,501	199,373	185,116
Customers' deposits	441,632	391,386	349,886	337,920	312,586
Paid-up share capital	9,348	9,348	9,348	9,348	7,478
Shareholders' equity	58,771	58,666	50,382	51,128	45,735
Gross operating income	24,490	30,723	28,817	28,287	28,675
Total expenses & provisions (excl. tax)	23,248	23,931	27,289	22,179	24,954
Interest income	19,211	24,864	23,836	23,027	23,790
Interest expense	11,618	12,467	12,323	11,921	11,519
Staff costs	5,343	5,393	5,901	5,413	5,700
Operating income / (loss) before tax	1,242	6,792	1,528	6,108	3,721
Income tax expense	154	223	939	547	349
Net profit / (loss)	1,088	6,569	590	5,561	3,372
Earnings per share ($)	0.12	0.70	0.06	0.59	0.45
Dividend per share (cents)	-	15.00	10.00	10.00	5.00
Return on average assets (%)	0.22	1.51	0.14	1.40	0.88
Return on average equity (%)	1.85	12.05	1.16	11.48	7.74

CHAIRMAN'S REMARKS

Rawlinson Isaac
Chairman

Dear Shareholders,

2015 marks 30 years since The Bank of Nevis Limited (the 'Bank'/'BON') made its foray into the financial services landscape with a clear vision and aspiration geared towards 'Improving the Quality of Life' for Nevisians. And so today, I wish to reflect on some of the successes and challenges encountered over this relatively short but impactful journey.

Over the preceding score and ten years, the Nevisian economy has benefitted from:-

- The injection of over EC$450 million in loans and advances, and by extension a contribution to its Gross Domestic Product (GDP) across both primary and secondary sectors, including:-
    - Consumer and personal loans for land acquisition, home construction and, education;
    - Commercial loans to many small and medium sized businesses, as well as for the construction of condominium developments; and
    - Public Sector loans and advances, most notably, financing of major road networks throughout the island of Nevis;
- The creation of a myriad of employment opportunities across multiple sectors, particularly the construction industry; and
- Significant contributions to social and community development, especially in the area of sports, and since 2010, with the introduction of the Bank's Sir Simeon Daniel Scholarship Fund.

The Bank has crystalised its stature in the Nevisian financial landscape, with the following notable achievements:-

- BON dominates the Nevisian market share;
- Total assets now exceed half a billion Eastern Caribbean Dollars, with Total Customers' Deposits of EC$441.6 million and Total Shareholders' funds of EC$58.8 million;
- Cumulative cash dividends paid out to shareholders of approximately 325%;
- Construction of a financial complex to house its operations, with costs exceeding EC$9.0 million;
- Listing on the Eastern Caribbean Securities Exchange;
- Establishment of Bank of Nevis International Limited;
- Providing sustainable employment, with a staff complement now at 59, and significantly investing in capacity building; and
- Issuance of a Bank of Nevis Credit Card.

Despite the Bank's noteworthy achievements, we have faced many challenges emanating from international, regional and local forces, which include:-

- Adhering to new legislative enactments and regulatory requirements; relating to capital adequacy, anti-money laundering and the exchange of tax information, including most recently, the Foreign Account Tax Compliance Act (FATCA);
- Formulating a strategic response to the effects of the global financial crisis, in particular with respect to falling interest rates and foreign exchange rates;
- Developing a regrowth plan to respond to the impact of the Public Sector Debt Restructuring on the Bank's loan portfolio and earnings;

CHAIRMAN'S REMARKS...cont'd

- Grappling with increased balance sheet risks due mainly to credit defaults, and in response, implementing a plan of action to reduce the Bank's non-performing loans - an issue brought squarely into focus by recent conservatorships over indigenous banks in the Eastern Caribbean Union (ECCU), and the conduct of Asset Quality Reviews and stress testing by the Eastern Caribbean Central Bank (ECCB); and

- Managing emerging threats to the maintenance of correspondent banking relationships.

The foregoing list is by no means exhaustive. These challenges have posed deleterious consequences for the Bank, and if we are to continue to survive and prosper in the ever-changing banking environment, we must offer new and dynamic responses to these challenges. Indeed, it was Darwin's conviction that long-term survival is dependent on man's responsiveness to changes, failing which, decline and death are ineluctable.

Regionally, we have witnessed the consolidation of financial institutions, Barclays and CIBC, as well as, Royal Bank and RBTT to achieve greater efficiency, effectiveness and overall profitability through enhanced capabilities and economies of scale and scope.

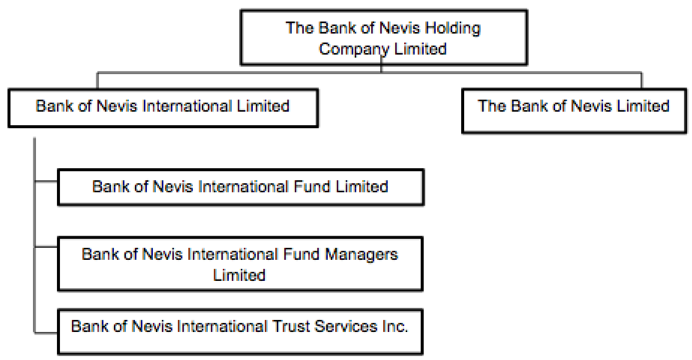
In the ECCU, nine of the indigenous banks have signed a Memorandum of Understanding (MOU) signifying their respective willingness to cooperate and exchange information to facilitate the process towards amalgamation. In furtherance of this undertaking, these banks have engaged a professional banking consultant to prepare a road map for consideration and discussions with their respective stakeholders.

As we forge ahead, subject to your approval, a new architecture will be implemented in response to our own challenges. This architecture which is illustrated in Table 1, we believe, will position the Bank to better manage its risks, and its responses and adaptation to the external banking environment.

This revised corporate structure seeks to reposition BONI (presently a wholly owned subsidiary of BON) as a subsidiary of the proposed Holding Company, so as to allow for greater focus and flexibility with respect to the development of the international side of the banking business. This architecture will also allow for the reallocation of the resources of BON, in the best interest of the Company and the stakeholders.

TABLE 1

Holding Co. Structure



We hope to achieve this new architecture without petitioning you, the shareholders, for an injection of new capital, but rather, we would be seeking your approval for a 1 for 1 bonus issue of shares, which then will be exchanged for shares in the Holding Company.

FINANCIAL REVIEW

It is now my duty to report on the financial performance of the Bank for the financial year ended June 30th 2014. In order to demonstrate trends, I have provided an analysis for the last three (3) years.

Income Statements Summary

	2014 EC$M	2013 EC$M	2012 EC$M
Income			
Interest on Loans & Advances	13.2	18.5	17.6
Interest on Investments/Bank Deposits	6.0	6.3	6.2
Non-Interest Income	5.3	5.9	5.0
	24.5	30.7	28.8
Expenses			
Interest expense	11.6	12.5	12.3
Operating expense	10.0	9.8	10.6
Loan provision	1.6	1.2	0.1
Investment impairment	-	0.4	4.3
Taxes	0.2	0.2	0.9
	23.4	24.1	28.2
Net income	1.1	6.6	0.6
Earnings per share (cents)	0.12	0.70	0.06

The net income of EC$1.1 million earned in 2014 has declined significantly from the EC$6.6 million earned in 2013. Compared to 2012, the 2014 earnings increased moderately from EC$0.6 million. As illustrated in the foregoing table, the primary contributor to the significant reduction in net income for the 2014 financial year is the reduction in interest income which was impacted by the following factors:

CHAIRMAN'S REMARKS...cont'd

- Lack of growth in the loans and advances portfolio, consistent with the prevailing economic environment, with few opportunities and loan demands. It is instructive to note that the average portfolio has declined slightly from EC$204.6 million in 2013 to EC$203.2 million in 2014;
- The implementation of the public sector debt restructuring program agreed to with the Nevis Island Administration (NIA) and other statutory corporations, wherein the interest rate on the restructured facilities was reduced from an average of 8.2% to 3.5% per annum. This singular event negatively impacted the net income by approximately EC$2.6 million; and
- The decline in interest income earned from investments and bank deposits from EC$6.2 million and EC$6.3 million respectively in 2012 and 2013, to EC$6.0 million in 2014.

Balance Sheet Allocation Analysis

	2014 %	2013 %	2012 %
ASSETS			
Cash and bank balances	26.2	15.9	11.7
Investment securities	29.2	32.6	33.6
Loans and advances	38.7	44.9	48.4
Property and equipment	5.3	5.7	5.4
Other assets	0.6	0.9	0.9
	100.0	100.0	100.0
LIABILITIES			
Customers' deposits	84.0	85.9	84.4
Other liabilities	4.8	1.3	3.4
Shareholders' funds (Tier 1)	8.1	9.4	9.1
(Tier 2)	3.1	3.4	3.1
	100.0	100.0	100.0

The Bank's asset earning base stood at 67.9% in 2014 compared with 77.5% in 2013 and 82.0% in 2012. Loans and advances stood at 38.7% of total assets in 2014 compared with 44.9% in 2013 and 48.4% in 2012. This decline was due in part to enhanced credit underwriting practices, so as to reduce credit risk, intense competition in the market place from banks, as well as, competition from the micro financing programmes of the Sugar Industry Diversification Foundation (SIDF). Investment portfolio represents 29.2% of the Balance sheet in 2014 down from 32.6% in 2013.

Cash and bank balances increased by EC$65.1 million (90.3%) from EC$72.6 in 2013 to EC$137.7 in 2014. Due to increased market risks and low interest rates offered on satisfactory investment grade securities, the Bank, in accordance with its risk tolerance opted to prudently hold its funds in bank balances and improve its liquidity position.

On the liability side, depositors funds in 2014 constituted 84.0% of the total assets, compared with 85.9% in 2013. The average cost of funds was for 2014 was 2.6%, down by 0.6% over 2013. This reduction was achieved through two major factors: 1) the repricing effect whereby the interest rates within the fixed deposits portfolio were significantly reduced; and 2) changes in the composition mix occasioned by the significant increases non-interest bearing current accounts over the two-year period.

Tier 1 capital, an area of great concern especially in light of the level of impairment, declined from 9.4% in 2013 to 8.1% in 2014.

DIVIDEND PROPOSED

The Board has recommended for shareholders' approval, a cash dividend of 7.5 cents per share for the financial year ended 30th June 2014. Additionally, a dividend of one (1) bonus share for every one (1) share held in BON is being proposed. This is equivalent in value of EC$9,347,687 being transferred from retained earnings to issued and paid up capital, making a total dividend paid of 107.5% for the year 30th June 2014.

CONCLUSION

This year's performance was less than satisfactory as demonstrated by the performance indicators. It is the view of your Board of Directors (the 'Board') that should interest rates in the major economies remain depressed, at least for the short to medium term, and the domestic economy maintain the current diminutive level of growth, the Bank will experience further decline in its financial performance unless proactive and dynamic initiatives are adopted to reverse the trend.

It is therefore our hope that the new architecture will enable the Bank to devise growth strategies including the possibility of amalgamation with other indigenous banks, which I firmly believe will redound to the long-term benefit of all of the stakeholders. In addition to the proposed architectural redesign, during the 2014-2015 Financial Year your Board of Directors has identified and put in motion several strategies to foster growth, boost earnings and improve customer service, the impact of which is expected to bear fruit in the ensuing financial years. The major highlights include:

- Increased allocation of resources to the recovery of non-performing loans, with a view to both decelerating the rate of increase in credit defaults and reducing the non-

CHAIRMAN'S REMARKS...cont'd

performing loan portfolio;

- Continued re-pricing of the interest rates on fixed deposits with a view to reduction of the Bank's interest expense, while remaining competitive in the market;

- Sustained reduction of operating costs to ensure more effective utilization of resources;

- Enhancement of the Bank's online banking services;

- Installation of an Automated Teller Machine (ATM) at Best Buy Supermarket in Gingerland, Nevis;

- Automation of various internal processes with a view to enhancing the Bank's efficiency;

- Thorough review of the Bank's investment portfolio, policies and strategies, consistent with the investment climate; and

- Sale of excess assets.

I must thank the Board, Management and Staff for their enduring resolve and resilience in tackling the many complex issues the Bank faces, and for their relentless focus on serving the customers, our greatest assets. To you, I owe immeasurable gratitude. I would also like to further thank the Board for its deep commitment, courage and enthusiasm, as we forge ahead with the proposed architecture.

To the shareholders, thank you for the opportunity to carry out your mandate, and the trust and confidence espoused in so doing. Your Board looks forward to continuing to work on your behalf in 2015.

Rawlinson A. Isaac
Chairman

THE DIRECTORS' REPORT

Your Directors are pleased to submit their report for the year ended June 30, 2014.

DIRECTORS

The Board of Directors (the 'Board') is comprised of eight Directors – six non-independent and two independent – who govern the affairs of the Bank.

In accordance with the Bank's By-laws, each year, one third of the Board shall retire by rotation. Accordingly, Mr. C. Steve Wrensford retires by rotation, and being eligible, offers himself for reappointment. Miss Sonya Parry also retires by rotation and does not offer herself for reappointment. The Board expresses sincerest gratitude to Miss Parry for her years of dedicated service to the institution as Independent Director.

At the Bank's Annual General Meeting held on March 19, 2014, Mr. H. Ron Daniel II was elected to serve on the Board. We welcome Mr. Daniel and look forward to his contribution towards the growth and development of the Bank.

DIRECTORS' INTERESTS

The Directors' ownership interests in the ordinary shares of the Bank as at June 30, 2014 are as follows:

Director	Number of Shares Held
H. Ron Daniel II	2,300
Janice Daniel-Hodge	25,000
Telbert Glasgow	2,962
Rawlinson Isaac	43,250
Richard Lupinacci	64,912
Sonya Parry	10,562
Vernel Powell	681
C. Steve Wrensford	1,250
TOTAL	**150,917**

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

GOVERNANCE

The Board continuously monitors, and updates where appropriate, the Bank's internal systems in order to ensure its standards reflect best international practices while tailored to the specific needs of the Bank. The Board provides leadership to the Bank within a framework of prudent and effective controls that enable proper risk assessment and management. It sets the Bank's strategic objectives and ensures that the necessary human and financial resources are in place for the achievements thereof. The Bank's values and standards are set to ensure that its obligations to its shareholders and other stakeholders are met. The Board meets on a monthly basis and at such other times as the situation warrants. Before the commencement of every meeting, Directors are required to disclose any conflicts of interest in any matter on the agenda.

The Board also operates through several Committees, and each Director, subject to their availability, should serve on one or more of the Board Committees. Committee chairs and members are reappointed annually, and the Chairman of the Board is an ex officio member of all Committees. The standing Committees of the Board are as follows:

- Audit Committee
- Credit Committee
- Customer Service and Marketing Committee
- Human Resources Committee
- Investment Committee
- Risk Management Committee

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

FINANCIAL PERFORMANCE

Your Directors are pleased to report that the Bank's asset base continued on its upward trajectory, and consistent with the core strategic objectives, recorded growth of 15.3% (EC$6.6 million) for a total of EC$525.7 million at June 30, 2014. Due, however, to significantly reduced yields on earning assets (occasioned by the effect of the Bank's restructuring of the local public sector debt stock as well as the market's response to liquidity surplus), and increases in impairment allowances arising out of the sustained weakening of the credit portfolio, the Bank's earnings performance has declined significantly when compared to the previous year – net profit for the year ended June 30, 2014 is EC$1.1 million (2013: EC$6.6 million). Fully cognizant of the increasing and varied challenges facing the industry, your Board is committed to continue its efforts to formulate and implement new and innovative strategies to increase shareholder value.

THE DIRECTORS' REPORT… cont'd

DIVIDENDS

A cash dividend of 7.5 cents per share is being recommended by the Directors for the year ended June 30, 2014. If approved by the shareholders, this dividend rate will result in a total payment of EC $701,077 – a payout ratio of 64.4%. Additionally, a share dividend of one (1) bonus share for every one (1) share held is being proposed.

ACKNOWLEDGEMENTS

The Board of Directors expresses profound gratitude to the management and staff for their ongoing dedication and commitment towards the success of the Bank. The Board also expresses sincerest thanks to you the valued shareholders, customers, and stakeholders for your continued support, confidence and loyalty over the years.

BY ORDER OF THE BOARD

…………………………………..
AIANDRA E. KNIGHTS
Secretary

MANAGEMENT'S DISCUSSION ON THE GROUP'S FINANCIAL PERFORMANCE

The blueprints for the Bank's strategic framework for the 2014 financial year were drafted with a keen awareness of the myriad of challenges facing the financial services industry and the region as a whole. The global economic recovery was forecast to continue, though at an uneven pace, while the recovery within the economies of the Eastern Caribbean Currency Union (ECCU) was weak, and the forecasts uncertain. As the effects of the global financial crisis continued to linger, the financial institutions within the ECCU sub-region faced the real possibility of the continued deterioration in credit portfolios. Meanwhile, the increased liquidity within the market signaled further reductions in investment portfolio yields. For the Bank of Nevis Limited Group (the 'Bank', the 'Group'), the 2013-2014 financial year would also mark the first year since the finalization of the terms of the local public sector debt restructuring, which would give rise to a 14% decline in interest earnings from the loans and advances portfolio.

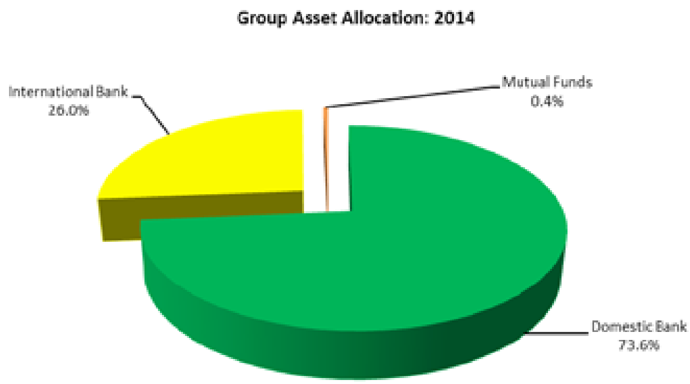
At the commencement of the financial year, the Bank's Board of Directors approved the 2013 – 2016 Corporate Strategic Plan, under the theme 'Strength, Safety, and Prosperity'. As a response to the potential challenges ahead, the Bank's strategic framework was focused on 1) the desire to find innovative solutions to satisfy its customer needs as well as utilization of technology to enhance operational efficiency; 2) the development of a high performance team of professionals who demonstrate knowledge and expertise to serve all of the company's stakeholders; and 3) sound and prudent organizational management and leadership geared at sustained profitability and liquidity.

GROUP ASSETS AND LIABILITIES

ASSETS

At EC$525.7 million, the Bank surpassed its targets for asset growth for the 2014 financial year. The Bank's asset base expanded by EC$69.9 million (15.3%), and also exceeded the performance for the previous year where growth of EC$41.4 million (10.0%) was recorded. The asset sheet growth for the year was funded via the activity within the deposit portfolio.

The majority of the Group's assets are vested in the operations of the Parent (Domestic) Bank, with the balance carried by the subsidiary Bank of Nevis International Limited ('BONI'), and to a much lesser extent, the dormant operations of the mutual funds. The chart below provides an illustration of the allocation of the Group's assets amongst the three primary business lines.



CASH AND BANK BALANCES, AND INVESTMENT SECURITIES

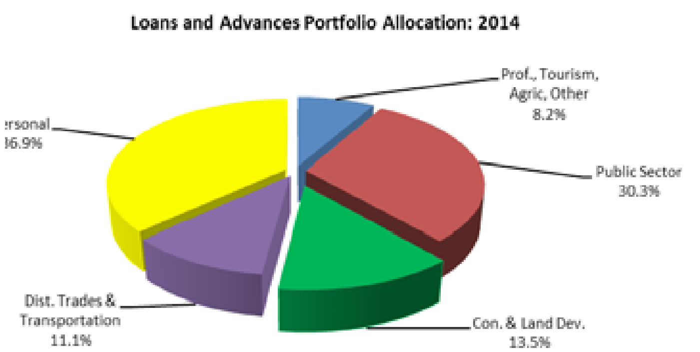
During the year, cash and bank balances increased by EC$60.1 million (46.2%), and at EC$190.3 million represented 36.2% of total assets at June 30, 2014. The significant increase for the year was realized via increases in the customer deposit portfolio through the establishment of new relationships, as well as the expansion of relationships with existing customers. The funds within this category of assets are held in several forms including operating accounts at regional and international correspondent banks, as well as in other highly liquid placements with local and regional financial institutions. Throughout the year under review, the cash and bank resources were managed to ensure that the Bank maintained strong liquidity positions, and liquidity ratios which were compliant with regulatory guidelines.

At June 30, 2014, total investment securities stood at EC$100.8 million – an increase of EC$9.9 million or 10.9% over the EC$90.9 million reported in 2013. Directed by the Investment Policies, Procedures and Guidelines, the Bank's portfolio of investment securities consists of a diverse range of investment instruments. At reporting date, local and regional treasury bills constituted EC$56.8 million of the portfolio (2013: EC$53.8 million), while internationally traded fixed income and mutual fund instruments represented EC$30.1 million (2013: EC$21.7 million). The portfolio also contains local and regional corporate and sovereign debt instruments, and equity investments in local and regional companies.

MANAGEMENT'S DISCUSSION ON THE GROUP'S FINANCIAL PERFORMANCE… cont'd

LOANS AND ADVANCES

The loans and advances portfolio continued to represent the largest allocation of the Bank's assets for the year under review. Due, however, to the sustained weakening in the credit market conditions, the portfolio was static, such that the position net of interest receivable and provisions for impairment at June 30, 2014 amounted to EC$203.2 million – marginally down from the EC$204.6 million position reported in the previous year. Household and public sector borrowings represented the largest portfolio allocations at EC$77.2 million and EC$63.4 million respectively.



During the year, the Bank implemented a strategic plan aimed at curbing the rate of delinquency within the loans and advances portfolio. Efforts were, however, thwarted by the weak economic recovery and a protracted legal foreclosure process. Consequently, the total non-productive loans and advances (NPL) decreased only marginally from EC$25.6 million at June 30, 2013 to EC$24.6 million at June 30, 2014. The 2014 NPL ratio of 11.8% (2013: 12.3%) was above the ECCB's recommended 5%. The Bank will, nonetheless, continue its efforts in this critical area in order that a sustained reduction in delinquency and the NPL ratios could be realized in the short term.

PROPERTY, PLANT, AND EQUIPMENT

Total property, plant, and equipment at June 30, 2014 amounted to EC$27.8 million – a net increase of EC$1.7 million over the assets at June 30, 2013. The works on the Bank's construction and refurbishment project continued during the year, and an additional amount of EC$2.1 million was invested. The construction works were approximately 95% complete at year end, and upon completion, Phase 2 (the 'South Wing') of the complex will host the operations of the International bank.

CUSTOMERS' DEPOSITS

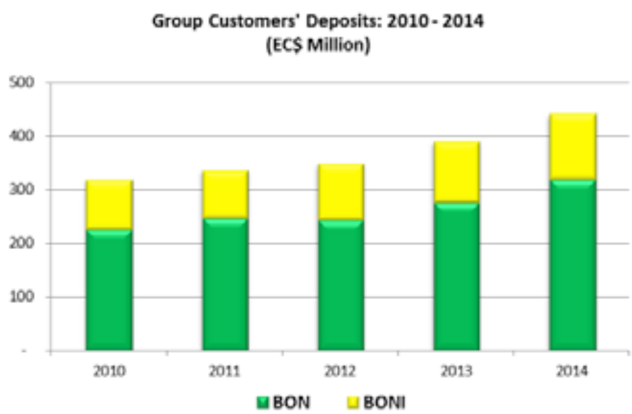
At June 30, 2014, the Bank's customer deposit base – the primary funding source – amounted to EC$441.6 million. This position represents a significant increase of EC$50.2 million or 12.8% for the year. The current year's activity also surpasses the activity in the previous year when growth of EC$41.5 million or 11.9% was realized.

The customers' deposits held by the Domestic Bank (BON) amounted to EC$322.4 million at June 30, 2014, and represented 73.0% of the Group's total portfolio. The year-end total represents an increase of EC$43.1 million or 15.4% over the total at June 30, 2013. The significant portfolio growth for the Domestic Bank for the year under review was attributed primarily to activity on accounts associated with

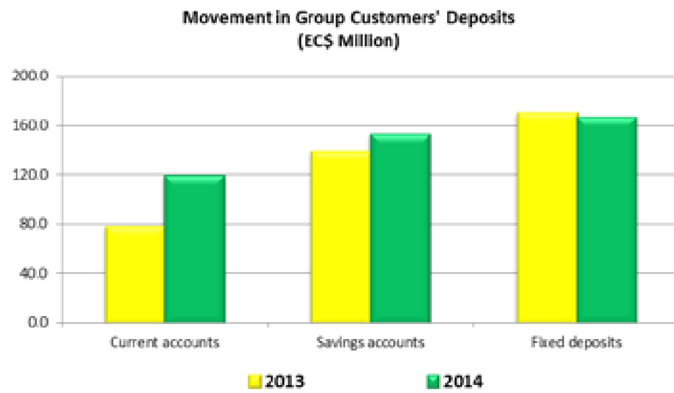
MANAGEMENT'S DISCUSSION ON THE GROUP'S FINANCIAL PERFORMANCE… cont'd

the local Citizenship By Investment Program. Additionally, the Bank's Management implemented strategies to strengthen relationships with existing customers, and encourage them to increase their deposits with the Bank.

For the International Bank (BONI), the portfolio of customers' deposits increased by EC$7.0 million or 6.1% for the year, to a total of EC$121.6 at June 30, 2014. The customer deposit growth in BONI was achieved through the strengthening of longstanding customer relationships, as well as the addition of several new accounts through the launch of the Approved Intermediary Program.



Customers' deposits are maintained in three broad product categories: savings, current, and fixed deposit accounts. The fixed deposits with EC$166.3 million represented the largest product category at June 30, 2014 – though marginally down by EC$4.1 million or 2.4% from the EC$170.4 million reported in 2013. Due to the significant increases in the savings and current account categories, the percentage portfolio allocation for fixed deposits was reduced from 43.9% in 2013 to 37.9% in 2014. Savings accounts increased by EC$13.8 million or 9.9%, from EC$139.3 million in 2013 to EC$153.1 million in 2014; while current accounts increased by EC$41.3 million or 52.8% - from EC$78.1 million in 2013 to EC$119.4 million in 2014.



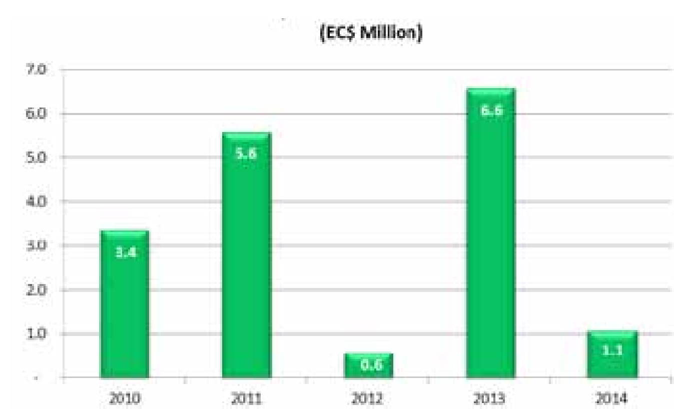
CAPITAL

At June 30, 2014, the Group's total shareholders' equity stood at EC$58.8 million. The net change for the year is a marginal increase of EC$0.1 million. Throughout the year under review, the Bank's capital adequacy ratios were compliant with the regulatory guidelines.

Retained earnings, which is the largest component of the Group's shareholders' equity, decreased by EC$0.8 million during the year – that is, from EC$23.0 million in 2013 to EC$22.2 in 2014. The main entries to the retained earnings account for the year under review were the net profits of EC$1.1 million, less EC$0.5 million in transfers to reserves, and dividends of EC$1.4 million which were approved at the twenty-seventh annual general meeting.

PROFITABILITY

The Bank's net profit for the 2014 financial year was EC$1.1 million, and represented a significant decline of EC$5.5 million or 83.4% over the 2013 net profit of EC$6.6 million.



MANAGEMENT'S DISCUSSION ON THE GROUP'S FINANCIAL PERFORMANCE… cont'd

The significant decline in the current year net profit was associated with several factors, the most significant being the reduction in interest income due to reduced yields on earning assets. Additionally, there was an increase in operating expenses which was largely due to increases in loan impairment provisions and depreciation charges.

For the year under review, the Group's profitability was sustained through the operations of the subsidiary Bank of Nevis International Limited Bank (BONI). BONI's contributions to Group profitability for the year, exclusive of intercompany transactions, was EC$2.2 million. This return was, however, significantly below the EC$5.9 million returned in the previous year, due to the impact of significantly reduced investment yields, and extraordinary income.

The activities of the Domestic Bank returned a net loss of EC$1.1 million down from a net profit of EC$0.8 million in the previous year. The Domestic Bank was most affected by the government debt restructuring, and the net loss for the year was therefore associated primarily with reduced income on the loans and advances portfolio, as well as increases on loan impairment provisions.

INTEREST INCOME

Total interest income earned during the year was EC$19.2 million – this amount representing a decline of EC$5.7 million or 22.7% over the previous year. Of that decline, approximately EC$2.6 million was associated with the loss of interest income by virtue of the restructuring of EC$54.8 million of public sector debt. As part of that process, the interest rates on the facilities were reduced by an average of 4.7%. Due to the low interest rate environment both regionally and internationally, the interest earnings on the assets within the investment and treasury portfolio declined by EC$0.3 million or 4.5% over the previous year. It is notable also, that during the 2013 financial year, the Bank realized earnings of approximately EC$1.6 million as a result of extraordinary collections on non-productive loans and advances.

INTEREST EXPENSE

For the 2014 financial year, the Bank incurred total interest expense of EC$11.6 million – a decline of EC$0.8 million or 6.8 % over the 2013 financial year. In its response to the market's interest rate dynamics, the Bank continued to implement strategies aimed at reducing the Bank's interest expense and cost of funds. Accordingly, the Bank's interest rate structure for fixed deposits was revamped, and the implementation thereof has resulted in a year-over-year reduction of EC$0.71 million or 7.9% in interest expense for that category. Due to the revision of the interest rates on specific savings product offerings, interest expense on savings accounts reduced marginally by EC$55,474 or 1.7% for the year under review.

OTHER OPERATING INCOME

Total other operating income for the current year of EC$5.3 million represents a decline of EC$0.3 million or 5.4% over the earnings of the 2013 financial year. During the year under review, there was a general decline in commissions and fee income generated from credit commissions and account service charges – from EC$2.2 million in 2013 to EC$1.9 million in 2014. This was, however, moderated by a significant increase (EC$0.9 million or 119.1%) in foreign exchange earnings due largely to revaluation gains resulting from the strengthening of the Euro and Pound Sterling currencies against the United States dollar.

OPERATING EXPENSES

Total operating expenses for the year under review increased by EC$0.6 million – that is, from EC$11.0 million in 2013 to EC$11.6 million in 2014. The increase in the total operating expenses was associated primarily with the movements in provision for loan impairment and depreciation which increased by EC$0.5 million and EC$0.3 million respectively. The increase in the provision for loan impairment was due largely to the Bank's adoption of a more prudent and standard-driven approach in the assessment of the non-productive loans and advances. The increase in depreciation was associated with the charges on the new building as well as the additions to furniture and fixtures, equipment and vehicle asset categories.

The increases in impairment provisioning and depreciation expenses were tempered by a moderate reduction in general and administrative expenses. These expenses declined by EC$0.3 million or 4.2% over the previous year's expenses. The year-over-year decrease was in line with Management's efforts to contain and reduce overhead costs, and the adoption of a more strategic approach to discretionary expenditure.

MANAGEMENT'S DISCUSSION ON THE GROUP'S FINANCIAL PERFORMANCE… cont'd

Staff costs, which represent the largest component of general and administrative expenses, decreased marginally from EC$5.4 million in 2013 to EC$5.3 million in 2014. Staff costs consists primarily of salaries and emoluments as well as expenditure associated with training and other employee development initiatives. Strategic talent management was one of the goals outlined in the new strategic plan, and in accordance with the strategies therein, the employees of the Bank were exposed to training in several areas including Customer Service, Mortgage Underwriting, Card Services Management, Anti-Money Laundering/Combating the Financial of Terrorism, Risk Management, and Internal Auditing.

The Bank is committed to extending its reach beyond the provision of financial services, and ensures that it continues to make an impact as a good corporate citizen. During the 2014 financial year therefore, the Bank made significant financial contributions to several initiatives and causes in the areas of education, health, culture, sports, and community development.

The 2014 financial year saw the continuation of the Sir Simeon Daniel Bank of Nevis Limited Scholarship fund, with the addition of two new students. At June 30, 2014, there were seven (7) secondary school students enrolled in the scholarship program.

The Bank was once again pleased to partner with the local Ministry of Tourism in the sponsorship of the 2014 Tourism Youth Congress and hereby extends congratulations to Mr. Rol-J Williams for winning the local completion, and for subsequently capturing the coveted Youth Minister of Tourism appointment prize at the regional competition.

2013 Scholarship Recipients: Zahra Jones and Chylon Caines

Consolidated Financial Statements

The Bank of Nevis Limited

June 30, 2014
(expressed in Eastern Caribbean dollars)

The Bank of Nevis Limited

Contents

Deloitte.

PKF

Independent Auditors' Report

To the Shareholders of The Bank of Nevis Limited

We have audited the accompanying consolidated financial statements of The Bank of Nevis Limited which comprise the consolidated statement of financial position as at June 30, 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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.

Auditors' responsibility

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

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

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

Deloitte.

PKF

Independent Auditors' Report

To the Shareholders of The Bank of Nevis Limited

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Bank of Nevis Limited as of June 30, 2014 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

3rd Floor
The Goddard Building
Haggatt Hall
St Michael
Barbados

PKF

Independence House
North Independence Square
Basseterre
St Kitts

February 3, 2015

The Bank of Nevis Limited
Consolidated Statement of Financial Position
As of June 30, 2014
(expressed in Eastern Caribbean dollars)

	2014 $	2013 $
Assets		
Cash and balances due from banks and other financial institutions (note 7)	**190,278,427**	130,131,896
Investment securities (note 8)	**100,833,653**	90,925,449
Loans and advances (note 9)	**203,179,636**	204,595,473
Other assets (note10)	**1,775,769**	1,682,570
Property, plant and equipment (note 11)	**27,823,558**	26,086,586
Intangible assets (note 12)	**459,328**	612,476
Income tax receivable (note 15)	**852,536**	830,554
Deferred tax asset (note 15)	**454,729**	888,741
Total assets	**525,657,636**	455,753,745
Liabilities		
Customers' deposits (note 13)	**441,631,777**	391,385,996
Other liabilities and accrued expenses (note 14)	**25,255,082**	5,701,384
Total liabilities	**466,886,859**	397,087,380
Shareholders' Equity		
Share capital (note 16)	**9,347,687**	9,347,687
Statutory reserves (note 17)	**10,934,354**	10,488,590
Revaluation reserves (note 18)	**13,414,583**	12,995,969
Other reserves (note 19)	**2,890,216**	2,794,581
Retained earnings	**22,183,937**	23,039,538
Total shareholders' equity	**58,770,777**	58,666,365
Total liabilities and shareholders' equity	**525,657,636**	455,753,745

Approved by the Board of Directors on January 28, 2015.

________________ Chairman ________________ Director

The Bank of Nevis Limited

Consolidated Statement of Income

As of June 30, 2014

(expressed in Eastern Caribbean dollars)

	2014 $	2013 $
Interest income (note 20)	**19,210,912**	24,863,791
Interest expense (note 21)	**(11,618,140)**	(12,467,312)
Net interest income	**7,592,772**	12,396,479
Net gains / (losses) from investment securities (note 8)	**25,545**	303,570
Impairment provision on investment securities (note 8)	**-**	(426,100)
Other operating income (note 22)	**5,253,236**	5,555,933
Operating income	**12,871,553**	17,829,882
Operating expenses		
General and administrative expenses (note 28)	**7,721,605**	8,049,786
Provision for loan impairment, net of recoveries (note 9)	**1,619,398**	1,163,464
Directors' fees and expenses	**627,981**	495,555
Audit fees	**451,219**	432,701
Depreciation (note 11)	**606,468**	355,714
Amortisation (note 12)	**201,623**	223,277
Correspondent bank charges	**401,224**	317,445
	11,629,518	11,037,942
Operating profit for the year before taxation	**1,242,035**	6,791,940
Taxation (note 15)		
Current tax expense	**66,979**	110,155
Deferred tax expense	**87,105**	112,509
Income tax expense	**154,084**	222,664
Net profit for the year	**1,087,951**	6,569,276
Earnings per share (note 24)	**0.12**	0.70

The notes on page 31 to 89 are an integral part of these consolidated financial statements.

The Bank of Nevis Limited

Consolidated Statement of Comprehensive Income

For the year ended June 30, 2014

(expressed in Eastern Caribbean dollars)

	2014 $	2013 $
Net profit for the year	**1,087,951**	6,569,276
Other comprehensive income / (loss) for the year:		
Items that may be reclassified subsequently to profit or loss:		
Appreciation in market value of investment securities, net of tax (note 18)	**778,181**	191,860
Items that will not be reclassified subsequently to profit or loss:		
Revaluation adjustment: land and building	**(359,567)**	2,457,692
Total other comprehensive income for the year	**418,614**	2,649,552
Total comprehensive income for the year	**1,506,565**	9,218,828

The notes on page 31 to 89 are an integral part of these consolidated financial statements.

The Bank of Nevis Limited

Consolidated Statement of Changes in Equity

For the year ended June 30, 2014

(expressed in Eastern Caribbean dollars)

	Share capital $	Statutory reserves $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance June 30, 2012	**9,347,687**	**10,207,846**	**10,346,417**	**2,264,817**	**18,215,540**	**50,382,307**
Total comprehensive income for the year as restated	-	-	2,649,552	-	6,569,276	9,218,828
Transfers to reserves (notes 17 and 19)	-	280,744	-	529,764	(810,508)	-
Dividends	-	-	-	-	(934,770)	(934,770)
Balance at June 30, 2013	**9,347,687**	**10,488,590**	**12,995,969**	**2,794,581**	**23,039,538**	**58,666,365**
Total comprehensive income for the year	-	-	418,614	-	1,087,951	1,506,565
Transfers to reserves (notes 17 and 19)	-	445,764	-	95,635	(541,399)	-
Dividends	-	-	-	-	(1,402,153)	(1,402,153)
Balance at June 30, 2014	**9,347,687**	**10,934,354**	**13,414,583**	**2,890,216**	**22,183,937**	**58,770,777**

The notes on page 31 to 89 are an integral part of these consolidated financial statements.

The Bank of Nevis Limited

Consolidated Statement of Cash Flows
For the year ended June 30, 2014
(expressed in Eastern Caribbean dollars)

	2014 $	2013 $
Cash flows from operating activities		
Operating profit for the year before taxation	**1,242,035**	6,791,940
Items not affecting cash:		
Provision for loan impairment	**1,619,398**	1,163,464
Depreciation	**606,468**	355,714
Amortisation	**201,623**	223,277
Realised gains from investment securities	**(128,121)**	(303,570)
Impairment provision on investment securities	**102,576**	426,100
Net gain on disposal of plant and equipment	**(1,217)**	(26,781)
Interest income	**(19,210,912)**	(24,863,791)
Interest expense	**11,618,140**	12,467,312
Cash flows used in operating income before changes in operating assets and liabilities	**(3,950,010)**	(3,766,335)
Changes in operating assets and liabilities		
Decrease in restricted deposits	**-**	2,019,353
(Increase) / decrease in deposits held for regulatory purposes	**(6,344,902)**	388,648
Increase in loans and advances	**(616,129)**	(5,361,301)
(Increase) / decrease in other assets	**(93,199)**	589,595
Increase in customers' deposits	**51,010,708**	41,340,505
Decrease in other liabilities and accrued expenses	**19,553,698**	(891,252)
Net cash from operations	**59,560,166**	34,319,213
Interest paid	**(12,383,067)**	(13,665,210)
Interest received	**19,893,514**	24,907,412
Income tax paid	**(88,961)**	(1,122,655)
Net cash from operating activities	**66,981,652**	44,438,760
Cash flows from investing activities		
Purchase of property, plant and equipment	**(2,346,044)**	(1,488,958)
Sale of plant and equipment	**3,821**	26,781
Purchase of intangible assets	**(48,475)**	(519,705)
(Increase) / decrease in investment securities	**(5,664,824)**	2,609,106
(Increase) / decrease in fixed deposits	**(2,372,332)**	498,398
Net cash (used in) / from investing activities	**(10,427,854)**	1,125,622

The notes on page 31 to 89 are an integral part of these consolidated financial statements.

The Bank of Nevis Limited

Consolidated Statement of Cash Flows … *Continued*

For the year ended June 30, 2014

(expressed in Eastern Caribbean dollars)

	2014 $	2013 $
Cash flows from financing activities		
Repayment of debt security	**-**	(5,986,866)
Dividends paid	**(1,402,153)**	(934,770)
Net cash used in financing activities	**(1,402,153)**	(6,921,636)
Increase in cash and cash equivalents	**55,151,645**	38,642,746
Cash and cash equivalents, beginning of year	**118,268,379**	79,625,633
Cash and cash equivalents, end of year (note 27)	**173,420,024**	118,268,379

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 provision of the Banking Act No. 4 of 2004 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 Offshore Banking as contemplated by the Nevis Offshore Banking Ordinance No. 1 of 1996.

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.

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.

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 January 1, 2014

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:

- IAS 1 – Presentation of Financial Statements (effective July 01, 2013)
- IAS 19 – Employee Benefits (effective January 01, 2013)
- IAS 27 – Separate Financial Statements (effective January 01, 2013)
- IAS 28 – Investments in Associates and Joint Ventures (effective January 01, 2013)
- IFRS 10 – Consolidated Financial Statements (effective January 01, 2013)
- IFRS 12 – Disclosures of Interest in Other Entities (effective January 01, 2013)
- IFRS 13 – Fair Value Measurement (effective January 01, 2013)

Standards and interpretations issued but not yet effective

The following new and revised accounting standards which are relevant to the Bank have been issued, but are not yet effective. These standards when adopted are not expected to have a material impact on the consolidated financial statements.

- IFRS 9 – Financial Instruments Classification and Measurement (effective January 01, 2018)
- IAS 32 – Financial Instruments Presentation (effective January 01, 2014)
- IFRS 10 – Amendment for Investment Entities (effective January 01, 2014)
- IFRS 12 – Amendment for Investment Entities (effective January 01, 2014)
- IFRS 15 – Revenue from contracts with customers (effective January 01, 2017)

3 Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial statements of the subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company’s reporting date. The consolidation principles are unchanged from the previous year.

Subsidiaries
The consolidated financial statements of the Bank of Nevis Limited comprise the financial statements of the parent entity and all subsidiaries (the “Bank”) as of June 30, 2014.

Subsidiaries are companies in which the Bank directly or indirectly holds the majority of the voting rights and where it determines their financial and business policies and is able to exercise control over them in order to benefit from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date on which control ceases.

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.

3.3 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 Significant accounting policies (continued)

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 bank balances, loans and advances, investment securities 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 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 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 statement of income.

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.

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:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- 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
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties

3 Significant accounting policies (continued)

3.4.1 Impairment of financial assets

(a) *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 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 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.

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

(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. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

3 Significant accounting policies (continued)

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 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.

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

3.5.1 Other financial liabilities

Financial liabilities are classified as 'other financial liabilities', and are initially recognised at cost. Other financial liabilities (including borrowings) are subsequently recognised at amortised cost using the effective interest method.

3.5.2 Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, 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.

3.6 Interest income and expense

Interest income and expenses are recognised in the 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 Significant accounting policies (continued)

3.7 Fees and commission

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 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 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.

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%

3 Significant accounting policies (continued)

3.9 Property, plant and equipment and depreciation (continued)

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).

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 highlight liquid investment securities.

3.14 Share capital

3.14.1 Ordinary shares
Ordinary shares are classified in the financial statements as equity.

3 Significant accounting policies (continued)

3.14 Share capital (continued)

3.14.2 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 statement of financial position are disclosed in the notes to the financial statements.

3.15 Pension costs

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.

3.16 Income tax

a) *Current income tax*

Income tax 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 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 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.

4 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 a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board 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 derivative financial instruments and 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 Financial risk management

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, derivatives 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 centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit 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, and Nevis Island Administration 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, and the Nevis Island Administration, 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.

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.2 Risk limit control and mitigation policies (continued)

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk 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.

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. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as there are impairment indicators for the relevant individual loans and advances.

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

(b) Credit-related commitments

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

4.1 Credit risk (continued)

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.

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 loss 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:

	2014		2013	
Bank's rating	**Loans and advances (%)**	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
Pass	**80.0**	**19.0**	82.3	-
Special mention	**8.2**	**3.0**	5.4	-
Sub-standard	**9.1**	**20.5**	10.8	54.1
Doubtful	**2.7**	**57.5**	1.4	44.1
Loss	**-**	**-**	0.1	1.8
Total	**100.0**	**100.0**	100.0	100.0

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

	2014 $	2013 $
Credit risk exposures relating to on-statement of financial position assets:		
Deposits with other banks	**141,752,720**	83,419,372
Deposits with non-bank financial institutions	**22,903,532**	28,020,000
Investment securities:		
– Treasury bills and other eligible bills	**58,980,813**	56,047,157
– Bonds and other debt instruments	**9,048,916**	10,458,014
– Available-for-sale investments quoted	**5,351,543**	5,427,337
Loans and advances	**203,179,636**	204,595,473
Other assets	**160,718**	272,493
Pledged assets:		
– Deposits with non-bank financial institutions	**808,470**	808,470
	442,186,348	389,048,316
Credit exposures relating to off-statement of financial position items:		
– Loan commitments and other credit related facilities	**39,514,633**	30,324,189
Total	**481,700,981**	419,372,505

The above table represents a worst case scenario of credit exposure to the Bank at June 30, 2014 and 2012, without taking account of any collateral held or other credit enhancements attached. For on-statement of financial position assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

42.2% of the total maximum exposure is derived from loans and advances (2013: 48.8%) and 19.1% represents investment in securities (2013: 17.2%).

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:

- 88.2% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2013: 87.7%).
- 80.4% of the loans and advances portfolio are considered to be neither past due nor impaired (2013: 83.7%).
- 11.8% of loans and advances are considered impaired (2013: 12.3%).
- The impairment provision on the balance sheet increased during the year to $5.9 million, an increase of 33.0% over the previous year ($4.5 million).

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances

Loans and advances are summarised as follows:

	2014		2013	
	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	164,861,618	3,223,279	170,847,353	4,079,382
Past due but not impaired	16,334,933	-	8,410,993	-
Impaired	24,716,050	-	25,735,887	-
Gross	**205,912,601**	**3,223,279**	**204,994,233**	**4,079,382**
Less: allowance for impairment	(5,948,187)	(8,058)	(4,467,944)	(10,198)
Net	**199,964,414**	**3,215,221**	**200,526,289**	**4,069,184**

The total impairment provision for loans and advances is $5,956,245 (2013: $4,478,142) of which $4,645,461 (2013: $3,196,928) represents the individually impaired loans, and the remaining amount of $1,310,784 (2013: $1,281,214) represents the portfolio provision. Further information on the impairment provision for loans and advances to banks and to customers is provided in Note 10.

(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, 2014

	Overdraft $	**Personal $**	**Commercial $**	**Public sector $**	**Total $**
Grades:					
Pass	5,975,823	64,534,164	33,794,352	61,015,339	165,319,678
Special mention	2,244,939	475,437	19,384	25,459	2,765,219
Total	**8,220,762**	**65,009,601**	**33,813,736**	**61,040,798**	**168,084,897**

As at June 30, 2013

	Overdraft $	**Personal $**	**Commercial $**	**Public sector $**	**Total $**
Grades:					
Pass	5,930,276	60,557,843	48,797,893	55,504,624	170,790,636
Special mention	3,945,342	190,757	-	-	4,136,099
Total	**9,875,618**	**60,748,600**	**48,797,893**	**55,504,624**	**174,926,735**

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances (continued)

(b) Loans and advances past due but not impaired

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

As at June 30, 2014

	Personal $	Commercial $	Total $
Past due up to 30 days	2,750,466	4,759,752	7,510,218
Past due 31-60 days	-	525,118	525,118
Past due 61-89 days	1,443,989	6,855,608	8,299,597
Total	**4,194,455**	**12,140,478**	**16,334,933**

As at June 30, 2013

	Personal $	Commercial $	Total $
Past due up to 30 days	4,853,676	941,313	5,794,989
Past due 31-60 days	32,629	528,033	560,662
Past due 61-89 days	1,451,008	604,334	2,055,342
Total	**6,337,313**	**2,073,680**	**8,410,993**

(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, 2014

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Individually impaired loans	3,107,661	12,043,398	9,564,991	-	24,716,050
Fair value of collateral	**1,288,659**	**36,091,922**	**34,738,838**	**-**	**72,119,419**

As at June 30, 2013

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Individually impaired loans	1,698,188	12,885,225	11,033,891	-	25,617,304
Fair value of collateral	**1,412,456**	**38,757,002**	**38,471,581**	**-**	**78,641,039**

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances (continued)

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $24,716,050 (2013: $25,617,304).

(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 $2,561,460 at June 30, 2014 (2013: $45,624,299). Included in the amount at June 30, 2014 is $44,449,855 attributed to restructured public sector facilities.

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, 2014 and 2013 based on Standard & Poor's rating or their equivalent:

	Treasury bills $	Bonds and other debt instruments $	Available-for-sale $	Total $
Aa1—Baa3	8,338,260	7,164,589	5,497,983	21,000,832
Unrated	50,642,553	1,884,327	27,305,941	79,832,821
As at June 30, 2014	**58,980,813**	**9,048,916**	**32,803,924**	**100,833,653**

	Treasury bills $	Bonds and other debt instruments $	Available-for-sale $	Total $
Aa1—Baa3	1,490,876	8,197,428	5,573,777	15,262,081
Lower than—Baa3	1,835,304	-	-	1,835,304
Unrated	52,720,977	2,260,586	18,846,501	73,828,064
As at June 30, 2013	**56,047,157**	**10,458,014**	**24,420,278**	**90,925,449**

4.1.7 Repossessed collateral

During the year ended June 30, 2014, the Bank took possession of collateral securing facilities with carrying value of $542,384 (2012: $261,072).

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, 2014 and 2013. 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	2,585,967	29,993,216	74,609,371	34,564,166	141,752,720
Deposits with non-bank financial institutions	223,178	22,447,172	233,182	-	22,903,532
Investment securities:					
– Treasury bills and other eligible bills	50,642,553	8,338,260	-	-	58,980,813
– Bonds and other debt instruments	7,463,765	1,585,151	-	-	9,048,916
– Available for sale securities-quoted	-	-	5,351,543	-	5,351,543
Loans and advances	187,318,602	4,324,000	8,894,556	2,642,478	203,179,636
Other assets	81,239	1,679	77,800	-	160,718
Pledged assets:					
– Deposits with non-bank financial institutions	808,470	-	-	-	808,470
	249,123,774	**66,689,478**	**89,166,452**	**37,206,644**	**442,186,348**
Credit exposures relating to off statement of financial position items:					
Loan commitments and other credit related facilities	39,514,633	-	-	-	39,514,633
As at June 30, 2014	**288,638,407**	**66,689,478**	**89,166,452**	**37,206,644**	**481,700,981**

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	6,948,278	29,885,977	25,280,537	21,304,580	83,419,372
Deposits with non-bank financial institutions	211,627	21,236,148	6,572,225	-	28,020,000
Investment securities:					
– Treasury bills and other eligible bills	52,720,978	3,326,179	-	-	56,047,157
– Bonds and other debt instruments	7,085,336	3,372,678	-	-	10,458,014
– Available for sale securities-quoted	-	-	5,427,337	-	5,427,337
Loans and advances	188,485,429	5,003,515	8,136,604	2,969,925	204,595,473
Other assets	194,606	1,679	76,208	-	272,493
Pledged assets:					
– Deposits with non-bank financial institutions	808,470	-	-	-	808,470
	256,454,724	**62,826,176**	**45,492,911**	**24,274,505**	**389,048,316**
Credit exposures relating to off statement of financial position items:					
Loan commitments and other credit related facilities	29,731,050	-	593,139	-	30,324,189
As at June 30, 2013	**286,185,774**	**62,826,176**	**46,086,050**	**24,274,505**	**419,372,505**

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:

	2014 $	%	2013 $	%
Personal	**77,156,339**	**36.9**	88,847,847	42.5
Public Sector	**63,443,403**	**30.3**	59,134,407	28.3
Construction and land development	**28,263,159**	**13.5**	26,176,778	12.5
Distributive trades transportation and storage	**23,054,305**	**11.0**	15,291,187	7.3
Tourism, entertainment, and catering	**7,607,858**	**3.6**	8,655,189	4.1
Professional and other services	**5,199,433**	**2.5**	6,985,207	3.3
Agriculture and manufacturing	**4,411,383**	**2.2**	3,983,000	2.0
Total	**209,135,880**	**100.0**	209,073,615	100.0

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 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, 2014 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $131,631 (2013: $89,049) lower/ higher as a result of the increase/decrease in the fair value of available-for-sale investment securities.

	2014 $	2013 $
Available-for-sale		
Equity securities quoted at market value	**1,949,737**	1,980,617
Mutual funds quoted at market value	**24,804,735**	16,314,418
	26,754,472	18,295,035

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, 2014. 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, 2014							
Assets							
Cash and balances with ECCB	23,738,970	712,602	96,933	39,246	15,062	485	24,603,298
Deposits with banks	6,938,060	123,393,192	5,469,738	4,991,235	897,703	62,792	141,752,720
Deposits with non-bank financial institutions	1,223,157	21,680,375	-	-	-	-	22,903,532
Investment securities:							
– Treasury bills and other eligible bills	48,428,815	10,551,998	-	-	-	-	58,980,813
– Bonds and other debt securities	7,463,765	1,585,151	-	-	-	-	9,048,916
– Available-for-sale investments – unquoted	271,806	426,100	-	-	-	-	697,906
– Available-for-sale investments – quoted	1,949,737	30,156,279	-	-	-	-	32,106,016
Loans and advances to customers	155,205,323	47,974,313	-	-	-	-	203,179,636
Other assets	82,595	78,123	-	-	-	-	160,718
Pledged assets:							
– Deposits with non-bank and other financial institutions	-	808,470	-	-	-	-	808,470
Total financial assets	**245,302,228**	**237,366,603**	**5,566,671**	**5,030,481**	**912,765**	**63,277**	**494,242,025**
Liabilities							
Customer deposits	241,492,574	193,505,728	4,889,799	1,674,708	68,968	-	441,631,777
Other liabilities and accrued expenses	1,641,156	21,359,355	587	4,781	548	624	23,007,051
Total financial liabilities	**243,133,730**	**214,865,083**	**4,890,386**	**1,679,489**	**69,516**	**624**	**464,638,828**
Net on-balance sheet position	**2,168,498**	**22,501,520**	**676,285**	**3,350,992**	**843,249**	**62,653**	**29,603,197**
Credit and capital commitments	**17,976,372**	**22,475,632**	**-**	**-**	**-**	**-**	**40,452,004**

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, 2013							
Assets							
Cash and balances with ECCB	16,697,505	1,002,376	141,358	31,052	527	7	17,872,825
Deposits with banks	7,820,782	66,745,238	3,453,252	4,676,389	615,089	119,851	83,430,601
Deposits with non-bank financial institutions	1,211,732	26,808,268	-	-	-	-	28,020,000
Investment securities:							
– Treasury bills and other eligible bills	47,925,844	8,121,313	-	-	-	-	56,047,157
– Bonds and other debt securities	7,064,623	3,393,391	-	-	-	-	10,458,014
– Available-for-sale investments – unquoted	271,806	426,100	-	-	-	-	697,906
– Available-for-sale investments – quoted	1,980,617	21,741,755	-	-	-	-	23,722,372
Loans and advances to customers	154,031,336	50,564,137	-	-	-	-	204,595,473
Other assets	195,961	76,532	-	-	-	-	272,493
Pledged assets:							
– Deposits with non-bank and other financial institutions	-	808,470	-	-	-		808,470
Total financial assets	**237,200,206**	**179,687,580**	**3,594,610**	**4,707,441**	**615,616**	**119,858**	**425,925,311**
Liabilities							
Customer deposits	220,715,445	166,308,468	2,029,801	2,271,070	61,212	-	391,385,996
Other liabilities and accrued expenses	1,656,206	1,653,742	587	8,065	2,434	624	3,321,658
Total financial liabilities	**222,371,651**	**167,962,210**	**2,030,388**	**2,279,135**	**63,646**	**624**	**394,707,654**
Net on-balance sheet position	**14,828,555**	**11,725,370**	**1,564,222**	**2,428,306**	**551,970**	**119,234**	**31,217,657**
Credit and capital commitments	**7,701,159**	**23,273,556**	**-**	**-**	**-**	**-**	**30,974,715**

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

If at June 30, 2014, 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 $51,720 (2013: $109,592) 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 2013 was a gain of $336,796 (2013: gain of $126,561).

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, 2014.

If at June 30, 2014, 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 $281,726 (2013: $163,520) 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 2013 was a gain of $584,209 (2013: gain of $40,232).

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, 2014.

If at June 30, 2014, 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 $52,628 (2013: $32,196) 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 2013 was a gain of $30,632 (2013: gain of $16,476).

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, 2014.

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 daily by The Treasury and Investment Committee.

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, 2014							
Assets							
Cash and balances with the Central Bank	2,000	-	-	-	-	24,601,298	24,603,298
Deposits with banks	20,585,205	13,024,247	7,446,153	-	-	100,697,115	141,752,720
Deposits with non bank financial institutions	13,562,550	9,129,033	101,111	-	-	110,838	22,903,532
Investment securities:							
– Treasury bills	18,568,511	38,533,216	1,879,086	-	-	-	58,980,813
– Bonds and other debt instruments	58,496	1,418,391	199,026	5,692,451	1,680,552	-	9,048,916
– Available-for-sale investments – unquoted	-	-	-	-	-	697,906	697,906
– Available-for-sale securities – quoted	33,961	23,241	7,899	5,123,563	162,880	26,754,472	32,106,016
Loans and advances to customers	6,735,015	10,851,882	9,968,547	33,561,508	122,080,401	19,982,283	203,179,636
Other assets	-	-	-	-	-	160,718	160,718
Pledged assets:							
– Deposits with bank and other financial Institution	-	-	808,470	-	-	-	808,470
Total financial assets	**59,545,738**	**72,980,010**	**20,410,292**	**44,377,522**	**123,923,833**	**173,004,630**	**494,242,025**
Liabilities							
Customer deposits	183,479,728	32,594,707	113,407,606	8,862,324	-	103,287,412	441,631,779
Other liabilities and accrued expenses	-	-	-	-	-	23,007,051	23,007,051
Total financial liabilities	**183,479,728**	**32,594,707**	**113,407,606**	**8,862,324**	**-**	**126,294,463**	**464,638,828**
Total interest repricing gap	**(123,933,990)**	**40,385,303**	**(92,997,314)**	**35,515,198**	**123,923,833**	**46,710,167**	**29,603,197**

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, 2013							
Assets							
Cash and balances with the Central Bank	2,000	-	-	-	-	17,870,825	17,872,825
Deposits with banks	8,530,810	18,848,331	1,349,978	-	-	54,701,482	83,430,601
Deposits with non bank financial institutions	20,049,344	7,774,631	101,222	-	-	94,803	28,020,000
Investment securities:							
– Treasury bills	20,646,670	35,400,487	-	-	-	-	56,047,157
– Bonds and other debt instruments	4,091,335	77,209	-	4,608,918	1,680,552	-	10,458,014
– Available-for-sale investments – unquoted	-	-	-	-	-	697,906	697,906
– Available-for-sale securities – quoted	33,961	23,241	7,899	5,141,244	220,993	18,295,034	23,722,372
Loans and advances to customers	17,644,544	15,192,699	10,079,217	22,630,234	116,425,598	22,623,181	204,595,473
Other assets	-	-	-	-	-	272,493	272,493
Pledged assets:							
– Deposits with bank and other financial Institution	-	-	808,470	-	-	-	808,470
Total financial assets	**70,998,664**	**77,316,598**	**12,346,786**	**32,380,396**	**118,327,143**	**114,555,724**	**425,925,311**
Liabilities							
Customer deposits	172,092,697	18,344,256	113,913,535	22,891,928	-	64,143,580	391,385,996
Other liabilities and accrued expenses	154,537	-	-	-	-	3,167,121	3,321,658
Total financial liabilities	**172,247,234**	**18,344,256**	**113,913,535**	**22,891,928**	**-**	**67,310,701**	**394,707,654**
Total interest repricing gap	**(101,248,570)**	**58,972,342**	**(101,566,749)**	**9,488,468**	**118,327,143**	**47,245,023**	**31,217,657**

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, 2014 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $14,819 (2013: $33,075) 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, 2014, 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 $878,387 higher/lower (2013: $887,853), 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, 2014 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 $1,258,059 (2013: $1,181,166) 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 or margin calls for derivatives. 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, 2014						
Deposits from customers	286,112,150	21,366,649	128,674,753	9,245,010	-	445,398,562
Other liabilities and accrued expenses	22,840,639	166,412	-	-	-	23,007,051
Total financial liabilities (contractual maturity dates)	**308,952,789**	**21,533,061**	**128,674,753**	**9,245,010**	**-**	**468,405,613**
Assets held for managing liquidity risk (contractual maturity dates)	**234,908,247**	**73,539,854**	**15,825,474**	**44,377,521**	**123,923,833**	**492,574,929**
As at June 30, 2013						
Deposits from customers	235,960,425	18,817,523	118,455,610	23,309,258	-	396,542,815
Other liabilities and accrued expenses	3,167,715	153,943	-	-	-	3,321,658
Total financial liabilities (contractual maturity dates)	**239,128,140**	**18,971,466**	**118,455,610**	**23,309,258**	**-**	**399,864,473**
Assets held for managing liquidity risk (contractual maturity dates)	**184,583,988**	**77,316,597**	**11,538,315**	**32,380,396**	**118,327,143**	**424,146,439**

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, 2014		
Loan commitments	39,514,633	39,514,633
Capital commitments	937,371	937,371
	40,452,004	**40,452,004**
As at June 30, 2013		
Loan commitments	30,324,189	30,324,189
Capital commitments	650,526	650,526
	30,974,715	**30,974,715**

(b) Financial guarantees and other financial facilities

The Bank had financial guarantees of $Nil at June 30, 2014 (2013: $Nil).

(c) Operating Lease Commitments

The Bank had no operating lease commitments as at June 30, 2014 (2013: $Nil).

(d) Capital commitments

The Bank had contractual capital commitments totalling $937,371 as at June 30, 2014 (2012: $650,526). These commitments relate to the Bank's building construction and refurbishment project which commenced in June 2010.

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	
	2014	**2013**	**2014**	**2013**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with the Central Bank	24,603,298	17,872,825	24,603,298	17,872,825
Deposits with other banks	141,752,720	83,430,601	141,752,720	83,430,601
Deposits with non-bank financial institutions	22,903,532	28,020,000	22,903,532	28,020,000
Investment securities:				
– Treasury bills and other eligible bills	58,980,813	56,047,157	58,980,813	56,047,157
– Bonds and other debt instruments	9,048,916	10,458,014	9,048,916	10,458,014
– Available-for-sale investments – unquoted	697,906	697,906	697,906	697,906
– Available-for-sale investments – quoted	32,106,016	23,722,372	32,106,016	23,722,373
Loans and advances	203,179,636	204,595,473	202,130,659	203,622,676
Other Assets	160,718	272,493	160,718	272,493
Pledged assets:				
– Deposits with bank and other financial institutions	808,470	808,470	808,470	808,470
	494,242,025	**425,925,311**	**493,193,048**	**424,952,515**
Financial liabilities				
Customer deposits	441,631,777	391,385,996	441,631,777	391,385,996
Other payables and accrued expenses	23,007,051	3,321,658	23,007,051	3,321,658
	464,638,828	**394,707,654**	**464,638,828**	**394,707,654**

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 $	Level 3 $	Total $
Financial assets at fair value			
Investment securities			
Fixed income securities, quoted at market value	5,286,443	-	5,286,443
Mutual funds, quoted at market value	24,804,735	-	24,804,735
Equity securities	1,949,737	697,906	2,647,643
Balance as at June 30, 2014	**32,040,915**	**697,906**	**32,738,821**

	Level 1 $	Level 3 $	Total $
Financial assets at fair value			
Investment securities			
Fixed income securities, quoted at market value	5,427,337	-	5,427,337
Mutual funds, quoted at market value	16,314,418	-	16,314,418
Equity securities	1,980,617	697,906	2,678,523
Balance as at June 30, 2013	**23,722,372**	**697,906**	**24,420,278**

4.5 Capital management

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

- To comply with the capital 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 ECCB requires all banks under its jurisdiction to: (a) hold the minimum level of regulatory capital of $5,000,000, and (b) maintain a ratio of total regulatory capital to the risk-weighted assets ('the Basel ratio') at or above the internationally agreed minimum of 8%.

4 Financial risk management (continued)

4.5 Capital management (continued)

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, 2014 and June 30, 2013. During those two years, the Bank and its subsidiaries complied with all the externally imposed capital requirements to which they are subject.

	2014 $	2013 $
Tier 1 capital		
Share capital	**9,347,687**	9,347,687
Statutory reserve	**10,934,354**	10,488,590
Retained earnings	**22,183,937**	23,039,538
Total qualifying tier 1 capital	**42,465,978**	42,875,815
Tier 2 capital		
Revaluation reserve	**13,414,583**	12,995,969
Reserve for loan impairment	**-**	40,123
Reserve for items in-transit on correspondent bank accounts	**2,890,216**	2,754,458
Total qualifying tier 2 capital	**16,304,799**	15,790,550
Total regulatory capital	**58,770,777**	58,666,365
Risk weighted assets		
On-statement of financial position	**241,177,799**	230,449,057
Off-statement of financial position	**40,452,004**	30,974,715
Total risk weighted assets	**281,629,803**	261,423,772
Basel ratio	**20.9%**	22.4%

4 Financial risk management (continued)

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, 2014			
Assets			
Cash and Balances with the Central Bank	24,603,298	-	24,603,298
Due from banks and other financial institutions	165,464,720	-	165,464,720
Investment securities	68,029,731	32,803,922	100,833,653
Loans and advances	203,179,636	-	203,179,636
Other assets	160,718	-	160,718
Total financial assets	**461,438,103**	**32,803,922**	**494,242,025**
Liabilities			
Customer deposits	441,631,777	-	441,631,777
Other liabilities and accrued expenses	23,007,051	-	23,007,051
Total financial liabilities	**464,638,828**	**-**	**464,638,828**
As at June 30, 2013			
Assets			
Cash and Balances with the Central Bank	17,872,825	-	17,872,825
Due from banks and other financial institutions	112,259,071	-	112,259,071
Investment securities	66,505,171	24,420,278	90,925,449
Loans and advances	204,595,473	-	204,595,473
Other assets	272,493	-	272,493
Total financial assets	**401,505,033**	**24,420,278**	**425,925,311**

Liabilities	Other Liabilities $	Total $
Customer deposits	391,385,996	391,385,996
Other liabilities and accrued expenses	3,321,658	3,321,658
Total financial liabilities	**394,707,654**	**394,707,654**

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. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences 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 $286,411 lower or $328,624 higher respectively.

(b) Impairment of available-for-sale investments

The Bank determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. 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.

Had all the declines in fair value below cost been considered significant or prolonged, the Bank would suffer an increase impairment loss of $212,380 in its 2014 consolidated financial statements, which would be included in the transfer of the accumulated fair value declines recognised in equity on the impaired available-for-sale financial assets to the consolidated statement of income. Management's determination of the impairment provision involves the use of assumptions and significant judgement. In making this judgement, the Bank evaluates among other factors, the expected length of time to liquidate investments and any estimated loss on the principle invested.

(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

Segment reporting by the Bank was prepared in accordance with IFRS 8.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Bank's Board of Directors (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance.

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;
- Offshore 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.

As the Bank's segment operations are all financial with a majority of revenues deriving from interest and the Bank's Board of Directors relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis.

There were no changes in the reportable segments during the year.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Bank's Board of Directors is measured in a manner consistent with that in the consolidated statement of income. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

The Bank's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments. As the Bank's Board of Directors reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Bank's Board of Directors.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position.

Revenue and non-current assets are primarily in the federation of St. Christopher and Nevis.

6 Business segments (continued)

Included in revenues arising from the retail and corporate banking segment are revenues of approximately $3,621,152 or 34.2% (2013: $4,853,662 or 38.6%) which arose from transactions with the Bank's largest customer.

	Retail and corporate banking $	Offshore banking $	Mutual fund $	Total $
At June 30, 2014				
Net interest income from external customers	5,143,021	2,449,751	-	7,592,772
Inter-segment net interest income	(24,207)	(550)	24,757	-
Fee and commission income	1,555,359	460,895	-	2,016,252
Dividend income	65,984	692,624	-	758,608
Other income	2,184,864	293,512	-	2,478,376
Net gains / (losses) from investment securities	-	25,545	-	25,545
General and administrative expenses	(5,904,657)	(1,801,246)	(15,702)	(7,721,605)
Loan loss provision	(1,619,398)	-	-	(1,619,398)
Depreciation and amortisation expenses	(775,539)	(32,552)	-	(808,091)
Other operating expenses	(976,258)	(504,166)	-	(1,480,424)
Operating profit	**(350,833)**	**1,583,813**	**9,055**	**1,242,035**
Income tax expense	**(115,247)**	**(35,849)**	**(2,988)**	**(154,084)**
Profit the year	**(466,080)**	**1,547,964**	**6,067**	**1,087,951**
Total assets	**387,010,747**	**136,717,821**	**2,052,060**	**525,780,628**
Total liabilities	**341,479,021**	**125,388,926**	**18,131**	**466,015,078**
At June 30, 2013				
Net interest income from external customers	7,577,279	4,819,200	-	12,396,479
Inter-segment net interest income	(28,621)	(3,527)	32,148	-
Fee and commission income	3,358,255	522,708	-	3,880,963
Dividend income	119,643	664,492	-	784,135
Other income	1,523,246	1,087,241	-	2,610,487
Realised losses from investment securities	-	303,570	-	303,570
Impairment provision on investment securities	(426,100)	-	-	(426,100)
General and administrative expenses	(7,951,797)	(1,795,075)	(22,567)	(9,769,439)
Loan loss provision	(1,163,464)	-	-	(1,163,464)
Depreciation and amortisation expenses	(564,918)	(14,073)	-	(578,991)
Other operating expenses	(905,287)	(340,413)	-	(1,245,700)
Operating profit	1,538,236	5,244,123	9,581	6,791,940
Income tax expense	(134,514)	(83,079)	(5,071)	(222,664)
Profit the year	1,403,722	5,161,044	4,510	6,569,276
Total assets	331,873,405	127,436,650	2,048,075	461,358,130
Total liabilities	284,239,982	115,558,046	20,214	399,818,242

6 Business segments (continued)

Reconciliation of segment results of operations to consolidated results of operations:

	Management Reporting $	Consolidation adjustments $	Total $
At June 30, 2014			
Net interest income from external customers	7,592,772	-	7,592,772
Fee and commission income	2,630,874	-	2,630,874
Dividend income	3,453,508	(2,694,900)	758,608
Other income	2,478,376	(614,622)	1,863,754
Net gains / (losses) on investment securities	25,545	-	25,545
General and administrative expenses	(8,336,227)	614,622	(7,721,605)
Loan loss provision	(1,619,398)	-	(1,619,398)
Depreciation and amortisation expenses	(808,091)	-	(808,091)
Other operating expenses	(1,480,424)	-	(1,480,424)
Operating profit	**3,936,935**	**(2,694,900)**	**1,242,035**
Income tax expense	**(154,084)**	**-**	**(154,084)**
Profit the year	**3,782,851**	**(2,694,900)**	**1,087,951**
Total assets	**533,502,202**	**(7,844,566)**	**525,657,636**
Total liabilities	**472,075,078**	**(5,188,219)**	**466,886,859**

Reconciliation of segment results of operations to consolidated results of operations:

	Management Reporting $	Consolidation adjustments $	Total $
At June 30, 2013			
Net interest income from external customers	12,396,479	-	12,396,479
Fee and commission income	3,880,963	-	3,880,963
Dividend income	784,135	-	784,135
Other income	2,610,487	(755,336)	1,855,151
Realised losses on investment securities	303,570	-	303,570
Impairment provision on investment securities	(426,100)	-	(426,100)
General and administrative expenses	(9,769,439)	755,336	(9,014,103)
Loan loss provision	(1,163,464)	-	(1,163,464
Depreciation and amortisation expenses	(578,991)	-	(578,991)
Other operating expenses	(1,245,700)	-	(1,245,700)
Operating profit	**6,791,940**	**-**	**6,791,940**
Income tax expense	**(222,664)**	**-**	**(222,664)**
Profit the year	**6,569,276**	**-**	**6,569,276**
Total assets	**461,358,130**	**(5,604,385)**	**455,753,745**
Total liabilities	**399,818,242**	**(2,730,862)**	**397,087,380**

7 Cash and balances due from banks and other financial institutions

	2014 $	2013 $
Cash on hand	**2,263,245**	1,877,674
Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits	**2,000**	2,000
Cash and current accounts with other banks	**111,727,263**	52,319,658
Cheques in the course of collection	**901,623**	1,861,042
Short term fixed deposits	**35,345,697**	42,679,150
Included in cash and cash equivalents (note 27)	**150,239,828**	98,739,524
Dormant account reserve	**359,532**	320,702
Mandatory reserve deposits with the ECCB	**21,978,521**	15,672,449
Restricted fixed deposits	**808,470**	808,470
Fixed deposits	**28,172,949**	25,800,617
	201,559,300	141,341,762
Interest receivable	**462,655**	533,662
Provision for impairment on fixed deposits	**(11,743,528)**	(11,743,528)
Total cash and balances due from banks and other financial institutions	**190,278,427**	130,131,896
Current	**166,318,063**	112,516,434
Non-current	**23,960,364**	17,615,462
	190,278,427	130,131,896

Under the Banking Act of St. Christopher and Nevis No. 4 of 2004, 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 member states of the Organisation of the Eastern Caribbean States (OECS) 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, 2014 the minimum required amount was $18,764,000.

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

The short term fixed deposits are comprised of fixed deposits held with the following entities:

	2014 $	2013 $
Bank of St. Lucia Limited, maturing on July 07, 2014, August 25, 2014 and September 23, 2014 with interest rates of 4.00%, 3.00 % and 1.5 % per annum (2013: 3.75%, 4.00% and 3.00% per annum)	**7,654,390**	9,697,541
First Citizens Investment Services Limited Repurchase Agreements maturing July 18, 2014, August 04, and August 26, 2014, with interest rates of 2.75% and 2.50% per annum (2013: 2.50% and 3.00% per annum)	**7,198,270**	7,420,123
National Bank of Anguilla Limited, maturing on July 24, 2014 with interest rate of 2.0% per annum (2013: 5.50% per annum)	**2,405,611**	2,598,468
Caribbean Commercial Bank (Anguilla) Limited, maturing July 1, and July 18, 2014 with interest rates of 3.0% per annum (2013: 3.00% and 4.00% per annum)	**2,653,275**	2,619,293
Trinidad and Tobago Unit Trust Corporation call account, with interest rates of 0.80% per annum (2013: 1.00% per annum)	**9,811,169**	9,729,150
Capital & Credit Merchant Bank Limited, maturing August 04, 2014 with interest rates of 5.25% and 4.85% per annum	**5,389,800**	4,042,350
Morgan Stanley US$ SICAV Liquidity Fund	**233,182**	6,572,225
Total short-term deposits	**35,345,697**	42,679,150

During the year, the interest rates on short-term deposits range from 0.0% to 5.25% per annum (2013: $0% to 5.50% per annum).

The restricted fixed deposits comprise deposits held with Caribbean Credit Card Corporation Limited of $808,470 (2013: $808,470) bearing interest of 4.50% 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.

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

The fixed deposits are comprised of deposits held with the following entities:

	2014 $	2013 $
Caribbean Commercial Bank (Anguilla) Limited, maturing August 01, 2014 with interest rate of 5.0% per annum (2013: 6.0% per annum)	**8,084,700**	8,084,700
Eastern Caribbean Amalgamated Bank Limited, maturing October 09, 2014 with interest rate of 1.25% (2013: 2.0% per annum)	**3,776,347**	3,711,098
Bank of St. Lucia Limited, maturing December 15 & 16, 2014, with interest rate of 1.75% & 3.75% (2013: 4.5% per annum)	**3,654,533**	1,347,450
St. Kitts and Nevis Finance Company (FINCO), maturing April 11, 2014 with interest rate of 5.0% per annum (2013: 5.5% per annum)	**100,000**	100,000
TCI Bank Limited, see below	**2,411,378**	2,411,378
British American Insurance Company Limited (BAICO), see below	**10,145,991**	10,145,991
	28,172,949	25,800,617

The interest rates on fixed deposits range from 1.25% to 5.0% per annum (2013: 2.0% to 6.0% per annum).

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

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. Kitts and Nevis be placed under judicial management. Subsequently, Judicial Mangers 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 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 (amounting to $10,145,991) in the consolidated financial statements at June 30, 2009.

The above provision for impairment has been maintained in the consolidated financial statements at June 30, 2014 and no income has been recognised in respect of the fixed deposits.

Fixed deposit held with TCI Bank Limited

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 $1,597,538) was recorded in the financial statements at June 30, 2010 – thereby resulting in a net book value of $1,416,685.

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

Fixed deposit held with TCI Bank Limited (continued)

On June 13, 2012, the Turks and Caicos Supreme Court approved the payment of the first interim dividend distribution of 20 cents on the dollar to registered creditors of TCI Bank Limited. On September 27, 2012, Bank of Nevis International Limited received a payment in the amount of $602,844 in respect of this distribution.

Management has reviewed the reports of the liquidators and continues to closely monitor the developments in the liquidation process. In light of the foregoing therefore, Management has determined that the impairment provision of $1,597,538 be maintained in the financial statements at June 30, 2014.

8 Investment securities

Loans and receivables	2014 $	2013 $
Treasury bills		
Nevis Island Administration maturing July 15, 2014 with interest rate of 6.5% per annum (2013: 6.5% per annum)	**16,750,242**	16,207,679
Government of St Vincent & the Grenadines, maturing August 27, 2014 and September 25, 2014 with interest rates of 3.399% and 3.998% per annum (2013: 3.0% per annum)	**2,477,323**	1,488,781
Government of Dominica, maturing September 09, 2013 with interest rate of 2.74% per annum	**-**	1,832,395
Government of St Lucia, maturing August 14, 2014 with interest rates of 4.75% per annum	**3,952,631**	-
Included in cash and cash equivalents (note 27)	**23,180,196**	19,528,855

8 Investment securities (continued)

Loans and receivables (continued)	2014 $	2013 $
Treasury bills		
Nevis Island Administration, maturing July 15, 2014 with interest rate of 6.5% per annum (2013: 6.5% per annum)	**1,562,315**	1,463,212
Government of St. Christopher and Nevis, maturing August 15, 2014, with interest rate of 6.75% per annum	**28,888,850**	28,888,849
Nevis Island Government maturing October 23, 2014 with interest rates of 7.0% per annum (2013: 7.0% and 6.5% per annum)	**1,350,000**	3,904,420
Government of St Lucia maturing February 24, 2015 with interest rate of 5 % per annum	**1,847,450**	-
Bonds and other debt instruments		
Eastern Caribbean Home Mortgage Bank Bonds maturing July 1, 2013, August 26, 2014, September 28, 2016, with interest rates of 4.0%, 4.5% and 6.0% per annum	**5,690,000**	5,290,000
Government of St. Lucia Fixed Rate Bonds, maturing July 20, 2013 and February 16, 2016, with interest rates of 5.0% and 7.25% per annum	**1,347,450**	2,694,900
Caribbean Credit Card Corporation Limited unsecured loan bearing interest at a rate of 10%, with no specific terms of repayment	**150,000**	150,000
Government of Antigua and Barbuda Fixed Rate Bond, maturing November 19, 2014 and bearing interest at 9% per annum	**199,027**	571,467
Government of St. Kitts and Nevis Bond, maturing April 18, 2057, with interest rate if 1.50% per annum	**1,530,552**	1,530,552
Total loans and receivables	**65,745,840**	64,022,255

The treasury bill with a cost of $1,562,315 acts as a statutory deposit with the Nevis Island Administration and is not available to finance the Bank’s day-to-day operations.

8 Investment securities (continued)

	2014 $	2013 $
Available-for-sale		
Fixed income securities, quoted at market value	**5,286,443**	5,362,237
Mutual funds, quoted at market value	**24,804,735**	16,314,418
Equity securities, quoted at market value	**1,949,737**	1,980,617
Equity securities, unquoted	**697,906**	697,906
Total available-for-sale	**32,738,821**	24,355,178
Total investment securities before interest receivable	**98,484,661**	88,377,433
Interest receivable	**2,348,992**	2,548,016
Total investment securities	**100,833,653**	90,925,449
Current	**60,522,803**	61,625,803
Non-current	**40,310,850**	29,299,646
	100,833,653	90,925,449

	2014 $	2013 $
Available-for-sale – unquoted		
Caribbean Credit Card Corporation Limited		
275 shares of $1,000 each	**275,000**	275,000
Impairment provision	**(149,644)**	(149,644)
	125,356	125,356
TCI Bank Limited		
500,000 shares of US$1.00 (EC $2.69) each	**1,347,450**	1,347,450
Impairment provision	**(1,347,450)**	(1,347,450)
	-	-
ECIC Holdings Limited		
632,200 ordinary shares of US$1.00 (EC $2.69) each	**1,703,933**	1,703,933
Impairment provision	**(1,277,833)**	(1,277,833)
	426,100	426,100
Eastern Caribbean Securities Exchange Limited		
7,500 Class ‘C’ shares (7,500 shares with cost of $10 each)	**75,000**	75,000
Impairment provision	**(74,990)**	(74,990)
	10	10
Eastern Caribbean Home Mortgage Bank		
482 shares at cost of $100 each	**48,200**	48,200
614 shares (2012: 614 shares) at cost of $160 each	**98,240**	98,240
	146,440	146,440
Equity securities – unquoted	**697,906**	697,906

8 Investment securities (continued)

	2014 $	2013 $
Available-for-sale – quoted		
St. Kitts-Nevis-Anguilla National Bank 617,409 ordinary shares, at market value of $2.10 per share, (2013: $2.15 per share)	**1,296,559**	1,327,429
St. Kitts Nevis Anguilla Trading and Development Company (TDC) 435,281 ordinary shares, at market value of $1.50 per share (2013: $1.50 per share)	**652,920**	652,920
Cable and Wireless (St Kitts and Nevis) Limited: 63 Ordinary shares, at market value of $4.10 per share, (2013: $4.25 per share)	**258**	268
Equity investments, quoted at market value	**1,949,737**	1,980,617

	2014 $	2013 $
Fixed income securities quoted at market value		
Corporate Bonds		
Bank of America Corporation	**1,435,959**	1,433,288
Goldman Sachs Group, Inc.	**718,797**	730,870
General Electric Capital Corporation	**1,413,960**	1,391,660
Morgan Stanley	**1,475,687**	1,442,723
Federal National Mortgage Association (USA)	**242,040**	363,696
	5,286,443	5,362,237
Mutual Funds quoted at market value		
MFS Meridian Emerging Market Debt Fund	**2,591,738**	2,477,273
MFS Meridian Bond Fund	**2,682,123**	2,561,343
Alliance Bernstein Global High Yield Fund	**2,078,717**	1,983,242
Western Asset Global Bond Fund	**2,697,711**	2,570,870
Investec Global Mutual Fund	**1,474,497**	1,801,856
Templeton Global Bond Fund	**704,078**	679,282
ACM Global Investment Bond Fund	**1,339,964**	1,305,682
Franklin Mutual Discovery Fund	**1,389,655**	1,522,311
Principal Global Preferred Securities Fund	**1,493,346**	1,412,559
Selector EMG Ivy Asset Fund	**2,656,409**	-
Janus US Short Term Bond Fund	**2,683,007**	-
Alliance Bernstein Select absolute Alpha Fund	**2,740,490**	-
	24,531,735	16,314,418

8 Investment securities (continued)

Equity Investment in TCI Bank Limited
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, 2014.

Equity Investment held in ECIC Holdings Limited
Due to financial difficulties encountered by its major subsidiary, the ECIC Holdings Limited has realised significant declines in its assets, earnings and shareholders' equity, thereby creating uncertainties regarding its going concern ability. The Management of ECIC Holdings Limited are exploring several options aimed at bringing about significant improvements in the Company's financial position. In light of the foregoing, as at June 30, 2012, the Management of the Bank took a decision to record a provision for impairment of 50% of the value (amounting to $851,733). During the financial year ended June 30, 2013, due to continued financial difficulties, a further 25% ($426,100) was recorded as an impairment, thereby resulting in a net book value of $426,100. This provision has been maintained in the financial statements at June 30, 2014.

The movement in investment securities may be summarised as follows:

	Loans and receivables $	Available-for-sale $	Total $
Balance as of June 30, 2013	**64,022,255**	**24,355,178**	**88,377,433**
Additions	29,251,616	10,779,600	40,031,216
Disposals (sale and redemption)	(27,528,031)	(3,192,893)	(30,720,924)
Unrealised gain from change in fair value, net	-	796,936	796,936
Balance as of June 30, 2014	**65,745,840**	**32,738,821**	**98,484,661**

	Loans and receivables $	Available-for-sale $	Total $
Balance as of June 30, 2012	**62,758,226**	**27,830,647**	**90,588,873**
Additions	20,552,444	4,082,262	24,634,706
Disposals (sale and redemption)	(19,288,415)	(7,598,362)	(26,886,777)
Unrealised gain from change in fair value, net	-	466,731	466,731
Impairment provision	-	(426,100)	(426,100)
Balance as of June 30, 2013	**64,022,255**	**24,355,178**	**88,377,433**

Net gains from investment securities comprise:

	2014 $	2013 $
Net realised gains from disposal of available-for-sale financial assets	**25,545**	303,570

9 Loans and advances

	2014 $	2013 $
Reducing balance loans	**193,371,692**	192,527,094
Overdrafts	**11,265,431**	11,573,807
Credit card advances	**3,516,935**	3,578,323
	208,154,058	207,679,224
Interest receivable	**981,823**	1,394,391
	209,135,881	209,073,615
Less: Allowance for loan impairment	**(5,956,245)**	(4,478,142)
Total loans and advances	**203,179,636**	204,595,473
Current	**47,537,726**	65,539,643
Non-current	**155,641,910**	139,055,830
	203,179,636	204,595,473

The movement in allowance for loan impairment is as follows:	2014 $	2013 $
Balance, beginning of year	**4,478,142**	3,384,094
Provisions for the year	**1,619,398**	1,163,464
Loans and advances written off during the year	**(141,295)**	(69,416)
Balance, end of year	**5,956,245**	4,478,142

According to the Eastern Caribbean Central Bank loan provisioning guidelines, the calculated allowance for loan impairment amounts to $5,300,316 (2013: $4,518,265) (see note 19).

The total value of non-productive loans and advances at the end of the year amounted to $24,563,645 (2013: $25,617,304). The interest accrued on non-productive loans and advances but not recorded in these financial statements is $8,807,971 (2013: $7,657,458).

Included in loans and advances is an amount due from other financial institutions of $3,223,279 (2013: $4,079,382).

10 Other assets

	2014 $	2013 $
Prepaid employee benefit	**1,048,976**	973,288
Prepayments	**493,769**	392,964
Items in-transit	**154,247**	237,541
Credit card and stationery stock	**73,196**	73,196
Other receivables	**5,581**	5,581
Total other assets	**1,775,769**	1,682,570
Current	**653,601**	636,086
Non-current	**1,122,168**	1,046,484
	1,775,769	1,682,570

11 Property, plant and equipment

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Capital work in progress $	Total $
Year ended June 30, 2014								
Opening net book amount	14,675,000	8,882,000	478,296	601,421	102,208	-	1,347,661	26,086,586
Additions	-	-	5,510	112,270	56,269	96,526	2,075,469	2,346,044
Transfers	-	-	-	213,397	-	-	(213,397)	-
Revaluation adjustment	-	-	-	-	-	-	-	-
Disposals	-	-	-	(2,715)	-	-	(2,604)	(5,319)
Depreciation charge	-	(168,500)	(108,477)	(252,346)	(57,839)	(19,306)	-	(606,468)
Depreciation eliminated on disposal	-	-	-	2,715	-	-	-	2,715
Closing net book amount	**14,675,000**	**8,713,500**	**375,329**	**674,742**	**100,638**	**77,220**	**3,207,129**	**27,823,558**
At June 30, 2014								
Cost/valuation	14,675,000	9,120,000	1,408,778	1,791,626	741,668	274,526	3,207,129	31,218,727
Accumulated depreciation	-	(406,500)	(1,033,449)	(1,116,884)	(641,030)	(197,306)	-	(3,395,169)
Net book amount	**14,675,000**	**8,713,500**	**375,329**	**674,742**	**100,638**	**77,220**	**3,207,129**	**27,823,558**

11 Property, plant and equipment (continued)

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Capital work in progress $	Total $
Year ended June 30, 2013								
Opening net book amount	13,020,000	7,851,788	555,582	458,224	155,126	-	454,930	22,495,650
Additions	-	433,896	36,297	51,749	3,279	-	963,737	1,488,958
Transfers	-	(206,376)	-	277,382	-	-	(71,006)	-
Revaluation adjustment	1,655,000	802,692	-	-	-	-	-	2,457,692
Disposals	-	-	(1,545)	(61,541)	(25,113)	-	-	(88,199)
Depreciation charge	-	-	(113,583)	(185,934)	(56,197)	-	-	(355,714)
Depreciation eliminated on disposal	-	-	1,545	61,541	25,113	-	-	88,199
Closing net book amount	**14,675,000**	**8,882,000**	**478,296**	**601,421**	**102,208**	**-**	**1,347,661**	**26,086,586**
At June 30, 2013								
Cost/valuation	14,675,000	9,120,000	1,403,271	1,468,671	685,402	178,000	1,347,661	28,878,005
Accumulated depreciation	-	(238,000)	(924,975)	(867,250)	(583,194)	(178,000)	-	(2,791,419)
Net book amount	**14,675,000**	**8,882,000**	**478,296**	**601,421**	**102,208**	**-**	**1,347,661**	**26,086,586**

11 Property, plant and equipment (continued)

The Bank's land and buildings were revalued at year end by an independent property appraiser. The valuation was made on the basis of recent market transactions on arm's length terms. The revaluation surplus was credited to revaluation reserves in shareholder's equity (note 18).

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of June 30, 2014 and 2013:

	Land $	Buildings $	Total $
Cost	2,307,737	8,119,395	10,427,132
Accumulated Depreciation	-	(1,835,329)	(1,835,329)
Net book values as at June 30, 2014	**2,307,737**	**6,284,066**	**8,591,803**

	Land $	Buildings $	Total $
Cost	2,307,737	9,751,739	12,059,476
Accumulated Depreciation	-	(1,632,344)	(1,632,344)
Net book values as at June 30, 2013	**2,307,737**	**8,119,395**	**10,427,132**

12 Intangible assets

	Computer software $
Year ended June 30, 2013	
Opening net book amount	316,048
Additions	519,705
Amortisation charge	(223,277)
Closing net book amount	**612,476**
At June 30, 2013	
Cost	3,476,795
Accumulated amortisation	(2,864,319)
Net book amount	**612,476**
Year ended June 30, 2014	
Opening net book amount	612,476
Additions	48,475
Amortisation charge	(201,623)
Closing net book amount	**459,328**
At June 30, 2014	
Cost	3,525,270
Accumulated amortisation	(3,065,942)
Net book amount	**459,328**

13 Customers' deposits

	2014 $	2013 $
Time deposits	**166,299,842**	170,372,406
Savings accounts	**153,114,872**	139,301,113
Current accounts	**119,405,190**	78,135,677
	438,819,904	387,809,196
Interest payable	**2,811,873**	3,576,800
Total customers' deposits	**441,631,777**	391,385,996
Current	**432,769,453**	368,494,068
Non-current	**8,862,324**	22,891,928
	441,631,777	391,385,996

13 Customers' deposits (continued)

Included in the customers deposits at year end are balances for other financial institutions amounting to $37,402,623 (2013: $40,867,449).

14 Other liabilities and accrued expenses

	2014 $	2013 $
Items-in-transit	**20,821,354**	1,665,526
Accounts payable and accrued expenses	**1,697,868**	1,321,421
Deferred loan fees	**796,950**	688,187
Fair value adjustment on employee loans	**1,048,486**	972,797
Manager's cheques	**347,773**	260,666
Staff bonus payable	**90,786**	257,627
Advance deposits on credit cards	**310,943**	380,623
Government stamp duty	**140,922**	154,537
Total other liabilities and accrued expenses	**25,255,082**	5,701,384
Current	**23,446,115**	4,040,400
Non-current	**1,808,967**	1,660,984
	25,255,082	5,701,384

15 Taxation

	2014 $	2013 $
Deferred income tax asset		
Balance, beginning of year	**888,741**	958,017
Deferred tax on depreciation of property, plant and equipment	**(87,105)**	37,751
Deferred tax on revaluation of available-for-sale investment securities	**10,190**	43,233
Deferred tax on interest on non-performing loans	**(357,097)**	(150,260)
Balance at end of year asset	**454,729**	888,741

The deferred income tax on the balance sheet is comprised of the following:

Deferred tax on depreciation of property, plant and equipment	**(376,317)**	(289,212)
Deferred tax on revaluation of available-for-sale investment securities	**(19,977)**	(30,167)
Deferred tax on interest on non-performing loans	**851,023**	1,208,120
Deferred income tax asset	**454,729**	888,741

The deferred tax expense in the consolidated statement of income is comprised of the following:

	2014 $	2013 $
Deferred tax on depreciation of property, plant and equipment	**87,105**	(37,751)
Deferred tax on interest on non-performing loans	**-**	150,260
	87,105	112,509

15 Taxation (continued)

	2014 $	2013 $
Income tax (receivable) / payable		
Income tax payable net, beginning of year	**(830,554)**	181,946
Payments made during year, net of refunds	**(88,961)**	(1,122,655)
Current tax expense	**67,664**	110,155
Prior year tax expense	**(685)**	-
Income tax (recoverable) / payable, at end of year	**(852,536)**	(830,554)
Income tax expense		
Operating profit for the year before taxation	**1,242,035**	6,791,940
Income tax expense at standard rate of 33% (2011: 35%)	**409,872**	2,377,179
Non-deductible expenses	**625,012**	527,778
Untaxed interest income	**(1,503,444)**	(1,060,196)
Untaxed dividend income	**(22,100)**	(42,228)
Effect of lower tax rate in subsidiary bank	**(483,063)**	(1,700,598)
Prior year income tax adjustment	**(685)**	-
Effect of movement in deferred taxes	**87,105**	112,509
Effect of tax losses and capital cost allowances (utilised) and carried forward (net)	**976,711**	(49,678)
Effect of withholding taxes paid	**64,676**	57,898
Actual income tax expense	**154,084**	222,664

The Bank's subsidiary Bank of Nevis International Limited has carried forward income tax losses of $9,824,452 at June 30, 2014 (2013: $9,829,788). The tax losses have not been confirmed by the tax authorities. Losses may be carried forward and deducted against future taxable income within six 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 may result in a deferred tax asset of $245,610 (2013: $245,745) which has not been recognised in the consolidated financial statements due to the uncertainty of its recovery. The losses incurred were as follows:

Year of loss	2014 $	2013 $
2011	**2,724,056**	2,724,056
2009	**7,100,396**	7,105,732
Total	**9,824,452**	9,829,788

15 Taxation (continued)

Capital cost allowances

The Bank has carry-forward capital cost allowances of $1,594,386. 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.

	2014 $	2013 $
Balance at beginning of year	**975,646**	192,511
Additions during the year	**618,740**	870,373
Claims during the year	**-**	(87,238)
Balance at end of year	**1,594,386**	975,646

16 Share capital

	2014 $	2013 $
Authorised share capital		
50,000,000 shares at $1 each	**50,000,000**	50,000,000
Issued and fully paid		
shares (2013: 9,347,687 shares) of $1 each	**9,347,687**	9,347,687

17 Statutory reserves

Section 14 (1) of the St. Christopher and Nevis Banking Act No. 4 of 2004 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 23 (1) of the Nevis Offshore Banking Ordinance 1996 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.

During the year, $445,764 was transferred to the statutory reserves (2013: $280,744)

18 Revaluation reserves

	2014 $	2013 $
Balance, beginning of year	**12,995,969**	10,346,417
Appreciation in market value of investment securities, (net of tax)	**778,181**	191,860
Revaluation adjustment for lands and buildings	**(359,567)**	2,457,692
Balance, end of year	**13,414,583**	12,995,969
Represented by revaluation reserves attributable to:		
Available-for-sale investment securities	**661,130**	(117,051)
Property	**12,753,453**	13,113,020
	13,414,583	12,995,969

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:

	2014 $	2013 $
Appreciation in market value	**788,371**	235,092
Less: deferred tax	**(10,190)**	(43,232)
	778,181	191,860

19 Other reserves

	2014 $	2013 $
Other reserves:		
Balance at beginning of year	**2,794,581**	2,264,817
Reserve for loan impairment	**(40,123)**	(507,347)
Transfer to reserve fund	**135,758**	1,037,111
Total other reserves	**2,890,216**	2,794,581
Other reserves is represented by:		
Reserve for loan impairment	**-**	40,123
Reserve for items in-transit on correspondent bank accounts	**2,890,216**	2,754,458
	2,890,216	2,794,581

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

	2014 $	2013 $
Loans and advances	**13,186,114**	18,552,875
Deposits with banks and other financial institutions	**1,657,112**	1,637,164
Treasury bills	**3,679,420**	3,649,346
Other investment securities	**688,266**	1,024,406
Total interest income	**19,210,912**	24,863,791

21 Interest expense

	2014 $	2013 $
Time deposits	**8,214,748**	8,920,780
Savings deposits	**3,163,254**	3,218,728
Demand deposits	**240,138**	293,140
Other	**-**	34,664
Total interest expense	**11,618,140**	12,467,312

22 Other operating income

	2014 $	2013 $
Fees and commissions	**2,342,836**	**2,668,456**
Foreign exchange gain	**1,703,086**	**777,445**
Net Card services commissions and fees	**288,039**	**221,489**
Dividend income on available-for-sale investments	**758,607**	**784,135**
Bad debts recovered	**3,700**	**8,331**
Miscellaneous revenue	**167,827**	**32,185**
Write-back of items in-transit	**(12,076)**	**1,037,111**
Gain on disposal of assets	**1,217**	**26,781**
Total other operating income	**5,253,236**	**5,555,933**

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:

23 Related party transactions (continued)

Directors key management personnel, and related entities

	2014 $	2013 $
Balances at June 30, 2014		
Loans and advances outstanding	**10,138,057**	10,616,173
Undrawn credit commitments	**481,845**	1,117,750
Collateral held on balances outstanding	**22,258,159**	26,474,891
Deposits held	**40,205,257**	40,204,890

	2014 $	2013 $
Transactions for the year ended June 30, 2014		
Net loans and advances extended	**1,426,732**	3,013,326
Net deposits received	**76,867**	2,099,218
Interest income earned on loans and advances	**888,366**	960,954
Interest expense incurred on deposits held	**2,265,561**	2,376,405
Interest rates on loans and advances	**5.0% - 19.5%**	5.0% - 19.5%
Interest rates on deposits held	**0.0% - 6.0%**	0.0% - 6.5%

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

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 $2,049,630 (2013: $1,764,519) were paid to key members of management and were allocated as follows:

	2014 $	2013 $
Salaries and wages	**1,462,365**	1,404,519
Other staff costs	**428,603**	160,180
Social security costs	**97,566**	92,607
Pension costs	**61,096**	65,922
Gratuity	**-**	41,291
	2,049,630	1,764,519

24 Earnings per share

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

	2014	2013
Net profit attributable to shareholders	**$ 1,087,951**	$ 6,569,276
Weighted average number of ordinary shares in issue	**9,347,687**	9,347,687
Basic earnings per share	**$ 0.12**	$ 0.70

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:

	2014 $	2013 $
Undrawn commitments to extend advances	**39,514,633**	30,324,189
Capital commitments	**937,371**	650,526
	40,452,004	30,974,715

Included in the amount of undrawn commitments to extend advances above are credit card commitments totalling $4,773,921 (2013: $5,002,103) at the year end.

26 Dividends

During the year, a cash dividend of $0.15 per share (2013: $0.10 per share) amounting to $1,402,153 was paid. (2013: $934,770).

27 Cash and cash equivalents

	2014 $	2013 $
Cash and balances due from banks and other financial institutions (note 7)	**150,239,828**	98,739,524
Investment securities (note 8)	**23,180,196**	19,528,855
Total cash and cash equivalents	**173,420,024**	118,268,379

28 General and administrative expenses

	2014 $	2013 $
Salaries and related costs (note 29)	**5,343,048**	5,392,995
Equipment repairs	**535,219**	464,568
Stationery and supplies	**214,268**	348,763
Advertisement and promotion	**218,966**	329,143
Professional fees	**98,078**	253,645
Utilities	**256,908**	240,191
Insurance expense	**176,224**	170,059
Telephone, telex and cables	**177,068**	168,493
Security services	**122,660**	114,963
Rent	**84,240**	84,240
Taxes and licences	**65,999**	73,326
Repairs and maintenance	**37,315**	64,794
Subscriptions and fees	**49,251**	57,171
Travel and entertainment	**120,006**	56,035
ECSE fees and expenses	**41,367**	38,385
Stamps and postage	**33,952**	37,773
Annual report expense	**38,281**	34,879
Miscellaneous expenses	**39,775**	31,633
Administrative fees	**9,428**	24,068
Cleaning	**23,427**	22,523
Credit card processing expense	**24,572**	17,780
Legal fees	**-**	15,969
Secretarial fees	**9,468**	6,468
Cash shorts	**2,085**	1,922
Total general and administrative expenses	**7,721,605**	8,049,786

29 Salaries and related costs

	2014 $	2013 $
Salaries and wages	**3,969,766**	3,858,460
Other staff costs	**841,027**	928,361
Social security costs	**347,549**	343,427
Gratuity	**-**	41,291
Pension costs	**184,706**	221,456
Total salaries and related costs	**5,343,048**	5,392,995

In 2003 the Bank introduced a pension plan for its employees. Contributions to the pension plan for the year ended June 30, 2014 amounted to $184,706 (2013: $221,456).

Non-consolidated Financial Statements

The Bank of Nevis Limited

June 30, 2014
(expressed in Eastern Caribbean dollars)

The Bank of Nevis Limited
June 30, 2014

Contents

Deloitte.

PKF

Independent auditors' report

To the shareholders of The Bank of Nevis Limited

The accompanying summary financial statements, which comprise the non-consolidated statement of financial position as at June 30, 2014, the non-consolidated statement of comprehensive income, non-consolidated statement of income, non-consolidated statement of changes in equity and non-consolidated statement of cash flows for the year then ended, are derived from the audited financial statements of The Bank of Nevis Limited for the year ended June 30, 2014. We expressed an unmodified audit opinion on those non-consolidated financial statements in our report dated February 3, 2015.

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 financial statements, therefore, is not a substitute for reading the audited non-consolidated financial statements of The Bank of Nevis Limited.

Management's responsibility for the summary financial statements

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

Auditors' responsibility

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

Opinion

In our opinion, the summary non-consolidated financial statements are consistent, in all material respects, with the audited non-consolidated financial statements of The Bank of Nevis Limited for the year ended June 30, 2014, prepared in accordance with International Financial Reporting Standards.

Deloitte & Touche

PKF

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St Kitts

February 3, 2015

The Bank of Nevis Limited

Non-consolidated Statement of Financial Position
As at June 30, 2014

(expressed in Eastern Caribbean dollars)

	2014 $	2013 $
Assets		
Cash and balances with the Central Bank	**24,603,298**	17,872,825
Due from other banks and other financial institutions	**104,397,337**	59,867,313
Investment securities	**35,568,483**	32,669,336
Loans and advances	**193,841,343**	188,860,890
Other assets	**1,693,111**	1,623,156
Investment in subsidiaries	**2,350,000**	2,350,000
Property, plant and equipment	**27,742,711**	26,085,054
Intangible assets	**459,328**	601,815
Deferred tax asset	**454,729**	888,741
Income tax receivable	**833,706**	833,021
Due from related parties	**2,806,275**	221,254
Total assets	**394,750,321**	331,873,405
Liabilities		
Customers' deposits	**322,389,877**	279,314,479
Other liabilities and accrued expenses	**24,278,144**	4,925,503
Total liabilities	**346,668,021**	284,239,982
Shareholders' Equity		
Share capital	**9,347,687**	9,347,687
Statutory reserve	**9,734,355**	9,288,591
Revaluation reserve	**12,791,255**	13,169,044
Other reserves	**1,048,505**	952,870
Retained earnings	**15,160,498**	14,875,231
Total shareholders' equity	**48,082,300**	47,633,423
Total liabilities and shareholders' equity	**394,750,321**	331,873,405

Approved for issue by the Board of Directors on January 28, 2015

Chairman

Director

The Bank of Nevis Limited
Non-consolidated Statement of Income
For the year ended June 30, 2014
(expressed in Eastern Caribbean dollars)

	2014 $	2013 $
Interest income	**15,580,209**	18,452,914
Interest expense	**(10,461,395)**	(10,904,256)
Net interest income	**5,118,814**	7,548,658
Impairment provision on investment securities	**-**	(426,100)
Other operating income	**7,115,726**	4,036,827
	12,234,540	11,159,385
Operating expenses		
General and administrative expenses	**6,519,279**	6,987,480
Depreciation	**584,577**	352,321
Amortisation	**190,962**	212,597
Directors' fees and expenses	**337,150**	306,643
Audit fees	**294,255**	327,600
Provision for loan impairment	**1,619,398**	1,163,464
Correspondent bank charges	**344,852**	271,044
	9,890,473	9,621,149
Operating profit before tax for the year	**2,344,067**	1,538,236
Taxation		
Current tax expense	**28,143**	54,732
Deferred tax expense	**87,105**	79,782
	115,248	134,514
Net profit for the year – attributable to shareholders of the company	**2,228,819**	1,403,722
Earnings per share	**0.24**	0.15

The Bank of Nevis Limited

Non-consolidated Statement of Comprehensive Income

For the year ended June 30, 2014

(expressed in Eastern Caribbean dollars)

	2014 $	2013 $
Net profit for the year	**2,228,819**	1,403,722
Other comprehensive income for the year:		
Items that may be reclassified subsequently to profit or loss:		
Net change in market value of investment securities, net of tax	**(18,222)**	(80,293)
Items that will not be reclassified subsequently to profit or loss:		
Revaluation adjustment: land and building	**(359,567)**	2,457,692
Total comprehensive income for the year	**1,851,030**	3,781,121

The Bank of Nevis Limited

Non-consolidated Statement of Changes in Equity

For the year ended June 30, 2014

(expressed in Eastern Caribbean dollars)

	Share capital $	Statutory reserves $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance June 30, 2012	**9,347,687**	**9,007,847**	**10,791,645**	**1,090,461**	**14,549,432**	**44,787,072**
Total comprehensive income for the year	-	-	2,377,399	-	1,403,722	3,781,121
Transfers to reserves	-	280,744	-	(137,591)	(143,153)	-
Dividends	-	-	-	-	(934,770)	(934,770)
Balance June 30, 2013	**9,347,687**	**9,288,591**	**13,169,044**	**952,870**	**14,875,231**	**47,633,423**
Total comprehensive income for the year	-	-	(377,789)	-	2,228,819	1,851,030
Transfers to reserves	-	445,764	-	95,635	(541,399)	-
Dividends	-	-	-	-	(1,402,153)	(1,402,153)
Balance June 30, 2014	**9,347,687**	**9,734,355**	**12,791,255**	**1,048,505**	**15,160,498**	**48,082,300**

The Bank of Nevis Limited

Non-conolidated Statement of Cash Flows
For the year ended June 30, 2014
(expressed in Eastern Caribbean dollars)

	2014 $	2013 $
Cash flows from operating activities		
Operating profit before tax for the year	**2,344,067**	1,538,236
Items not affecting cash		
Provision for loan impairment	**1,619,398**	1,163,464
Depreciation	**584,577**	352,321
Amortisation	**190,962**	212,597
Impairment provision on investment securities	**-**	426,100
Net (gain) / loss on disposal of fixed assets	**(1,217)**	(80)
Dividends receivable	**(2,694,900)**	-
Interest income	**(15,580,209)**	(18,452,914)
Interest expense	**10,461,395**	10,904,256
Cash flows from operating income before changes in operating assets and liabilities	**(3,075,927)**	(3,856,020)
Changes in operating assets and liabilities		
(Increase) / decrease in mandatory and restricted deposits held with Central Bank	**(6,344,902)**	388,648
(Increase) / decrease in other assets	**(69,957)**	395,508
(Increase) in loans and advances, net of repayments received	**(6,443,017)**	(8,180,730)
Increase / (decrease) in customers' deposits	**43,792,068**	32,590,302
(Decrease) / Increase in other liabilities and accrued expenses	**19,352,641**	314,383
Cash from / (used in) operations before interest and tax	**47,210,906**	21,652,091
Interest paid	**(11,178,065)**	(10,708,492)
Interest received	**15,396,719**	18,923,915
Income tax paid	**(28,828)**	(1,091,515)
Net cash from / (used in) operating activities	**51,400,732**	28,775,999
Cash flows from investing activities		
Purchase of property, plant and equipment	**(2,244,838)**	(1,488,958)
Sale of property, plant and equipment	**3,821**	80
Purchase of intangible assets	**(48,475)**	(519,705)
Decrease / (increase) in investment securities	**(900,000)**	2,694,433
Decrease in fixed deposits	**(2,307,083)**	-
Net cash from / (used in) investing activities	**(5,496,575)**	685,850
Cash flows from financing activities		
Dividends paid	**(1,402,153)**	(934,770)
Repayments from / (advances) to related parties	**109,879**	(279,837)
Net cash (used in) / from financing activities	**(1,292,274)**	(1,214,607)
Increase / (decrease) in cash and cash equivalents	**44,611,883**	28,247,242
Cash and cash equivalents, beginning of year	**78,006,559**	49,759,317
Cash and cash equivalents, end of year	**122,618,442**	78,006,559

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The Bank Of Nevis Limited

Improving the Quality of Life

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