

**Schedule 1**  
**FORM ECSRC – K**

**ANNUAL REPORT PURSUANT TO SECTION 98 OF THE SECURITIES ACT OF 2001**

For the financial year ended JUNE 30, 2011

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Issuer Registration number BON 290885KN

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THE BANK OF NEVIS LIMITED

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(Exact name of reporting issuer as specified in its charter)

ST. KITTS AND NEVIS

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(Territory of incorporation)

P.O. BOX 450, MAIN STREET, CHARLESTOWN, NEVIS

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(Address of principal office)

Reporting issuer's:

Telephone number (including area code): 1 (869) 469-5564

Fax number: 1 (869) 469-1039 / 5798

Email address: info@thebankofnevis.com

(Provide information stipulated in paragraphs 1 to 13 hereunder)

Indicate whether the reporting issuer has filed all reports required to be filed by Sections 98 of the Securities Act of 2001 during the preceding 12 months

Yes\_\_\_\_\_

No\_\_\_\_\_

Indicate the number of outstanding shares of each of the reporting issuer's classes of common stock, as of the date of completion of this report.

CLASS	NUMBER
ORDINARY	9,347,687

**SIGNATURES**

Name of Chief Executive Officer:

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Signature

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Date

Name of Director:

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Signature

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Date

Name of Chief Financial Officer:

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Signature

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Date

## **INFORMATION TO BE INCLUDED IN THE REPORT**

- 1. Business.** The Bank of Nevis Limited (the “Bank”) is a public company incorporated on August 29, 1985 under the laws of the Federation of St. Christopher and Nevis. The Bank is subject to the provision of the Banking Act No. 4 of St. Christopher and Nevis. The principal activity of the Bank is the provision of financial services, and its registered office is: Main Street, Charlestown, Nevis.

In July 1998, the Bank’s offshore activities and operations were transferred into a newly transformed 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.

The Bank also established an international and a domestic mutual fund in 2004 and 2005 respectively. The Mutual Funds are presently not operational.

The Bank’s operations commenced in 1985 with total assets of EC\$250,000 and a staff complement of 5. At June 30, 2011, the Bank’s asset base had expanded to EC\$414.69 million and the number of employees increased to 60.

### **2. Properties.**

The Bank is currently undertaking a building construction and refurbishment project. Upon completion, the following properties will be merged to form the Bank of Nevis Limited’s Financial Complex:

1. Land and buildings at Main Street, Charlestown, Nevis that houses the Bank’s main offices. This will be refurbished.
2. Land and buildings on Main Street, Charlestown, Nevis, adjacent to the current Bank premises. This is being re-constructed and will be host to the main Banking premises.
3. Two plots of land at the rear of the Bank’s premises. These have been identified for use as parking.

### **3. Legal Proceedings.**

On September 24, 2010, a former employee of the Bank filed a claim for damages for wrongful and/or unfair termination of employment. A probable outcome has not yet been determined.

**4. Submission of Matters to a Vote of Security Holders.**

The Bank's twenty fourth Annual General Meeting was held on April 28, 2011. The following matters were submitted for a vote of the security holders:

Election of Independent Director:

- Dr. Telbert Glasgow who retired by rotation and being eligible was re-elected as an Independent Director.

Election of Independent Directors:

- Mr. Richard Lupinacci retired by rotation and being eligible, was re-elected as a Non-Independent Director.
- Mr. David Straz Jr. was elected as a Non-Independent Director.

Appointemnt of Auditors:

- Pricewaterhouse Coopers, Chartered Accountants, retire and were ineligible by virtue of the Eastern Caribbean Central Bank's enforced guidelines. Deloitte & Touche / PKF were appointed as the Bank's auditors for the year ended June 30, 2011.

**5. Market for Reporting issuer's Common Equity and Related Stockholder Matters.**The Bank's shares are listed on the Eastern Caribbean Securities Exchange (ECSE).

During the year under review a total of 500,279 of The Bank of Nevis' shares were traded on the ECSE.

**6. Financial Statements and Selected Financial Data.**

Please see attached.

**7. Disclosure About Risk Factors.**

The Bank is exposed to diverse risks in the conduct of its daily operations. The Bank defines risk as the possibility of losses of profits foregone, which may be caused by internal or external factors. Some of the major risks facing the Bank are outlined below.

### Credit Risk:

Credit Risk is the largest risk facing the Bank's business, and is defined as the risk of incurring a financial loss should any of the Bank's customers or counterparties fail to fulfill their contractual obligations to the Bank. For the Bank, credit risk arises mainly from the loans and advances portfolio which comprises 48.67% of the Banks total assets. The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures from its trading activities.

### 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.

### Foreign Exchange Risk:

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The majority of the Bank's assets and liabilities are held in Eastern Caribbean dollars which is the local currency. Most of the assets in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar to the United States dollar has been formally pegged at EC\$2.70 = US\$1.00 since 1974. Assets and liabilities are also held in Euro, Pound Sterling, Canadian and Barbadian currencies. The exposure is no material to the Bank's financial position.

### Market Risk

The Bank is exposed to market risk which is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. This exposure arises via certain assets within the investment portfolio, which at reporting date comprised 5.61% of the Bank's total assets. The market risks arising from the investment portfolio are monitored on a continuous basis by the Investment and Risk Management committees and by Management.

## **8. Changes in Securities and Use of Proceeds.**

N/A

## **9. Defaults Upon Senior Securities.**

N/A

## **10. Management's Discussion and Analysis of Financial Condition and Results of Operation.**

### **(i) Liquidity**

The Bank's liquidity is managed on a daily basis by management and through the offices of the Investments and Treasury Management Department. The Bank's liquid assets are comprised primarily of correspondent accounts with banks in ECCU territories, short-term deposits with non-bank financial institutions, and Treasury Bills. At June 30, 2012, the Bank's liquid assets amounted to \$94.93 million or 22.88% of the Bank's asset base.

### **(ii) Capital Resources**

During the year, work continued on the Bank's construction and refurbishment project. A total of \$4.40 million was spent on the project during the year. At June 30, 2011, outstanding commitments in relation to the project amounted to \$2.01 million.

### **(iii) Results of Operation.**

#### **Assets**

During the year, the Bank's asset base expanded by \$26.82 million or 6.91% to \$414.82 million. The growth in the asset base is evident primarily in loans and advances, funded via customer deposit activity.

#### **Loans and Advances**

The loans and advances portfolio increased by \$14.92 million or 7.90% during the year with a total of \$203.74 million at June 30, 2011. The increase for the year-under-review is primarily due to growth in the public and commercial sectors.

#### **Customers' Deposits**

Total deposit liabilities of \$337.92 million at the end of June, 2011. This total represents an increase of \$25.33 million or 8.10% over the previous year. The increase for the year is reflected primarily in the savings deposit category. There were also slight increases in the fixed deposit and current account categories.

#### **Shareholders' Equity**

Shareholder's Equity amounted to \$54.39 million at June 30, 2011, representing a net increase of \$5.87 over the June 30, 2010 amount. The increase for the year is primarily as a result of the earnings for the year.

#### **Interest Income and Expense**

Total interest income for the year ending June 30, 2011 was \$23.69 million, representing a net decrease of \$1.41 million or 5.61% when compared to the June 30, 2010 earnings.

The reduced interest income is associated mainly with the reduced earnings on the investment and treasury portfolio due to rate reductions and liquidation of certain investments. In addition, earning assets were significantly reduced in the first half of the financial year.

Total interest expense for the year ending June 30, 2011 amounted to \$11.92 million. This position represents a net increase of \$402,113 over the June 30, 2010 expense. The increase is associated with the increase in customers' deposits.

Net income at June 30, 2011 was \$11.77 million and represents a net decrease of \$1.81 million over the June 30, 2010 performance.

#### **Other Operating Income**

At June 30, 2011, total operating income amounted to EC\$5.57 million, representing a marginal decline of \$338,139 when compared to the June 30, 2010 position of \$5.91 million.

#### **Operating Expenses**

Total operating expenses for the year ending June 30, 2011 was \$11.22 million and represents an decrease of EC\$304,714 or 2.64% when compared to the June 30, 2010 total of EC\$11.52 million.

#### **Earnings**

Pretax net profit for the year ending June 30, 2011 amounted to \$6.77 million, representing an increase of \$1.74 over the \$5.03 million reported at June 30, 2010.

Net profit after tax for the 2011 financial year amounted to \$6.04 million, representing a return on average assets of 1.50% and earnings per share of \$0.65. Net profit after tax at June 30, 2010 amounted to \$4.28 million.

### **11. Changes in and Disagreements with Auditors on Accounting and Financial Disclosure.**

The Eastern Caribbean Central Bank Enforced Guidelines for external auditing of financial institutions require that the lead and concurring audit partners should be rotated

at least once every six years, provided that the financial institution shall not engage the services of the same auditor for more than nine consecutive years.

Pricewaterhouse Coopers (PwC) served as the Bank's External Auditors since the financial year ending June 30, 1998 and based on the above requirement, were due for rotation. As a consequence, the firm of Deloitte & Touche/PKF Chartered Accountants were recommended and appointed as the Bank's External Auditors for the financial year ending June 30, 2011.

## **12. Other Information.**

In addition to the appointments at the Bank's 24<sup>th</sup> AGM, there were additional changes to the Board of Directors, as several directors demitted office as follows:

Chris Morton - effective September 30, 2010

Krishan (Kishu) Chandiramani – effective December 15, 2010

Desmond Herbert – effective May 26, 2011

## **13. List of Exhibits**

The Bank of Nevis Limited Annual Report 2011