The Bank of Nevis Limited

Serving Our Community

Annual Report 2008

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.

The Bank of Nevis Limited

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NOTICE OF MEETING

Notice is hereby given that the Twenty Second Annual General Meeting of The Bank of Nevis Limited will be held at the Old Manor Hotel on Tuesday March 31, 2009 at 5:00 pm.

AGENDA

1. To approve the Minutes of the twenty-first Annual General Meeting held on February 28, 2008
2. To receive the report of the directors.
3. To receive and consider the accounts for the year ended June 30, 2008.
4. To elect three directors; Hanzel Manners and Kishu Chandiramani retire by rotation, and being eligible, offer themselves for re-election; Spencer Howell resigned from office on July 31, 2008.
5. To declare a dividend of 20 cents per share.
6. To appoint auditors for the year ending June 30, 2009. PricewaterhouseCoopers, Chartered Accountants, retire and being eligible, offer themselves for reappointment.
7. Any other business.

BY ORDER OF THE BOARD

A. Knights.

AIANDRA E. KNIGHTS (MISS)
Secretary

NOTES

1. **All shareholders of record as at March 09, 2009 will be entitled to receive a dividend with respect to the financial year ended June 30, 2008.**
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. **No person not being a retiring director shall, unless recommended by the directors for election, be eligible for election to the office of Director at any General Meeting unless he, or some other member intending to propose him has, at least seven clear days before the meeting, left at the office a notice in writing, duly signed, specifying his candidature for the office, and the intention of such member to propose him.**

CORPORATE INFORMATION

DIRECTORS

Richard Lupinacci
Hotelier/Chairman

Hanzel Manners
Chartered Accountant

Kishu Chandiramani
Businessman

Janice Daniel-Hodge
Businesswoman

Oral Martin
Solicitor

Sonya L. E. Parry
Solicitor

David A. Straz, Jr.
Ambassador at Large
Honorary Consul of the Republic of Liberia

Dr. Telbert R. Glasgow
Engineer

Spencer Howell
Real Estate Agent

Lyra Richards
Banker

SECRETARY

Aiandra E. Knights LLB (Hons) UWI

REGISTERED OFFICE

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

AUDITORS

PricewaterhouseCoopers
Cnr. Bank Street & West
Independence Square St.
Basseterre
St. Kitts

EXTERNAL COUNSEL

R L Kawaja & Associates
Barristers-at-Law
Chambers
Upper Happy Hill Drive
Nevis, West Indies

IN-HOUSE COUNSEL

Aiandra E. Knights LLB (Hons) UWI
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	Barbados National Bank
Canada	Toronto Dominion Bank
St. Kitts	SKNA National Bank
	Royal Bank of Canada
	First Caribbean International Bank
Saint Lucia	Bank of St. Lucia
St. Maarten	Windward Island Bank
St. Vincent & the Grenadines	National Commercial Bank (SVG) Ltd.
United Kingdom	ABN-AMRO N.V. (London)
	Lloyds TSB Bank PLC
United States	Bank of America

INVESTMENT BROKERS

Caribbean Money Market Brokers (CMMB)
Charles Schwab
SunTrust Robinson Humphrey Inc.
Citi Smith Barney

BOARD COMMITTEES

Audit & Compliance
Credit
Investment
Building
Strategic Action Planning
Compensation

BOARD OF DIRECTORS


Richard Lupinacci
Hotelier/Chairman


Hanzel Manners
Chartered Accountant


Kishu Chandiramani
Businessman


Janice Daniel-Hodge
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Real Estate Agent


Lyra Richards
Banker


Aiandra E. Knights
Corporate Secretary

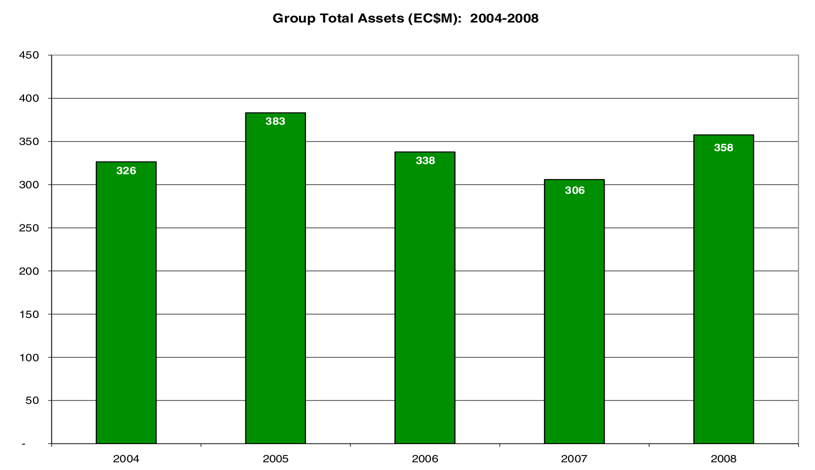
GROUP FINANCIAL HIGHLIGHTS

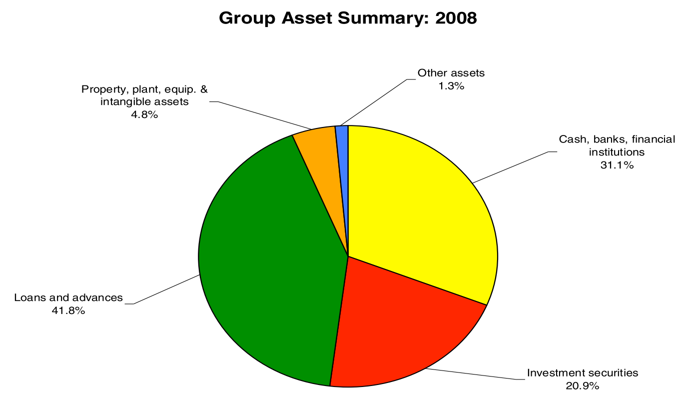
Expressed in Eastern Caribbean Dollars

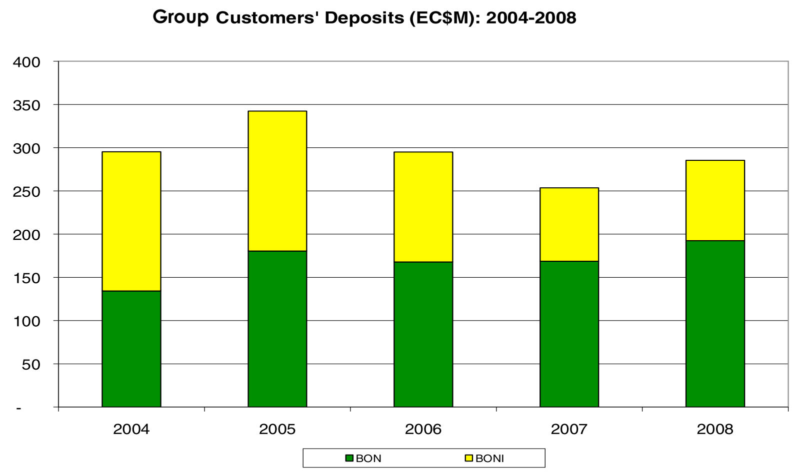
	2008 ($ 000)	2007 ($ 000)	2006 ($ 000)	2005 ($ 000)	2004 ($ 000)
Total assets	**357,627**	305,836	337,890	383,186	326,390
Due from banks and other financial institutions	**111,344**	57,708	77,239	135,070	97,937
Investment securities	**74,838**	96,907	130,259	141,186	148,623
Loans & advances	**149,495**	137,468	120,537	96,896	70,157
Customers' deposits	**285,323**	253,532	292,991	342,284	295,183
Paid-up share capital	**7,478**	7,478	7,478	7,478	7,478
Shareholders' equity	**51,027**	36,466	32,521	28,498	24,134
Gross operating income	**27,813**	25,794	25,134	22,085	16,188
Total expenses & provisions (excl. tax)	**21,181**	20,731	18,834	17,337	13,166
Interest income	**22,686**	19,949	21,030	17,510	13,711
Interest expense	**8,570**	7,700	8,033	8,551	5,913
Staff costs	**5,928**	5,591	3,576	3,183	2,672
Operating income before tax	**6,632**	5,063	6,301	4,749	3,022
Income Tax (credit) expense	**(179)**	126	95	112	232
Net income	**6,811**	4,937	6,206	4,636	2,790
Earnings per share ($)	**0.91**	0.66	0.83	0.62	0.37
Dividend per share (cts)	**20.0**	20.0	25.0	20.0	17.5
Return on average assets (%)	**2.05**	1.53	1.72	1.31	0.92
Return on average equity (%)	**15.57**	14.31	20.34	17.62	11.53
Number of employees	**62**	53	50	48	44

GROUP FINANCIAL HIGHLIGHTS ...CONT'D

Expressed in Eastern Caribbean Dollars

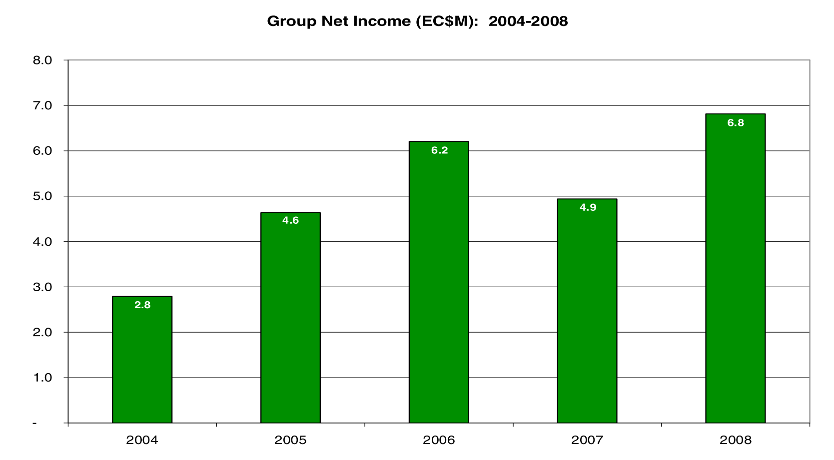


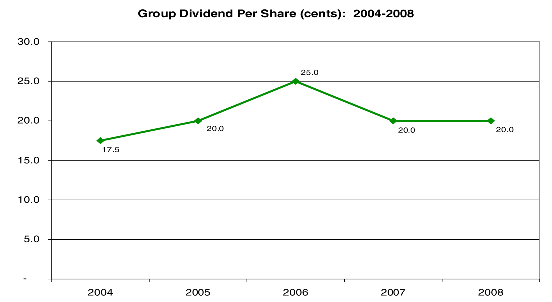




GROUP FINANCIAL HIGHLIGHTS ...CONT'D

Expressed in Eastern Caribbean Dollars





Shareholdings of Directors & Related Parties

June 30, 2008

Director	Number of Shares Held
Kishu Chandiramani	18,730
Janice Daniel-Hodge	20,000
Telbert Glasgow	2,370
Spencer H. Howell	20,000
Richard Lupinacci	51,930
Hanzel Manners	27,962
Oral Martin	1,550
Sonya Parry	26,450
Lyra Richards	66,070
David Straz Jr.	1,495,630
TOTAL	**1,730,692**

CHAIRMAN'S REMARKS

Richard Lupinacci
Chairman

In his Doctor of Philosophy (Ph.D) thesis, "Monetary and Financial Arrangements in a Dependent Monetary Economy," economist Clive Y Thomas wrote:

"It is so often taken for granted that in a dependent monetary economy, expatriate banking dominates the commercial banking sector, that the importance of the absence of an indigenous banking movement is sometimes overlooked or at best underestimated."

This philosophy was perhaps the source of inspiration for the group of individuals who in 1985 conceived the idea to establish a local bank geared towards "Improving the Quality of Life" for the people of Nevis. Over the twenty-three years of its operations, The Bank of Nevis Limited has experienced commendable growth and has fulfilled its promise for not only Nevisians but for all the people of the Federation of Saint Kitts and Nevis including those in the Diaspora. It is within this context that the theme, **"Serving Our Community,"** was chosen for this year's annual report.

During the financial year 2008, the Bank continued to be a catalyst for development, providing funding for tourism projects, affordable housing, education, small business development and corporate expansion. Despite the success of the Bank, we must reflect on the challenges affecting the global, regional and domestic financial landscapes. The United States (US) sub-prime crisis which created a credit crunch in the US and other developed economies, high prices for oil, food and commodities and a depreciating US dollar are exogenous factors that have negatively impacted the operation of business in our islands. Concerns over the long term prospects for the US economy is likely to adversely impact the tourism industry and direct foreign investment. In this environment, it is critical that the Bank undertake a fundamental evaluation of its risk management strategies while continuing to provide excellent service and products that support the operations of its customers.

Governance

Your Board of Directors is committed to effective corporate governance. Accordingly, the Board and committees meet monthly to provide rigorous oversight and ensure management's compliance with the Bank's policies and procedures. During the year, the Bank established a marketing committee which is mandated to promote the services and products of the Bank. While this is a management committee, the Board provides oversight through the review and approval of the marketing plan.

All committees are required to report to the Board. This reporting mechanism ensures accountability and assists the Board in its commitment to shareholder welfare. Going forward, the Board intends to create charters for all its committees which will clearly delineate the role and responsibilities of committee members.

Our Staff

The Board continues to support the training of staff in an effort to develop a cadre of competent employees skilled in providing core banking services. Additionally, the Board continues to build institutional capacity through its recruitment of high calibre professionals from within the Federation of Saint Kitts and Nevis and across the Caribbean.

We continue our efforts to ensure that our people operate in an environment of confidentiality and exhibit consistent standards of behaviour in dealing with our customers and other stakeholders.

The Way Forward

Going forward, your Board intends to ensure that the Bank achieves its vision of being the *"Preferred Financial Institution in the Markets we serve"* by providing quality service and products. The Bank intends to enhance the promotion of its savings product which remains the most competitive in the market. Further, the Bank will promote local entrepreneurship by providing loans to small businesses. Additionally, the Bank intends to intensify its corporate responsibility within the community by partnering with social groups to address issues affecting young males, crime and violence and healthy living.

Acknowledgements

I wish to thank my fellow directors for their unreserved support during the year. My appreciation is extended to management and staff for their continued dedication and commitment despite the challenges faced by the institution during the year. We are grateful to our customers who continue to support the institution and our shareholders for their continued confidence in the institution. As we move forward into a new year, we re-dedicate ourselves to ensuring that we exceed all of our stakeholders' expectations.

Richard Lupinacci
Chairman

DIRECTORS' REPORT

Your Directors are pleased to report on the performance of the Bank for the year ended June 30, 2008.

FINANCIAL ANALYSIS

Income Before Taxation

During the year, the Bank intensified its marketing efforts to attract new loans while at the same time containing operating expenses. The Bank also recorded an increase in interest on deposits with banks and other financial institutions. This resulted in an increase in profits for the year. Pre-tax income of $6.6 million was 32% or $1.6 million higher than the pre-tax income of $5.0 million recorded in 2007. This increase was primarily associated with an increase of 13.5% or $2.7 million in interest income and a reduction of 6.9% or $0.8 million in operating expenses.

The ratio of interest earned to interest paid remained relatively stable at 2.6 in 2008 compared to 2.5 in 2007.

Bank of Nevis International Limited registered a 31.4% or $1.1 million increase in profits due mainly to a reduction in operating expenses. Profit for the domestic bank improved by 33% from $1.5 million to $2.0 million.

Contribution to Pre-tax Income Before Inter-Company Dividends

	2008 EC$M	2007 EC$M	2006 EC$M	2005 EC$M	2004 EC$M
The Bank of Nevis Limited	2.00	1.50	1.40	1.40	0.50
Bank of Nevis International Limited	4.60	3.50	4.70	3.30	2.50

Comparison of Income and Expenses – The Bank of Nevis Limited (BON) & Bank of Nevis International Limited (BONI)

	BON EC$	BONI EC$
Loan interest income	13,085,250	1,561269
Other interest income	2,544,496	5,310,357
Other income	3,685,303	1,258,378
Interest Expense	7,855,618	938,828
Operating expenses	9,555,537	2,251,664

CREDIT DEPARTMENT

The Board continued to strengthen the skills set of the staff in the Credit Department through training. The areas covered included retail and commercial lending and securities for loans and advances. Staff also participated in training programmes in credit appraisal and managment of non performing loans.

The Bank continues to face the challenge of reducing the non-performing loan portfolio. At year end non-performing loans represented 9.0% of total loans. The Eastern Caribbean Central Bank (ECCB) guidelines require this to be reduced to 5%. Through the efforts of the Recoveries Officer and the Internal Legal Counsel, the Bank continues to work assiduously to ensure that the requirement of the ECCB's guidelines is achieved.

Changes in Loans and Advances

	2008 EC$M	2007 EC$M	Change EC$M
The Bank of Nevis Limited			
Loans and advances (gross)	143.21	129.79	13.42
Less: Provision for loan impairment	(3.31)	(3.12)	(0.19)
Loans and advances (net)	139.90	126.67	13.23
Bank of Nevis International Limited			
Loans and advances (gross)	9.60	10.81	(1.21)
Less: Provision for loan impairment	-	-	-
Loans and advances (net)	9.60	10.81	(1.21)

DEPOSITS

During the year, customer deposits grew by 14% and 9.6% at The Bank of Nevis Limited (BON) and Bank of Nevis International Limited (BONI) respectively. These results represent significant improvement compared to the marginal growth at BON in the previous year and the decline at BONI which was associated with the Bank's decision to close several accounts.

The Bank of Nevis Limited

	2008 EC$M	2007 EC$M	Change EC$M
Changes in Deposits			
Current	27.22	19.57	7.65
Savings	73.11	66.58	6.53
Time	90.16	80.43	9.73
Interest Payable	1.87	2.10	(0.23)
Total	**192.36**	**168.68**	**23.68**

Bank of Nevis International Limited

	2008 EC$M	2007 EC$M	Change EC$M
Changes in Deposits			
Current	61.53	64.14	(2.75)
Savings	25.89	14.82	11.07
Time/Interest Payable	5.54	5.88	(0.34)
Total	**92.96**	**84.84**	**8.12**

HUMAN RESOURCE DEVELOPMENT

The Bank continues to promote staff development and empowerment through various educational programmes and training initiatives. Following are some of the human resource development programmes that occurred during the year:

- Mrs. Marva Walwyn graduated from the University of Manchester with a Masters of Business Administration Degree with a concentration in Management and Mrs. Vernesia Walters completed a Master of Business Administration Degree with an emphasis in Human Resource Management from the University of Phoenix.
- Several staff members continue to pursue diploma, undergraduate and graduate programmes as the Bank focuses on building a cadre of qualified professional staff.
- During the year, internal training concentrated on customer service excellence and the Balance Scorecard. Staff also participated in the Rudimentary Banking Training Programme.
- Staff members were exposed to external and internal training on anti-money laundering and terrorist financing to ensure that the Bank remained compliant with local, regional and international legislation, regulations and guidelines.
- The Bank's Corporate Secretary attended a course facilated by the Society of Corporate Secetaries and Governance Professionals.
- Two Directors, Oral Martin and Lyra Richards participated in the Director Education and Accreditation Programme (DEAP) Caribbean, hosted jointly by the Eastern Caribbean Securities Exchange (ECSE) and the Institute of Chartered Secretaries and Administrators (ICSA), Canada.

OPERATIONAL CHANGES

During the year, the following operational changes were implemented:

- A Marketing Committee was established to promote the Bank's products and services. This Committee operates at the management level and focuses on advertising, promotion and product development.

- The use of technology is a critical aspect of the efficient operations of the Bank. Accordingly, the Bank continued to upgrade and enhance its technological resources. During the year the Bank installed or upgraded the following:

Installations

- Customer Relationship Management Application geared towards enhancing the Bank's relationship with its customers by maintaining a database on customers to ensure that their banking needs are satisfied.

- Intrusion detection and prevention systems.

- Contingency Systems for CORE Director.

Upgrades

- The main banking software, CORE Director

- Swift

MUTUAL FUNDS

Bank of Nevis International Fund Limited has ceased operations. However, we have retained the operating licence for future use.

CHANGES IN DIRECTORSHIP

In February 2008, four new directors were elected to the Board. Mr. David A. Straz Jr. and Miss Lyra Richards replaced the directors retiring by rotation, and Miss Sonya Parry and Dr. Telbert Glasgow were elected as independent directors. We are pleased to welcome them to the Board.

Mr. Rawlinson Isaac, who served as Managing Director for over fifteen years, retired by rotation in February 2008. The Board wishes to thank Mr. Isaac for the major contribution he has made to the growth and development of the Bank over the years.

Mr. R. Wendell Huggins who served as Director for six years, also retired by rotation. The Board expresses appreciation to Mr. Huggins for his invaluable contribution to the Bank.

DIRECTORS' REPORT ...CONT'D

CHANGES IN MANAGEMENT

The following changes were made to Management during the year:

- In June 2008, Mr. Hanzel Manners retired as Chief Financial Officer of The Bank of Nevis Ltd after 9 years of dedicated service in that position. Mr. Manners continues to serve as a Director of the Bank.

- In May 2008, the Bank appointed a new General Manager, Mr. L. Everette Martin. Prior to his appointment, Mr. Martin served as Director of the Bank Supervision Department at the Eastern Caribbean Central Bank (ECCB).

- The Bank recruited an Internal Legal Counsel in August 2008 to assist with the reduction in the non-performing loan portfolio and to facilitate the preparation of legal loan documents more expeditiously.

- A new Chief Financial Officer (CFO) was appointed in May 2008. The Board is pleased to report that it was able to appoint a staff member from within the Bank.

- A new Internal Auditor and Compliance Officer were recruited during the year to ensure that the Bank continues to enhance its corporate governance and internal controls.

The Board anticipates that with these new appointments, the Bank will improve its services to its stakeholders.

BANK OF NEVIS INTERNATIONAL LIMITED

The Board continues to review the operations of its offshore subsidiary, Bank of Nevis International Limited. The Board has decided that based on the strategic direction of the Bank, efforts should be undertaken to explore a partnership with an institution that possesses the relevant expertise and resources to elevate the Bank to a more competitive level.

SIGNIFICANT EVENTS OCCURRING AFTER YEAR-END

Mr. Spencer Howell resigned as a director on July 31, 2008. Mr. Howell served as a director from the Bank's inception. The Board expresses appreciation to Mr. Howell for his years of dedicated service to the Bank.

CONSTRUCTION OF NEW BANKING PREMISES

The Building Committee continues to work to have the designs of the new banking premises finalised. A Project Manager has been retained to provide assistance in ensuring the drawings are finalised and manage the construction of the building. Construction is expected to commence in June 2009.

CONCLUSION

Your Board acknowledges the hard work, focus, dedication and commitment of the staff and expresses gratitude to all customers, shareholders and other stakeholders for their contribution towards another successful year, and looks forward to your continued support.

By order of the Board

A Knights.

AIANDRA KNIGHTS
SECRETARY

The Bank of Nevis Limited

Consolidated Financial Statements

June 30, 2008

(expressed in Eastern Caribbean dollars)

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Cnr Bank Street & W. Indendence Sq.
P.O. Box 1038
Basseterre
St. Kitts, W. I.
Telephone (869) 466 8200
Facsimile (869) 466 9822

February 27, 2009

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 balance sheet as of June 30, 2008, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

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, 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants

Consolidated Balance Sheet

As of June 30, 2008
(expressed in Eastern Caribbean dollars)

	2008 $	2007 $
Assets		
Cash and balances due from banks and other financial institutions (note 6)	**111,344,389**	57,708,197
Investment securities (note 7)	**74,838,387**	96,907,561
Loans and advances (note 8)	**149,494,786**	137,468,229
Other assets (note 9)	**4,629,309**	5,170,449
Property, plant and equipment (note 10)	**16,920,938**	8,304,506
Intangible assets (note 11)	**398,840**	276,650
Total assets	**357,626,649**	305,835,592
Liabilities		
Customers' deposits (note 12)	**285,322,693**	253,532,214
Other liabilities and accrued expenses (note 13)	**20,894,587**	14,883,999
Provision for income tax (note 14)	**382,237**	161,399
Deferred tax (note 14)	**–**	571,881
Redeemable shares (note 15)	**–**	220,346
Total liabilities	**306,599,517**	269,369,839
Shareholders' Equity		
Share capital (note 16)	**7,478,150**	7,478,150
Revaluation reserves (note 17)	**10,425,454**	1,179,317
Other reserves (note 18)	**11,218,941**	10,162,765
Retained earnings	**21,904,587**	17,645,521
Total shareholders' equity	**51,027,132**	36,465,753
Total liabilities and shareholders' equity	**357,626,649**	305,835,592

The notes on pages 24 to 84 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on February 27, 2009

Richard S. Lupinacci Chairman

Director

Consolidated Statement of Income

For the year ended June 30, 2008
(expressed in Eastern Caribbean dollars)

	2008 $	2007 $
Interest income (note 19)	**22,686,303**	19,948,521
Interest expense (note 20)	**8,570,375**	7,699,773
Net interest income	**14,115,928**	12,248,748
Gains less losses from investment securities (note 7)	**181,249**	(286,740)
Realized loss on fair value through profit or loss investments	**–**	(57,480)
Impairment loss on available-for-sale investment securities	**(179,373)**	–
Impairment loss on building (note 10)	**(571,312)**	–
Other operating income (note 21)	**4,945,732**	5,845,439
Operating income	**18,492,224**	17,749,967
Operating expenses		
General and administrative expenses (note 28)	**10,094,954**	10,573,976
Provision for loan impairment, net of recoveries (note 8)	**217,817**	361,918
Directors' fees and expenses	**666,186**	893,330
Depreciation (note 10)	**385,833**	344,465
Amortisation (note 11)	**213,807**	249,720
Correspondent bank charges	**281,339**	263,328
	11,859,936	12,686,737
Operating income for the year before taxation	**6,632,288**	5,063,230
Taxation (note 14)		
Current tax expense	**345,907**	127,346
Prior year tax expense	**2,164**	–
Deferred tax credit	**(526,655)**	(869)
Income tax (credit)/expense	**(178,584)**	126,477
Net income for the year	**6,810,872**	4,936,753
Earnings per share (note 23)	**0.91**	0.66

The notes on pages 24 to 84 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2008
(expressed in Eastern Caribbean dollars)

	Share capital $	Revaluation reserve - available for sale investments $	Revaluation reserve - property $	Other reserves $	Retained earnings $	Total $
Balance, June 30, 2006	7,478,150	(1,284,669)	1,586,632	6,296,788	18,444,284	32,521,185
Net income for the year	–	–	–	–	4,936,753	4,936,753
Dividends	–	–	–	–	(1,869,539)	(1,869,539)
Reserve for loan impairment (note 18)	–	–	–	1,950,996	(1,950,996)	–
Transfer of net losses (net of tax)	–	286,740	–	–	–	286,740
Appreciation in market value of investment securities (net of tax)	–	590,614	–	–	–	590,614
Transfer to reserve fund (note 18)	–	–	–	1,914,981	(1,914,981)	–
Balance, June 30, 2007	7,478,150	(407,315)	1,586,632	10,162,765	17,645,521	36,465,753
Net income for the year	–	–	–	–	6,810,872	6,810,872
Dividends (note 26)	–	–	–	–	(1,495,630)	(1,495,630)
Appreciation in market value of land and buildings	–	–	9,068,696	–	–	9,068,696
Reserve for loan impairment (note 18)	–	–	–	(1,022,703)	1,022,703	–
Transfer of net losses (net of tax)	–	43,829	–	–	–	43,829
Appreciation in market value of investment securities (net of tax)	–	133,612	–	–	–	133,612
Reserve for interest on non-performing loans (note 18)	–	–	–	1,612,498	(1,612,498)	–
Transfer to reserve fund (note 18)	–	–	–	466,381	(466,381)	–
Balance, June 30, 2008	**7,478,150**	**(229,874)**	**10,655,328**	**11,218,941**	**21,904,587**	**51,027,132**

The notes on pages 24 to 84 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended June 30, 2008
(expressed in Eastern Caribbean dollars)

	2008 $	2007 $
Cash flows from operating activities		
Operating income for the year before taxation	**6,632,288**	5,063,230
Items not affecting cash:		
Realised loss on fair value through profit or loss investments	**–**	57,480
Realised (gain) loss on available for sale investments	**(181,249)**	286,740
Provision for loan impairment, net of recoveries	**217,817**	361,918
Depreciation	**385,833**	344,465
Amortisation	**213,807**	249,720
Loss on disposal of property, plant and equipment	–	38,371
Impairment loss on available-for-sale investment securities	**179,373**	–
Impairment loss on building	**571,312**	–
Interest income	**(22,686,303)**	(19,948,521)
Interest expense	**8,570,375**	7,699,773
Cash flows from operating income before changes in operating assets and liabilities	**(6,096,747)**	(5,846,824)
Changes in operating assets and liabilities		
Decrease (increase) in restricted fixed deposits	**6,198,273**	(1,347,453)
(Increase) decrease in deposits held for regulatory purposes	**(1,597,585)**	3,045,230
Increase in loans and advances	**(10,638,216)**	(17,104,383)
Decrease (increase) in other assets	**541,140**	(3,926,258)
Increase(decrease) in customer deposits	**31,944,026**	(39,856,748)
Increase in other liabilities and accrued expenses	**6,010,588**	3,313,514
Cash from (used in) operations	**26,361,479**	(61,722,922)
Interest paid	**(8,723,922)**	(7,301,794)
Interest received	**20,329,049**	20,186,204
Income tax paid, net of refunds	**(127,233)**	(3,685)
Net cash from (used in) in operating activities	**37,839,373**	(48,842,197)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(460,507)**	(607,214)
Purchase of intangible assets	**(335,997)**	(69,988)
Decrease in investment securities	**14,498,955**	19,195,102
(Increase)/decrease in fixed deposits	**(20,481,240)**	4,042,350
Net cash (used in) from investing activities	**(6,778,789)**	22,560,250
Cash flows used in financing activities		
(Redemption) issue of redeemable shares	**(220,346)**	10,987
Dividends paid	**(1,495,630)**	(1,869,539)
Net cash used in financing activities	**(1,715,976)**	(1,858,552)
Increase (decrease) in cash and cash equivalents	**29,344,608**	(28,140,499)
Cash and cash equivalents, beginning of year	**79,857,118**	107,997,617
Cash and cash equivalents, end of year (note 27)	**109,201,726**	79,857,118

The notes on pages 24 to 84 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

1 Incorporation and principal activity

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. It is licensed to conduct banking activities under the Banking Act of St. Christopher and Nevis, No. 4 of 2004

In July 1998, the Bank'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. Kitts 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. Kitts 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.

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

2 Significant accounting policies

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

a) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, as modified by the revaluation of land and buildings and available-for-sale investment securities.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Standards, amendments and interpretations effective in 2008

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Bank's financial instruments, or

2 Significant accounting policies ... *continued*

a) Basis of preparation ... *continued*

Standards, amendments and interpretations effective in 2008 ... continued

the disclosures relating to taxation and trade and other payables.

There was no impact on the opening retained earnings at July 1, 2007 on the adoption of the above mentioned-standard.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after July 1, 2008 or later periods, but the Bank has not early adopted them:

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

- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Bank will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from July 1, 2009.

- IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Bank will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from July 1, 2009.

- IAS 38 (Amendment), 'Intangible assets'(effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Bank will apply the IAS 38 (Amendment) from July 1, 2009.

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'(effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.
  - This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

2 Significant accounting policies ... *continued*

a) Basis of preparation ... *continued*

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

- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.
- The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity.
- When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Bank will apply the IAS 39 (Amendment) from July 1, 2009. It is not expected to have an impact on the Bank's income statement.

• IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Bank will apply the IAS 39 (Amendment) from July 1, 2009. It is not expected to have an impact on the Bank's financial statements.

• There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Bank's accounts and have therefore not been analysed in detail.

• IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the separate accounts of the parent and group companies. This interpretation does not have an impact on the Bank's financial statements.

• IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Bank will apply IFRS 8 from July 1, 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting.

2 Significant accounting policies ... *continued*

a) Basis of preparation ... *continued*

Standards and Interpretations to existing standards that are not yet effective and not relevant for the Bank's operations

The following interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after July 1, 2008 or later periods but are not relevant for the Bank's operations:

- IAS 23 (Amendment), 'Borrowing costs' (effective from January 1, 2009)
- IFRIC 12, 'Service concession arrangements' (effective from January 1, 2008).
- IFRIC 13, 'Customer loyalty programmes' (effective from July 1, 2008)
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from January 1, 2008)
- IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from January 1, 2009).
- IFRS 2 (Amendment), 'Share-based payments' (effective from January 1, 2009).
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from January 1, 2009).
- IFRS 3 (Revised), 'Business combinations' (effective from July 1, 2009).
- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from July1, 2009).
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from January 1, 2009).
- IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009).
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from October 1, 2008).
- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from January 1, 2009).
- IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement' is classified as held for sale under IFRS 5, 'Non-current assets held for sale and discontinued operations', IAS 39 would continue to be applied. The amendment will not have an impact on the group's operations because it is the Bank's policy for an investment in subsidiary to be recorded at cost in the stand alone accounts of each entity.
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from January 1, 2009).
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from January 1, 2009).
- IAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (effective from January 1, 2009).
- IAS 38 (Amendment), 'Intangible assets', (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment will not currently have an impact on the Bank's operations as all intangible assets are amortised using the straight line method.
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from January 1, 2009).
- IAS 41 (Amendment), 'Agriculture' (effective from January 1, 2009).
- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from January 1, 2009).
- IFRIC 15, 'Agreements for construction of real estate (effective from January 1, 2009).

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

b) Basis of consolidation

The consolidated financial statements include the accounts of the Bank and its subsidiaries: Bank of Nevis International Limited and subsidiaries, Bank of Nevis Mutual Fund Limited and Bank of Nevis Fund Managers Limited. Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. 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 that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between related entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

c) Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand, non-mandatory deposits with the Central Bank and other banks, treasury bills and other eligible bills, short-term funds and investments with original maturities of less than or equal to 90 days.

e) Financial Assets

The Bank classifies its financial assets in the following categories: loans and receivables and available-for-sale securities. Management determines the classification of its investments at the time of 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. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and advances to customers are carried at amortized cost using the effective interest method.

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

Purchases and sales of available for sale financial assets are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Notes to Consolidated Financial Statements
June 30, 2008
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

e) Financial assets ... *continued*

(b) Available-for-sale... ***continued***

Available-for-sale financial assets are subsequently carried at fair value. However, unimpaired equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. However, interest calculated using the effective interest method is recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in the statement of income when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices.

f) Impairment of financial assets

(a) Assets carried at amortised cost
The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
– adverse changes in the payment status of borrowers in the group; or
– national or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies *... continued*

f) Impairment of financial assetss *... continued*

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan has a variable interest rate, the 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 instruments' fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for group of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

Statutory and other regulatory loan reserve requirements that exceed these amounts are dealt with in the other reserves as an appropriation of retained earnings.

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.

2 Significant accounting policies *... continued*

f) Impairment of financial assetss ... *continued*

(b) Assets carried at fair value
The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

g) Offsetting financial instruments

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

h) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value for money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an expense.

i) Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost or valuation, less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method at rates considered appropriate to write-off the cost of an asset to its residual value over the estimated useful life of the asset at the following annual rates:

Buildings	2.5%
Furniture and fixtures	15%
Equipment	15%
Computer equipment	20%

Land is not depreciated.

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

i) Property, plant and equipment and depreciation ... *continued*

Property, plant and equipment are periodically reviewed for impairment. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Revaluations of property are carried out every 3 – 5 years based on independent valuations.

j) Intangible assets

Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

k) Interest income and expense and revenue recognition

Interest income and expenses are recognised in the statement of income for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

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 Bank 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.

l) Fees and commissions income and revenue recognition

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being 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.

m) Dividend income

Dividends are recognized in the statement of income when the entity's right to receive payment is established.

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

n) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by shareholders. Dividends for the year which are approved after the balance sheet date are disclosed as a subsequent event.

o) Foreign currency translation

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

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 balance sheet 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 statement of income.

p) Pension costs

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

q) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

The principal temporary differences arise from the depreciation of property, 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.

Deferred tax related to fair value re-measurements of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of income together with the deferred gain or loss.

r) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

s) Share Capital

Ordinary shares are classified as equity. Redeemable shares are classified as liabilities (note 15).

t) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

3 Financial risk management

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

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

Risk management is carried out by the Investment, Credit and Asset and Liability committees under policies approved by the Board of Directors. These committees identify, evaluate and hedge financial risks in close co- operation with the Bank's operating units. The Board provides written policies for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non derivative financial instruments. In addition, the Internal Audit Department is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Banks business. Management, therefore, carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in the Bank's Investment, Credit and Asset and Liability Committees, and reported to the Board of Directors and Audit Committee regularly.

3.1.1 Credit risk management

(a) Loans and advances

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of 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 Kitts and Nevis Federal Government, and Nevis Island Government ninety one day treasury bills, and other debt obligations by regional banking and non banking financial institutions, all of which are unrated.

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

3 Financial risk management ... *continued*

3.1.1 Credit risk management ... *continued*

(b) Debt securities and other bills ... continued

The Bank assesses the risk of default on these obligations by regularly monitoring the performance of the Federal Government, and the Nevis Island Government, 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.

3.1.2. 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 Banks, and to industries and countries.

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

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

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

The following specific control and mitigation measures are also utilised:

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
- Charges over financial instruments such as debt securities and equities

Longer-term finance and lending to corporate entities are generally secured; individual credit facilities are generally secured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counter party 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.

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

3 Financial risk management ... *continued*

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

(b) Credit-related commitments ... continued

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.

3.1.3 Impairment and provision policies

The internal rating system described in Note 3.1.1 focuses more on credit quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on the objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are 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 balance sheet at year end is derived from each of the five rating grades. However, the majority of the impairment provision comes from the doubtful and loss grades. The table below shows the percentage of the Bank's on- and off- balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

	2008		2007	
Bank's rating	**Loans and advances (%)**	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
Pass	80.7	–	80.0	–
Special mention	9.9	–	9.3	–
Sub standard	5.6	14.8	6.7	15.0
Doubtful	3.3	69.0	3.7	76.8
Loss	0.5	16.2	0.3	8.2
Total	**100.0**	**100.0**	**100.0**	**100.0**

The internal rating tools assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experienced by the borrower (eg. Equity ratio, net income percentage of sales)
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral

Notes to Consolidated Financial Statements

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(expressed in Eastern Caribbean dollars)

3 Financial risk management ... *continued*

3.1.3 Impairment and provision policies ... *continued*

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case by case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

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

	2008 $	2007 $
Credit risk exposures relating to on-balance sheet assets:		
Deposits with other banks	48,104,042	33,762,777
Deposits with non bank financial institutions	50,550,922	12,257,780
Investments securities:		
– Treasury bills and other eligible bills	35,266,200	42,840,652
– Bonds and other debt instruments	2,360,422	4,563,589
– Available for sale investments – unquoted	3,224,482	3,369,349
– Available for sale investments – quoted	33,987,283	46,133,971
Loans and advances	149,494,786	137,468,229
Other assets	4,629,309	5,170,449
	327,617,446	285,566,796
Credit exposures relating to off-balance sheet items:		
– Financial guarantees	–	–
– Loan commitments and other credit related facilities	32,341,964	41,917,836
Total	**359,959,410**	**327,484,632**

The above table represents a worse case scenario of credit exposure to the Bank at June 30, 2008 and 2007, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 41.5% of the total maximum exposure is derived from loans and advances (2007: 42.0%). 20.7% represents investment in securities. (2007: 29.6%)

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:

- 90.6% of the loans and advances portfolio is categorized in the top two grades of the internal rating system (2007: 89.3%).
- 99.8% of loans and advances, which represent the biggest group in the portfolio, are backed by collateral. (2007: 99.8%).
- 87.3% of the loans and advances portfolio are considered to be neither past due nor impaired (2007: 85.8%).

3 Financial risk management ... *continued*

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

- 10.4% of loans and advances are considered impaired (2007: 12.2%).
- The impairment provision on the balance sheet increased during the year to $3.3 million, an increase of 6.1% over the previous year ($3.1 million).
- The Bank has introduced a more stringent selection process upon granting loans and advances.
- 30.1% of the investment portfolio is held in the overseas markets, including the United States of America, and consist of rated securities. 69.9% is held in regional (Caribbean) banks and other business organisations, which carry no official rating. This policy of reducing the Bank's dependence on the United States market has served the Bank well in the current economic climate.

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2008		2007	
	Loans and advances to customers $	Loans and advances to Development Bank $	Loans and advances to customers $	Loans and advances to Development Bank $
Neither past due nor impaired	121,940,078	8,645,898	110,771,634	7,339,567
Past due but not impaired	6,694,885	–	5,658,331	–
Impaired	15,525,884	–	16,819,663	–
Gross	**144,160,847**	**8,645,898**	**133,249,628**	**7,339,567**
Less: allowance for impairment	(3,311,959)	–	(3,120,966)	–
Net	**140,848,888**	**8,645,898**	**130,128,662**	**7,339,567**

The total impairment provision for loans and advances is $3,311,959 (2007: $3,120,966) of which $2,876,824 (2007: $2,760,176) represents the individually impaired loans, and the remaining amount of $435,135 (2007: $360,790) represents the portfolio provision. Further information on the impairment provision for loans and advances to banks and to customers is provided in Note 8.

Notes to Consolidated Financial Statements
June 30, 2008
(expressed in Eastern Caribbean dollars)

3 Financial risk management... *continued*

3.1.5 Loans and advances ... *continued*

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

As at June 30, 2008

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Grades:					
Pass	2,565,258	40,301,517	28,438,566	47,458,706	118,764,047
Special mention	11,231,434	–	–	–	11,231,434
Substandard	–	–	–	–	–
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Interest receivable	115	251,912	128,936	209,532	590,495
Total	**13,796,807**	**40,553,429**	**28,567,502**	**47,668,238**	**130,585,976**

As at June 30, 2007

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Grades:					
Pass	3,140,027	38,479,719	28,593,591	35,280,674	105,494,011
Special mention	11,971,937	–	–	–	11,971,937
Substandard	–	–	–	–	–
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Interest receivable	41	115,735	291,089	238,388	645,253
Total	**15,112,005**	**38,595,454**	**28,884,680**	**35,519,062**	**118,111,201**

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

3 Financial risk management ... *continued*

3.1.5 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, 2008

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Past due up to 30 days	–	1,544,296	992,153	–	2,536,449
Past due 30-60 days	–	521,588	656,944	–	1,178,532
Past due 60-90 days	–	2,072,306	797,308	–	2,869,614
Interest receivable	–	62,989	47,301	–	110,290
Total	**–**	**4,201,179**	**2,493,706**	**–**	**6,694,885**

As at June 30, 2007

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Past due up to 30 days	–	1,778,078	1,866,410	–	3,644,488
Past due 30-60 days	–	268,272	90,040	–	358,312
Past due 60-90 days	–	638,522	969,996	–	1,608,518
Interest receivable	–	20,439	26,574	–	47,013
Total	**–**	**2,705,311**	**2,953,020**	**–**	**5,658,331**

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

3 Financial risk management *... continued*

3.1.5 Loans and advances *... continued*

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

As at June 30, 2008

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Individual impaired loans	1,009,981	6,429,276	6,002,671	–	13,441,928
Interest receivable	471,459	297,304	1,315,193	–	2,083,956
Total	**1,481,440**	**6,726,580**	**7,317,864**	**–**	**15,525,884**
Fair value of collateral	857,765	15,314,112	48,507,741	–	64,679,618

As at June 30, 2007

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Individual impaired loans	1,170,293	9,116,595	6,046,456	–	16,333,344
Interest receivable	256,021	167,745	62,553	–	486,319
Total	**1,426,314**	**9,284,340**	**6,109,009**	**–**	**16,819,663**
Fair value of collateral	612,056	18,305,597	49,212,945	–	68,130,598

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $13,441,928. (2007: $16,333,344)

(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 other wise be past due or impaired totalled $200,542 at June 30, 2008 (2007: $178,936).

Notes to Consolidated Financial Statements
June 30, 2008
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.1.6 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, 2008, based on Standard & Poor's rating or equivalent:

	Treasury bills $	Bonds and other debt instruments $	Available for sale $	Total $
AAA	–	–	8,396,834	8,396,834
Aa1--Baa3	–	–	6,633,049	6,633,049
Lower than Baa3	–	–	7,483,109	7,483,109
Unrated	35,266,200	2,360,422	14,698,773	52,325,395
Total	**35,266,200**	**2,360,422**	**37,211,765**	**74,838,387**

3.1.7 Repossessed collateral

The Bank took no possession of collateral during the year ended June 30, 2008. Repossessed collateral at June 30, 2007 totalled $310,000.

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

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

3 Financial risk management ... *continued*

3.1.8. 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, as categorised by geographical region as at June 30, 2008. For this table, 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-balance sheet assets:					
Deposits with other banks	3,397,497	26,537,902	2,810,687	15,357,956	**48,104,042**
Deposits with non bank financial institutions	808,470	46,555,417	3,187,035	–	**50,550,922**
Investment securities:					
–Treasury bills and other eligible bills	35,266,200	–	–	–	**35,266,200**
– Bonds and other debt instruments	150,000	2,210,422	–	–	**2,360,422**
– Available for sale investments – unquoted	173,567	3,050,915	–	–	**3,224,482**
– Available for sale investments – quoted	8,821,030	2,640,541	22,525,712	–	**33,987,283**
Loans and advances	149,158,609	–	336,177	–	**149,494,786**
Other assets	532,506	–	4,038,282	58,521	**4,629,309**
	198,307,879	80,995,197	32,897,893	15,416,477	**327,617,446**
Credit exposures relating to off balance sheet items:					
– Financial guarantees	–	–	–	–	–
– Loan commitments and other credit related facilities	32,341,964	–	–	–	**32,341,964**
As at June 30, 2008	**230,649,843**	**80,995,197**	**32,897,893**	**15,416,477**	**359,959,410**
As at June 30, 2007	**237,796,626**	**13,173,041**	**67,863,521**	**8,651,444**	**327,484,632**

3 Financial risk management *... continued*

3.1.8 Concentration of risks of financial assets with credit risk exposure *... continued*

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

	2008		2007	
	$	%	$	%
Personal	47,967,329	31.4	34,727,322	24.7
Commercial	25,238,075	16.5	35,696,289	25.4
Public sector	58,297,172	38.2	46,995,923	33.4
Investment	10,889,639	7.1	11,207,465	8.0
Land	3,939,720	2.6	4,667,519	3.3
Agricultural/manufacturing	1,686,332	1.1	2,137,811	1.5
Educational	1,698,171	1.1	1,862,060	1.3
Professional	687,436	0.4	1,189,314	0.9
Credit card advances	2,402,871	1.6	2,105,492	1.5
Total	**152,806,745**	**100.0**	**140,589,195**	**100.0**

3.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value of 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 Investment Committee and management. Regular reports are submitted to the Board of Directors and department heads.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non trading portfolios primarily arise from the-interest rate management of the entity's retail and commercial banking assets and liabilities. Non trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held to maturity and available for sales investments.

3.2.1 Price risk

The Bank is exposed to bond securities price risk because of investments held by the Bank and classified in the balance sheet either as available for sale or at fair value through profit and loss. The Bank is not exposed to commodity price risk. To manage the price risk arising from investments in bond securities, the Bank diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Bank.

If market rates at June 30, 2008 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $138,536 lower/$145,137 higher as a result of the increase/decrease in the fair value of available-for-sale investment securities.

3.2.2 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 set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The Bank's exposure to currency risk is not excessive since most of its assets and liabilities in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.7 =US$1.00 since 1974. The following table summarises the Bank's exposure to foreign currency exchange risk at June 30, 2008. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

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3 Financial risk management ... *continued*

3.2.2. Foreign exchange risk ... *continued*

	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
As at June 30, 2008							
Assets							
Cash and balances with the Central Bank	12,041,679	456,015	25,145	142,707	4,722	19,157	12,689,425
Deposits with banks	13,724,909	25,619,456	3,510,287	5,078,558	128,372	42,460	48,104,042
Deposits with non-bank financial institutions	4,139,497	42,873,800	3,537,625	–	–	–	50,550,922
Investment securities:							
– Treasury bills and other eligible bills	35,266,200	–	–	–	–	–	35,266,200
– Bonds and other debt instruments	150,000	2,210,422	–	–	–	–	2,360,422
– Available for sale investments- unquoted	173,567	3,050,915	–	–	–	–	3,224,482
– Available for sale investments-quoted	8,821,032	25,166,251	–	–	–	–	33,987,283
Loans and advances	133,628,171	15,866,615	–	–	–	–	149,494,786
Other assets	641,005	3,928,897	–	58,521	886	–	4,629,309
Total financial assets	**208,586,060**	**119,172,371**	**7,073,057**	**5,279,786**	**133,980**	**61,617**	**340,306,871**
Liabilities							
Customer deposits	154,934,004	127,026,655	1,314,198	1,947,626	100,210	–	285,322,693
Other liabilities and accrued expenses	3,812,986	17,081,601	–	–	–	–	20,894,587
Income tax payable	382,237	–	–	–	–	–	382,237
Total financial liabilities	**159,129,227**	**144,108,256**	**1,314,198**	**1,947,626**	**100,210**	**–**	**306,599,517**
Net on-balance sheet position	**49,456,833**	**(24,935,885)**	**5,758,859**	**3,332,160**	**33,770**	**61,617**	**33,707,354**
Credit commitments	**19,812,016**	**12,529,948**	**–**	**–**	**–**	**–**	**32,341,964**

Notes to Consolidated Financial Statements
June 30, 2008
(expressed in Eastern Caribbean dollars)

3 Financial risk management *. . . continued*

3.2.2. Foreign exchange risk *. . . continued*

	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
As at June 30, 2007							
Total financial assets	190,539,928	99,306,656	2,725,157	4,105,824	489,694	87,177	297,254,436
Total financial liabilities	138,561,592	129,185,409	517,841	435,299	97,817	–	268,797,958
Net on-balance sheet position	**51,978,336**	**(29,878,753)**	**2,207,316**	**3,670,525**	**391,877**	**87,177**	**28,456,478**
Credit commitments	**28,436,942**	**13,480,894**	**–**	**–**	**–**	**–**	**41,917,836**

If at June 30, 2008, 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 $575,886 (2007: $220,732) 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 2008 is $513,777 (2007: $1,269,100).

The Bank's holds no Euro denominated available-for-sale investment securities. Hence, there would have been no impact on equity if the United States Dollar had weakened/strengthened against the Euro at June 30, 2008.

If at June 30, 2008, the Eastern Caribbean dollar had weakened/strengthened by 10% against the Pounds Sterling with all other variables held constant, post-tax profit for the year would have been $327,363 (2007: $367,055) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Pounds 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 Pounds Sterling resulted is an exchange loss of $183,180 (2007: gain of $984,782).

Because the Bank holds no Pounds Sterling denominated available-for-sale investment securities, there would have been no impact on equity, if the United States dollar had weakened/ strengthened against the Pounds Sterling at June 30, 2008.

If at June 30, 2008, 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 $13,309 (2007:$58,692) 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 Euro.

3 Financial risk management *. . . continued*

3.2.2. Foreign exchange risk *. . . continued*

If at June 30, 2008, 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 $13,309 (2007:$58,692) 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 Euro.

The contribution to profit before taxation of foreign exchange gains on assets and liabilities held in Canadian currency in 2008 is a gain of $41,614 (2007: $91,832).

Because the Bank holds no Canadian dollar denominated available-for-sale investment securities, there would have been no impact on equity, if the United States dollar had weakened/ strengthened against the Canadian dollar at June 30, 2008.

3.2.3 Interest rate risk

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

Notes to Consolidated Financial Statements

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(expressed in Eastern Caribbean dollars)

3 Financial risk management *. . . continued*

3.2.3 Interest rate risk. *. . . continued*

	Up to 1 year $	1 to 5 years $	Over 5 years $	Non-Interest bearing $	Total $
As at June 30, 2008					
Assets					
Cash and balances with the Central Bank	19,755	–	–	12,669,670	12,689,425
Deposits with banks	43,318,528	–	–	4,785,514	48,104,042
Deposits with non bank financial institutions	39,833,464	9,908,988	808,470	–	50,550,922
Investment securities:					
– Treasury bills	35,266,200	–	–	–	35,266,200
– Bonds and other debt instruments	201,800	–	2,158,622	–	2,360,422
– Available for sale investments – unquoted	–	–	–	3,224,482	3,224,482
– Available for sale securities – quoted	8,174,030	16,450,653	8,251,400	1,111,200	33,987,283
Loans and advances	49,176,672	98,838,161	1,479,953	–	149,494,786
Other assets	–	–	–	4,629,309	4,629,309
Total financial assets	**175,990,449**	**125,197,802**	**12,698,445**	**26,420,175**	**340,306,871**
Liabilities					
Customer deposits	216,807,156	3,299,190	–	65,216,347	285,322,693
Other liabilities and accrued expenses	7,019,992	–	–	13,874,595	20,894,587
Income tax payable	–	–	–	382,237	382,237
Total financial liabilities	**223,827,148**	**3,299,190**	**–**	**79,473,179**	**306,599,517**
Total interest repricing gap	**(47,836,699)**	**121,898,612**	**12,698,445**	**(53,053,004)**	**33,707,354**
As at June 30, 2007					
Total financial assets	146,008,354	101,492,875	28,527,989	21,225,218	297,254,436
Total financial liabilities	231,978,628	14,168,918	–	22,650,412	268,797,958
Total interest repricing gap	**(85,970,274)**	**87,323,957**	**28,527,989**	**(1,425,194)**	**28,456,478**

The Bank's fair value interest rate risk arises from debt securities classified as available-for-sale. If market rates at June 30, 2008 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $82,979 lower/$76,778 higher as a result of the increase/decrease in the fair value of available for sale securities.

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

3 Financial risk management . . . *continued*

3.2.3 Interest rate risk. . . . *continued*

Cash flow interest rate risk arises from loans and advances to customers, and other interest bearing assets at variable rates. If at June 30, 2008, variable interest rates on loans and advances to customers and other interest bearing assets had been 0.5% higher/lower, with all other variables held constant, post tax profit for the year would have been $1,535,999 higher/lower (2007: $1,305,196), 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, 2008 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 $1,141,461 (2007: $1,040,352) lower/higher, mainly as a result of higher/lower interest expense.

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due, and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

3.3.1 Liquidity risk management process

The Bank's liquidity management process, is carried out within the Bank by the Treasury, 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. The Bank maintains an active presence in global money markets to enable this to happen.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against unforeseen interruption to cash flow.
- Monitoring balance sheet liquidity ratios 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 Treasury 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.

3.3.2. Funding approach

Sources of liquidity are regularly reviewed by management and the Board of Directors in order to maintain a wide diversification by currency, geography, provider, product and term.

3 Financial risk management ... *continued*

3.3.3 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 balance sheet date. 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.

	1 year $	1 to 5 years $	Over 5 years $	Total $
As at June 30, 2008				
Deposits from customers	285,598,214	3,594,605	–	289,192,819
Other payables	20,894,590	–	–	20,894,590
Income tax payable	382,237	–	–	382,237
Total financial liabilities	**306,875,041**	**3,594,605**	**–**	**310,469,646**
As at June 30, 2007				
Deposits from customers	253,993,155	3,070,322	–	257,063,477
Other payables	14,883,999	–	–	14,883,999
Income tax payable	161,399	–	–	161,399
Total financial liabilities	**269,038,553**	**3,070,322**	**–**	**272,108,875**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection and treasury and other eligible bills; loans and advances to banks; and loans and advances to customers. In the normal curse of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt securities and treasury bills and other bills have been pledged to secure liabilities. The Bank would also b e able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset backed markets.

3 Financial risk management *. . . continued*

3.3.4. Off balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit to extend credit to customers and other facilities are summarised in the table below.

	Up to 1 year $	1 to 5 years $	Over 5 years $	Total $
As at June 30, 2008				
Loan commitments	32,341,964	–	–	32,341,964
As at June 30, 2007				
Loan commitments	41,917,836	–	–	41,917,836

(b) Financial guarantees and other financial facilities

The Bank had no financial guarantees as at June 30, 2008.

(c) Operating Lease Commitments

The Bank had no operating lease commitments as at June 30, 2008.

(d) Capital commitments

The bank had no contractual capital commitments as at June 30, 2008.

Notes to Consolidated Financial Statements

June 30, 2008
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3 Financial risk management ... *continued*

3.4. Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value.

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

	Carrying value		Fair value	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with the Eastern Caribbean Central Bank	12,689,425	11,687,640	12,689,425	11,687,640
Deposits with other banks	48,104,042	33,762,777	48,104,042	33,762,777
Deposits with non-bank financial institutions	50,550,922	12,257,780	50,550,922	12,257,780
Investment securities:				
– Treasury bills and other eligible bills	35,266,200	42,840,652	35,266,200	42,840,652
– Bonds and other debt instruments	2,360,422	4,563,589	2,360,422	4,563,589
– Available for sale investments – unquoted	3,224,482	3,369,349	3,224,482	3,369,349
– Available for sale investments – quoted	33,987,283	46,133,971	33,987,283	46,133,971
Loans and advances	149,494,786	137,468,229	148,858,293	136,992,714
Other Assets	4,629,309	5,170,449	4,629,309	5,170,449
	340,306,871	**297,254,436**	**339,670,378**	**296,778,921**
Financial liabilities				
Customer deposits	285,322,693	253,532,214	285,322,693	253,532,214
Other payables and accrued expenses	20,894,587	14,883,999	20,894,587	14,883,999
Redeemable shares	–	220,346	–	220,346
Income tax payable	382,237	161,399	382,237	161,399
	306,599,517	**268,797,958**	**306,599,517**	**268,797,958**

3 Financial risk management *. . . continued*

3.4 Fair value of financial assets and liabilities *. . . continued*

(a) Financial instruments measured at fair value ***. . . continued***

(i) Due from other banks
Due from other banks includes inter bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(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 value.

(iii) Investment securities
Investment securities include only interest-bearing assets classified as available for sale which are measured at fair value, and loans and receivables.

(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 estimated fair value of fixed-interest bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) Debt securities in issue
The aggregate values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

3.5 Capital management

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

- To comply with the capital requirements set by the 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.

3 Financial risk management *. . . continued*

3.5 Capital management *. . . continued*

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%.

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), minority interests arising on consolidation from interests in permanent shareholders' equity, 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, 2008 and June 30, 2007. During those two years, the Bank and its subsidiaries complied with all the externally imposed capital requirements to which they are subject.

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3 Financial risk management ... *continued*

3.5 Capital management ... *continued*

	2008 $	2007 $
Tier 1 capital		
Share capital (net of treasury shares)	**7,478,150**	7,478,150
Statutory reserve	**8,678,148**	8,211,769
Retained earnings	**21,904,587**	17,645,521
Total qualifying tier 1 capital	**38,060,885**	33,335,440
Tier 2 capital		
Revaluation reserve	**10,425,454**	1,179,317
Reserve for loan impairment	**928,295**	1,950,996
Reserve for interest on non-performing loans	**1,612,498**	–
Total qualifying tier 2 capital	**12,966,247**	3,130,313
Total regulatory capital	**51,027,132**	36,465,753
Risk weighted assets		
On - balance sheet	**159,176,000**	155,184,000
Off-balance sheet	**32,341,964**	41,917,964
Total risk weighted assets	**191,517,964**	197,101,964
Basel ratio	**26.6%**	18.5%

3.6 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, 2008			
Assets			
Balances with the Central Bank	11,131,364	–	11,131,364
Due from banks and other financial institutions	98,654,964	–	98,654,964
Investment securities	37,626,622	37,211,765	74,838,387
Loans and advances	149,494,786	–	149,494,786
Other assets	4,629,309	–	4,629,309
Total financial assets	**301,537,045**	**37,211,765**	**338,748,810**

Notes to Consolidated Financial Statements

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3 Financial risk management *. . . continued*

3.6 Financial assets and liabilities by category *. . . continued*

As of June, 2008 . . . *continued*	**Other financial liabilities $**
Liabilities	
Customer deposits	285,322,693
Other liabilities and accrued expenses	20,894,587
Income tax payable	382,237
Total financial liabilities	**306,599,517**

As at June 30, 2007	**Loans and receivables $**	**Available for sale $**	**Total $**
Assets			
Balances with the Central Bank	9,829,561	–	9,829,561
Due from banks and other financial institutions	46,020,557	–	46,020,557
Investment securities	47,404,241	49,503,320	96,907,561
Loans and advances	137,468,229	–	137,468,229
Other assets	5,170,449	–	5,170,449
Total financial assets	**245,893,037**	**49,503,320**	**295,396,357**

	Other financial liabilities $
Liabilities	
Customer deposits	253,532,214
Other liabilities and accrued expenses	14,883,999
Redeemable shares	220,346
Income tax payable	161,399
Total financial liabilities	**268,797,958**

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

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

(a) Impairment losses on loans and advances
The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the 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 $183,298 lower or $199,850 higher respectively.

(b) Impairment of available for-sale equity investments
The Bank determines that available-for-sale equity 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 in the impairment loss of $627,130 in its 2008 financial statements, being included in the transfer of the accumulated fair value declines recognised in equity on the impaired available-for-sale financial assets to the statement of income.

(c) Income taxes
The Bank is subject to income taxes in St. Christopher and Nevis. Judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determination is made. Were the actual final outcome to differ by +/-10% from management's estimates on the judgement areas: the impact on the losses carried forward and the current income tax provision would not be significant.

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5 Business segments

At June 30, 2008, the Bank is organised into three main business segments:

(1) Retail and Corporate banking – incorporating private banking services, customer current accounts, savings, deposits, consumer loans and mortgages and other credit facilities, overdrafts, debit cards;

(2) 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

(3) Mutual Funds – Open-ended public mutual funds.

Transactions between the business segments are on normal commercial terms and conditions.

	Retail and corporate banking $	Offshore banking $	Mutual fund $	Eliminating entries $	Total $
As of June 30, 2008					
External revenues	19,454,917	8,171,383	186,984	–	27,813,284
Revenues from other segments	2,538,980	359,676	83,363	(2,982,019)	–
Total revenues	**21,993,897**	**8,531,059**	**270,347**	**(2,982,019)**	**27,813,284**
Segment result and profit before tax	1,714,182	4,858,784	59,323	–	6,632,289
Income tax credit (expense)	272,889	(93,516)	(790)	–	178,583
Profit for the year	**1,987,071**	**4,765,268**	**58,533**	**–**	**6,810,872**
Segment assets	**235,886,168**	**121,740,481**	**–**	**–**	**357,626,649**
Segment liabilities	**202,243,749**	**104,315,152**	**40,616**	**–**	**306,599,517**
Other segment items					
Impairment provision – investments	–	179,373	–	–	179,373
Impairment provision – loans	217,817	–	–	–	217,817
Impairment loss - buildings	571,312	–	–	–	571,312
Depreciation	356,540	29,293	–	–	385,833
Amortisation	183,407	30,400	–	–	213,807
Capital expenditure	457,934	2,571	–	–	460,505

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

5 Business segments ... *continued*

As of June 30, 2007	Retail and corporate banking $	Offshore banking $	Mutual fund $	Eliminating entries $	Total $
External revenues	17,786,932	7,436,041	570,987	–	25,793,960
Revenues from other segments	8,144,700	1,125,629	116,482	(9,386,811)	–
Total revenues	25,931,632	8,561,670	687,469	(9,386,811)	25,793,960
Segment result and profit before tax	2,209,421	2,554,155	299,654	–	5,063,230
Income tax (expense)	(34,104)	(69,590)	(22,783)	–	(126,477)
Profit (loss) for the year	**2,175,317**	**2,484,565**	**276,871**	**–**	**4,936,753**
Segment assets	**209,005,452**	**91,109,877**	**5,720,263**	**–**	**305,835,592**
Segment liabilities	**180,873,696**	**88,149,508**	**346,635**	**–**	**269,369,839**
Other segment items					
Impairment provision – loans	371,485	(9,567)	–	–	361,918
Depreciation	311,474	32,991	–	–	344,465
Amortisation	219,313	30,407	–	–	249,720
Capital expenditure	631,422	45,780	–	–	677,202

6 Cash and balances due from banks and other financial institutions

	2008 $	2007 $
Cash on hand	**1,558,061**	1,858,079
Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits	**149,079**	444,861
Cash and current accounts with other banks	**20,965,970**	24,900,239
Cheques in the course of collection	**1,347,594**	3,316,339
Short-term marketable securities	**33,560,744**	7,911,930
Short term fixed deposits	**17,721,950**	–
Included in cash and cash equivalents (note 27)	**75,303,398**	38,431,448
Mandatory reserve deposits with the ECCB	**10,982,285**	9,384,700
Restricted fixed deposits	**808,470**	7,006,743
Fixed deposits	**23,176,140**	2,694,900
	110,270,293	57,517,791
Interest receivable	**1,074,096**	190,406
Total cash and balances due from banks and other financial institutions	**111,344,389**	57,708,197
Current	**89,644,646**	40,238,797
Non-current	**21,699,743**	17,469,400
	111,344,389	57,708,197

Notes to Consolidated Financial Statements

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6 Cash and balances due from banks and other financial institutions *. . . continued*

Commercial banks doing banking business in member states of the OECS are required to maintain a non-interest-bearing reserve with the ECCB equivalent to 6% of their total deposit liabilities (excluding inter-bank deposits, denominated deposits and foreign currencies). This reserve deposit is not available for use in the Bank's day-to-day operations, and is non-interest bearing.

The short term fixed deposits comprise deposits held with TCI Bank Ltd of $4,042,350 (2007: $Nil) bearing interest of 6.00% and 6.50% per annum; British American Insurance of $2,900,000 (2007: $Nil) bearing interest of 8.25% per annum; Bank of St. Lucia Ltd of $10,779,600 (2007: $Nil) bearing interest of 5.15% and 5.40% per annum.

The restricted fixed deposits comprise deposits held with Caribbean Credit Card Corporation of $808,470 (2007: $Nil) bearing interest of 4.50% per annum. At June 30, 2007, restricted deposits were held with Regions Bank of $5,389,800 bearing interest of 5.25% per annum and a deposit held with British American Insurance of $1,646,943 bearing interest of 8.65% per annum. These deposits are not available for use in the Bank's day-to-day operations. The restricted deposits at Caribbean Credit Card Corporation (2007: Regions Bank) are used as security deposits primarily for the credit card operations. In 2007 the restricted deposits at British American Insurance were used as security deposits for the custodial services.

The fixed deposits comprise deposits held with Bank of Antigua Ltd of $5,389,800 (2007: $Nil) bearing interest of 6.50% per annum; ABI Bank Ltd of $5,389,800 (2007: $Nil) bearing interest of 6.25% per annum; British American Insurance of $7,006,740 (2007: $2,694,900) bearing interest of 8.25% per annum; and CLICO of $5,389,800 (2007: $Nil) bearing interest of 8.25% per annum.

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7 Investment securities

	2008 $	2007 $
Loans and receivables		
Treasury bills		
Treasury bills – Government of Saint Christopher and Nevis, maturing August 18, 2008 with interest rate of 6.5% per annum	**25,701,453**	30,374,755
Treasury bill – Government of Grenada, maturing on July 6, 2007 with interest rate of 6.44%	**–**	2,854,039
Treasury bills – Nevis Island Administration maturing July 22, 2008 with interest rate of 6.5% (2007: 7%) per annum	**8,196,875**	8,196,876
Included in cash and cash equivalents (note 27)	**33,898,328**	41,425,670
Treasury bill – Nevis Island Administration maturing July 22, 2008 with interest rate of 6.5% (2007: 7%) per annum	**1,054,392**	1,035,942
	34,952,720	42,461,612
Bonds and other debt instruments		
Government of Antigua and Barbuda		
Fixed rate bond bearing interest at 9%	**2,008,620**	2,226,963
Caribbean Credit Card Corporation Limited		
Unsecured loan bearing interest at a rate of 10%, with no specific terms of repayment	**150,000**	150,000
ECIC Holdings Limited		
6% preference shares	**–**	2,004,332
	2,158,620	4,381,295
Total loans and receivables	**37,111,340**	46,842,907

7 Investment securities

	2008	2007
	$	$
Available for sale		
Fixed income securities, quoted at market value	**24,702,058**	44,481,413
Mutual funds, quoted at market value	**7,830,329**	–
Equity securities, quoted at market value	**1,111,200**	1,222,320
Equity securities – unquoted	**3,224,482**	3,369,349
Total available for sale	**36,868,069**	49,073,082
Total investment securities before interest receivable	**73,979,409**	95,915,989
Interest receivable	**858,978**	991,572
Total investment securities	**74,838,387**	96,907,561
Current	**43,642,029**	77,482,070
Non-current	**31,196,358**	19,425,491
	74,838,387	96,907,561

The Treasury bill with a cost of $1,054,393 acts as a statutory deposit with the Nevis Island Administration and is not available to finance the Bank's day to day operations.

The movement in investment securities may be summarised as follows:

	Loans and receivables	Available for sale	Total
	$	$	$
Balance as of June 30, 2007	46,842,907	49,073,082	95,915,989
Additions	634,280	16,781,217	17,415,497
Disposals (sale and redemption)	(10,365,847)	(28,881,217)	(39,247,064)
Gain from change in fair value, net	–	(105,013)	(105,013)
Balance as of June 30, 2008	**37,111,340**	**36,868,069**	**73,979,409**

Net losses from investment securities comprise:

	2008	2007
	$	$
Net realised gains (losses) from disposal of available-for-sale financial assets	**181,249**	(286,740)

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

8 Loans and advances

	2008 $	2007 $
Reducing balance loans	**132,812,457**	121,864,094
Overdrafts	**14,806,674**	15,459,238
Credit card advances	**2,402,871**	2,087,278
	150,022,002	139,410,610
Interest receivable	**2,784,743**	1,178,585
	152,806,745	140,589,195
Less: Allowance for loan impairment	**(3,311,959)**	(3,120,966)
Total loans and advances	**149,494,786**	137,468,229
Current	**49,174,675**	25,074,895
Non-current	**100,320,111**	112,393,334
	149,494,786	137,468,229

Allowance for loan impairment

The movement in allowance for loan impairment is as follows:

	2008 $	2007 $
Balance, beginning of year	**3,120,966**	3,004,709
Provision for the year	**217,817**	371,485
Recoveries during the year	**-**	(9,567)
Adjustment for increase in provision for other asset	**8,871**	(137,558)
Loans and advances written off during the year as uncollectible	**(35,695)**	(108,103)
Balance, end of year	**3,311,959**	3,120,966

According to the Eastern Caribbean Central Bank loan provisioning guidelines, the calculated allowance for loan impairment amounts to $4,240,254 (2007: $5,071,962).

Included in interest income is an amount for interest on non-productive loans of $1,452,423 (2007: $275,034). The total value of non-productive loans at the end of the year amounted to $13,441,928 (2007: $16,333,344.)

The interest receivable on non-productive loans and advances but not recognised in the financial statements at the end of the year amounted to $1,911,533 (2007: $2,002,779).

Included in loans and advances is an amount due from another financial institution of $8,645,898 (2007: $7,339,567).

Notes to Consolidated Financial Statements

June 30, 2008
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9 Other assets

	2008	2007
	$	$
Other receivables	**3,538,704**	3,974,802
Items in-transit	**902,722**	918,661
Prepayments	**302,877**	358,464
Credit card and stationery stock	**70,834**	74,038
Miscellaneous	**15,603**	54,786
	4,830,740	5,380,751
Provision for other receivables	**(201,431)**	(210,302)
Total other assets	**4,629,309**	5,170,449
Current	**1,421,805**	1,983,659
Non-current	**3,207,504**	3,186,790
	4,629,309	5,170,449

Included in other receivables is an amount of US$1,165,000 (2007: $1,165,000) which represents the sum paid over to the US based Receiver in the legal matter as discussed in note 25.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008
(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Total &
Year ended June 30, 2007							
Opening net book amount	4,033,705	3,433,270	120,639	299,210	160,104	33,200	8,080,128
Additions	–	136,443	44,072	144,172	104,527	178,000	607,214
Disposals at cost	–	–	–	–	(27,827)	(83,000)	(110,827)
Depreciation charge	–	(95,531)	(38,057)	(98,134)	(77,143)	(35,600)	(344,465)
Write back of depreciation on disposals	–	–	–	–	22,654	49,802	72,456
Closing net book amount	**4,033,705**	**3,474,182**	**126,654**	**345,248**	**182,315**	**142,402**	**8,304,506**
At June 30, 2007							
Cost	4,033,705	3,821,234	758,048	760,374	574,324	178,000	10,125,685
Accumulated depreciation	–	(347,052)	(631,394)	(415,126)	(392,009)	(35,598)	(1,821,179)
Net book amount	**4,033,705**	**3,474,182**	**126,654**	**345,248**	**182,315**	**142,402**	**8,304,506**

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment ...*continued*

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Total &
Year ended June 30, 2008							
Opening net book amount	4,033,705	3,474,182	126,654	345,248	182,315	142,402	8,304,506
Additions	–	98,994	146,896	123,786	90,831	–	460,507
Revaluation adjustment	8,986,295	(444,537)	–	–	–	–	8,541,758
Disposals at cost	–	–	–	(24,728)	(20,221)	–	(44,949)
Depreciation charge	–	(98,006)	(60,642)	(105,235)	(86,350)	(35,600)	(385,833)
Write-back of depreciation on disposals	–	–	–	24,728	20,221	–	44,949
Closing net book amount	**13,020,000**	**3,030,633**	**212,908**	**363,799**	**186,796**	**106,802**	**16,920,938**
At June 30, 2008							
Cost	13,020,000	3,475,691	904,944	859,432	644,934	178,000	19,083,001
Accumulated depreciation	–	(445,058)	(692,036)	(495,633)	(458,138)	(71,198)	(2,162,063)
Net book amount	**13,020,000**	**3,030,633**	**212,908**	**363,799**	**186,796**	**106,802**	**16,920,938**

10 Property, plant and equipment ... *continued*

The land and buildings were re-valued at market value at year end by an independent property appraiser. The surplus on revaluation at that date was taken to the revaluation reserve account (note 17).

As a result of the revaluation performed on the land and buildings at year end, the Bank incurred an impairment loss of $571,312 on a building that is located in Charlestown Nevis, (formerly Tony's Supermarket). The impairment loss is the difference between the carrying value of the building prior to the revaluation and the value assessed by the independent property appraiser.

The following is the historical cost carrying amount of land and buildings carried at re-valued amounts as of June 30, 2008:

	Land	**Buildings**	**Total**
	$	**$**	**$**
Cost	2,307,737	4,045,423	6,353,160
Accumulated Depreciation	-	(840,003)	(840,003)
Net book values	**2,307,737**	**3,205,420**	**5,513,157**

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

11 Intangible assets

	Computer software $
At June 30, 2006	
Cost	1,943,747
Accumulated Amortisation	(1,487,365)
Net book amount	456,382
Year ended June 30, 2007	
Opening net book amount	456,382
Additions	69,988
Amortisation charge	(249,720)
Closing net book amount	**276,650**
At June 30, 2007	
Cost	2,013,735
Accumulated Amortisation	(1,737,085)
Net book amount	**276,650**
Year ended June 30, 2008	
Opening net book amount	276,650
Additions	335,997
Amortisation charge	(213,807)
Closing net book amount	**398,840**
At June 30, 2008	
Cost	2,349,732
Accumulated Amortisation	(1,950,892)
Net book amount	**398,840**

Notes to Consolidated Financial Statements

June 30, 2008
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12 Customers' deposits

	2008	2007
	$	$
Current accounts	**88,343,543**	81,638,171
Time deposits	**95,573,406**	86,267,656
Savings accounts	**99,182,407**	81,405,102
Merchant reserve accounts	**223,974**	228,382
Custodial accounts	**5,582**	1,845,575
	283,328,912	251,384,886
Interest payable	**1,993,781**	2,147,328
Total customers' deposits	**285,322,693**	253,532,214
Current	**282,023,503**	250,811,025
Non-current	**3,299,190**	2,721,189
	285,322,693	253,532,214

Included in the customers deposits at year end are balances for other financial institutions amounting to $16,324,438 (2007: $11,342,295).

13 Other liabilities and accrued expenses

	2008	2007
	$	$
Accounts payable and accrued expenses	**9,901,222**	3,884,182
Items-in-transit	**9,613,406**	9,772,224
Manager's cheques	**741,906**	633,624
Staff bonus payable	**560,162**	549,627
Government stamp duty	**77,891**	44,342
Total other liabilities and accrued expenses	**20,894,587**	14,883,999
Current	**20,259,287**	14,360,745
Non-current	**635,300**	523,254
	20,894,587	14,883,999

Included in accounts payable and accrued expenses is an amount of $7,094,254 (2007: $Nil) representing principal and accrued interest on a line of credit from CitiBank Global Markets – one of the bank's United States Brokers. The line of credit is fully secured by our securities held in safe keeping with the brokerage house.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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14 Provision for income tax

	2008 $	2007 $
Deferred income tax		
Balance, beginning of year	**571,881**	485,947
Deferred tax asset realised on unused tax losses	**(72,667)**	–
Deferred tax asset realised on unused capital cost allowances	**(228,593)**	–
Deferred tax on depreciation of property, plant and equipment	**(225,395)**	(869)
Deferred tax on revaluation of property, plant and equipment	**44,369**	–
Deferred tax on revaluation of available for sale investment securities	**(89,595)**	86,803
Balance, at end of year	**–**	571,881

The deferred income tax on the balance sheet is comprised of the following:	2008 $	2007 $
Deferred tax on depreciation of property, plant and equipment	**87,354**	268,379
Deferred tax on revaluation of available-for-sale investment securities	**213,906**	303,502
Deferred tax on unused tax losses	**(72,667)**	–
Deferred tax on unused capital cost allowances	**(228,593)**	–
	–	571,881

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

	2008 $	2007 $
Deferred tax on depreciation of property, plant and equipment	**(225,395)**	–
Deferred tax asset realized on unused tax losses	**(72,667)**	(869)
Deferred tax asset realized on unused capital cost allowances	**(228,593)**	–
	(526,655)	(869)

Notes to Consolidated Financial Statements

June 30, 2008
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14 Provision for income tax ... *continued*

	2008	2007
	$	$
Income tax payable		
Income tax payable net, beginning of year	**161,399**	37,738
Payments made during year, net of refunds	**(127,233)**	(3,685)
Current tax expense	**345,907**	127,346
Prior year tax expense	**2,164**	–
Income tax payable, at end of year	**382,237**	161,399
Income tax expense		
Operating income for the year	**6,632,288**	5,063,230
Income tax expense at standard rate of 35% (2007: 35%)	**2,321,301**	1,772,131
Non-deductible expenses	**852,325**	387,223
Income from tax exempted entity	**(50,414)**	(15,468)
Untaxed interest income	**(1,029,871)**	(849,134)
Untaxed dividend income	**(24,428)**	–
Effect of lower tax rate in subsidiary bank	**(1,166,065)**	(1,144,420)
Prior year income tax adjustment	**2,164**	–
Effect of movement in deferred taxes not recognized	**(139,449)**	709
Effect of tax losses and capital cost allowances (utilized) and carried forward (net)	**(944,147)**	(24,564)
Actual income tax (credit)/expense	**(178,584)**	126,477

The Bank has carried forward income tax losses of $247,449 at June 30, 2008 (2007: $961,064). This amount has not been confirmed by the tax authorities. The losses were incurred as follows:

Year of loss	**$**
2006	211,090
2007	29,472
2008	6,887
Total losses carried forward	**247,449**

There is a deferred tax asset of $86,607 (2007: $336,372) associated with these losses of which $72,667 (2007: $nil) has been recognized in these financial statements.

Notes to Consolidated Financial Statements

June 30, 2008
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14 Provision for income tax . . . *continued*

Capital cost allowances

The Bank has carried forward capital cost allowances totalling $1,378,498 (2007: $2,212,982). The additions during the current year have not been confirmed with the Comptroller of Inland Revenue. These 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.

	2008 $	2007 $
Balance at beginning of year	**2,212,982**	1,697,018
Adjustment for amounts confirmed by Inland Revenue	**(171,053)**	–
Additions during the year	**562,561**	515,964
Claims during the year	**(1,471,130)**	–
Balance end of year	**1,133,360**	2,212,982

There is a deferred tax asset of $396,676 (2007: $774,544) that relate to the carry forward capital cost allowances, of which $228,593 was recognised in these financial statements. In 2007, the deferred tax asset of $774,544 was not recognised in the financial statements.

15 Redeemable shares

	2008 $	2007 $
Bank of Nevis International Mutual Fund Limited:		
nil (2007: 7,245) Class 'B' shares at cost of US$10 each	**–**	195,244
nil (2007: 931) Class 'A' shares at cost of US$10 each	**–**	25,102
	–	220,346

16 Share capital

	2008 $	2007 $
Authorised share capital 50,000,000 shares at $1 each (2006: 10,000,000 shares of $1 each)	**50,000,000**	50,000,000
Issued and fully paid 7,478,150 shares of $1 each	**7,478,150**	7,478,150

Notes to Consolidated Financial Statements

June 30, 2008
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17 Revaluation reserves

	2008 $	2007 $
Balance, beginning of year	**1,179,317**	301,963
Transfer net losses on investment securities to income, (net of tax)	**43,829**	286,740
Appreciation in market value of investment securities, (net of tax)	**133,612**	590,614
Appreciation in market value of land and buildings	**9,068,696**	–
Balance, end of year	**10,425,454**	1,179,317
Represented by revaluation reserves attributable to:		
Available for sale investment securities	**(229,874)**	(407,315)
Property	**10,655,328**	1,586,632
	10,425,454	1,179,317

An independent valuation of the land and buildings was performed at year end (note 10).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008
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18 Other reserves

	2008 $	2007 $
Other reserves:		
Balance at beginning of year	**10,162,765**	6,296,788
Transfer from retained earnings for the year	**466,381**	1,914,981
Reserve for loan impairment	**(1,022,703)**	1,950,996
Reserve for interest on non-performing loan	**1,612,498**	–
Total other reserves	**11,218,941**	10,162,765
Other reserves is represented by:		
Reserve fund	**8,678,148**	8,211,769
Reserve for loan impairment	**928,295**	1,950,996
Reserve for interest collected on non-performing loan	**1,612,498**	–
	11,218,941	10,162,765

Reserve fund

Section 14 (1) of the Saint Christopher and Nevis Banking Act No. 6 of 1991 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.

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 interest on non-performing loans

This reserve is created to set aside interest accrued on non-performing loans in accordance with International Accounting Standard (IAS) 39. The prudential guidelines of the Eastern Caribbean Central Bank, however do not allow for the accrual of such interest. The interest is therefore set aside in a reserve and is not available for distribution to shareholders.

Notes to Consolidated Financial Statements
June 30, 2008
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19 Interest Income

	2008 $	2007 $
Loans and advances	**14,646,519**	11,430,741
Deposits with banks and other financial institutions	**3,375,401**	2,264,480
Treasury bills	**2,383,858**	3,404,750
Other investment securities	**2,280,525**	2,848,550
Total interest income	**22,686,303**	19,948,521

20 Interest Expense

	2008 $	2007 $
Time deposits	**5,476,476**	4,787,524
Savings deposits	**2,457,698**	2,378,898
Demand deposits	**519,705**	533,351
Other	**116,496**	–
Total interest expense	**8,570,375**	7,699,773

21 Other operating income

	2008 $	2007 $
Fees and commissions	**1,808,694**	1,207,152
Foreign exchange	**1,579,891**	3,733,213
Credit card fees	**876,417**	786,311
Bad debts recovered	**527,736**	29,996
Dividend income	**148,943**	60,625
Miscellaneous revenue	**2,051**	4,142
Rental income	**2,000**	24,000
Total other operating income	**4,945,732**	5,845,439

Notes to Consolidated Financial Statements

June 30, 2008
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22 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 in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the year end and related expenses and income for the year are as follows:

	2008 $	2007 $
Loans to Directors and key members of management		
Loans outstanding at beginning of year	**4,962,394**	6,553,113
Loans issued during the year	**10,152,862**	7,177,192
Loan repayments during the year	**(11,164,465)**	(8,767,911)
Loans outstanding at end of year	**3,950,791**	4,962,394

Interest income earned on loans and advances to directors and key members of management during the year is $411,529 (2007: $440,009). Interest rates on loans to directors and key members of management range from 5% to 12%. The Bank's commitment to extend credit to directors and key members of management in the future, amounted to $252,342 (2007: $102,263).

At June 30, 2008 there was a non productive loan due from a close relative of a director of the bank. The balance on the facility at the end of the year amounted to $274,459 (2007: $274,459). The provision recorded in respect of the non-performing loan is $125,224 (2007: $82,629). The director resigned on July 31, 2008.

	2008 $	2007 $
Deposits by Directors and key members of management		
Deposits at beginning of year	**1,627,914**	19,015,794
Deposits received during the year	**17,383,624**	16,795,339
Deposits repaid during the year	**(11,260,829)**	(34,183,219)
Deposits at end of year	**7,750,709**	1,627,914

Notes to Consolidated Financial Statements

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22 Related party transactions *. . . continued*

Interest expense paid on deposits to directors and key members of management during the year is $231,268 (2007: $821,700). Interest rates on deposits to directors and key members of management range from 2% to 6.5%.

During the year ended June 30, 2007, legal fees paid to R. L. Kawaja and Associates, a law firm controlled by a director, Mr. Reginald Kawaja amounted to $50,070. During the year ended June 30, 2007, rental income of $24,000 was also earned from R.L. Kawaja and Associates. Mr. Kawaja retired from the board of directors effective February 2007.

During the year, salaries and related benefits of $2,541,363 (2007: $2,334,632) were paid to key members of management allocated as follows:

	2008 $	2007 $
Salaries and wages	**1,810,072**	1,462,644
Other staff costs	**294,813**	116,245
Gratuity	**236,940**	601,651
Social security costs	**120,516**	104,919
Pension costs	**79,022**	49,173
	2,541,363	2,334,632

23 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.

	2008 $	2007 $
Net profit attributable to shareholders	**6,810,872**	4,936,753
Weighted average number of ordinary shares in issue	**7,478,150**	7,478,150
Basic and diluted earnings per share	**0.91**	0.66

24 Pension scheme

In 2003 the Bank introduced a defined contribution pension scheme for its employees. Contributions to the pension scheme for the year ended June 30, 2008 amounted to $143,409 (2007: $130,124).

Notes to Consolidated Financial Statements

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25 Contingencies and commitments

Pending litigation

In 2002 the High Court in St. Kitts imposed a freezing order against funds held in the account of a corporate customer (the 'Customer') of Bank of Nevis International Ltd. (the 'Bank'). In June 2006 the order was discharged and a request was made by the Customer to withdraw the funds from its account. To date the Bank has not complied with the demand made by the Customer. In August 2006, a United States Court appointed Receiver for the Customer, the receiver claiming that the said funds should be paid to him instead, obtained an ex parte order in the United States which resulted in the transfer to him of US$1,165,000 from an interbank correspondent account in the name of The Bank of Nevis Ltd. held at a Bank of America (the 'Interbank Account'). The Receiver claimed that this sum represents the balance in the Customer's account at the Bank. The Bank's Counsel in New York immediately appealed against this transfer of funds (the 'Appeal'). To date no determination has been made regarding the Appeal.

In February 2008, a claim was filed on behalf of the Customer in the Nevis High Court to seek repayment of the sum of US$1,313,779, being the credit balance on the Customer's account with the Bank. In June 2008, the United States Government commenced an action seeking to forfeit funds up to US$6.9 million from Bank of Nevis Limited's (BON) US interbank account; which it alleges represents the sum total of funds deposited in the Customer's account with the Bank. The United States Government's Counsel advises however, that the Government is only seeking to have the current balance on the Customer's account forfeited. In July 2008, the Court in this action ordered that the funds in BON's US interbank account that were previously transferred to the Receiver and are the subject of this action be transferred by the Receiver to the custody of a Government 'seizing agency' pending determination of the Forfeiture Action.

By order made on November 28th, 2008 (the 'Order') the Nevis High Court recognized and gave full effect to the United States August 2006 order appointing the Receiver. The Customer has filed an application with the Court of Appeal of the Easten Caribbean Supreme Court for leave to appeal the granting of the Order. This application in still pending. Notwithstanding this pending application the Bank's solicitors advise that the Order enables the Bank to give good discharge of its obligations in respect of the funds held on behalf of the Customer by paying over the same to the Receiver. A settlement agreement is being negotiated with the United States Government in respect of the Forfeiture Action requiring them, upon payment by the Bank to the Receiver, of all funds held by it on the Customer's behalf, to simultaneously remit to The Bank of Nevis Ltd. the funds seized from the Interbank Account in 2006, plus interest accrued thereon. This settlement agreement will be a final determination of the Forfeiture Action. A settlement agreement is also being negotiated with the Receiver and the United States Securities Exchange Council in respect of the Appeal.

Credit related commitments

The following table indicates the contractual amounts of the Banks' off-balance sheet financial instruments that commit it to extend credit to customers:

	2008 $	2007 $
Undrawn commitments to extend advances	**32,341,964**	41,917,836

26 Dividends

The financial statements reflect a dividend of $1,495,630 for the year ended June 30, 2007 which was approved at the twenty-first Annual General Meeting held on February 28, 2008 and paid subsequently.

Subsequent to the year end, a dividend of EC$1,495,630 or EC$0.20 per share was proposed by the board of directors on September 25, 2008. The financial statements for the year ended June 30, 2008 do not reflect this proposed dividend which, if ratified, will be accounted for in equity as an appropriation of retained earnings in the year ending June 30, 2009.

27 Cash and cash equivalents

	2008 $	2007 $
Cash and balances due from other banks (note 6)	**75,303,398**	38,431,448
Investment securities (note 7)	**33,898,328**	41,425,670
Total cash and cash equivalents	**109,201,726**	79,857,118

Notes to Consolidated Financial Statements

June 30, 2008
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28 General and administrative expenses

	2008 $	2007 $
Salaries and related costs (note 29)	**5,927,746**	5,591,404
Professional fees	**857,009**	1,192,354
Credit card processing expense	**751,371**	746,608
Stationery and supplies	**338,777**	259,344
Insurance expense	**294,548**	271,215
Telephone, telex and cables	**235,744**	289,677
Repairs and maintenance	**227,566**	282,542
Utilities	**188,418**	167,108
Equipment repairs	**163,680**	99,609
Advertisement and promotion	**143,870**	201,003
Debit card expenses	**107,587**	313,423
Legal fees	**103,544**	317,250
Administrative fees	**95,052**	80,514
Annual report	**93,055**	82,698
Subscriptions and fees	**79,179**	63,102
Taxes and licences	**76,696**	97,261
ECSE fees and expenses	**72,835**	39,063
Security services	**65,682**	42,182
Rent	**57,600**	57,602
Stamps and postage	**56,732**	57,110
Travel and entertainment	**53,771**	121,663
Online banking expenses	**35,281**	36,801
Miscellaneous expenses	**28,044**	143,539
Cleaning	**25,238**	27,499
Secretarial fees	**11,758**	16,984
Cash shorts	**4,340**	5,031
Custody fees	**1,409**	11,060
Credit card chargeback losses	**(1,039)**	36,492
Other credit card income	**(539)**	(114,533)
Loss on disposal of plant and equipment	**–**	38,371
Total general and administrative expenses	**10,094,954**	10,573,976

Notes to Consolidated Financial Statements

June 30, 2008
(expressed in Eastern Caribbean dollars)

29 Salaries and related costs

	2008 $	2007 $
Salaries and wages	**4,579,284**	3,947,250
Other staff costs	**553,725**	637,405
Social security costs	**339,940**	274,974
Gratuity	**311,388**	601,651
Pension costs	**143,409**	130,124
Total salaries and related costs	**5,927,746**	5,591,404

30 Comparative figures

One item in the notes to the consolidated financial statements has been classified differently to achieve a clearer or more appropriate presentation. The comparative figures have been similarly reformatted and reclassified in order to achieve comparability with the current period. The item which has been reclassified is as follows:

a) British American Insurance Advanced protection contract of EC$2,694,900 together with interest receivable of EC$18,883 has been reclassified from investment securities to due from banks and other financial institutions on the balance sheet.

31 Events after the balance sheet date

(a) Due from banks and other financial institutions

1. During a media conference on 30 January 2009, the Minister of Finance of Trinidad and Tobago and the Governor of the Central Bank of Trinidad and Tobago informed the public that subsidiaries of the CL Financial Limited Group were facing liquidity challenges and had approached the Government and the Central Bank for assistance. Additionally, they informed the public that the Government had reached an agreement with the CL Financial Limited Group for the provision of a package of financial support for the group's financial services companies.

   The Bank of Nevis Limited Group holds fixed deposits and investments with three CL Financial Limited Group entities – CMMB, CLICO, and British American Insurance (note 6). The Board of Directors of The Bank of Nevis Limited Group has been monitoring the developments in relation to the CL Financial Limited Group and notes that the funds held with the CL Financial Limited Group will be redeemed based on the agreement between the Government of Trinidad and Tobago and the CL Financial Limited Group and the statement of the Central Bank of Trinidad and Tobago.

31 Events after the balance sheet date *.....continued*

(a) Due from banks and other financial institutions .....continued

2. On Tuesday February 17, 2009, the United States Securities and Exchange Commission appointed a Receiver for, and froze the assets of offshore banker Sir Robert Allen Stanford, his offshore bank, Stanford International Bank and related parties after accusing them of perpetrating an US$8 billion fraud. Following this event, a number of depositors in Antigua and Barbuda began to withdraw their funds held at the Bank of Antigua, a domestic bank owned by Sir Robert Allen Stanford. The Eastern Caribbean Central Bank has since taken control of Bank of Antigua Limited to stabilise the Bank.

   Bank of Nevis International Limited, the offshore subsidiary of The Bank of Nevis Limited holds a fixed deposit with Bank of Antigua (note 6). The Board of Directors of The Bank of Nevis Limited Group is following the events and is satisfied that the funds are adequately protected based on the actions of the Eastern Caribbean Central Bank.

(b) Investment securities – US Mutual Funds

Due to the ongoing economic crisis in the United States of America, there has been a significant decline of EC$1,852,024 in the market value of the United States based mutual fund investments, held by Bank of Nevis International Limited (note 7).

Separate Balance Sheet

As of June 30, 2008
(expressed in Eastern Caribbean dollars)

	2008 $	2007 $
Assets		
Cash and balances with the Central Bank	**12,689,425**	11,687,640
Due from other banks and other financial institutions	**39,126,826**	29,096,949
Investment securities	**25,866,119**	31,446,028
Loans and advances	**139,893,374**	126,657,093
Other assets	**1,069,484**	1,672,543
Investment in subsidiaries	**2,350,000**	2,350,000
Property, plant and equipment	**16,856,853**	8,213,701
Intangible assets	**384,087**	231,497
Due from related parties	**4,036,198**	8,000
Total assets	**242,272,366**	211,363,451
Liabilities		
Customers' deposits	**194,287,504**	170,398,929
Other liabilities and accrued expenses	**9,619,917**	11,601,553
Income tax payable	**251,602**	17,446
Deferred tax	**–**	571,881
Due to related parties	**11,159**	2,362,451
Total liabilities	**204,170,182**	184,952,260
Shareholders' Equity		
Share capital	**7,478,150**	7,478,150
Revaluation reserve	**11,052,583**	2,150,279
Other reserves	**8,966,908**	8,697,912
Retained earnings	**10,604,543**	8,084,850
Total shareholders' equity	**38,102,184**	26,411,191
Total liabilities and shareholders' equity	**242,272,366**	211,363,451

Approved by the Board of Directors on February 27, 2009

Richard S. Lupinacci Chairman

Director

SEPARATE STATEMENT OF INCOME

For the year ended June 30, 2008
(expressed in Eastern Caribbean dollars)

	2008 $	2007 $
Interest income	**15,629,746**	13,859,079
Interest expense	**7,855,618**	7,464,303
Net interest income	**7,774,128**	6,394,776
Gain on sale of investment securities	**139,868**	–
Impairment loss on property, plant and equipment	**(571,312)**	–
Other operating income	**6,224,283**	12,072,553
	13,566,967	18,467,329
Operating expenses		
General and administrative expenses	**8,208,838**	7,402,550
Depreciation	**356,540**	311,474
Amortisation	**183,407**	219,313
Directors' fees and expenses	**350,925**	391,240
Provision for loan impairment	**217,817**	371,485
Correspondent bank charges	**238,010**	162,260
	9,555,537	8,858,322
Income before tax for the year	**4,011,430**	9,609,007
Taxation		
Current tax expense	**(251,602)**	(34,973)
Prior years' tax expense	**(2,164)**	–
Deferred tax credit	**526,655**	869
	272,889	(34,104)
Net income for the year	**4,284,319**	9,574,903
Earnings per share	**0.57**	1.28

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2008
(expressed in Eastern Caribbean dollars)

	Share capital $	Revaluation reserve property $	Revaluation Reserve available for sale investments $	Other reserves $	Ratained earnings $	Total $
Balance June 30, 2006	7,478,150	1,586,632	402,441	5,096,788	3,980,608	18,544,619
Net income for the year	–	–	–	–	9,574,903	9,574,903
Dividends	–	–	–	–	(1,869,537)	(1,869,537)
Appreciation in market values of inv. securities, net of tax	–	–	161,206	–	–	161,206
Reserve for loan impairment	–	–	–	1,686,143	(1,686,143)	–
Transfer to reserve fund	–	–	–	1,914,981	(1,914,981)	–
Balance June 30, 2007	**7,478,150**	**1,586,632**	**563,647**	**8,697,912**	**8,084,850**	**26,411,191**
Net income for the year	–	–	–	–	4,284,319	4,284,319
Dividends	–	–	–	–	(1,495,630)	(1,495,630)
Appreciation in market value of land, buildings, net of tax	–	9,068,696	–	–	–	9,068,696
Depreciation in market values of investment securities, net of tax	–	–	(72,228)	–	–	(72,228)
Transfer of gains to income, net of tax	–	–	(94,164)	–	–	(94,164)
Reserve for loan impairment	–	–	–	(1,022,703)	1,022,703	–
Reserve for interest on non-performing loans	–	–	–	825,318	(825,318)	–
Transfer to reserve fund	–	–	–	466,381	(466,381)	–
Balance June 30, 2008	**7,478,150**	**10,655,328**	**397,255**	**8,966,908**	**10,604,543**	**38,102,184**

SEPARATE STATEMENT OF CASH FLOWS

For the year ended June 30, 2008
(expressed in Eastern Caribbean dollars)

	2008 $	2007 $
Cash flows from operating activities		
Income before tax for the year	**4,011,430**	9,609,007
Items not affecting cash		
Provision for loan impairment	**217,817**	371,485
Depreciation	**356,540**	311,474
Amortisation	**183,407**	219,313
Loss on disposal of property, plant and equipment	**–**	5,058
Gain on disposal of investment securities	**(139,868)**	–
Impairment loss on building	**571,312**	–
Interest income	**(15,629,746)**	(13,859,079)
Interest expense	**7,855,618**	7,464,303
Cash flows (used in) from operating income before changes in operating assets and liabilities	**(2,573,490)**	4,121,561
Changes in operating assets and liabilities		
Decrease / (increase) in restricted deposits with other banks	**4,581,330**	(2,425,410)
(Increase) / decrease in mandatory deposits held with Central Bank	**(1,597,585)**	3,045,230
Decrease/(increase) in other assets	**603,059**	(754,763)
Increase in loans and advances, net of repayments received	**(12,612,249)**	(20,553,278)
Increase in customers' deposits	**24,122,826**	2,280,741
(Decrease) / increase in other liabilities and accrued expenses	**(1,981,636)**	3,227,079
Cash from (used in) operations before interest and tax	**10,542,255**	(11,058,840)
Interest paid	**(8,089,869)**	(7,067,496)
Interest received	**14,971,289**	13,522,930
Income tax (paid) / refunded	**(19,610)**	56,429
Net cash from (used in) operating activities	**17,404,065**	(4,546,977)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(457,934)**	(561,434)
Purchase of intangible assets	**(335,997)**	(69,988)
Proceeds on disposal of investment securities	**139,868**	–
Net cash used in investing activities	**(654,063)**	(631,422)
Cash flows from financing activities		
Dividends paid	**(1,495,630)**	(1,869,537)
Repayments to subsidiary companies	**(6,379,490)**	(2,898,086)
Net cash used in financing activities	**(7,875,120)**	(4,767,623)
Increase / (decrease) in cash and cash equivalents	**8,874,882**	(9,946,022)
Cash and cash equivalents, beginning of year	**49,669,075**	59,615,097
Cash and cash equivalents, end of year	**58,543,957**	49,669,075

MANAGEMENT & STAFF

SERVING OUR COMMUNITY

Occasions

Best Buy Supermarket

Seabridge 1 & 2

Nelson's Spring Spa

St. Christopher Club

NOTES

NOTES

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