The Bank of Nevis Limited

Consolidated Financial Statements
June 30, 2012
(expressed in Eastern Caribbean dollars)

The Bank of Nevis Limited

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Deloitte. PKF

Independent auditors' report

To the Shareholders of The Bank of Nevis Limited

We have audited the accompanying consolidated financial statements of The Bank of Nevis Limited which comprise the consolidated statement of financial position as at June 30, 2012, and the consolidated statements of income, comprehensive income, cash flows and changes in equity 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 consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Deloitte. PKF

Independent auditors' report

To the Shareholders of The Bank of Nevis Limited

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Bank of Nevis Limited as of June 30, 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 9 which details management's recognition of interest on non-productive loans which is in accordance with International Financial Reporting Standards but is not in accordance with the Eastern Caribbean Central Bank prudential guidelines.

Deloitte & Touche

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Basseterre
St Kitts

January 24, 2013

The Bank of Nevis Limited

Consolidated Statement of Financial Position
As of June 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Assets		
Cash and balances due from banks and other financial institutions (note 7)	**94,728,243**	97,978,872
Investment securities (note 8)	**93,115,835**	89,728,996
Loans and advances (note 9)	**205,597,804**	203,744,099
Other assets (note10)	**2,272,165**	1,967,771
Property, plant and equipment (note 11)	**22,495,650**	20,935,426
Intangible assets (note 12)	**316,046**	335,889
Deferred tax asset (note 16)	**-**	126,633
Total assets	**418,525,743**	414,817,686
Liabilities		
Customers' deposits (note 13)	**349,885,682**	337,920,269
Debt security (note 14)	**7,344,573**	14,611,287
Other liabilities and accrued expenses (note 15)	**6,592,636**	7,022,770
Provision for income tax (note 16)	**181,946**	869,066
Deferred tax liability (note 16)	**400,363**	-
Total liabilities	**364,405,200**	360,423,392
Shareholders' Equity		
Share capital (note 17)	**9,347,687**	9,347,687
Statutory reserves (note 18)	**10,207,846**	9,737,462
Revaluation reserves (note 19)	**10,346,417**	10,746,510
Other reserves (note 20)	**7,361,433**	7,322,069
Retained earnings	**16,857,160**	17,240,566
Total shareholders' equity	**54,120,543**	54,394,294
Total liabilities and shareholders' equity	**418,525,743**	414,817,686

The notes on pages 9 to 71 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on January 24, 2013

__________________ Chairman __________________ Director

The Bank of Nevis Limited

Consolidated Statement of Income
As of June 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Interest income (note 21)	**24,561,095**	23,691,238
Interest expense (note 22)	**(12,323,114)**	(11,921,400)
Net interest income	**12,237,981**	11,769,838
Realised (losses) / gains from investment securities (note 8)	**(3,469,477)**	644,569
Impairment provision on investment securities (note 8)	**(851,733)**	-
Other operating income (note 23)	**5,972,586**	5,574,049
Operating income	**13,889,387**	17,988,456
Operating expenses		
General and administrative expenses (note 28)	**9,709,860**	9,280,478
Provision for loan impairment, net of recoveries (note 9)	**66,881**	282,350
Directors' fees and expenses	**437,673**	455,888
Audit fees	**432,601**	438,751
Depreciation (note 11)	**556,310**	312,671
Amortisation (note 12)	**184,749**	168,445
Correspondent bank charges	**247,655**	277,596
	11,635,729	11,216,179
Operating profit for the year before taxation	**2,253,658**	6,772,277
Taxation (note 16)		
Current tax expense	**686,298**	930,090
Prior year tax expense	**22,452**	-
Deferred tax expense / (credit)	**483,796**	(194,248)
Income tax expense	**1,192,546**	735,842
Net profit for the year	**1,061,112**	6,036,435
Earnings per share (note 25)	**0.11**	0.65

The notes on pages 9 to 71 are an integral part of these consolidated financial statements.

The Bank of Nevis Limited

Consolidated Statement of Comprehensive Income
For the year ended June 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Net profit for the year	**1,061,112**	6,036,435
Other comprehensive income / (loss) for the year:		
(Depreciation) / Appreciation in market value of investment securities, net of tax (note 19)	**(400,093)**	476,367
Transfer of net gains to income (note 19)	**-**	(644,569)
Total other comprehensive loss for the year	**(400,093)**	(168,202)
Total comprehensive income for the year	**661,019**	5,868,233

The notes on pages 9 to 71 are an integral part of these consolidated financial statements.

The Bank of Nevis Limited

Consolidated Statement of Changes in Equity
For the year ended June 30, 2012

(expressed in Eastern Caribbean dollars)

	Share capital $	Statutory reserves $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance at June 30, 2010	7,478,150	8,678,149	10,914,712	6,657,574	14,775,476	48,526,061
Total comprehensive income for the year	-	-	(168,202)	-	6,036,425	5,868,233
Transfers to reserves (notes 18 and 20)	-	1,059,313	-	642,495	(1,701,808)	-
Dividends	1,869,537	-	-	-	(1,869,537)	-
Balance June 30, 2011	**9,347,687**	**9,737,462**	**10,746,510**	**7,322,069**	**17,240,566**	**54,394,294**
Total comprehensive income for the year	-	-	(400,093)	-	1,061,112	661,019
Transfers to reserves (notes 18 and 20)	-	470,384	-	39,364	(509,748)	-
Dividends	-	-	-	-	(934,770)	(934,770)
Balance at June 30, 2012	**9,347,687**	**10,207,846**	**10,346,417**	**7,361,433**	**16,857,160**	**54,120,543**

The notes on pages 9 to 71 are an integral part of these consolidated financial statements

The Bank of Nevis Limited

Consolidated Statement of Cash Flows
For the year ended June 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Cash flows from operating activities		
Operating profit for the year before taxation	**2,253,658**	6,772,277
Items not affecting cash:		
Provision for loan impairment	**66,881**	282,350
Depreciation	**556,310**	312,671
Amortisation	**184,749**	168,445
Realised losses / (gains) from investment securities	**3,469,447**	(644,569)
Impairment provision on investment securities	**851,733**	-
Net loss on disposal of plant and equipment	**12,908**	-
Interest income	**(24,561,095)**	(23,691,238)
Interest expense	**12,323,114**	11,921,400
Cash flows from operating income before changes in operating assets and liabilities	**(4,842,295)**	(4,878,664)
Changes in operating assets and liabilities		
Decrease in restricted deposits	**2,175,545**	3,335,879
Increase in deposits held for regulatory purposes	**(2,149,790)**	(641,659)
Increase in loans and advances	**(1,015,360)**	(14,455,987)
Increase in other assets	**(304,394)**	(287,227)
Increase in customers' deposits	**11,835,168**	24,906,734
Decrease in other liabilities and accrued expenses	**(430,134)**	(4,192,244)
Net Cash from operations	**5,268,740**	3,786,832
Interest paid	**(11,908,309)**	(11,156,065)
Interest received	**21,969,593**	23,166,125
Income tax paid	**(1,395,870)**	(790,522)
Net cash from operating activities	**13,934,151**	15,006,370
Cash flows from investing activities		
Purchase of property, plant and equipment	**(2,132,076)**	(4,505,036)
Sale of plant and equipment	**2,635**	-
Purchase of intangible assets	**(164,906)**	(179,689)
Increase in investment securities	**(29,969,446)**	(1,827,954)
Increase in fixed deposits	**(1,002,348)**	8,187,636
Net cash (used in) / from investing activities	**(33,266,141)**	1,674,957

The notes on pages 9 to 71 are an integral part of these consolidated financial statements

The Bank of Nevis Limited

Consolidated Statement of Cash Flows … *Continued*

For the year ended June 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Cash flows used in financing activities		
Repayment of debt security	**(7,551,274)**	(533,563)
Dividends paid	**(934,770)**	–
Net cash used in financing activities	**(8,486,044)**	(533,563)
(Decrease) / Increase in cash and cash equivalents	**(27,818,031)**	16,147,764
Cash and cash equivalents, beginning of year	**107,443,664**	91,295,900
Cash and cash equivalents, end of year (note 28)	**79,625,633**	107,443,664

The notes on pages 9 to 71 are an integral part of these consolidated financial statements

(expressed in Eastern Caribbean dollars)

1 Incorporation and principal activities

The Bank of Nevis Limited (the "BON") is a public company incorporated on August 29, 1985 under the laws of the Federation of St. Christopher and Nevis. The Bank is subject to the provision of the Banking Act No. 4 of 2004 of St. Christopher and Nevis. The principal activity of the Bank is the provision of financial services, and its registered office is: Main Street, Charlestown, Nevis.

In July 1998, BON's offshore activities and operations were transferred into a newly formed subsidiary company, Bank of Nevis International Limited which is licensed to carry on the business of Offshore Banking as contemplated by the Nevis Offshore Banking Ordinance No. 1 of 1996.

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

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

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

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

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

2 Adoption and amendments of published accounting standards and interpretations

Standards, amendments and interpretations effective on or after January 1, 2011

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

- IAS 1 – Presentation of Financial Statements (effective January 01, 2011)
- IAS 24 – Related Party Disclosures (effective January 01, 2011)
- IFRS 7 – Financial Instruments: Disclosures (effective January 01, 2011)

(expressed in Eastern Caribbean dollars)

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

Standards and interpretations issued but not yet effective

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

- IAS 1 – Presentation of Financial Statements (effective July 01, 2012)
- IAS 12 – Income Taxes (effective January 01, 2012)
- IAS 19 – Employee Benefits (effective January 01, 2013)
- IAS 27 – Consolidated and Non-consolidated Financial Statements (effective January 01, 2013)
- IAS 28 – Investments in Associates and Joint Ventures (effective January 01, 2013
- IFRS 9 – Financial Instruments – Classification and Measurement (effective January 01, 2013)
- IFRS 10 – Consolidated Financial Statements (effective January 01, 2013)
- IFRS 12 – Disclosures of Interest in Other Entities (effective January 01, 2013)
- IFRS13 – Fair Value Measurement (effective January 01, 2013)

3 Significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

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

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

Subsidiaries
The consolidated financial statements of the Bank comprise the financial statements of the parent entity and all subsidiaries (the "Bank") as of June 30, 2012.

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

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

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.2 Basis of preparation (continued)

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

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

3.3 Foreign currency translation

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

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

3.4 Financial Assets

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

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

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

(b) Available-for-sale financial assets
Available-for-sale instruments are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or that are not classified as loans and receivables.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.4 Financial Assets (continued)

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

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

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

3.4.1 Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- the Bank granting to the issuer or counterparty, for economic or legal reasons related to the issuer's/counterparty's financial difficulty, a concession that the Bank would not otherwise consider
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties

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

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.4.1 Impairment of financial assets

(a) *Assets carried at amortised cost (continued)*
If there is objective evidence that an impairment loss on as asset carried at amortised cost exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a 'provision for loan loss' account and the amount of the loss is recognised in the statement of income. If an asset carried at amortised cost has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. Statutory and other regulatory loan loss reserve requirements that exceed these amounts are recognised in other reserves as an appropriation of retained earnings.

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

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

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

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

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

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

(c) *Renegotiated Loans*
Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due, but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.4.2 Derecognition of financial assets

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

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

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

3.5 Financial Liabilities

3.5.1 Other financial liabilities

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

3.5.2 Derecognition of financial liabilities

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

3.6 Interest income and expense

Interest income and expenses are recognised in the statement of income for all interest bearing financial assets and liabilities using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability on initial recognition. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.6 Interest income and expense (continued)

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

3.7 Fees and commission

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

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

3.8 Dividend income

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

3.9 Property, plant and equipment and depreciation

Land and buildings held for use in the production or supply of services, or administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

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

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

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

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

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.9 Property, plant and equipment and depreciation (continued)

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

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

Land is not depreciated.

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

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

3.10 Intangible assets – computer software

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

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

3.11 Impairment of Property, Plant, Equipment and Intangible Assets

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

3.12 Provisions

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

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.12 Provisions (continued)

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

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

3.13 Cash and cash equivalents

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

3.14 Share capital

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

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

3.15 Pension costs

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

3.16 Income tax

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

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

(expressed in Eastern Caribbean dollars)

3 Significant accounting policies (continued)

3.16 Income tax (continued)

b) Deferred income tax (continued)

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

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

4 Financial risk management

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

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

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

Risk Management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

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

4.1 Credit risk

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

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

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.1 Credit risk management

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

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

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

(b) Debt securities and other bills
The Bank's portfolio of debt securities and other bills consists of St Christopher and Nevis Federal Government, and Nevis Island Administration treasury bills, and other debt obligations by regional banking and non banking financial institutions, all of which are unrated. The Bank assesses the risk of default on these obligations by regularly monitoring the performance of the St. Kitts and Nevis Federal Government, and the Nevis Island Administration, through published government data, information received directly from government departments and information published by international agencies such as the International Monetary Fund (IMF) and the World Bank. The risk of default on regional corporate debt is assessed by continuous monitoring of the performance of these companies through published financial information, and other data gleaned from various sources.

4.1.2 Risk limit control and mitigation policies

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

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

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.2 Risk limit control and mitigation policies (continued)

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

Some other specific control and mitigation measures are outlined below:

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

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

Longer-term finance and lending to corporate entities 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 counterparty as soon as there are impairment indicators for the relevant individual loans and advances.

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

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter term commitments.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.3 Impairment and provisioning policies

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

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

	2012		2011	
Bank's rating	**Loans and advances (%)**	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
Pass	**70.4**	**-**	84.5	–
Special mention	**16.8**	**-**	6.6	–
Sub-standard	**11.3**	**41.5**	7.0	33.4
Doubtful	**1.4**	**22.7**	1.7	51.0
Loss	**0.1**	**2.8**	0.2	15.6
Total	**100.0**	**100.0**	100.0	100.0

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

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

	2012 $	2011 $
Credit risk exposures relating to on-balance sheet assets:		
Deposits with other banks	**57,095,010**	58,666,444
Deposits with non-bank financial institutions	**17,143,798**	18,655,311
Investment securities:		
– Treasury bills and other eligible bills	**53,957,710**	47,060,319
– Bonds and other debt instruments	**11,187,760**	16,427,186
Loans and advances	**205,597,804**	203,744,099
Other assets	**505,475**	338,736
Pledged assets:		
– Available-for-sale fixed income securities, quoted	**9,813,815**	8,327,529
– Deposits with non-bank financial institutions	**2,827,823**	5,003,368
	358,129,195	358,222,992
Credit exposures relating to off-balance sheet items:		
– Financial guarantees	**-**	483,582
– Loan commitments and other credit related facilities	**19,807,788**	17,081,102
Total	**377,936,983**	375,787,676

The above table represents a worst case scenario of credit exposure to the Bank at June 30, 2012 and 2011, 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 consolidated statement of financial position.

54.4% of the total maximum exposure is derived from loans and advances (2011: 54.2%) and 22.1% represents investment in securities (2011: 21.8%).

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

- 87.2% of the loans and advances portfolio is categorized in the top two grades of the internal rating system (2011: 91.1%).
- 80.1% of the loans and advances portfolio are considered to be neither past due nor impaired (2011: 85.3%).
- 14.8% of loans and advances are considered impaired (2011: 10.7%).
- The impairment provision on the balance sheet increased during the year to $3.4 million, an increase of 2.0% over the previous year ($3.3 million).

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances

Loans and advances are summarised as follows:

	2012		2011	
	Loans and advances to customers $	Loans and advances to financial institutions $	Loans and advances to customers $	Loans and advances to financial institutions $
Neither past due nor impaired	164,283,486	3,167,175	168,456,326	8,232,773
Past due but not impaired	10,630,686	-	8,300,980	–
Impaired	30,900,551	-	22,071,233	–
Gross	**205,814,723**	**3,167,175**	**198,828,539**	**8,232,773**
Less: allowance for impairment	(3,376,176)	(7,918)	(3,317,213)	–
Net	**202,438,547**	**3,159,257**	**195,511,326**	**8,232,773**

The total impairment provision for loans and advances is $3,384,094 (2011: $3,317,213) of which $2,067,754 (2011: $2,101,542) represents the individually impaired loans, and the remaining amount of $1,316,340 (2011: $1,215,671) represents the portfolio provision. Further information on the impairment provision for loans and advances to banks and to customers is provided in Note 10.

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

As at June 30, 2012

	Overdraft $	Personal $	Commercial $	Public sector $	Total $
Grades:					
Pass	4,129,865	50,169,000	50,197,392	43,050,242	147,546,499
Special mention	19,361,209	542,953	-	-	19,904,162
Total	**23,491,074**	**50,711,953**	**50,197,392**	**43,050,242**	**167,450,661**

As at June 30, 2011

	Overdraft $	Personal $	Commercial $	Public sector $	Total $
Grades:					
Pass	14,098,800	48,757,283	52,431,947	50,754,510	166,042,540
Special mention	10,494,823	151,736	-	-	10,646,559
Total	**24,593,623**	**48,909,019**	**52,431,947**	**50,754,510**	**176,689,099**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances (continued)

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

As at June 30, 2012

	Personal $	Commercial $	Total $
Past due up to 30 days	4,374,978	2,173,555	6,548,533
Past due 31-60 days	341,041	446,638	787,679
Past due 61-89 days	2,353,239	941,235	3,294,474
Total	**7,069,258**	**3,561,428**	**10,630,686**

As at June 30, 2011

	Personal $	Commercial $	Total $
Past due up to 30 days	4,577,421	1,365,029	5,942,450
Past due 31-60 days	306,259	–	306,259
Past due 61-89 days	2,052,271	–	2,052,271
Total	**6,935,951**	**1,365,029**	**8,300,980**

(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, 2012

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Individually impaired loans	**810,207**	**12,183,436**	**14,308,704**	**3,598,204**	**30,900,551**
Fair value of collateral	**453,917**	**28,620,285**	**46,911,362**	**-**	**75,985,564**

As at June 30, 2011

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Individually impaired loans	864,260	11,617,077	9,589,896	-	22,071,233
Fair value of collateral	503,917	26,244,064	45,681,846	-	72,429,827

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances (continued)

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $30,900,551 (2011: $22,071,233).

(d) Loans and advances renegotiated
Restructuring activities include extended payment arrangements, approved external management plans, modification and deferred payments. Following restructuring, a previously overdue account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators of criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled $3,037,613 at June 30, 2012 (2011: $596,875).

4.1.6 Debt securities, treasury bills and other eligible bills

The table below represents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at June 30, 2012 and 2011 based on Standard & Poor's rating or their equivalent:

	Treasury bills $	Bonds and other debt instruments $	Available-for-sale $	Total $
Aa1—Baa3	-	5,664,770	10,099,972	15,764,742
Unrated	53,957,710	5,522,990	17,870,393	77,351,093
As at June 30, 2012	**53,957,710**	**11,187,760**	**27,970,365**	**93,115,835**

	Treasury bills $	Bonds and other debt instruments $	Available-for-sale $	Total $
Aa1—Baa3	–	5,913,566	7,368,400	13,281,966
Lower than Baa3	–	–	1,105,569	1,105,569
Unrated	47,060,319	10,513,620	17,767,522	75,341,461
As at June 30, 2011	**47,060,319**	**16,427,186**	**26,241,491**	**89,728,996**

4.1.7 Repossessed collateral

During the year ended June 30, 2012, the Bank took possession of collateral securing facilities with carrying value of $137,965 (2011: $141,955).

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.8 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, (without taking into account any collateral held or other credit support) as categorised by geographical region as at June 30, 2011 and 2012. For all classes of assets, the Bank has allocated exposures to regions based on country of domicile of the counterparties.

	St. Christopher & Nevis $	Other Caribbean $	North America $	Europe $	Total $
Credit risk exposures relating to on-balance sheet assets:					
Deposits with other banks	2,071,940	27,372,561	8,783,502	18,867,007	57,095,010
Deposits with non-bank financial institutions	158,536	16,985,262	-	-	17,143,798
Investment securities:					
– Treasury bills and other eligible bills	50,472,378	3,485,332	-	-	53,957,710
– Bonds and other debt instruments	5,726,073	5,461,687	-	-	11,187,760
Loans and advances	190,566,591	4,087,362	7,650,989	3,292,862	205,597,804
Other assets	186,827	5,179	312,509	960	505,475
Pledged assets:					
– Available-for-sale fixed income securities	-	-	9,813,815	-	9,813,815
–Deposits with non-bank financial institutions	808,470	-	2,019,353	-	2,827,823
	249,990,815	**57,397,383**	**28,580,168**	**22,160,829**	**358,129,195**
Credit exposures relating to off balance sheet items:					
Financial guarantees					
Loan commitments and other credit related facilities	18,936,156	-	871,632	-	19,807,788
As at June 30, 2012	**268,926,971**	**57,397,383**	**29,451,800**	**22,160,829**	**377,936,983**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

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

(a) Geographical sectors (continued)

	St. Christopher & Nevis $	Other Caribbean $	North America $	Europe $	Total $
Credit risk exposures relating to on-balance sheet assets:					
Deposits with other banks	4,929,324	27,860,983	11,279,230	14,596,907	58,666,444
Deposits with non-bank financial institutions	49,897	18,605,414	–	–	18,655,311
Investment securities:					
– Treasury bills and other eligible bills	46,564,943	495,376	–	–	47,060,319
– Bonds and other debt instruments	9,240,595	7,186,591	–	–	16,427,186
Loans and advances	188,436,919	5,035,878	6,973,866	3,297,436	203,744,099
Other assets	138,858	2,806	307,395	960	450,019
Pledged assets:					
– Available-for-sale fixed income securities	–	–	8,216,246	–	8,216,246
– Deposits with non-bank financial institutions	808,470	–	4,194,898	–	5,003,368
	250,169,006	**59,187,048**	**30,971,635**	**17,895,303**	**358,222,992**
Credit exposures relating to off balance sheet items:					
Financial guarantees	483,582	–	–	–	483,582
Loan commitments and other credit related facilities	13,345,716	105,888	3,576,889	52,609	17,081,102
As at June 30, 2011	**263,998,304**	**59,292,936**	**34,845,524**	**17,947,912**	**375,787,676**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.1 Credit risk (continued)

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

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

	2012		2011	
	$	**%**	$	%
Personal	**80,279,676**	**38.2**	77,724,853	37.4
Public Sector	**55,626,392**	**26.6**	61,415,609	29.7
Construction and land development	**35,717,497**	**17.1**	34,687,107	16.8
Distributive trades transportation and	**17,646,798**	**8.4**	17,686,418	8.5
Tourism, entertainment, and catering	**8,540,117**	**4.1**	5,126,210	2.5
Professional and other services	**7,034,440**	**3.4**	6,374,953	3.1
Agriculture and manufacturing	**4,136,978**	**2.2**	4,046,163	2.0
Total	**208,981,898**	**100.0**	207,061,312	100.0

4.2 Market risk

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

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

4.2.1 Price risk

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

If market rates at June 30, 2012 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $82,045 (2011: $77,367) lower/ higher as a result of the increase/decrease in the fair value of available-for-sale investment securities.

	2012	**2011**
	$	**$**
Available-for-sale		
Equity securities quoted at market value	**2,038,851**	1,327,791
Mutual funds quoted at market value	**14,854,442**	14,610,899
	16,893,293	15,938,690

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign exchange risk

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

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

The following table summarises the Bank's exposure to foreign currency risk at June 30, 2012. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
As at June 30, 2012							
Assets							
Cash and balances with ECCB	17,040,570	411,891	129,132	21,449	55,577	2,993	17,661,612
Deposits with banks	5,200,258	44,017,159	3,626,588	3,608,677	560,696	81,632	57,095,010
Deposits with non-bank financial institutions	1,169,983	15,973,815	-	-	-	-	17,143,798
Investment securities:							
– Treasury bills and other eligible bills	46,352,915	7,604,795	-	-	-	-	53,957,710
– Bonds and other debt securities	5,705,193	5,482,567	-	-	-	-	11,187,760
– Available-for-sale investments – unquoted	271,806	851,733	-	-	-	-	1,123,539
– Available-for-sale investments – quoted	2,038,851	-	-	-	-	-	2,038,851
Loans and advances to customers	159,991,433	45,606,371	-	-	-	-	205,597,804
Other assets	191,683	311,966	-	960	866	-	505,475
Pledged assets:							
– Available-for-sale investment securities	-	24,668,257	-	-	-	-	24,668,257
– Deposits with non-bank and other financial institutions	-	2,728,823	-	-	-	-	2,827,823
Total financial assets	**237,962,692**	**147,756,377**	**3,755,720**	**3,631,086**	**617,139**	**84,625**	**393,807,639**
Liabilities							
Customer deposits	198,163,016	146,878,500	2,771,117	2,019,442	53,607	-	349,885,682
Debt security	-	7,344,573	-	-	-		7,344,573
Other liabilities and accrued expenses	1,661,711	2,329,775	-	7,292	2,434	827	4,002,039
Total financial liabilities	**199,824,727**	**156,552,848**	**2,771,117**	**2,026,734**	**56,041**	**827**	**361,232,294**
Net on-balance sheet position	**38,137,965**	**(8,796,471)**	**984,603**	**1,604,352**	**561,098**	**83,798**	**32,575,345**
Credit commitments	**9,722,568**	**11,616,236**	**-**	**-**	**-**	**-**	**21,338,804**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
As at June 30, 2011							
Assets							
Cash and balances with the ECCB	15,018,265	447,445	117,896	18,647	45,301	6,195	15,653,749
Deposits with banks	7,339,636	44,936,733	2,610,374	3,073,722	606,300	99,679	58,666,444
Deposits with non-bank financial institutions	2,100,479	16,554,832	–	–	–	–	18,655,311
Investment securities:							
– Treasury bills and other eligible bills	39,940,468	7,119,851	–	–	–	–	47,060,319
– Bonds and other debt securities	7,865,457	8,561,729	–	–	–	–	16,427,186
– Available-for-sale investments- unquoted	271,806	1,703,466	–	–	–	–	1,975,272
– Available-for-sale securities- quoted	1,327,791	–	–	–	–	–	1,327,791
Loans and advances to customers	164,707,752	39,036,347	–	–	–	–	203,744,099
Other assets	141,341	306,852	–	960	866	–	450,019
Pledge assets:							
– Available-for-sale investment securities	–	22,827,145	–	–	–	–	22,827,145
– Deposits with non-bank financial institutions	–	5,003,368	–	–	–	–	5,003,368
Total financial assets	**238,712,995**	**146,497,768**	**2,728,270**	**3,093,329**	**652,467**	**105,874**	**391,790,703**
Liabilities							
Customer deposits	166,067,935	168,573,708	1,552,330	1,678,723	47,573	–	337,920,269
Debt security	–	14,611,287	–	–	–	–	14,611,287
Other liabilities and accrued expenses	1,584,487	2,668,365	97,662	224,172	2,630	759	4,578,075
Total financial liabilities	**167,652,422**	**185,853,360**	**1,649,992**	**1,902,895**	**50,203**	**759**	**357,109,631**
Net on-balance sheet position	**71,060,573**	**(39,335,592)**	**1,078,278**	**1,190,434**	**602,264**	**105,115**	**34,681,072**
Credit commitments	**11,347,502**	**8,224,528**	–	–	–	–	**19,572,030**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

If at June 30, 2012, 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 $78,729 (2011: $94,513) 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 2012 was a loss of $42,518 (2011: gain of $302,240).

The Bank holds no Euro denominated available-for-sale investment securities. Hence, there would have been no impact on equity if the Eastern Caribbean Dollar had weakened/strengthened against the Euro at June 30, 2012.

If at June 30, 2012, the Eastern Caribbean dollar had weakened/strengthened by 10% against the Pound Sterling with all other variables held constant, post-tax profit for the year would have been $105,503 (2011: $78,731) 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 Pound Sterling in 2012 was a gain of $44,636 (2011: gain of $195,092).

Because the Bank holds no Pounds Sterling denominated available-for-sale investment securities, there would have been no impact on equity, if the Eastern Caribbean dollar had weakened/strengthened against the Pound Sterling at June 30, 2012.

If at June 30, 2012, 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 $32,985 (2011: $4,532) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Canadian dollar denominated loans and receivables and foreign exchange losses/gains on translation of customer deposits denominated in Canadian dollars.

The contribution to profit before taxation of foreign exchange gains on assets and liabilities held in Canadian currency in 2012 was a loss of $10,473 (2011: $32,608).

Because the Bank holds no Canadian dollar denominated available-for-sale investment securities, there would have been no impact on equity, if the Eastern Caribbean dollar had weakened/strengthened against the Canadian dollar at June 30, 2012.

4.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing level of market interest rates on both its fair value and cash flow risks. Interest margins may increase or decrease as a result of such changes. The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily by The Treasury and Investment Committee.

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 Interest rate risk (continued)

	Under 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-Interest bearing $	Total $
As at June 30, 2012							
Assets							
Cash and balances with the Central Bank	2,000	-	-	-	-	17,659,912	17,661,612
Deposits with banks	10,202,988	13,595,239	4,981,234	-	-	28,315,549	57,095,010
Deposits with non bank financial institutions	13,288,944	3,711,766	101,222	-	-	41,866	17,143,798
Investment securities:							
– Treasury bills	18,300,800	33,098,111	2,558,799	-	-	-	53,957,710
– Bonds and other debt instruments	79,640	686,470	3,881,454	4,859,644	1,680,552	-	11,187,760
– Available-for-sale investments – unquoted	-	-	-	-	-	1,123,539	1,123,539
– Available-for-sale securities-quoted	-	-	-	-	-	2,038,851	2,038,851
Loans and advances to customers	50,372,737	3,634,431	12,276,943	24,410,549	107,852,509	7,050,635	205,597,804
Other assets	61,247	68,294	10,176	-	-	365,758	505,475
Pledged assets:							
– Available-for-sale investment securities	-	1,354,861	3,073,334	3,649,328	1,736,292	14,854,442	24,668,257
– Deposits with bank and other financial Institution	2,019,353	-	808,470	-	-	-	2,827,823
Total financial assets	**94,327,709**	**56,149,172**	**27,691,632**	**32,919,521**	**111,269,353**	**71,450,252**	**393,807,639**
Liabilities							
Customer deposits	171,103,353	21,163,793	104,007,535	7,175,327	-	46,435,674	349,885,682
Debt security	7,344,573	-	-	-	-	-	7,344,573
Other liabilities and accrued expenses	157,572	-	-	-	-	3,844,467	4,002,039
Total financial liabilities	**178,605,498**	**21,163,793**	**104,007,535**	**7,157,327**	**-**	**50,280,141**	**361,232,294**
Total interest repricing gap	**(84,277,789)**	**34,985,379**	**(76,315,903)**	**25,744,194**	**111,269,353**	**21,170,111**	**32,575,345**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 Interest rate risk (continued)

	Under 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-Interest bearing $	Total $
As at June 30, 2011							
Assets							
Cash and balances with ECCB	2,000	–	–	–	–	15,651,749	15,653,749
Deposits with banks	9,910,826	18,101,674	–	–	–	30,653,944	58,666,444
Deposits with non-bank financial institutions	14,568,446	–	4,051,754	–	–	35,111	18,655,311
Investment securities:							
–Treasury bills	16,725,824	27,783,371	2,551,124	–	–	–	47,060,319
–Bonds and other debt instruments	678	1,375,137	1,393,067	13,508,304	150,000	–	16,427,186
–Available-for-sale securities –unquoted	–	–	–	–	–	1,975,272	1,975,272
–Available-for-sale securities –quoted	–	–	–	–	–	1,327,791	1,327,791
Loans and advances to customers	49,548,348	9,451,959	6,564,285	26,601,768	111,577,739	–	203,744,099
Other assets	–	–	–	–	–	450,019	450,019
Pledged assets:							
– Available-for-sale	–	–	–	4,615,493	3,600,753	14,610,899	22,827,145
– Deposits with banks and other financial institutions	4,194,898	–	808,470	–	–	–	5,003,368
Total financial assets	**94,951,020**	**56,712,141**	**15,368,700**	**44,725,565**	**115,328,492**	**64,704,785**	**391,790,703**
Liabilities							
Customers deposits	163,695,833	24,678,468	97,379,301	3,833,987	–	48,332,680	337,920,269
Debt security	14,611,287	–	–	–	–	–	14,611,287
Other liabilities and accrued expenses	110,847	–	–	–	–	4,467,228	4,578,075
Total financial liabilities	**178,417,967**	**24,678,468**	**97,379,301**	**3,833,987**	**–**	**52,799,908**	**357,109,631**
Total interest repricing gap	**(83,466,947)**	**32,033,673**	**(82,010,601)**	**40,891,578**	**115,328,492**	**11,904,877**	**34,681,072**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 Interest rate risk (continued)

The Bank's fair value interest rate risk arises from fixed income debt securities classified as available-for-sale. If market rates at June 30, 2012 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $73,053 (2011: $151,569) lower/higher as a result of the increase/decrease in the fair value of available-for-sale securities.

Cash flow interest rate risk arises from loans and advances to customers, and other interest bearing assets at variable rates. If at June 30, 2012, 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 $921,304 higher/lower (2011: $988,216), 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, 2012 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 $1,128,848 (2011: $1,093,667) lower/higher, mainly as a result of higher/lower interest expense.

4.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the consolidated statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

4.3.1 Liquidity risk management process

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

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

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

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

4.3.2 Funding approach

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

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.3 Liquidity risk (continued)

4.3.3 Non derivative cash flows

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

	Under 1 month $	1-3 months $	3-12 months $	1-5 years $	Over 5 years $	Total $
As at June 30, 2012						
Deposits from customers	217,603,173	21,463,366	107,374,806	7,617,726	-	354,059,071
Debt security	7,344,573	-	-	-	-	7,344,573
Other liabilities and accrued expenses	3,842,047	159,992	-	-	-	4,002,039
Total financial liabilities (contractual maturity dates)	**228,789,793**	**21,623,356**	**107,374,806**	**7,617,726**	**-**	**365,405,683**
Assets held for managing liquidity risk (contractual maturity dates)	**155,821,345**	**59,780,428**	**21,906,905**	**34,264,522**	**121,789,436**	**393,562,636**
As at June 30, 2011						
Deposits from customers	207,910,848	27,558,366	104,240,741	2,223,288	–	341,933,243
Debt security	14,611,287	–	–	–	–	14,611,287
Other liabilities and accrued expenses	4,261,003	317,072	–	–	–	4,578,075
Total financial liabilities (contractual maturity dates)	**226,783,138**	**27,875,438**	**104,240,741**	**2,223,288**	**–**	**361,122,605**
Assets held for managing liquidity risk (contractual maturity dates)	**154,634,088**	**56,757,241**	**17,277,511**	**41,976,154**	**115,306,068**	**385,951,062**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.3 Liquidity risk (continued)

4.3.4 Assets held for managing liquidity risk

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

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

4.3.5 Off 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 $	Total $
As at June 30, 2012			
Capital commitments	19,807,788	-	19,807,788
Loan commitments	1,531,016	-	1,531,016
	21,338,804	**-**	**21,338,804**
As at June 30, 2011			
Financial guarantees	483,582	–	483,582
Capital commitments	2,007,346	–	2,007,346
Loan commitments	17,081,102	–	17,081,102
	19,572,030	–	**19,572,030**

(b) Financial guarantees and other financial facilities
The Bank had financial guarantees of $Nil at June 30, 2012 (2011: $483,582).

(c) Operating Lease Commitments
The Bank had no operating lease commitments as at June 30, 2012 (2011: $Nil).

(d) Capital commitments
The Bank had contractual capital commitments totalling $1,531,016 as at June 30, 2012 (2011: $2,007,346). These commitments relate to the Bank's building construction and refurbishment project which commenced in June 2010.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

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

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

	Carrying value		Fair value	
	2012 $	**2011 $**	**2012 $**	**2011 $**
Financial assets				
Cash and balances with the Central Bank	17,661,612	15,653,749	17,661,612	15,653,749
Deposits with other banks	57,095,010	58,666,444	57,095,010	58,666,444
Deposits with non-bank financial institutions	17,143,798	18,655,311	17,143,798	18,655,311
Investment securities:				
– Treasury bills and other eligible bills	53,957,710	47,060,319	53,957,710	47,060,319
– Bonds and other debt instruments	11,187,760	16,427,186	11,187,760	16,427,186
– Available-for-sale investments – unquoted	1,123,539	1,975,272	1,123,539	1,975,272
– Available-for-sale investments – quoted	2,038,851	1,327,791	2,038,851	1,327,791
Loans and advances	205,597,804	203,744,099	204,542,371	202,782,933
Other Assets	505,475	338,736	505,475	338,736
Pledged assets:				
– Available-for-sale investment securities, quoted	24,668,257	22,938,428	24,668,257	22,938,428
– Deposits with bank and other financial institutions	2,827,823	5,003,368	2,827,823	5,003,368
	393,807,639	**391,790,703**	**392,752,206**	**390,829,537**
Financial liabilities				
Customer deposits	349,885,682	337,920,269	349,885,682	337,920,269
Debt security	7,344,573	14,611,287	7,344,573	14,611,287
Other payables and accrued expenses	4,002,039	4,578,075	4,002,039	4,578,075
	361,232,294	**357,109,631**	**361,232,294**	**357,109,631**

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

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

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

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

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

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

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

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

4.4.1 Fair value hierarchy

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes debt instruments listed on exchanges.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

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

4.4.1 Fair value hierarchy *(continued)*

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

	Level 1 **$**
Financial assets at fair value	
Investment securities	
Fixed income securities, quoted at market value	9,813,815
Mutual funds, quoted at market value	14,854,442
Equity securities, quoted at market value	2,038,851
Balance as at June 30, 2012	**26,707,108**

	Level 1 **$**
Financial assets at fair value	
Investment securities	
Fixed income securities, quoted at market value	8,216,246
Mutual funds, quoted at market value	14,610,899
Equity securities, quoted at market value	1,327,791
Balance as at June 30, 2011	**24,154,936**

4.5 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.

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%.

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.5 Capital management (continued)

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

- Tier 1 capital: share capital (net of any book values of treasury shares), retained earnings and reserves created by appropriations of retained earnings.

- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of securities held as available-for-sale.

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

The following table summarises the composition of the regulatory capital and the Basel ratios for the years ended June 30, 2011 and June 30, 2012. During those two years, the Bank and its subsidiaries complied with all the externally imposed capital requirements to which they are subject.

	2012	**2011**
	$	**$**
Tier 1 capital		
Share capital	**9,347,687**	9,347,687
Statutory reserve	**10,207,846**	9,737,462
Retained earnings	**16,857,160**	17,240,566
Total qualifying tier 1 capital	**36,412,693**	36,325,715
Tier 2 capital		
Revaluation reserve	**10,346,417**	10,746,510
Reserve for loan impairment	**547,468**	1,361,186
Reserve for interest on non-performing loans	**5,096,616**	4,371,135
Reserve for items in-transit on correspondent bank accounts	**1,717,349**	1,589,748
Total qualifying tier 2 capital	**17,707,850**	18,068,579
Total regulatory capital	**54,120,543**	54,394,294
Risk weighted assets		
On-balance sheet	**212,441,244**	195,171,615
Off-balance sheet	**21,338,804**	19,572,030
Total risk weighted assets	**233,780,048**	214,743,645
Basel ratio	**23.2%**	25.3%

(expressed in Eastern Caribbean dollars)

4 Financial risk management (continued)

4.6 Financial assets and liabilities by category

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

	Loans and receivables $	Available-for-sale $	Total $
As at June 30, 2012			
Assets			
Cash and Balances with the Central Bank	17,661,612	-	17,661,612
Due from banks and other financial institutions	77,066,631	-	77,066,631
Investment securities	65,145,470	27,970,365	93,115,835
Loans and advances	205,597,804	-	205,597,804
Other assets	365,757	-	365,757
Total financial assets	**365,837,274**	**27,970,365**	**393,807,639**

	Other Liabilities	Total
Liabilities		
Customer deposits	349,885,682	349,885,682
Debt security	7,344,573	7,344,573
Other liabilities and accrued expenses	4,002,039	4,002,039
Total financial liabilities	**361,232,294**	**361,232,294**

As at June 30, 2011

	Loans and receivables	Available-for-sale	Total
Assets			
Balances with the Central Bank	15,653,749	–	15,653,749
Due from banks and other financial institutions	82,325,123	–	82,325,123
Investment securities	63,598,788	26,130,208	89,728,996
Loans and advances	203,744,099	–	203,744,099
Other assets	338,736	–	338,736
Total financial assets	**365,660,495**	**26,130,208**	**391,790,703**

	Other Liabilities	Total
Liabilities		
Customer deposits	337,920,269	337,920,269
Debt security	14,611,287	14,611,287
Other liabilities and accrued expenses	4,578,075	4,578,075
Total financial liabilities	**357,109,631**	**357,109,631**

(expressed in Eastern Caribbean dollars)

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

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

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

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

(a) Impairment losses on loans and advances
The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be estimated $129,929 lower or $171,846 higher respectively.

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

Had all the declines in fair value below cost been considered significant or prolonged, the Bank would suffer an increase impairment loss of $848,061 in its 2012 consolidated financial statements, which would be included in the transfer of the accumulated fair value declines recognised in equity on the impaired available-for-sale financial assets to the consolidated statement of income. Management's determination of the impairment provision involves the use of assumptions and significant judgement. In making this judgement, the Bank evaluates among other factors, the expected length of time to liquidate investments and any estimated loss on the principle invested.

(expressed in Eastern Caribbean dollars)

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

(c) Impairment of Fixed Deposits
The Bank holds fixed deposits with certain institutions that have been experiencing liquidity challenges, and were therefore unable to fulfil all the Bank's requests to redeem the fixed deposits. The Bank reviews its fixed deposits to assess impairment on a regular and periodic basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from the fixed deposit. Such observable data may indicate that there has been an adverse change in the payment ability and financial condition of the counterparty. Management uses experience, judgment and estimates based on objective evidence of impairment when assessing future cash flows. Were the net present value of estimated cash flows of these fixed deposits to differ by +/-10%, the impairment would be estimated $120,570 lower or $150,712 higher.

6 Business segments

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

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

The Bank has three operating segments:

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

- Offshore Banking – incorporating private banking services, customer current accounts, savings, deposits, consumer loans and mortgages and other credit facilities, overdrafts to non-residents of Nevis; and

- Mutual Funds – Open-ended public mutual funds.

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

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

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

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

(expressed in Eastern Caribbean dollars)

6 Business segments (continued)

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

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

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

Included in revenues arising from the retail and corporate banking segment are revenues of approximately $5,255,273 or 17.3% (2011: $4,331,024 or 14.5%) which arose from transactions with the Bank's largest customer.

	Retail and corporate banking $	Offshore banking $	Mutual fund $	Total $
At June 30, 2012				
Net interest income from external customers	9,316,564	2,921,416	-	12,237,980
Inter-segment net interest income	(31,957)	58	31,899	-
Fee and commission income	3,522,891	540,430	-	4,063,321
Dividend income	152,977	703,442	-	856,419
Other income	1,461,461	130,366	-	1,591,827
Realized losses from investment securities	-	(3,469,447)	-	(3,469,447)
Impairment provision on investment securities	(851,733)	-	-	(851,733)
General and administrative expenses	(8,442,168)	(1,777,831)	(28,841)	(10,248,840)
Loan loss provision	(66,881)	-	-	(66,881)
Depreciation and amortization expenses	(719,238)	(21,821)	-	(741,059)
Other operating expenses	(801,796)	(316,133)	-	(1,117,929)
Operating profit / (loss)	**3,540,120**	**(1,289,520)**	**3,058**	**2,253,658**
Income tax expense	**(1,188,200)**	**-**	**(4,346)**	**(1,192,546)**
Profit / (loss) the year	**2,351,920**	**(1,289,520)**	**(1,288)**	**1,061,112**
Total assets	**299,051,242**	**122,693,186**	**2,038,495**	**423,782,923**
Total liabilities	**251,883,162**	**114,958,499**	**15,143**	**366,856,804**
At June 30, 2011				
Net interest income from external customers	8,150,576	3,619,262	–	11,769,838
Inter-segment net interest income	12,308	(43,873)	31,565	–
Fee and commission income	3,013,832	451,175	–	3,465,007
Dividend income	2,734,250	607,390	–	3,341,640
Other income	1,701,849	944,002	–	2,645,851
General and administrative expenses	(8,024,023)	(1,771,570)	(23,862)	(9,819,455)
Loan loss provision	(282,350)	–	–	(282,350)
Depreciation and amortization expenses	(456,510)	(24,606)	–	(481,116)
Other operating expenses	(840,059)	(332,179)	–	(1,172,238)
Operating profit	**6,009,873**	**3,449,601**	**7,703**	**9,467,177**
Income tax expense	**(713,307)**	**(20,460)**	**(2,075)**	**(735,842)**
Profit the year	**5,296,566**	**3,429,141**	**5,628**	**8,731,335**
Total assets	**302,612,420**	**118,157,202**	**2,035,437**	**422,805,059**
Total liabilities	**256,862,543**	**108,652,674**	**10,797**	**365,526,014**

(expressed in Eastern Caribbean dollars)

6 Business segments (continued)

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

	Management Reporti $	Consolidation adjustments $	Total $
At June 30, 2012			
Net interest income from external customers	12,237,980	-	12,237,980
Fee and commission income	4,063,321	-	4,063,321
Dividend income	856,419	-	856,419
Other income	1,591,827	(538,980)	1,052,847
Realized losses on investment securities	(3,469,447)	-	(3,469,447)
Impairment provision on investment securities	(851,733)	-	(851,733)
General and administrative expenses	(10,248,840)	538,980	(9,709,860)
Loan loss provision	(66,881)	-	(66,881)
Depreciation and amortization expenses	(741,059)	-	(741,059)
Other operating expenses	(1,117,929)	-	(1,117,929)
Operating profit	**2,253,658**	**-**	**2,253,658**
Income tax expense	**(1,192,546)**	**-**	**(1,192,546)**
Profit the year	**1,061,112**	**-**	**1,061,112**
Total assets	**423,782,923**	**(5,257,180)**	**418,525,743**
Total liabilities	**366,856,804**	**(2,451,604)**	**364,405,200**

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

	Management Reporting $	Consolidation adjustments $	Total $
At June 30, 2011			
Net interest income from external customers	11,769,838	–	11,769,838
Fee and commission income	3,465,007	–	3,465,007
Dividend income	3,341,640	(2,694,900)	646,740
Other income	2,645,851	(538,980)	2,106,871
General and administrative expenses	(9,819,455)	538,980	(9,280,475)
Loan loss provision	(282,350)	–	(282,350)
Depreciation and amortization expenses	(481,116)	–	(481,116)
Other operating expenses	(1,172,238)	–	(1,172,238)
Operating profit	**9,467,177**	**(2,694,900)**	**6,772,277**
Income tax expense	**(735,842)**	–	**(735,842)**
Profit the year	**8,731,335**	**(2,694,900)**	**6,036,435**
Total assets	**422,805,059**	**(7,987,373)**	**414,817,686**
Total liabilities	**365,526,014**	**(5,102,622)**	**360,423,392**

(expressed in Eastern Caribbean dollars)

7 Cash and balances due from banks and other financial institutions

	2012 $	2011 $
Cash on hand	**1,277,813**	1,419,740
Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits	**2,000**	2,000
Cash and current accounts with other banks	**29,309,778**	28,514,714
Cheques in the course of collection	**1,041,770**	3,235,649
Short term fixed deposits	**28,836,991**	31,485,719
Included in cash and cash equivalents (note 27)	**60,468,352**	64,657,822
Dormant account reserve	**261,235**	230,641
Mandatory reserve deposits with the ECCB	**16,120,564**	14,001,368
Restricted fixed deposits	**808,470**	808,470
Other restricted deposits	**2,019,353**	4,194,898
Fixed deposits	**26,299,015**	25,296,667
	105,976,989	109,189,866
Interest receivable	**494,782**	532,534
Provision for impairment on fixed deposits	**(11,743,528)**	(11,743,528)
Total cash and balances due from banks and other financial institutions	**94,728,243**	97,978,872
Current	**76,121,289**	81,521,708
Non-current	**18,606,954**	16,457,164
	94,728,243	97,978,872

Under the Banking Act of St. Christopher and Nevis No. 4 of 2004, commercial banks are required to transfer to the ECCB balances on accounts which are inactive for a period of over 15 years. The balances transferred to the ECCB are held in a special account and are not available for use in the Bank's day-to-day operations.

Commercial banks doing banking business in member states of the Organization of the Eastern Caribbean States (OECS) are required to maintain a mandatory non-interest bearing reserve deposit with the ECCB, which when combined with the EC dollar cash on hand should be equivalent to a minimum 6% of their total deposit liabilities (excluding inter-bank deposits). This reserve deposit relates only to The Bank of Nevis Limited (non-consolidated), and is not available for use in its day-to-day operations. At June 30, 2012 the minimum required amount was $13,420,000.

(expressed in Eastern Caribbean dollars)

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

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

	2012 $	2011 $
Bank of St. Lucia Limited, maturing on July 11, 2012, August 22, 2012 and September 17, 2012 with interest rates of 4.0% and 5.0% per annum (2011: 5.0% per annum)	**8,073,538**	7,756,390
First Citizens Investment Services Limited Repurchase Agreements maturing July 30, 2012 and August 10, and August 27 2012, with interest rates of 2.5% and 2.75% per annum	**7,348,879**	4,820,499
National Bank of Anguilla Limited, maturing on July 06, 2012 with interest rate of 5.5% per annum (2011: 6.25% per annum)	**2,694,900**	2,694,900
Caribbean Commercial Bank (Anguilla) Limited, maturing July 5, 2012 with interest rate of 5.0% per annum	**1,086,490**	1,054,475
Trinidad and Tobago Unit Trust Corporation call account, with interest rate of 1.05% per annum (2011: 1.8% per annum)	**9,633,184**	9,731,544
Eastern Caribbean Amalgamated Bank Limited, maturing July 9, 2011 with interest rate of 6.25% per annum	**-**	3,446,742
ABI Bank Limited, at 6.25% per annum	**-**	1,981,169
Total short-term deposits	**28,836,991**	31,485,719

During the year, the interest rates on short-term deposits range from 1.05% to 6.25% per annum (2011: $1.80% to 6.25% per annum).

The restricted fixed deposits comprise deposits held with Caribbean Credit Card Corporation of $808,470 (2011: $808,470) bearing interest of 4.50% per annum. These deposits are not available for use in the Bank's day-to-day operations and are used as security deposits primarily for the credit card operations.

(expressed in Eastern Caribbean dollars)

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

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

	2012 $	2011 $
Caribbean Commercial Bank (Anguilla) Limited, maturing August 01, 2012 with interest rate of 6.0% per annum (2011: 6.25% per annum)	**8,084,700**	8,084,700
Eastern Caribbean Amalgamated Bank Limited, maturing October 09, 2012 with interest rate of 3.0% per annum	**3,606,653**	-
Bank of St. Lucia Limited, maturing December 09, 2012, with interest rate of 3.0% per annum	**1,347,450**	-
St. Kitts and Nevis Finance Company (FINCO), maturing April 11, 2012 with interest rate of 5.5% per annum	**100,000**	-
TCI Bank Limited, see below	**3,014,221**	3,014,221
British American Insurance Company Limited (BAICO), see below	**10,145,991**	10,145,991
Colonial Life Insurance Company (Trinidad) Limited	**-**	4,051,755
	26,299,015	25,296,667

The interest rates on fixed deposits range from 3.0% to 6.25% per annum (2011: 5.0% to 6.5% per annum).

The other restricted deposit of $2,019,353 (2011: $4,194,898) is comprised of a money market account at Morgan Stanley Smith Barney which is held as partial security for the line of credit (see note 14).

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

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

The Judicial Manager's report was filed with the local High Court on October 30, 2009. After reviewing the Judicial Manager's report, management determined that the most prudent approach should be adopted, thereby making a provision for impairment of 100% of the value of these deposits (amounting to $10,145,991) in the consolidated financial statements at June 30, 2009.

The above provision for impairment has been maintained in the consolidated financial statements at June 30, 2012 and no income has been recognised in respect of the fixed deposits.

(expressed in Eastern Caribbean dollars)

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

Fixed deposit held with TCI Bank Limited

On April 09, 2010, by petition of the Financial Services Commission (FSC) in the Turks and Caicos Islands to the Supreme Court, TCI Bank Limited was placed in liquidation and joint liquidators were appointed. After consideration of the foregoing, and also considering the present value of future cash flows to be derived from the fixed deposit during a liquidation process based on varying scenarios, Management determined that a prudent approach should be adopted, and an impairment provision of 53% of the value of the fixed deposit (amounting to $1,597,538) was recorded in the financial statements at June 30, 2010 – thereby resulting in a net book value of $1,416,685.

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

Management has reviewed the reports of the liquidators and continues to closely monitor the developments in the liquidation process. In light of the foregoing therefore, Management has determined that the impairment provision of $1,597,538 be maintained in the financial statements at June 30, 2012.

8 Investment securities

Loans and receivables	2012 $	2011 $
Treasury bills		
Nevis Island Administration maturing July 17, 2012 with interest rate of 6.5% per annum	**15,699,533**	15,223,619
Government of St Vincent & the Grenadines, maturing July 11, 2012 and August 07, 2012 with interest rates of 3.9% and 4.0% per annum (2011: 3.75% per annum)	**1,980,187**	495,325
Government of Grenada, maturing July 13, 2012 and August 13, 2012 with interest rates of 6.0% per annum	**1,477,561**	-
Government of Saint Christopher and Nevis, maturing August 19, 2011 with interest rate of 6.5% per annum	**-**	27,066,898
Included in cash and cash equivalents (note 26)	**19,157,281**	42,785,842

(expressed in Eastern Caribbean dollars)

8 Investment securities (continued)

Loans and receivables (continued)	**2012 $**	**2011 $**
Treasury bills		
Nevis Island Administration, maturing July 17, 2012 with interest rate of 6.5% per annum	**1,370,397**	1,283,468
Government of St. Christopher and Nevis, maturing August 14, 2012, with interest rate of 6.75% per annum	**27,512,947**	-
Nevis Island Government maturing October 22, 2012 and June 22, 2013 with interest rates of 6.5% and 6.75% per annum (2011: 6.75% per annum)	**3,904,420**	2,547,589
Bonds and other debt instruments		
Eastern Caribbean Home Mortgage Bank Bonds maturing July 1, 2013 and August 26, 2014, with interest rates of 4.5% and 6.0% per annum	**3,945,000**	3,947,450
Antigua & Barbuda Airport Authority Commercial Paper, maturing September 7, 2009 with interest rate of 9.0% per annum (see below)	**2,694,900**	2,694,900
Government of St. Lucia Fixed Rate Bonds, maturing March 19, 2013 and February 16, 2016, with interest rate of 7.25% per annum	**1,580,535**	1,815,252
Caribbean Credit Card Corporation Limited unsecured loan bearing interest at a rate of 10%, with no specific terms of repayment	**150,000**	150,000
Government of Antigua and Barbuda Fixed Rate Bond, maturing November 19, 2014 and bearing interest at 9% per annum	**912,194**	1,223,904
Government of St. Kitts and Nevis Bond, maturing April 18, 2057, with interest rate if 1.50% per annum (see below)	**1,530,552**	-
Government of St. Kitts and Nevis Bond, maturing November 25, 2012, with interest rate of 7.5% per annum (see below)	**-**	5,000,000
Bank of St. Lucia Fixed Rate Bond maturing December 15, 2011 and bearing interest at 6.25% per annum	**-**	1,347,450
Total loans and receivables	**62,758,226**	62,795,855

The treasury bill with a cost of $1,370,397 acts as a statutory deposit with the Nevis Island Administration and is not available to finance the Bank’s day-to-day operations.

(expressed in Eastern Caribbean dollars)

8 Investment securities (continued)

	2012 $	2011 $
Available-for-sale		
Fixed income securities, quoted at market value	**9,813,815**	8,216,246
Mutual funds, quoted at market value	**14,854,422**	14,610,899
Equity securities, quoted at market value	**2,038,851**	1,327,791
Equity securities, unquoted	**1,123,539**	1,975,272
Total available-for-sale	**27,830,647**	26,130,208
Total investment securities before interest receivable	**90,588,873**	88,926,063
Interest receivable	**2,526,962**	802,933
Total investment securities	**93,115,835**	89,728,996
Current	**54,705,090**	50,114,732
Non-current	**38,410,745**	39,614,264
	93,115,835	89,728,996

	2012 $	2011 $
Available-for-sale – unquoted		
Caribbean Credit Card Corporation Limited		
275 shares of $1,000 each	**275,000**	275,000
Impairment provision	**(149,644)**	(149,644)
	125,356	125,356
TCI Bank Limited		
500,000 shares of US$1.00 (EC $2.69) each	**1,347,450**	1,347,450
Impairment provision	**(1,347,450)**	(1,347,450)
	-	-
ECIC Holdings Limited		
632,200 ordinary shares of US$1.00 (EC $2.69) each	**1,703,466**	1,703,466
Impairment provision	**(851,733)**	-
	851,733	1,703,466
Eastern Caribbean Securities Exchange Limited		
7,500 Class ‘C’ shares (7,500 shares with cost of $10 each)	**75,000**	75,000
Impairment provision	**(74,990)**	(74,990)
	10	10
Eastern Caribbean Home Mortgage Bank		
482 shares at cost of $100 each	**48,200**	48,200
614 shares (2011: 302 shares) at cost of $160 each	**98,240**	98,240
	146,440	146,440
Equity securities – unquoted	**1,123,539**	1,975,272

(expressed in Eastern Caribbean dollars)

8 Investment securities (continued)

	2012 $	2011 $
Available-for-sale – quoted		
St. Kitts-Nevis-Anguilla National Bank 617,409 ordinary shares, at market value of $2.35 per share, (2011: $2.15 per share)	**1,450,911**	1,327,429
St. Kitts Nevis Anguilla Trading and Development Company (TDC) 435,281 ordinary shares, at market value of $1.35 per share	**587,628**	-
Cable and Wireless (St Kitts and Nevis) Limited: 63 Ordinary shares, at market value of $5.90 per share, (2011: $6.50 per share)	**312**	362
Equity investments, quoted at market value	**2,038,851**	1,327,791

	2012 $	2011 $
Fixed income securities quoted at market value		
Corporate Bonds		
Merrill Lynch & Co.	**1,354,861**	**1,418,473**
Citigroup, Inc.	**1,364,266**	**1,414,149**
Macys Retail Holdings, Inc.	**1,037,925**	**1,078,283**
Bank of America Corporation	**1,345,060**	**1,362,334**
Goldman Sachs Group, Inc.	**707,411**	**727,009**
General Electric Capital Corporation	**1,370,613**	**1,316,890**
Morgan Stanley	**1,352,632**	**-**
Barclays Bank, PLC	**671,143**	**-**
Federal National Mortgage Association (USA)	**609,904**	**899,108**
	9,813,815	**8,216,246**
Mutual Funds quoted at market value		
MFS Meridian Emerging Market Debt Fund	**2,772,472**	2,696,451
MFS Meridian Bond Fund	**2,515,533**	2,540,520
Alliance Bernstein Global High Yield Fund	**1,939,846**	2,003,901
Western Asset Global Bond Fund	**2,467,830**	2,586,840
Investec Global Mutual Fund	**1,882,385**	2,012,239
Templeton Global Bond Fund	**645,938**	672,014
ACM Global Investment Bond Fund	**677,986**	669,198
Franklin Mutual Discovery Fund	**1,274,421**	1,429,736
Principal Global Preferred Securities Fund	**678,031**	-
	14,854,442	14,610,899

Included in available-for-sale fixed income securities and mutual funds is an amount of $24,668,257 (2011: $22,827,145) held as security for the Morgan Stanley Smith Barney Line of Credit (see note 14).

(expressed in Eastern Caribbean dollars)

8 Investment securities (continued)

Investment Antigua and Barbuda Airport Authority (ABAA) Commercial Paper
On September 07, 2008, the Bank participated in a one-year commercial paper issued by the Antigua and Barbuda Airport Authority (ABAA) in the amount of $2,694,000. Due to repeated failure of the arrangers to meet commitments to repay the sum invested, the Bank initiated legal proceedings against the ABAA and the guarantors for the full repayment of all amounts outstanding. The Courts granted judgment in the Bank's favour in March 2012.

Subsequent to the year end, the Bank entered into a formal agreement with the judgment debtors for the repayment of the outstanding amounts. At the date of the approval of these financial statements, all payments under the agreement have been received.

Investment in Government of St. Kitts and Nevis Bond
In a press release dated June 01, 2011, the Government of St. Kitts and Nevis ('the Government') announced that due to "acute financing constraints" it was embarking on a comprehensive debt restructuring program which involved a three-year Stand by Arrangement with the International Monetary Fund ('IMF'). On November 25, 2011, the Government defaulted on the semi-annual interest payment on a 10-year 7.5% bond, in which the Bank held an investment of $5,000,000.

The Government subsequently announced the terms of an exchange offer to the holders of the bond. After reviewing the available options, the Bank opted for the new "par-bond" option, which retained 100% of the outstanding principal, at a new interest rate of 1.50% per annum, and a new maturity date of April 18, 2057.

Based on the above exchange, the original investment was derecognized, with consideration being the proceeds of the new par bond. Guided by the provisions of IAS 39, the new par bond was initially recognized based on the present value of the future cash flows to be derived therefrom. From that assessment it was determined that the carrying value of the derecognized investment exceeded the value of the consideration received (fair value of the new par bond), and the difference of $3,469,477 was recognized in the financial statements at June 30, 2012 as a loss on derecognition of investment securities.

Equity Investment in TCI Bank Limited
On April 09, 2010, by petition of the Financial Services Commission (FSC) in the Turks and Caicos Islands to the Supreme Court, TCI Bank Limited was placed in liquidation and joint liquidators were appointed. After consideration of the foregoing, and other details available at that time, a provision for impairment of 100% of the value of the share capital in TCI Bank Limited in the amount of $1,347,450 was made in the financial statements as at June 30, 2010. This provision has been maintained in the financial statements at June 30, 2012.

Equity Investment held in ECIC Holdings Limited
Due to financial difficulties encountered by its major subsidiary, the ECIC Holdings Limited has realized significant declines in its assets, earnings and shareholders' equity, thereby creating uncertainties regarding its going concern ability. The Management of ECIC Holdings Limited are exploring several options aimed at bringing about significant improvements in the Company's financial position. In light of the foregoing, the Management of the Bank has taken a decision to record a provision for impairment of 50% of the value (amounting to $851,733), thereby resulting in a net book value of $851,733.

(expressed in Eastern Caribbean dollars)

8 Investment securities (continued)

The movement in investment securities may be summarised as follows:

	Loans and receivables $	Available-for-sale $	Total $
Balance as of June 30, 2011	**62,795,855**	**26,130,208**	**88,926,063**
Additions	19,649,429	3,155,294	22,804,723
Disposals (sale and redemption)	(19,687,058)	(277,850)	(19,964,908)
Unrealised loss from change in fair value, net	-	(325,272)	(325,272)
Impairment provision	-	(851,733)	(851,733)
Balance as of June 30, 2012	**62,758,226**	**27,830,647**	**90,588,873**

	Loans and receivables $	Available-for-sale $	Total $
Balance as of June 30, 2010	**62,815,907**	**21,751,665**	**84,567,572**
Additions	5,249,314	13,622,770	18,872,084
Disposals (sale and redemption)	(5,269,366)	(9,677,027)	(14,946,393)
Unrealised gain from change in fair value, net	-	432,800	432,800
Balance as of June 30, 2011	**62,795,855**	**26,130,208**	**88,926,063**

Net (losses) gains from investment securities comprise:

	2012 $	2011 $
Losses from derecognition of financial assets classified as loans and receivables	**(3,469,447)**	-
Net realised gains from disposal of available-for-sale financial assets	**-**	644,569

(expressed in Eastern Caribbean dollars)

9 Loans and advances

	2012 $	2011 $
Reducing balance loans	**174,948,994**	172,823,226
Overdrafts	**24,185,108**	25,344,131
Credit card advances	**3,253,237**	3,204,622
	202,387,339	201,371,979
Interest receivable	**6,594,559**	5,689,333
	208,981,898	207,061,312
Less: Allowance for loan impairment	**(3,384,094)**	(3,317,213)
Total loans and advances	**205,597,804**	203,744,099
Current	**94,479,434**	65,564,592
Non-current	**111,118,370**	138,179,507
	205,597,804	203,744,099

	2012 $	2011 $
The movement in allowance for loan impairment is as follows:		
Balance, beginning of year	**3,317,213**	3,046,439
Provisions for the year	**66,881**	282,350
Loans and advances written off during the year	**-**	(11,576)
Balance, end of year	**3,384,094**	3,317,213

According to the Eastern Caribbean Central Bank loan provisioning guidelines, the calculated allowance for loan impairment amounts to $3,931,562 (2011: $4,678,399) (see note 19).

Included in interest is an amount for interest on non-productive loans of $725,841 (2011 - $806,511), in accordance with International Accounting Standard (IAS) 39. The recognition of interest on non-productive loans is however not in accordance with the prudential guidelines of the Eastern Caribbean Central Bank (ECCB). The total value of non-productive loans at the end of the year amounted to $25,694,902 (2011: $15,888,941). The interest accrued on non-productive loans and advances but not recognised in the consolidated financial statements amounted to $2,865,035 (2011: $2,264,603).

Included in loans and advances is an amount due from other financial institutions of $3,167,174 (2011: $8,232,773).

(expressed in Eastern Caribbean dollars)

10 Other assets

	2012 $	2011 $
Prepaid employee benefit	**1,055,924**	961,166
Prepayments	**776,160**	568,631
Items in-transit	**306,174**	262,209
Credit card and stationery stock	**68,826**	76,643
Other receivables	**65,081**	99,122
Total other assets	**2,772,165**	1,967,771
Current	**1,147,415**	929,962
Non-current	**1,124,750**	1,037,809
	2,272,165	1,967,771

(expressed in Eastern Caribbean dollars)

11 Property, plant and equipment

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Capital work in progress $	Total $
As at June 30, 2010								
Cost/valuation	13,020,000	2,883,822	931,384	937,862	724,007	178,000	484,301	19,159,376
Accumulated depreciation	–	(138,322)	(804,437)	(711,015)	(620,143)	(142,398)	–	(2,416,315)
Net book amount	**13,020,000**	**2,745,500**	**126,947**	**226,847**	**103,864**	**35,602**	**484,301**	**16,743,061**
Year ended June 30, 2011								
Opening net book amount	13,020,000	2,745,500	126,947	226,847	103,864	35,602	484,301	16,743,061
Additions	–	–	–	6,643	97,076	–	4,401,317	4,505,036
Depreciation charge	–	(72,250)	(50,068)	(82,327)	(72,424)	(35,602)	–	(312,671)
Closing net book amount	**13,020,000**	**2,673,250**	**76,879**	**151,163**	**128,516**	**–**	**4,885,618**	**20,935,426**
At June 30, 2011								
Cost	13,020,000	2,883,822	931,384	944,505	821,083	178,000	4,885,618	23,664,412
Accumulated depreciation	–	(210,572)	(854,505)	(793,342)	(692,567)	(178,000)	–	(2,728,986)
Net book amount	**13,020,000**	**2,673,250**	**76,879**	**151,163**	**128,516**	**–**	**4,885,618**	**20,935,426**

(expressed in Eastern Caribbean dollars)

11 Property, plant and equipment (continued)

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Capital work in progress	Total $
Year ended June 30, 2012								
Opening net book amount	13,020,000	2,673,250	76,879	151,163	128,516	-	4,885,618	20,935,426
Additions	-	-	10,850	162,692	101,559	-	1,856,975	2,132,076
Transfers	-	5,385,424	610,844	291,395	-	-	(6,287,663)	-
Disposals	-	-	(184,559)	(197,511)	(215,404)	-	-	(597,474)
Depreciation charge	-	(206,886)	(137,291)	(138,183)	(74,950)	-	-	(556,310)
Depreciation eliminated on disposal	-	-	178,859	187,668	(215,405)	-	-	(581,932)
Closing net book amount	**13,020,000**	**7,851,788**	**555,582**	**458,224**	**155,126**	**-**	**454,934**	**22,495,650**
At June 30, 2012								
Cost/valuation	13,020,000	8,269,246	1,368,519	1,201,081	707,236	178,000	454,934	25,199,012
Accumulated depreciation	-	(417,458)	(812,937)	(442,857)	(552,110)	178,000	-	(2,703,362)
Net book amount	**13,020,000**	**7,851,788**	**555,582**	**458,224**	**155,126**	**-**	**454,934**	**22,495,650**

(expressed in Eastern Caribbean dollars)

11 Property, plant and equipment (continued)

The Bank's land and building were last re-valued during 2008 by an independent property appraiser. The valuation was made on the basis of recent market transactions on arm's length terms. The revaluation surplus was credited to "revaluation reserves" in shareholder's equity (note 17).

The following is the historical cost carrying amount of land and buildings carried at re-valued amounts as of June 30, 2012 and 2011:

	Land	**Buildings**	**Total**
	$	**$**	**$**
Cost	2,307,737	7,693,161	10,000,896
Accumulated Depreciation	-	(1,360,939	(1,360,939)
Net book values as at June 30, 2012	**2,307,737**	**3,332,222**	**8,639,959**

	Land	**Buildings**	**Total**
	$	**$**	**$**
Cost	2,307,737	4,382,913	6,690,650
Accumulated Depreciation	–	(1,154,053)	(1,154,053)
Net book values as at June 30, 2011	**2,307,737**	**3,228,860**	**5,536,597**

(expressed in Eastern Caribbean dollars)

12 Intangible assets

	Computer software $
At June 30, 2010	
Cost	2,612,491
Accumulated Amortisation	(2,287,846)
Net book amount	**324,645**
Year ended June 30, 2011	
Opening net book amount	324,645
Additions	179,689
Amortisation charge	(168,445)
Closing net book amount	**335,889**
At June 30, 2011	
Cost	2,792,180
Accumulated Amortisation	(2,456,291)
Net book amount	**335,889**
Year ended June 30, 2012	
Opening net book amount	335,889
Additions	164,906
Amortisation charge	(184,749)
Closing net book amount	**316,046**
At June 30, 2012	
Cost	2,957,087
Accumulated Amortisation	(2,641,041)
Net book amount	**316,046**

13 Customers' deposits

	2012 $	2011 $
Time deposits	**151,517,537**	147,121,874
Savings accounts	**127,907,487**	121,353,383
Current accounts	**67,043,667**	66,158,266
	346,468,691	334,633,523
Interest payable	**3,416,991**	3,286,746
Total customers' deposits	**349,885,682**	337,920,269
Current	**342,710,355**	334,086,282
Non-current	**7,175,327**	3,833,987
	349,885,682	337,920,269

(expressed in Eastern Caribbean dollars)

13 Customers' deposits (continued)

Included in the customers deposits at year end are balances for other financial institutions amounting to $46,105,093 (2011: $41,033.251).

14 Debt security

	2012 $	2011 $
Line of credit	**5,986,866**	13,538,140
Interest Payable	**1,357,707**	1,073,147
Total debt security	**7,344,573**	14,611,287
Current	**7,344,573**	14,611,287

Debt security represents a line of credit from Morgan Stanley Smith Barney - one of the Bank's United States investment brokers. The line of credit is fully secured by securities on the Bank's United States based investment portfolio. Interest on the line of credit is payable at 'three-month LIBOR' plus 1.50%.

15 Other liabilities and accrued expenses

	2012 $	2011 $
Items-in-transit	**2,103,241**	2,873,136
Accounts payable and accrued expenses	**1,563,230**	1,132,496
Deferred loan fees	**1,107,676**	1,165,752
Fair value adjustment on employee loans	**1,055,433**	961,166
Manager's cheques	**273,108**	504,881
Staff bonus payable	**168,829**	166,411
Advance deposits on credit cards	**163,547**	108,081
Government stamp duty	**157,572**	110,847
Total other liabilities and accrued expenses	**6,592,636**	7,022,770
Current	**4,429,527**	4,870,011
Non-current	**2,163,109**	2,152,759
	6,592,636	7,022,770

(expressed in Eastern Caribbean dollars)

16 Provision for income tax (asset) liability

	2012 $	2011 $
Deferred income tax (asset) liability		
Balance, beginning of year	**(126,633)**	138,930
Deferred tax on depreciation of property, plant and equipment	**483,796**	(194,248)
Deferred tax on revaluation of available-for-sale investment securities	**43,200**	(71,315)
Balance at end of year liability/(asset)	**400,363**	(126,633)

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

	2012 $	2011 $
Deferred tax on depreciation of property, plant and equipment	**326,963**	(156,833)
Deferred tax on revaluation of available-for-sale investment securities	**73,400**	30,200
Deferred income tax liability/(asset)	**400,363**	(126,633)

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

	2012 $	2011 $
Deferred tax on depreciation of property, plant and equipment	**483,796**	**(194,248)**

(expressed in Eastern Caribbean dollars)

16 Provision for income tax (continued)

	2012 $	2011 $
Income tax payable		
Income tax payable net, beginning of year	**869,066**	729,498
Payments made during year, net of refunds	**(1,395,870)**	(790,522)
Current tax expense	**686,298**	930,090
Prior year tax expense	**22,452**	-
Income tax payable, at end of year	**181,946**	869,066
Income tax expense		
Operating income for the year	**2,253,658**	6,772,277
Income tax expense at standard rate of 35% (2011: 35%)	**788,780**	2,370,297
Non-deductible expenses	**822,707**	625,224
Untaxed interest income	**(680,166)**	(773,844)
Untaxed dividend income	**(53,542)**	(13,773)
Effect of lower tax rate in subsidiary bank	**-**	(1,119,720)
Prior year income tax adjustment	**22,452**	-
Effect of operating loss incurred in subsidiary bank	**424,388**	-
Effect of movement in deferred taxes	**483,796**	(194,248)
Effect of tax losses and capital cost allowances (utilised) and carried forward (net)	**(615,868)**	(158,094)
Actual income tax expense	**1,192,546**	735,842

The Bank's subsidiary Bank of Nevis International Limited has carried forward income tax losses of $10,759,324 at June 30, 2012 (2011: $8,035,267). The tax losses have not been confirmed by the tax authorities. Losses may be carried forward and deducted against future taxable income within six years following the year which the losses were incurred. Losses are restricted to 50% of the taxable income in any one year. The tax loss may result in a deferred tax asset of $268,983 (2011: $200,882) which has not been recognised in the consolidated financial statements due to the uncertainty of its recovery. The losses incurred were as follows:

Year of loss	2012 $	2011 $
2011	**2,724,057**	**-**
2009	**8,035,267**	**8,035,267**
Total	**10,759,324**	**8,035,267**

(expressed in Eastern Caribbean dollars)

16 Provision for income tax (continued)

Capital cost allowances

The Bank has carry-forward capital cost allowances of $192,511. The additions and claims for capital cost allowances during the current year have not been confirmed by the tax authorities. Unclaimed capital cost allowances may be carried forward indefinitely and deducted against future taxable income. The amount claimed is restricted to 50% of the taxable income in any one year.

	2012 $	2011 $
Balance at beginning of year	**-**	–
Additions during the year	**2,140,947**	**408,871**
Claims during the year	**(1,948,436)**	**(408,871)**
Balance at end of year	**192,511**	–

17 Share capital

	2012 $	2011 $
Authorised share capital 50,000,000 shares at $1 each	**50,000,000**	50,000,000
Issued and fully paid 9,347,687 shares (2011: 9,347,687 shares) of $1 each	**9,347,687**	9,347,687

18 Statutory reserves

Statutory reserves

Section 14 (1) of the Saint Christopher and Nevis Banking Act No. 4 of 2004 provides that not less than 20% of each year's net earnings shall be set aside to a reserve fund whenever the fund is less than the paid-up capital of the Bank.

Section 23 (1) of the Nevis Offshore Banking Ordinance 1996 provides that the Bank is to maintain a reserve fund and shall out of its net profits of each year and before any dividend is paid, transfer to the said fund a sum equal to not less than 25% of those profits whenever the amount of the reserve fund is less than the paid-up capital of the Bank.

During the year, $470,384 was transferred to the statutory reserves (2011: $1,059,313)

(expressed in Eastern Caribbean dollars)

19 Revaluation reserves

	2012 $	2011 $
Balance, beginning of year	**10,746,510**	**10,914,712**
Transfer net gains/losses on investment securities to income, (net of tax)	**-**	**(644,569)**
(Depreciation)/appreciation in market value of investment securities, (net of tax)	**(400,093)**	**476,367**
Balance, end of year	**10,346,417**	**10,746,510**
Represented by revaluation reserves attributable to:		
Available-for-sale investment securities	**(308,911)**	**91,182**
Property	**10,655,328**	**10,655,328**
	10,346,417	**10,746,510**

This reserve is unrealised and hence not available for distribution to shareholders.

The deferred tax impact on the appreciation/(depreciation) in market values of investment securities is shown below:

	2012 $	2011 $
Appreciation in market value	**123,432**	547,682
Less: deferred tax	**(43,202)**	(71,315)
	80,230	476,367

(expressed in Eastern Caribbean dollars)

20 Other reserves

	2012 $	2011 $
Other reserves:		
Balance at beginning of year	**7,322,069**	6,679,574
Reserve for loan impairment	**(813,718)**	(21,505)
Reserve for interest on non-performing loans	**725,481**	664,413
Transfer to reserve fund	**127,601**	(413)
Total other reserves	**7,361,433**	7,322,069
Other reserves is represented by:		
Reserve for loan impairment	**547,468**	1,361,186
Reserve for interest on non-performing loans	**5,096,616**	4,371,135
Reserve for items in-transit on correspondent bank accounts	**1,717,349**	1,589,748
	7,361,433	7,322,069

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.

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

(expressed in Eastern Caribbean dollars)

21 Interest income

	2012 $	2011 $
Loans and advances	**18,353,301**	16,420,997
Deposits with banks and other financial institutions	**1,591,189**	2,385,302
Treasury bills	**3,407,057**	3,140,377
Other investment securities	**1,209,548**	1,744,562
Total interest income	**24,561,095**	23,691,238

22 Interest expense

	2012 $	2011 $
Time deposits	**8,520,939**	8,303,619
Savings deposits	**2,951,548**	2,755,455
Demand deposits	**566,067**	524,822
Other	**284,560**	337,504
Total interest expense	**12,323,114**	11,921,400

23 Other operating income

	2012 $	2011 $
Fees and commissions	**2,903,467**	2,445,861
Foreign exchange gain/(loss)	**784,304**	1,318,119
Card services fees and commissions	**1,159,853**	1,019,146
Dividend income on available-for-sale investments	**856,419**	646,740
Bad debts recovered	**11,047**	107,062
Miscellaneous revenue	**129,895**	37,535
Write-back of items in-transit	**127,601**	(414)
Total other operating income	**5,972,586**	5,574,049

24 Related party transactions

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

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

(expressed in Eastern Caribbean dollars)

24 Related party transactions (continued)

Directors key management personnel, and related entities

	2012 $	2011 $
Balances at June 30		
Loans and advances outstanding	**13,603,994**	9,770,710
Undrawn credit commitments	**995,554**	608,046
Collateral held on balances outstanding	**33,526,816**	25,707,654
Deposits held	**37,079,328**	34,309,362

	2012 $	2011 $
Transactions for the year ended June 30		
Net loans and advances extended	**3,833,284**	307,571
Net deposits received (repaid)	**2,769,966**	(4,419,184)
Interest income earned on loans and advances	**1,234,281**	917,383
Interest expense incurred on deposits held	**2,150,318**	2,150,465
Interest rates on loans and advances	**5.0% - 19.5%**	5.0% - 19.5%
Interest rates on deposits held	**0.0% - 6.5%**	0.0% - 6.75%

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

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

During the year, salaries and related benefits of $2,257,083 (2011: $2,015,748) were paid to key members of management and were allocated as follows:

	2012 $	2011 $
Salaries and wages	**1,857,090**	1,581,982
Other staff costs	**22,345**	202,631
Social security costs	**114,644**	109,754
Pension costs	**83,004**	78,181
Gratuity	**-**	43,200
	2,257,083	2,015,748

25 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.

	2012 $	2011 $
Net profit attributable to shareholders	**1,061,112**	6,036,435
Weighted average number of ordinary shares in issue	**9,347,687**	9,347,687
Basic earnings per share	**0.11**	0.65

(expressed in Eastern Caribbean dollars)

26 Contingencies and commitments

Credit related and capital commitments

The following table indicates the contractual amounts of the Banks' off-balance sheet financial instruments:

	2012 $	2011 $
Undrawn commitments to extend advances	**19,807,788**	17,081,102
Capital commitments	**1,531,016**	2,007,346
Financial guarantees	**-**	483,582
	21,338,804	19,572,030

Included in the amount of undrawn commitments to extend advances above are credit card commitments totalling $5,318,801 (2011: $5,289,321) at the year end.

27 Dividends

During the year, a cash dividend of $0.10 per share amounting to $934,769 was paid. In 2011, a share dividend of one share for every four shares held, was paid for a total value of $1,869,537.

28 Cash and cash equivalents

	2012 $	2011 $
Cash and balances due from banks and other financial institutions (note 7)	**60,468,352**	64,657,822
Investment securities (note 8)	**19,157,281**	42,785,842
Total cash and cash equivalents	**79,625,633**	107,443,664

(expressed in Eastern Caribbean dollars)

29 General and administrative expenses

	2012 $	2011 $
Salaries and related costs (note 30)	**5,901,323**	5,413,261
Card processing expenses	**991,107**	959,634
Equipment repairs	**513,471**	477,416
Stationery and supplies	**397,325**	353,522
Utilities	**274,364**	220,385
Advertisement and promotion	**235,553**	196,051
Professional fees	**224,753**	500,698
Insurance expense	**212,861**	214,218
Telephone, telex and cables	**177,878**	193,007
Miscellaneous expenses	**90,304**	57,060
Legal fees	**87,362**	77,786
Security services	**78,534**	73,471
Taxes and licences	**78,136**	73,682
Rent	**78,120**	77,101
Annual report expense	**44,613**	47,206
Credit card chargeback losses	**43,912**	20,987
Subscriptions and fees	**42,508**	44,449
ECSE fees and expenses	**41,228**	45,509
Administrative fees	**41,146**	66,884
Stamps and postage	**36,765**	52,510
Travel and entertainment	**34,872**	26,806
Repairs and maintenance	**33,584**	37,055
Cleaning	**27,501**	36,972
Net loss on disposal of fixed assets	**12,908**	-
Secretarial fees	**6,468**	6,468
Cash shorts	**3,264**	8,340
Total general and administrative expenses	**9,709,860**	9,280,478

29 Salaries and related costs

	2012 $	2011 $
Salaries and wages	**4,145,039**	3,995,837
Other staff costs	**1,194,845**	871,635
Social security costs	**359,382**	346,211
Pension costs	**207,057**	199,578
Total salaries and related costs	**5,901,323**	5,413,261

In 2003 the Bank introduced a pension plan for its employees. Contributions to the pension plan for the year ended June 30, 2012 amounted to $204,213 (2011: $199,578).