

# **ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

### **1. General information**

The St. Kitts-Nevis-Anguilla National Bank Limited (the Bank) was incorporated on the 15<sup>th</sup> day of February 1971 under the Companies Act chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on the 14<sup>th</sup> day of April 1999. The Bank operates in both St Kitts and Nevis and is subject to the provisions of the Banking Act of 1991.

The Bank is a limited liability company and is incorporated and domiciled in St. Kitts. The address of its registered office is as follows: Central Street, Basseterre, St. Kitts.

The principal activity of the Bank is the provision of financial services.

The Bank is listed on the Eastern Caribbean Securities Exchange.

### **2. Adoption and amendments of published standards and interpretations**

#### **2.1 Adoption of standards during the year**

- IFRS 1, Removal of Fixed Dates for first-time Adopters
- IFRS 1, Severe Hyperinflation
- IFRS 7, Enhanced Derecognition Disclosure requirement

#### **2.2 Amendments, interpretations and published standards effective and relevant**

*New standards and interpretations, revisions issued but not yet effective for the non-consolidated financial statements beginning July 1, 2011 and not early adopted.*

	<b>Effective for Annual Periods beginning on or after</b>	
IAS 12	Amendments to IAS 12 – Income Taxes	January 1, 2012
IAS 1 (2011)	Amendments to IAS 1 – Presentation of Other Comprehensive Income	July 1, 2012
IAS 27 (2011)	Separate Financial Statements	January 1, 2013
IAS 28 (2011)	Investments in Associates and Joint Ventures	January 1, 2013
IAS 19	Amendments to IAS 19 – Employee Benefits	January 1, 2013
IFRS 10	Consolidated Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13	Fair Value Measurement	January 1, 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013
IFRS 9	Financial Instruments: Classification and Measurement	January 1, 2015
IFRS 9	Additions for Financial Liability Accounting	January 1, 2015

# **ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

### **2. Adoption and amendments of published standards and interpretations.....continued**

Standards and amendments that may impact the Bank's accounting policies, when adopted:

- **IAS 1**, Amendments to this standard retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, additional disclosures are required in other comprehensive income such that items are grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss and (2) items that will be reclassified subsequently to profit or loss when specific conditions are met. These modifications will have no effect on the financial statements.
- **IAS 12**, Amendments provide an exception to the general principles in the standard that the measurement of deferred tax assets and deferred tax liability should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset. Specifically, under the amendments, investment properties that are measured using the fair value method are presumed to be recovered through sale for the purpose of measuring deferred taxes, unless the presumption is incorrect. This amendment will have no effect on the financial statements.
- **IFRS 9**, First issued in November 2009 with requirements to be applied from January 1, 2013. However, new requirements were added in November 2010 with a revised date of January 1, 2015 for adoption. The standard specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are to be initially measured at fair value plus particular transaction costs, in the case of financial assets not at fair value through profit or loss. Subsequent measurements are to be either at amortized cost or fair value. It is not possible, at this stage, to disclose the impact on the financial statements, if any, of the new standard.
- **IFRS 13**, Establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. It defines fair value, establishes a framework for measuring fair value while requiring disclosures about fair value measurements. It applies to both financial and nonfinancial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specific circumstances. The disclosure of the impact of this standard on the Bank's financial statements is not possible at this stage.
- **IAS 19**, Amendments change the accounting for defined benefit plans and termination benefits. Most significant of the changes relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligation and fair value of plan assets when they occur thereby eliminating the 'corridor approach' permitted under previous versions of IAS 19 and an acceleration of the recognition of past service costs. All actuarial gains and losses are to be recognized immediately through other comprehensive income in order for the net pension assets or liability recognized in the balance sheet to reflect the full value of the plan surplus or deficit. This amendment may have limited impact on the financial statements.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

### **3.1 Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

### **3.2 Basis of preparation**

The financial statements have been prepared on the historical cost convention except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **3.3 Foreign currency transaction**

#### *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates.

The financial statements are presented in Eastern Caribbean Dollars, which is the Bank functional and presentation currency.

Foreign currency transactions are accounted for at the mid-rate of exchange prevailing at the date of the transaction. Financial assets and financial liabilities denominated in foreign currencies at the balance sheet date are converted to Eastern Caribbean Currency at the mid-rate of exchange ruling on that day. Gains and losses resulting from such transactions and from the translation of financial assets and/or financial liabilities denominated in foreign currencies are recognized in the statement of income.

### **3.4 Financial assets**

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

#### **(a) *Financial assets at fair value through profit or loss***

Certain investments, such as equity investments, principal protected investments and others, that are managed and evaluated on a fair value basis in accordance with a documented investment strategy and reported to management on that basis are designated at fair value through profit or loss. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the Statement of income in the period in which they arise.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**3. Summary of significant accounting policies.....continued**

**3.4 Financial assets .....continued**

**(b) *Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than : (1) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; (2) those that the Bank upon initial recognition designates as available for sale; or (3) those for which the holder may not receive substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are recognized when cash or the right to cash is advanced to a borrower and are carried at amortised cost using the effective interest method.

**(c) *Bonus Share Dividend***

Bonus share dividend is paid by the Board of Directors with the authority and approval of the shareholders of the Bank. These amounts are taken from reserves.

**(d) *Held-to-maturity financial assets***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale. Held-to-maturity financial assets are carried at amortised cost using the effective interest method.

**(e) *Available-for-sale financial assets***

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

Available-for-sale financial assets are initially recognized at fair value, being the transaction price less transaction costs. Available-for-sale financial assets are subsequently measured at fair value based on the current bid prices of quoted investments in active markets. If the market for available-for-sale financial assets is not active (such as investments in unlisted entities) and the fair value cannot be reliably measured, they are measured at cost. Gains and losses arising from the fair value of available-for-sale financial assets are recognized through other comprehensive income until the financial assets are derecognized or impaired, at which time, the cumulative gain or loss previously recognized through other comprehensive income is removed and recognized in profit or loss.

Interest calculated using the effective interest method, dividend income and foreign currency gains and losses on financial assets classified as available-for-sale are recognized in the Statement of income. Dividends on available-for-sale equity instruments are recognized in the Statement of income when the right to receive payment is established.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**3. Summary of significant accounting policies.....continued**

**3.4 Financial assets .....continued**

**(e) Available-for-sale financial assets.....continued**

Financial assets are derecognized when the right to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

**3.5 Financial Liabilities**

Financial liabilities are classified as “other liabilities” and are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rated method. Other liabilities include due to customers, due to other financial institutions, other borrowed funds and accumulated provisions, creditors and accruals.

Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

**3.6 Interest income and expense**

Interest income and expense for all interest-bearing financial instruments are recognized within ‘interest income’ and ‘interest expense’ in the statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, estimates of cash flows that consider all contractual terms of the financial instrument are included (for example, repayment options), except for future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**3. Summary of significant accounting policies.....continued**

**3.7 Fee and commission income**

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of business – are recognized on completion of the underlying transaction.

**3.8 Dividend income**

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

**3.9 Impairment of financial assets**

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

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that the loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Cash flow difficulties experienced by the borrower;
- Delinquency in contractual payments of principal and interest;
- Breach of loan covenants or conditions;
- Deterioration in the value of collateral;
- Deterioration of the borrower’s competitive position; and
- Initiation of bankruptcy proceedings.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**3. Summary of significant accounting policies.....continued**

**3.9 Impairment of financial assets.....continued**

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

If there is objective evidence that an impairment loss on loans and receivable and or held-to-maturity investments carried at amortised cost has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discounted 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. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may or may not result from foreclosure less cost for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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 loss is recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of income.

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

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instrument are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of income.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**3. Summary of significant accounting policies.....continued**

**3.9 Impairment of financial assets.....continued**

**(c) Renegotiated Loans**

Loans and advances 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. Management continuously reviews these accounts to ensure that all criteria are met and that future payments are likely to occur.

**3.10 Property, plant and equipment**

Land and buildings held for use in the production and supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent 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 values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in income, in which case the increase is credited to income to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to income to the extent that it exceeds the balance, if any, held in the fixed asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, any revaluation surplus remaining in revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on the following basis:

Building	25 – 45 years
Leasehold improvements	25 years, or over the period of lease, if less than 25 years
Equipment, fixtures and motor vehicles	3 – 10 years

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each-year, with the effect of any changes in estimate accounted for on a prospective basis.

All repairs and maintenance are charged to income during the financial period in which they are incurred.



**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**3 Summary of significant accounting policies.....continued**

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

The 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 recognized in income.

**3.11 Intangible assets – computer software**

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and to bring into use the specific software. These costs are amortised on the basis of the expected useful lives of such software which is three to five years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

**3.12 Impairment of non-financial assets**

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash flows (cash-generating units).

**3.13 Investment in subsidiaries**

The investment in subsidiaries is accounted for using the cost method and therefore the assets, liabilities and results of operations of the entities have not been reflected in these accounts. A subsidiary is an entity in which the Bank holds controlling interest (50% plus 1 share or more) of the voting shares of that entity.

**3.14 Leases**

The leases entered into by the Bank are primarily operating leases. The total payments made under the operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

**3.15 Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with the Central Bank, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and other financial institutions and short-term government securities.

# **ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

### **3. Summary of significant accounting policies.....continued**

#### **3.16 Employee benefits**

##### **(a) Pension plan**

The Bank participates in a multi-employer defined benefit plan. The administration of the plan is conducted by National Caribbean Insurance Company Limited, a subsidiary of the Bank. The actuarial valuation relating to the plan for the Bank is typically not completed in time for the issuance of the non-consolidated financial statements and therefore this plan is accounted for as if it were a defined contribution plan.

In the prior year, the fair value of the plan assets was greater than the benefit obligation and the directors expect this situation to be the same for the current period based on discussions with the administrator.

##### **(b) Gratuity**

The Bank provides a gratuity plan to its employees after 15 years of employment. The amount of the gratuity payment to eligible employees at retirement is computed with reference to final salary and calibrated percentage rates based on the number of years of service. Provisions for these amounts are included in the Statement of income.

#### **3.17 Current and deferred income tax**

Income tax payable on profits, based on applicable tax law, is recognized as an expense in the period in which profits arise, except to the extent that it relates to items recognized directly in equity. In such cases, the tax is recognized in a deferred tax liability account. The tax expense for the period comprises current and deferred tax.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or deferred tax liability is settled.

The principal temporary differences arise from depreciation of plant and equipment and revaluation of certain financial assets. However, deferred tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax asset is recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**3. Summary of significant accounting policies.....continued**

**3.18 Borrowings**

Borrowings are recognized initially at fair value (which is their issue proceeds and fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of income over the period of the borrowing using the effective interest method.

**3.19 Guarantees and letters of credit**

Guarantees and letters of credit comprise undertaking by the Bank to pay bills of exchange drawn on customers. The Bank expects most guarantees and letters of credit to be settled simultaneously with the reimbursement from the customers.

**3.19 Share capital**

**(a) Share issue costs**

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

**(b) Dividends on ordinary shares**

Dividends on ordinary shares are recognized in equity in the period in which they are declared by the Board of Directors and/or approved by the Bank's shareholders.

Dividends for the year are dealt with in 'Note 27'.

**4. Financial risk management**

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

# **ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

### **4. Financial risk management.....continued**

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

Risk management is carried out by the Credit Division and Comptroller Division under policies approved by the Board of Directors. Management identifies and evaluates financial risks in close cooperation with the Bank operating units. The Board provides principles for overall risk management, as well as approved policies covering specific areas, such as foreign exchange, interest rate and credit risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risks are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate risk and other price risk.

#### **4.1 Credit risk**

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. Credit exposures arises principally in lending activities that lead to loans and advances, and investment activities that bring debt security and other bills into the Bank asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralized and reported to the Board of Directors.

The Bank exposure to credit risk is managed through regular analysis of the ability of its borrowers and potential borrowers to meet interest and capital repayment obligations. Credit risk is managed also in part by the taking of collateral and corporate and personal guarantees as securities on advances.

##### **4.1.1 Credit risk measurement**

###### **(a) Loans and advances**

The prudential guidelines of the Bank's regulators are included in the daily credit operational management of the Bank. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on loans that have been incurred at the balance sheet date (the 'incurred loss model').

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.1.1 Credit risk measurement.....continued**

The Bank assesses the probability of default of individual borrowers using internal rating tools tailored to the various categories of borrowers. These rating tools are fashioned from the guidelines of the Bank regulators. Advances made by the Bank are segmented into five rating classes that reflect the range of default probabilities for each rating class. The rating tools are kept under review and upgraded as necessary.

<b>Bank rating</b>	<b>Description of the classifications</b>
1	Pass
2	Special mention
3	Sub-standard
4	Doubtful
5	Loss

**(b) Debt securities and other bills**

For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by the Bank Treasury/Fund Managers for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

**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 risks it undertakes by placing limits on the amount of risk acceptable in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review, when considered necessary by the Board of Directors.

The exposure to any one borrower, including banks and other financial institutions, is further restricted by sub-limits covering on-balance sheet and off-balance sheet exposures. Actual exposures against limits are monitored.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other specific controls and mitigation measures are outlined below:

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

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

**(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 advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or risk mitigation. The principal collateral types for loans and advances are:

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

Longer-term finance and lending to corporate entities and individual credit facilities are generally secured. In addition, in order to minimize the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed 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 authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans and advances, guarantees or letters of credit. With respect to credit risk, 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 of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4.1.3 Impairment and provisioning**

The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating grades. The table below shows the percentage of the Bank on-balance sheet and off-balance sheet items relating to loans and advances and associated impairment provision for each of the Bank internal categories:

**Bank rating**

	Sept 2012		June 2012	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1 Pass	78.89	-	81.90	-
2 Special mention	13.50	0.02	12.93	0.02
3 Sub-standard	6.35	38.46	3.93	30.25
4 Doubtful	1.19	52.56	1.17	68.66
5 Loss	0.07	8.96	0.07	1.07
	----- 100.00 -----	----- 100.00 -----	----- 100.00 -----	----- 100.00 -----

The rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria:

*Loans*

- Cash flow difficulties experienced by the borrower;
- Delinquency in contractual payments of principal and interest;
- Breach of loan covenants or conditions; and
- Deterioration in the value of collateral.

*Advances (overdrafts)*

- Approval limit has been exceeded for three months;
- Interest charges for three months or more have not been covered by deposits; and
- Account has developed a hardcore which was not converted.

The Bank requires the review of individual financial assets that are above materiality thresholds on an annual basis or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied where necessary. Assessments take into account collateral held and anticipated cash receipts for individually assessed accounts.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

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

	<b>Maximum exposure</b>	
	<b>Sept 2012</b>	<b>June 2012</b>
	<b>\$</b>	<b>\$</b>
<i>Credit risk exposures relating to on-balance sheet assets are as follows:</i>		
Treasury bills	112,044,578	95,638,074
Deposits with other financial institutions	522,377,680	417,251,179
Loans and advances:		
• Overdrafts	149,996,175	160,872,612
• Corporate customers	71,384,118	74,952,150
• Term loans	861,783,742	860,143,897
• Mortgages (personal)	117,128,953	117,990,552
• Originated debts	129,838,654	117,370,762
• Available-for-sale investments	170,000,823	171,552,901
• Other assets	6,740,433	9,970,000
• Loan commitments and financial guarantees	18,993,195	20,855,687
<b>Total</b>	<b>2,160,288,351</b>	<b>2,046,597,814</b>

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

As shown above, 55.5% (June 2012 – 59%) of the total maximum exposure is derived from loans and advances to banks and customers; 11.2% (June 2012 – 10.4%) represents investments in debt securities.

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 debt securities based on the following:

- 92% (June 2012 – 95%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;



**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

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

- Term loans, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees.
- 93% (June 2012 – 81%) of the loans and advances portfolio are considered to be neither past due nor impaired.
- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines;
- A number of issuers and debt instruments in the region are not rated; consequently 27% (June 2012 - 55%) of these investments are not rated (Government securities – treasury bills, etc.).

**4.1.5 Loans and advances**

	<b><u>Sept</u></b> <b><u>2012</u></b> \$	<b><u>June</u></b> <b><u>2012</u></b> \$
Loans and advances are summarized as follows:		
<b>Loans and advances to customers</b>		
Neither past due nor impaired	1,058,733,712	960,053,439
Past due but not impaired	57,049,784	171,054,305
Impaired	<u>58,075,141</u>	<u>61,345,149</u>
	<b><u>1,173,858,637</u></b>	<b><u>1,192,452,893</u></b>
Interest receivable	65,005,085	60,077,052
Less allowance for impairment losses (Note 25)	(38,570,734)	(38,570,734)
<b>Net</b>	<b><u>1,200,292,988</u></b>	<b><u>1,213,959,211</u></b>

The total allowance for impairment losses on loans and advances is \$38,570,734 (June 2012-\$38,570,734). Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 25.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.1.5 Loans and advances.....continued**

(a) *Loans and advances neither past due nor impaired*

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

**Sept 30, 2012**

	Overdrafts \$	Term loans \$	Mortgages \$	Corporate customers \$	Total Loans and advances to customers \$
<b>Loans and advances to customers</b>					
<b>Classifications:</b>					
1. Pass	76,666,336	716,365,667	67,846,637	41,414,530	902,293,170
2. Special mention	65,610,882	86,134,820	1,683,280	3,011,560	156,440,542
	-----	-----	-----	-----	-----
<b>Gross</b>	<b>142,277,218</b>	<b>802,500,487</b>	<b>69,529,917</b>	<b>44,426,090</b>	<b>1,058,733,712</b>
	=====	=====	=====	=====	=====

**June 30, 2012**

	Overdrafts \$	Term loans \$	Mortgages \$	Corporate customers \$	Total Loans and advances to customers \$
<b>Loans and advances to customers</b>					
<b>Classifications:</b>					
3. Pass	88,777,483	718,055,027	73,228,243	12,864,196	892,924,949
4. Special mention	64,320,508	1,048,975	1,530,434	228,573	67,128,490
	-----	-----	-----	-----	-----
<b>Gross</b>	<b>153,097,991</b>	<b>719,104,002</b>	<b>74,758,677</b>	<b>13,092,769</b>	<b>960,053,439</b>
	=====	=====	=====	=====	=====

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.1.5 Loans and advances.....continued**

**(b) Loans and advances past due but not impaired**

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

	<b>Term loans</b>	<b>Mortgages</b>	<b>Corporate customers</b>	<b>Total</b>
	\$	\$	\$	\$
<b>At Sept 30, 2012</b>				
Past due up to 30 days	3,334,492	10,238,446	-	13,572,938
Past due 30 – 60 days	851,964	2,631,181	884,133	4,367,278
Past due 60 – 90 days	466,133	2,841,968	-	3,308,101
Over 90 days	31,845,465	2,520,379	1,435,623	35,801,467
	-----	-----	-----	-----
<b>Gross</b>	<b>36,498,054</b>	<b>18,231,974</b>	<b>2,319,756</b>	<b>57,049,784</b>
	=====	=====	=====	=====
Fair value of collateral	<b>55,832,224</b>	<b>35,849,500</b>	<b>5,029,920</b>	<b>96,711,644</b>

	<b>Term loans</b>	<b>Mortgages</b>	<b>Corporate customers</b>	<b>Total</b>
	\$	\$	\$	\$
<b>At June 30, 2012</b>				
Past due up to 30 days	6,076,848	7,445,571	3,657,894	17,180,313
Past due 30 – 60 days	229,129	2,868,100	-	3,097,229
Past due 60 – 90 days	321,081	1,612,066	-	1,933,147
Over 90 days	116,813,710	1,324,871	30,705,035	148,843,616
	-----	-----	-----	-----
<b>Gross</b>	<b>123,440,768</b>	<b>13,250,608</b>	<b>34,362,929</b>	<b>171,054,305</b>
	=====	=====	=====	=====
Fair value of collateral	<b>153,936,108</b>	<b>26,075,518</b>	<b>75,775,000</b>	<b>255,786,626</b>

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets sales in same geographical area.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.1.5 Loans and advances.....continued**

**(c) *Loans and advances individually impaired***

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is \$58,075,141 (June 2012 - \$61,345,149).

The breakdown of the gross amount of individually impaired loans and advances by class is as follows:

	<b>Overdrafts</b>	<b>Term loans</b>	<b>Mortgages</b>	<b>Corporate customers</b>	<b>Total Loans and advances to customers</b>
	\$	\$	\$	\$	\$
<b>Sept 30, 2012</b>					
Individually impaired	7,886,173	6,268,640	20,953,227	22,967,101	58,075,141
	-----	-----	-----	-----	-----
	<b>7,886,173</b>	<b>6,268,640</b>	<b>20,953,227</b>	<b>22,967,101</b>	<b>58,075,141</b>
	-----	-----	-----	-----	-----
Fair value of collateral	10,029,815	18,160,687	29,450,532	85,568,143	143,209,177

	<b>Overdrafts</b>	<b>Term loans</b>	<b>Mortgages</b>	<b>Corporate customers</b>	<b>Total Loans and advances to customers</b>
	\$	\$	\$	\$	\$
<b>June 30, 2012</b>					
Individually Impaired	7,941,837	6,010,599	21,567,432	25,825,281	61,345,149
	-----	-----	-----	-----	-----
	<b>7,941,837</b>	<b>6,010,599</b>	<b>21,567,432</b>	<b>25,825,281</b>	<b>61,345,149</b>
	-----	-----	-----	-----	-----
Fair value of collateral	10,029,815	18,160,687	29,450,532	85,568,143	143,209,177

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.1.5 Loans and advances.....continued**

**(d) *Loans and advances renegotiated***

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment 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.

**4.1.6 Debt securities, treasury bills and other eligible bills**

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

	<b>Treasury Bills \$</b>	<b>Investment Securities \$</b>	<b>Loans and receivables - notes &amp; bonds \$</b>	<b>Total \$</b>
A- to A+		119,692,990		<b>119,692,990</b>
Lower than A- Unrated/		9,059,753		<b>9,059,753</b>
Internally rated	112,044,578	41,248,080	129,838,654	<b>283,131,312</b>
<b>Total</b>	<b>112,044,578</b>	<b>170,000,823</b>	<b>129,838,654</b>	<b>411,884,055</b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.1.7 Geographical concentrations of assets, liabilities, income, capital expenditure and off balance sheet items**

The Bank operates only one business segment (commercial and retail banking services) which is predominantly localized to St. Kitts and Nevis. Commercial banking activities, however, accounts for a significant portion of credit risk exposure. The credit risk exposure is, therefore, spread geographically and over a diversity of personal and commercial customers:

	<u>St. Kitts &amp; Nevis</u> \$	<u>United States &amp; Canada</u> \$	<u>Europe</u> \$	<u>Other Caribbean States</u> \$	<u>Total</u> \$
<b>Sept 30, 2012</b>					
Treasury bills	85,884,649			26,159,929	112,044,578
Deposits with Fin. Inst.	44,713,266	344,038,919	12,723,012	120,902,483	522,377,680
Loans and advances	1,147,105,034	35,633,739	2,354,236	15,199,979	1,200,292,988
Originated debts	65,723,030			64,115,624	129,838,654
Investments (AFS)	1,005,000	168,995,823			170,000,823
Other assets	306,287	6,434,146			6,740,433
	<b>1,344,737,266</b>	<b>555,102,627</b>	<b>15,077,248</b>	<b>226,378,015</b>	<b>2,141,295,156</b>

**June 30, 2012**

Treasury bills	85,884,649	-	-	9,753,425	95,638,074
Deposits with Fin. Inst.	46,546,493	239,321,304	12,262,433	119,120,949	417,251,179
Loans and advances	1,161,348,219	35,080,211	2,258,949	15,271,832	1,213,959,211
Originated debts	65,723,030	-	-	51,647,732	117,370,762
Investments (AFS)	1,005,000	169,542,842	-	-	170,547,842
Other assets	388,254	9,581,746	-	-	9,970,000
	<b>1,360,895,645</b>	<b>453,526,103</b>	<b>14,521,382</b>	<b>195,793,938</b>	<b>2,024,737,068</b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.1.8 Sectoral analysis of the loans and advances portfolio**

The table below gives a break-down of concentration of credit and risk by sector in the loans and advances portfolio:

	<b><u>Sept</u></b> <b><u>2012</u></b> \$	<b><u>June</u></b> <b><u>2012</u></b> \$
Consumers	136,654,499	136,777,148
Agriculture, fisheries and manufacturing	4,170,394	4,264,872
Construction and land development	63,879,812	66,167,914
Distributive trade, transportation and storage	9,913,883	10,306,243
Tourism, entertainment and catering	52,203,262	55,652,847
Financial institutions	14,708,287	12,493,597
State, statutory bodies and public utilities	872,887,856	887,446,452
Professional and other services	19,440,644	19,343,820
<b>Total</b>	<b>1,173,858,637</b>	<b>1,192,452,893</b>

**4.19 Concentration of risks of financial assets with credit exposure**

The following tables break down the Bank main credit exposure at their carrying amounts, as categorised by industry sectors of our counterparties:

	<b>Public Sector</b>	<b>Construction</b>	<b>Tourism</b>	<b>Financial Inst.</b>	<b>Individuals</b>	<b>Other Industries</b>	<b>TOTAL</b>
	\$	\$	\$	\$	\$	\$	\$
<b>Sep 30, 2012</b>							
Treasury Bills	112,044,578	-	-	-	-	-	112,044,578
Deposits with financial institutions	6,345,242	-	-	515,405,269	372,740	254,429	522,377,680
Originated Debt	122,868,654	-	-	1,300,000	-	5,670,000	129,838,654
Investment securities - Debt securities	-	-	-	170,000,823	-	-	170,000,823
Loans & Advances to customers	875,788,460	60,447,563	60,336,723	18,423,006	145,872,814	39,424,422	1,200,292,988
Other Assets	-	-	-	38,985	88,142	6,613,306	6,740,433
<b>Total</b>	<b>1,117,046,934</b>	<b>60,447,563</b>	<b>60,336,723</b>	<b>705,168,083</b>	<b>146,333,696</b>	<b>51,962,157</b>	<b>2,141,295,156</b>
<b>June 30, 2012</b>	<b>1,100,857,730</b>	<b>62,599,648</b>	<b>63,498,609</b>	<b>599,485,241</b>	<b>145,384,235</b>	<b>52,911,605</b>	<b>2,024,737,068</b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.2 Market risk**

The Bank is exposed 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 and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of the market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank exposures to market risks arise from its non-trading part of the investment portfolio.

Non-trading portfolios primarily arise from the interest rate management of the Bank retail and commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arising from the Bank available-for-sale investments.

**4.2.1 Price risk**

The Bank is exposed to equities price risk because of investments held by the Bank and classified on the balance sheet as available-for-sale. To manage this price risk arising from investments in equity securities, the Bank diversifies its investment portfolio.

**4.2.2 Foreign exchange risk**

The Bank is exposed to foreign exchange risk through fluctuation in certain prevailing foreign exchange rates on its financial position and cash flows. The Board of Directors limits the level of exposure by currency and in total which are monitored daily. The Bank exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The Bank uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollar (EC\$). The Bank has set the mid-rate of exchange rate of the Eastern Caribbean dollar (EC\$) to the United States dollar (US\$) at EC\$2.7026=US\$1.00 since 1976. The following table summarises the Bank exposure to foreign currency exchange rate risk at September 30, 2012. Included in the table are the Bank financial instruments at carrying amounts, categorized by currency.



# ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2012

### 4. Financial risk management.....continued

#### 4.2.2 Foreign exchange risk.....continued

#### Concentration of currency risk – on and off balance sheet financial instruments

Sep 30, 2012	EC\$	US\$	EURO	GBP	CAN	BDS	GUY	TOTAL
<b>Assets</b>								
Cash & Balances with Central Bank	253,591,710	3,334,394	66,320	103,390	35,754	4,968	-	257,136,536
Treasury Bills	112,044,578	-	-	-	-	-	-	112,044,578
Deposits with other financial Institution	61,213,988	458,395,204	879,890	374,898	798,169	690,256	25,275	522,377,680
<i>Loans and receivables</i>								
- Loans and advances to customers	1,168,030,577	32,262,411	-	-	-	-	-	1,200,292,988
- Originated Debt	114,828,740	15,009,914	-	-	-	-	-	129,838,654
Investment Securities - avail for sale	13,313,500	293,786,267	-	-	-	-	-	307,099,767
Other Assets	306,287	6,434,146	-	-	-	-	-	6,740,433
<b>Total financial Assets</b>	<b>1,723,329,380</b>	<b>809,222,336</b>	<b>946,210</b>	<b>478,288</b>	<b>833,923</b>	<b>695,224</b>	<b>25,275</b>	<b>2,535,530,636</b>
<b>Liabilities</b>								
Due to customers	1,595,259,359	287,086,354	5,792	297,368	3,564,083	-	-	1,886,212,956
Due to other financial institutions	-	9,609,668	-	-	-	-	-	9,609,668
Other borrowed funds	-	214,534,569	-	-	-	-	-	214,534,569
Other liabilities	24,403,604	11,111,652	42,179	387,902	153,169	58,999	-	36,157,505
<b>Total financial Liabilities</b>	<b>1,619,662,963</b>	<b>522,342,243</b>	<b>47,971</b>	<b>685,270</b>	<b>3,717,252</b>	<b>58,999</b>	<b>-</b>	<b>2,146,514,698</b>
<b>Net on-balance sheet positions</b>	<b>103,666,417</b>	<b>286,880,093</b>	<b>898,239</b>	<b>(206,982)</b>	<b>(2,883,329)</b>	<b>636,225</b>	<b>25,275</b>	<b>389,015,938</b>
<b>Credit Commitments</b>	<b>14,510,310</b>							<b>14,510,310</b>
<b>June 30, 2012</b>								
	<b>EC\$</b>	<b>US\$</b>	<b>EURO</b>	<b>GBP</b>	<b>CAN</b>	<b>BDS</b>	<b>OTHER</b>	<b>TOTAL</b>
Total Financial Assets	1,716,945,437	770,918,587	579,452	795,075	291,779	803,905	15,258	2,490,349,493
Total Financial Liabilities	1,584,247,705	520,670,901	127,966	706,722	3,368,395	58,999	-	2,109,180,688
<b>Net on-balance sheet positions</b>	<b>132,697,732</b>	<b>250,247,686</b>	<b>451,486</b>	<b>88,353</b>	<b>(3,076,616)</b>	<b>744,906</b>	<b>15,258</b>	<b>381,168,805</b>
<b>Credit Commitments</b>	<b>16,760,337</b>							<b>16,760,337</b>

#### 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 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 levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board of Directors limits the level of mismatch of interest rates repricing that may be undertaken.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

The table below summarises the Bank exposure to interest rate risks. It includes the Bank financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

Interest Sensitivity of Assets and Liabilities							
	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non- Interest Bearing	Total
	\$	\$	\$	\$	\$	\$	\$
<b>As at Sept 30, 2012</b>							
<b>Financial Assets</b>							
Cash & balances with Central Bank	8,100,000	-	-	-	-	249,036,536	257,136,536
Treasury Bills	-	16,455,820	95,588,758	-	-	-	112,044,578
Deposits with other financial Inst.	87,110,046	47,174,474	88,231,385	92,608,503	-	207,253,272	522,377,680
Loans & Advances to customers	253,542,208	659,578	5,190,200	188,872,989	749,678,474	2,349,539	1,200,292,988
- Originated Debts	-	270,000	14,323,000	43,755,710	71,489,944	-	129,838,654
Investment securities	168,995,823	-	-	-	1,005,000	137,098,944	307,099,767
Other Assets	-	-	-	-	-	4,912,305	4,912,305
<b>Total Financial Assets</b>	<b>517,748,077</b>	<b>64,559,872</b>	<b>203,333,343</b>	<b>325,237,202</b>	<b>822,173,418</b>	<b>600,650,596</b>	<b>2,533,702,508</b>
<b>Financial Liabilities</b>							
Due to Customers	773,699,673	65,483,875	821,892,679	-	-	225,136,729	1,886,212,956
Due to Other financial Inst.	9,609,668	-	-	-	-	-	9,609,668
Other Borrowed funds	405,390	810,780	6,080,850	112,833,674	93,540,229	2,708,823	216,379,746
Other Liabilities	347,544	-	-	-	-	32,699,467	33,047,011
<b>Total Financial Liabilities</b>	<b>784,062,275</b>	<b>66,294,655</b>	<b>827,973,529</b>	<b>112,833,674</b>	<b>93,540,229</b>	<b>260,545,019</b>	<b>2,145,249,381</b>
<b>Total Interest repricing gap</b>	<b>(266,314,198)</b>	<b>(1,734,783)</b>	<b>(624,640,186)</b>	<b>212,403,528</b>	<b>728,633,189</b>		
<b>As at June 30, 2012</b>							
Total Financial Assets	464,522,409	17,923,439	191,856,570	330,916,033	826,136,295	653,553,327	2,484,908,073
Total Financial Liabilities	775,825,296	69,984,133	788,582,545	113,996,543	93,540,229	253,328,055	2,095,256,801
<b>Total Interest repricing Gap</b>	<b>(311,302,887)</b>	<b>(52,060,694)</b>	<b>(596,725,975)</b>	<b>216,919,490</b>	<b>732,596,066</b>		

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.2.3 Interest rate risk.....continued**

The Bank fair value arises from debt securities classified as available-for-sale. Cash flow interest rate risk arises from loans and advances to customers at available rates.

**4.3 Liquidity risk**

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

**4.3.1 Liquidity risk management**

The Bank liquidity is managed and monitored by the Comptroller Division with guidance, where necessary, by an executive director of the Board. This includes:

- Daily monitoring of the Bank liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers. The Bank ensures that sufficient funds are held to meet its obligation by not converting into foreign deposits, demand deposits, reserve, provision for interest, provision for loan losses, and other net financial assets and liabilities.
- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, currency and term.
- Daily monitoring of the balance sheet liquidity ratios against internal and regulatory requirements.
- Managing the concentration and profile of debt maturities.
- Formalised arrangements with non-regional financial institutions to fund any liquidity needs that may arise.

**4.3.2 Funding Approach**

Sources of liquidity are regularly reviewed to maintain a wide diversification of geography, currency, provider, product and term.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

4. **Financial risk management.....continued**

**4.3.3 Non-derivative cash flows**

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	Analysis of Assets and Liabilities into relevant maturity grouping					
	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	\$	\$	\$	\$	\$	\$
<b>As at Sept 30, 2012</b>						
<b>Financial Liabilities</b>						
Due to Customers	983,350,943	67,642,016	835,219,997	-	-	1,886,212,956
Due to other financial Inst.	9,609,668	-	-	-	-	9,609,668
Other Borrowed funds	405,390	3,519,603	6,080,850	112,833,674	93,540,229	216,379,746
Other Liabilities	10,705,287	3,910,436	16,755,616	9,269,051	-	40,640,390
<b>Total Financial Liabilities</b>	<b>1,004,071,288</b>	<b>75,072,055</b>	<b>858,056,463</b>	<b>122,102,725</b>	<b>93,540,229</b>	<b>2,152,842,760</b>
<b>Total Financial Assets</b>	<b>1,116,699,058</b>	<b>19,279,275</b>	<b>244,471,132</b>	<b>333,912,754</b>	<b>825,651,302</b>	<b>2,540,013,521</b>
<b>As at June 30, 2012</b>						
<b>Total Financial Liabilities</b>	<b>1,005,822,413</b>	<b>80,336,254</b>	<b>810,699,083</b>	<b>122,878,059</b>	<b>93,540,229</b>	<b>2,113,276,038</b>
<b>Total Financial Assets</b>	<b>1,099,252,046</b>	<b>1,423,766</b>	<b>224,950,802</b>	<b>339,591,583</b>	<b>829,226,645</b>	<b>2,494,444,842</b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.3.4 Off-balance sheet items**

(a) Loan commitments

The dates of the contractual amounts of the Bank off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 31), are summarized in the table below.

	<u>Up to 1 year</u>	<u>1 – 3 years</u>	<u>Over 3 years</u>	<u>Total</u>
	\$	\$	\$	\$
<b>As at Sept 30, 2012</b>				
Loan commitments	7,113,730	1,193,355	6,203,225	14,510,310
Guarantees and standby letters of credit	-	4,482,885	-	4,482,885
Total	7,113,730	5,676,240	6,203,225	18,993,195

**As at June 30, 2012**

Loan commitments	8,878,711	1,530,464	6,351,162	16,760,337
Guarantees and standby letters of credit	-	4,095,350	-	4,095,350
Total	8,878,711	5,625,814	6,351,162	20,855,687

**4.4 Fair values of financial assets and financial liabilities**

Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. The following methods and assumptions were used to estimate the fair of financial instruments.

The fair values of cash resources, other assets and liabilities, items in transit are assumed to approximate their carrying values due to their short term nature. The fair values of off balance sheet commitments are also assumed to approximate the amount disclosed in Note 31.

**(a) Treasury bills**

Treasury bills are assumed to approximate their carrying value due to their short term nature.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.4 Fair values of financial assets and liabilities.....continued**

**(b) Deposits with other financial institutions**

Deposits with other financial institutions include cash on operating accounts and interest and non-interest bearing fixed deposits both with a maturity period under 90 days and over 90 days. These deposits are estimated to approximate their carrying values because they are another form of cash resources.

**(c) Loans and advances to customers**

Loans and advances are net of provisions for impairment. The estimated fair values of loans and advances represent the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rate to determine fair value.

**(d) Originated debt**

Originated debt securities include only interest bearing assets; assets classified as available for sale are measured at fair value. Where market prices or broker/dealer price quotations are not available, fair value is estimated using quote market prices for securities with similar credit maturity and yield characteristics.

**(e) Due to customers**

The estimated fair value of deposits with no stated maturity, with includes non-interest bearing deposits, is the amount repayable on demand. Deposits payable on a fixed date are at rates, which reflect market conditions, are assumed to have fair values which approximate carrying values.

**(f) Due to financial institutions**

The estimated fair value of 'due to financial institutions' is the amount payable on demand which is the amount recorded.

**(g) Other borrowed funds**

Other borrowed funds are all interest bearing financial liabilities with amounts payable on demand and at a fixed maturity date. Fair value on this category is estimated to approximate carrying value.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.4 Fair values of financial assets and liabilities.....continued**

The table below summarises the carrying amounts and fair values of the financial assets and financial liabilities

	Carrying Value		Fair Value	
	Sept 2012	June 2012	Sept 2012	June 2012
Financial assets	\$	\$	\$	\$
Treasury bills	112,044,578	95,638,074	112,044,578	95,638,074
Deposits with other financial institutions	522,377,680	417,251,179	522,377,680	417,251,179
Loans and receivables:				
Loans and advances				
Overdrafts	149,996,175	160,872,612	152,687,495	163,078,913
Corporate	71,384,118	74,952,150	199,775,159	199,775,159
Mortgage	117,128,953	117,990,552	232,133,024	232,133,024
Term	861,783,742	860,143,897	989,560,552	989,273,075
Originated debts	129,838,654	117,370,762	129,838,654	117,370,762
AFS – debt	1,005,000	1,005,000	1,005,000	1,005,000
AFS – equity	14,637,150	14,637,150	14,637,150	14,637,150
<b>Financial Liabilities</b>				
Due to customers	1,886,212,956	1,853,775,084	1,886,212,956	1,853,775,084
Due to financial institutions	9,609,668	424,554	9,609,668	424,554
Other borrowed funds	216,379,746	215,697,437	216,379,746	215,697,437

Fair values of loans and advances are the fair values of the securities held.

**4.4.1 Fair Value measurements recognized in the balance sheet**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observed.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

4. Financial risk management.....*continued*

4.4 Fair value measurements recognized in the balance sheet.....*continued*

Sept 30, 2012	<u>Level 1</u> \$	<u>Total</u> \$
<b>Available-for-sale financial assets</b>		
Debt securities	168,995,823	168,995,823
Equities	124,667,141	124,667,141
<b>Total</b>	<b><u>293,662,964</u></b>	<b><u>293,662,964</u></b>

There were no transfers from Level 1 to Level 2 in the period

June 30, 2012	<u>Level 1</u> \$	<u>Total</u> \$
<b>Available-for-sale financial assets</b>		
Debt securities	169,542,842	169,542,842
Equities	198,717,290	198,717,290
<b>Total</b>	<b><u>368,260,132</u></b>	<b><u>368,260,132</u></b>

There were no transfers from Level 1 to Level 2 in the period.



**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.5 Capital management**

The Bank 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 requirement set by the Eastern Caribbean Central Bank.
- To safeguard the Bank 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 management, employing techniques based on the guidelines developed by the Eastern Caribbean Central Bank (‘the Authority’) for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of \$5,000,000 and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the ‘Basel ratio’) at or above the international agreed minimum of 8%.

The Bank regulatory capital as managed by management is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriation of retained earnings.
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowance and unrealized gains arising on the fair valuation of equity instruments 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 same adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the period ended September 30, 2012 and June 30, 2012. During these two periods, the Bank complied with all the externally imposed capital requirements to which it is subject.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**4. Financial risk management.....continued**

**4.5 Capital management.....continued**

	<b><u>Sept</u></b> <b><u>2012</u></b> <b>\$</b>	<b><u>June</u></b> <b><u>2012</u></b> <b>\$</b>
<b>Tier 1 capital</b>		
Share Capital	135,000,000	135,000,000
Bonus shares from capitalization of unrealized asset revaluation reserve	(4,500,000)	(4,500,000)
Reserves	308,847,841	308,347,840
Retained earnings	<u>22,911,727</u>	<u>18,292,083</u>
<b>Total qualifying Tier 1 capital</b>	<b><u>462,259,568</u></b>	<b><u>457,139,923</u></b>
<b>Tier 2 capital</b>		
Revaluation reserve – available-for-sale investments	(18,320,596)	(19,995,777)
Revaluation reserve – property, plant and equipment	7,720,621	7,720,621
Bonus shares capitalization	4,500,000	4,500,000
Accumulated impairment allowance	38,570,734	38,570,734
<b>Total qualifying Tier 2 capital</b>	<b><u>32,470,759</u></b>	<b><u>30,795,578</u></b>
Investment in subsidiaries	(26,750,000)	(26,750,000)
<b>Total regulatory capital</b>	<b><u>467,980,327</u></b>	<b><u>462,893,418</u></b>
<b>Risk-weighted assets</b>		
<b>On-balance sheet</b>	920,855,656	909,368,870
<b>Off-balance sheet</b>	12,890,694	12,445,672
<b>Total risk-weighted assets</b>	<b>933,746,350</b>	<b>921,814,542</b>
<b>Tier 1 capital ratio</b>	<b>50%</b>	<b>50%</b>
<b>Basel ratio</b>	<b>50%</b>	<b>50%</b>

**5. Critical accounting estimates and judgments**

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

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**5. Critical accounting estimates and judgments.....continued**

***(a) Impairment losses on loans and advances***

The Bank reviews its loan portfolio of assets impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgment 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 in a group, or local economic conditions that correlate with defaults on assets in the group. 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 in estimates and actual loss experienced.

***(b) Impairment of available-for-sale equity investments***

The Bank determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, 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. There were no declines in fair value below cost considered significant or prolonged as at September 30, 2012.

**6. Cash and balances with Central Bank**

	<b><u>Sept</u></b> <b><u>2012</u></b>	<b><u>June</u></b> <b><u>2012</u></b>
	\$	\$
Cash in hand	9,506,867	10,244,706
Balances with Central Bank other than mandatory deposits	140,509,158	139,212,799
	-----	-----
Included in cash and cash equivalent (Note 30)	150,016,025	149,457,505
Mandatory deposits with Central Bank	107,120,511	105,005,827
	-----	-----
<b>Total</b>	<b>257,136,536</b>	<b>254,463,332</b>
	=====	=====

Commercial banks are required under Section 17 of the Banking Act, 1991 to maintain a reserve deposit with the Central Bank equivalent to 6 percent of their total deposit of customers. This reserve deposit is not available to finance the Bank's day-to-day operations. Cash and balances with Central Bank do not receive interest payments.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

<b>7. Treasury bills</b>	<b><u>Sept</u></b> <b><u>2012</u></b> <b>\$</b>	<b><u>June</u></b> <b><u>2012</u></b> <b>\$</b>
Government of Antigua and Barbuda maturing November 20, 2012 at 5% interest	6,702,395	-
Government of Antigua and Barbuda maturing December 12, 2012 at 5% interest	9,753,425	9,753,425
Government of Antigua and Barbuda maturing March 11, 2013 at 6% interest	9,704,109	-
Government of St. Kitts and Nevis maturing May 16, 2013 at 6.75% interest	<u>85,884,649</u>	<u>85,884,649</u>
	<b>112,044,578</b>	<b>95,638,074</b>

Treasury bills are debt securities issued by a sovereign government. Two million dollars worth of these treasury bills are being held by the Eastern Caribbean Central Bank (ECCB) as collateral for the bank clearing facility.

<b>8. Deposits with other financial institutions</b>	<b><u>Sept</u></b> <b><u>2012</u></b> <b>\$</b>	<b><u>June</u></b> <b><u>2012</u></b> <b>\$</b>
Operating cash balances	275,459,849	171,005,976
Items in the course of collection	6,253,616	8,630,001
Interest bearing term deposits	16,905,354	16,905,354
	-----	-----
Included in cash and cash equivalent (Note 30)	298,618,819	196,541,331
Special term deposits*	58,122,776	58,466,757
Restricted term deposits**	154,986,233	154,981,782
Interest receivable	10,649,852	7,261,310
	-----	-----
<b>Total</b>	<b>522,377,680</b>	<b>417,251,180</b>
	=====	=====

\*Special term deposits are interest bearing fixed deposits with a maturity period longer than 3 months.

\*\*Restricted term deposits are interest bearing fixed deposits collateral used in the Bank's international business operations. These deposits are not available for use in the day-to-day operations of the Bank.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**9. Loans and advances to customers**

	<b><u>Sept</u></b> <b><u>2012</u></b> \$	<b><u>June</u></b> <b><u>2012</u></b> \$
Overdrafts	140,611,643	151,767,596
Mortgages	72,300,139	72,828,704
Demand	191,779,646	158,362,102
Special Term	683,561,735	689,329,057
Other Secured	20,594,713	52,402,745
Credit Cards	1,665,575	1,330,395
Consumer	5,270,045	5,087,145
	-----	-----
Productive loans	<b>1,115,783,496</b>	<b>1,131,107,744</b>
Impaired loans and advances	58,075,141	61,345,149
Less allowance for impairment (Note 25)	(38,570,734)	(38,570,734)
	-----	-----
Interest receivable	<b>1,135,287,903</b> 65,005,085	<b>1,153,882,159</b> 60,077,052
	-----	-----
<b>Net loans and advances</b>	<b>1,200,292,988</b>	<b>1,213,959,211</b>
	=====	=====

	<b><u>Sept</u></b> <b><u>2012</u></b> \$	<b><u>June</u></b> <b><u>2012</u></b> \$
<b>10. Originated debts</b>		
Government of St. Kitts and Nevis bonds maturing April 18, 2057 at 1.5 % interest (2011 – March 3, 2020 at 8.25%)	64,423,030	64,423,030
Eastern Caribbean Home Mortgage Bank Long-term bond maturing July 01, 2013 at 6.00 % interest	1,000,000	1,000,000
Antigua Commercial Bank 9 % interest rate Series A bond maturing December 31, 2025	1,496,913	1,496,913
	-----	-----
<b>Balance carried forward</b>	<b>66,919,943</b>	<b>66,919,943</b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**Originated Debt.....continued**

	<b><u>Sept</u></b> <b><u>2012</u></b> <b>\$</b>	<b><u>June</u></b> <b><u>2012</u></b> <b>\$</b>
<b><i>Balance brought forward</i></b>	<b>66,919,943</b>	<b>66,919,943</b>
Grenada Electricity Services Limited 10-year 7 % bond maturing December 19, 2017	5,670,000	5,940,000
Government of Antigua 7-year long-term notes Maturing April 30, 2017 at 6.7% interest	38,435,711	39,210,819
Government of St. Vincent & The Grenadines 10-year bond maturing December 17, 2019 at 7.5% interest	5,000,000	5,000,000
Caribbean Credit Card Corporation unsecured loan at 10 % interest (no specific repayment terms)	300,000	300,000
Government of St Lucia 1-year Fixed Rate Note maturing August 2, 2013 at 5% interest	13,513,000	-
<b>Sub-total</b>	<b>129,838,654</b>	<b>117,370,762</b>

**11. Investment securities**

<b>(A)</b>	<b><u>Sept</u></b> <b><u>2012</u></b> <b>\$</b>	<b><u>June</u></b> <b><u>2012</u></b> <b>\$</b>
<b><i>Available-for-sale securities</i></b>		
Securities at fair value		
-- Unlisted	16,647,209	16,647,209
-- Listed	293,662,964	368,260,132
-- Less provision for impairment	(3,210,406)	(3,210,406)
<b>Sub-total</b>	<b>307,099,767</b>	<b>381,696,935</b>

An impairment provision of EC\$1,351,300 (US\$500,000) was set up for the possible loss on investment made in TCI Bank Limited, as a result of that bank being placed into regulatory liquidation. The St. Kitts-Nevis-Anguilla National Bank holds 500,000 TCI Bank Limited shares at US\$1.00 (EC\$2.7026) per share. Also, an impairment provision of EC\$1,859,106 was set up for the possible loss on investment made in ECIC Holdings.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**11. Investment securities.....continued**

The movement in held-to-maturity, available-for-sale, fair value through profit or loss and loans and receivables – originated debt financial assets during the year is as follows:

	<b>Available for Sale</b>	<b>Loans and receivable originated debts</b>	<b>Total</b>
	\$	\$	\$
<b>Balance – June 30, 2012</b>	<b>381,696,935</b>	<b>117,370,762</b>	<b>499,067,697</b>
Additions	76,096,866	13,513,000	89,609,866
Disposals (sales/redemption)	(153,271,236)	(1,045,108)	(154,316,344)
Fair value gains (losses)	2,577,202	-	2,577,202
<b>Total as at Sept 30, 2012</b>	<b>307,099,767</b>	<b>129,838,654</b>	<b>436,938,421</b>
<b>Balance – June 30, 2011</b>	<b>346,989,343</b>	<b>126,011,764</b>	<b>473,001,107</b>
Additions	769,729,567	64,423,030	834,152,597
Disposal (sales/redemption)	(625,795,049)	(73,064,032)	(698,859,081)
Fair value gains (losses)	(107,367,820)	-	(107,367,820)
Investment Impairment Allowance	(1,859,106)	-	(1,859,106)
<b>Total as at June 30, 2012</b>	<b>381,696,935</b>	<b>117,370,762</b>	<b>499,067,697</b>

<b>(B)</b>	<b>Sept 2012</b>	<b>June 2012</b>
	\$	\$

Included in available-for-sale financial assets are as follows:

**Listed securities:**

- Equity securities – US	118,677,942	192,728,090
- Equity securities – Caribbean	5,989,200	5,989,200
- Debt securities – US	168,995,822	169,542,842

**Unlisted securities:**

- Equity securities – Caribbean	14,637,150	14,637,150
- Debt securities – Caribbean	2,010,059	2,010,059
- Provision for impairment loss	<u>(3,210,406)</u>	<u>(3,210,406)</u>
<b>Total available-for-sale securities</b>	<b><u>307,099,767</u></b>	<b><u>381,696,935</u></b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**11. Investment securities.....continued**

Available-for-sale securities are denominated in the following currencies:

(C)	<u>Sept 2012</u> \$	<u>June 2012</u> \$
<b><u>Listed:</u></b>		
US dollars	287,673,764	362,270,932
EC dollars	5,989,200	5,989,200
	-----	-----
<b>Total listed securities and interest</b>	<b><u>293,662,964</u></b>	<b><u>368,260,132</u></b>
<b><u>Unlisted:</u></b>		
US dollars	9,322,909	9,322,909
Less: Provision for impairment loss	<u>(3,210,406)</u>	<u>(3,210,406)</u>
Sub-total US dollars	6,112,503	6,112,503
EC dollars	7,324,300	7,324,300
	-----	-----
<b>Total unlisted securities</b>	<b><u>13,436,803</u></b>	<b><u>13,436,803</u></b>
<b>Total available-for-sale securities</b>	<b>307,099,767</b>	<b>381,696,935</b>

**12. Investment in subsidiary**

National Bank Trust Company (St Kitts-Nevis-Anguilla) Limited	5,750,000	5,750,000
National Caribbean Insurance Company Limited	9,000,000	9,000,000
St Kitts and Nevis Mortgage and Investment Company Limited (MICO)	12,000,000	12,000,000
	-----	-----
<b>Total</b>	<b><u>26,750,000</u></b>	<b><u>26,750,000</u></b>
	=====	=====

**13. Customers' liability under acceptances, guarantees and letters of credit**

Letters of credit	4,482,885	4,095,350
Guarantees	-	-
	-----	-----
<b>Total</b>	<b><u>4,482,885</u></b>	<b><u>4,095,350</u></b>
	=====	=====



**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**14. Property, Plant and Equipment**

COST	<u>Furniture</u>						
	<u>Total</u>	<u>Property</u>	<u>Equipment</u>	<u>And Fittings</u>	<u>Motor Vehicles</u>	<u>Reference Books</u>	<u>Projects Ongoing</u>
	\$	\$	\$	\$	\$	\$	\$
At June 30, 2012	39,490,969	21,139,893	13,214,561	3,443,933	551,240	140,367	1,000,975
Additions	412,029	-	52,799	43,029	-	-	316,201
Disposals	-	-	-	-	-	-	-
Transfer	-	-	-	-	-	-	-
Sept 30, 2012	39,902,998	21,139,893	13,267,360	3,486,962	551,240	140,367	1,317,176
<b>Accumulated Depreciation</b>							
At June 30, 2012	16,220,411	3,464,488	10,500,829	1,947,097	171,588	136,409	-
Charge for Year	577,309	205,347	264,477	83,681	23,312	492	-
Eliminated on Disposal	-	-	-	-	-	-	-
Sept 30, 2012	16,797,720	3,669,835	10,765,306	2,030,778	194,900	136,901	-
<b>Net Book Value</b>							
At Sept 30, 2012	<b>23,105,278</b>	<b>17,470,058</b>	<b>2,502,054</b>	<b>1,456,184</b>	<b>356,340</b>	<b>3,466</b>	<b>1,317,176</b>
At June 30, 2012	<b>23,270,558</b>	<b>17,675,405</b>	<b>2,713,732</b>	<b>1,496,836</b>	<b>379,652</b>	<b>3,958</b>	<b>1,000,975</b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

	<b>Sept 2012</b>	<b>June 2012</b>
	\$	\$
<b>15. Intangible assets</b>		
Cost at July 1, 2012	7,892,506	6,921,908
Additions	<u>-</u>	<u>970,598</u>
Total at Sept 30, 2012	<b><u>7,892,506</u></b>	<b><u>7,892,506</u></b>
	=====	=====
<b>Accumulated amortisation</b>		
At July 1, 2012	6,171,941	4,977,331
Charges for the year-to-date	<u>260,951</u>	<u>1,194,610</u>
Total at Sept 30, 2012	<b><u>6,432,892</u></b>	<b><u>6,171,941</u></b>
	=====	=====
<b>Net book value</b>	<b><u>1,459,614</u></b>	<b><u>1,720,565</u></b>
	=====	=====
Intangible assets represent computer software acquired for the Bank use.		
<b>16. Other assets</b>		
Prepayments	6,353,886	9,574,123
Stationery and card stock	752,136	690,321
Epassport receivable	59,470,757	59,470,757
Other receivables	3,722,856	1,062,422
Provision for impairment	<u>(59,470,757)</u>	<u>(59,470,757)</u>
<b>Total</b>	<b><u>10,828,878</u></b>	<b><u>11,326,866</u></b>
	=====	=====
<b>17. Due to customers</b>		
Consumers	358,467,953	366,611,016
Private businesses and subsidiaries	360,281,760	337,691,100
State, statutory bodies and non-financial bodies	913,682,460	908,889,399
Others	236,451,644	229,657,711
Interest Payable on fixed deposits	17,329,139	10,925,858
	-----	-----
<b>Total Customers deposits</b>	<b><u>1,886,212,956</u></b>	<b><u>1,853,775,084</u></b>
	=====	=====

‘Due to Customers’ represents all types of deposit accounts held by the Bank on behalf of its customers. The deposit include demand deposit accounts, call accounts, savings accounts and fixed deposits.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

	<b>Sept 2012</b>	<b>June 2012</b>
	\$	\$
<b>18. Other borrowed funds</b>		
Credit line	120,130,694	121,293,563
Bonds issued	93,540,229	93,540,229
Interest payable	2,708,823	863,645
	-----	-----
<b>Total</b>	<b>216,379,746</b>	<b>215,697,437</b>
	=====	=====

The rate of interest charged on the line-of-credit is 3mth LIBOR plus 50. This credit line is secured by investment securities under management.

Bonds issued represent monies raised for the sole purpose of providing funds to borrowers of major island developmental projects.

Total interest paid and payable in this category was \$2,093,090 (June 2012 - \$9,277,009).

**19. Accumulated provisions, creditors and accruals**

Other interest on customers' deposits	13,251,503	12,284,507
Managers cheques and bankers payments	1,335,776	991,046
Unpaid drafts on other banks	1,545,443	1,540,868
Other payables	21,394,600	24,726,549
	-----	-----
<b>Total</b>	<b>37,527,322</b>	<b>39,542,970</b>
	=====	=====

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

	<b>Sept 2012</b>	<b>Sept 2011</b>
	\$	\$
<b>20. Taxation</b>		
<b>Tax expense</b>		
Current tax	-	-
Deferred tax	-	-
Prior year income tax expense	-	-
	-----	-----
<b>Total</b>	<b>-</b>	<b>-</b>
	=====	=====
 Income for the period before tax	 <b><u>4,619,644</u></b>	 <b><u>10,560,125</u></b>
 Income tax at the applicable tax rate of 35%	 -	 -
Non-deductible expenses	-	-
Deferred tax over provided	-	-
Income not subject to tax	-	-
	-----	-----
<b>Total</b>	<b>-</b>	<b>-</b>
	=====	=====

**Deferred tax asset/(liability)**

The movement on the deferred tax assets and liabilities during the period are as follows:

	<b>Sept 2012</b>	<b>June 2012</b>
	\$	\$
<b>Deferred tax asset</b>		
Balance brought forward (capital allowance)	580,930	344,097
Current year (recovery)/charge	-	236,833
<b>Accelerated depreciation</b>	<b><u>580,930</u></b>	<b><u>580,930</u></b>
 <b>Deferred tax liability:</b>		
Balance brought forward	(10,766,957)	26,811,780
Net unrealized Gains/(losses)	902,021	(37,578,737)
<b>Unrealised (loss)/gain on AFS securities</b>	<b><u>(9,864,936)</u></b>	<b><u>(10,766,957)</u></b>
 <b>Movement is represented by:</b>		
Unrealised (loss) on AFS securities (Note 11)	2,577,202	(107,367,820)
Less amount recognized in equity (Note 22)	(1,675,181)	69,789,083
<b>Current year (charge)</b>	<b><u>902,021</u></b>	<b><u>(37,578,737)</u></b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

	<b><u>Sept</u></b> <b><u>2012</u></b> \$	<b><u>June</u></b> <b><u>2012</u></b> \$
<b>21. Share Capital</b>		
<b>Authorised: -</b>		
270,000,000 Ordinary Shares of \$1 each	270,000,000	270,000,000
	=====	=====
<b>Issued and Fully Paid: -</b>		
135,000,000 Ordinary Shares of \$1 each	135,000,000	135,000,000
	=====	=====
<b>22. Reserves</b>		
<b>22.1 Statutory reserve</b>		
Balance at beginning of year	106,266,087	96,610,790
Addition	-	9,655,297
	-----	-----
	<b>106,266,087</b>	<b>106,266,087</b>
	=====	=====
In accordance with Section 14 (1) of Saint Christopher and Nevis Banking Act No. 6 of 1991, the St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain a reserve fund into which it shall transfer not less than 20% of its net profit of each year whenever the reserve fund is less than the Bank paid-up capital.		
<b>22.2 Revaluation reserve</b>		
Balance brought forward	(12,275,156)	57,513,927
Movement in market value of investments, net	1,675,181	(69,789,083)
	-----	-----
<b>Balance</b>	<b>(10,599,975)</b>	<b>(12,275,156)</b>
	=====	=====
<b>Revaluation reserve is represented by:</b>		
Available for sale investment securities	(18,320,596)	(19,995,777)
Properties	7,720,621	7,720,621
	-----	-----
	<b>(10,599,975)</b>	<b>(12,275,156)</b>
	=====	=====

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

	<b><u>Sept</u></b> <b><u>2012</u></b> \$	<b><u>June</u></b> <b><u>2012</u></b> \$
<b>22. Reserves.....continued</b>		
<b>22.3 Other reserves</b>		
Balance at beginning of year	198,704,330	174,653,586
Transfer from retained earnings	-	24,050,744
	<b>198,704,330</b>	<b>198,704,330</b>
	<b>198,704,330</b>	<b>198,704,330</b>
<b>Other reserves is represented by:</b>		
Reserve for interest on non-performing loans	16,496,753	16,496,753
General reserve	182,207,577	182,207,577
	<b>198,704,330</b>	<b>198,704,330</b>
	<b>198,704,330</b>	<b>198,704,330</b>

Included in Other reserves are the following individual reserves:

***General Reserve***

General reserve is used from time to time to transfer profits from retained earnings. There is no policy of regular transfer.

***Reserve for interest collected on non-performing loans***

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

**Loan Loss Reserve**

The Eastern Caribbean Central Bank requires all banks within its jurisdiction to establish a special reserve for the amount by which the regulatory requirement for loan loss provisioning exceeds that computed under IAS 39. This reserve is non-distributable and forms part of Tier 2 Capital.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

	<b><u>Sept</u></b> <b><u>2012</u></b>	<b><u>Sept</u></b> <b><u>2011</u></b>
	\$	\$
<b>23. Net Interest Income</b>		
<b><u>Interest Income</u></b>		
Loans and Advances	22,116,263	19,915,943
Deposits with other financial institutions	2,071,009	2,118,590
Investments	2,915,180	5,256,280
	<b>27,102,452</b>	<b>27,290,813</b>
<b><u>Interest Expense</u></b>		
Savings accounts	3,144,264	2,911,348
Call Accounts	1,993,796	1,831,416
Fixed Deposits	15,481,032	14,532,727
Current and other deposit accounts	661,765	495,484
Debt and other related accounts	2,093,090	2,182,962
	<b>23,374,947</b>	<b>21,953,937</b>
<b>Net</b>	<b>3,728,505</b>	<b>5,336,876</b>
<b>24. Net fees and commission income</b>		
Credit related fees and commission	458,882	423,446
International and foreign exchange	2,120,046	838,274
Brokerage and other fees and commission	207,232	134,957
	<b>2,786,160</b>	<b>1,396,677</b>
<b><u>Fee expenses</u></b>		
Brokerage and other related fee expenses	44,282	50,941
International and foreign exchange fee expenses	542,933	424,205
Other fee expenses	49,594	3,638
	<b>636,809</b>	<b>478,784</b>
<b>Total net</b>	<b>2,149,351</b>	<b>917,893</b>

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

	<b><u>Sept</u></b> <b><u>2012</u></b> \$	<b><u>June</u></b> <b><u>2012</u></b> \$
<b>25. Provision for credit impairment</b>		
Balance brought forward	38,570,734	39,074,583
Charge-offs and write-offs	-	(502,134)
	-----	-----
<b>Total</b>	<b><u>38,570,734</u></b>	<b><u>38,570,734</u></b>
	=====	=====
<b>26. Administration and general expenses</b>		
	<b><u>Sept</u></b> <b><u>2012</u></b> \$	<b><u>Sept</u></b> <b><u>2011</u></b> \$
Advertisement and marketing	192,385	81,794
Stationery and supplies	18,478	77,100
Communication	212,243	172,993
Utilities	168,590	187,812
Shareholders' expenses	-	204,197
Rent and occupancy expenses	133,864	137,366
Taxes and licences	330	-
Security services	38,509	81,826
Insurance	73,651	72,012
Legal expenses	40,014	30,972
Staff employment	3,343,907	3,281,674
Repairs and maintenance	673,572	638,890
Premises upkeep	4,881	7,068
Other general expenses	177,907	208,814
	-----	-----
<b>Total</b>	<b><u>5,078,331</u></b>	<b><u>5,182,518</u></b>
	=====	=====



**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**27. Dividend**

The comparative financial statements for the year ended June 30, 2012 reflect dividend of \$31,050,000.00 for financial year 2011 of \$15,525,000 and financial year 2010 of \$15,525,000. An interim dividend payment of \$8,775,000 for financial year 2011 was approved by the Directors and paid on December 08, 2011. Final dividend of \$6,770,000 for that same financial year was approved at the Forty-First Annual General Meeting on February 16, 2012 and paid. Dividend payments for the financial year 2010 were approved at the Fortieth Annual General Meeting held on September 13, 2011 and paid.

**28. Other events**

**Litigation**

**Lynn Bass** (Appellant) and **St. Kitts-Nevis-Anguilla National Bank Limited** (Respondent) High Court, Civil Appeal No. 4 of 2009. Lynn Bass, a former employee, filed a claim of wrongful dismissal against the Bank for special and general damages. The Bank was successful in judgment received on March 23, 2009 (with costs). The above decision was appealed in the High Court by way of Civil Appeal No. 4 of 2009, filed on April 28, 2009. There is a high likelihood of success on same ground as initial claim. The judge gave a detailed precise judgment.

**29. Related Parties**

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making operational or financial decisions. A number of banking transactions are entered into with our subsidiaries and directors in the normal course of business. Those transactions, which include deposits, loans and other transactions, are carried out on commercial terms and conditions, at market rates.

**Government of St Kitts and Nevis**

The Government of St Kitts and Nevis holds 51% of the Bank issued share capital. The remaining 49% of the issued share capital are widely held by individuals and other institutions (over 5,200 shareholders). The Bank is the main bankers to the government and, as such, undertakes commercial banking transactions on behalf of the government on commercial terms and conditions at market rates.

Public sector net position with the Bank as at September 30, 2012 (loans and advances less deposits) was \$220 million in deficit (June 30, 2012 - \$246 million).

Interest charged to the public sector for the quarter was \$15.9 million. Interest paid and payable to the public sector for the quarter ended September 30, 2012 was \$11.3 million.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**Subsidiaries**

Advances outstanding as at September 30, 2012 amounted to \$10.653 million (June 30, 2012 - \$8.776 million).

Deposits balances as at September 30, 2012 amounted to \$161.289 million (June 30, 2012 - \$161.263 million).

**Directors and Associates**

Advances outstanding as at September 30, 2012 amounted to \$0.776 million (June 30, 2012 - \$0.727 million).

Deposit balances as at September 30, 2012 amounted to \$0.805 million (June 30, 2012 - \$1.053 million).

**Senior Management**

At the end of September 2012 the following amounts were in place:

- Gross salaries, allowances and bonus payments amounted to \$0.4 million (June 2012- \$2.04 million).
- Loans and advances amounted to \$3.70 million (June 2012 - \$3.4 million);
- Deposit amounts were \$2.40 million (June 2012 - \$2.66 million); and
- Total St. Kitts-Nevis-Anguilla National Bank Limited shares held were 1,158,341 (June 2012 – 1,158,341)

	<b><u>Sept</u></b> <b><u>2012</u></b> \$	<b><u>June</u></b> <b><u>2012</u></b> \$
<b>30. Cash and cash equivalent</b>		
Cash and balances with Central Bank (Note 6)	150,016,025	149,457,505
Deposits with other financial institutions (Note 8)	298,618,819	196,541,331
	448,634,844	345,998,836
	448,634,844	345,998,836
<b>31. Contingent liabilities and commitments</b>		

At September 30, 2012 the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

Loan commitments	14,510,310	16,760,337
Guarantees and standby letters of credit	4,482,885	4,095,350
	18,993,195	20,855,687
	18,993,195	20,855,687