1. General information

St. Kitts-Nevis-Anguilla National Bank Limited (the Bank) was incorporated on the 15th 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 14th 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. New and revised standards and interpretations

2.1 Adoption of standards during the year

- IAS 1(2011) Amendments to IAS 1 – Presentation of Other Comprehensive Income

2.2 Available for early adoption

New and amended standards available for early adoption on non-consolidated financial statements

	Effective for annual periods beginning on or after
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
IFRS 1 Amendments as part of improvements to IFRSs 2011	January 1, 2013
IAS 1 Amendments as part of improvements to IFRSs 2011	January 1, 2013
IAS 16 Amendments as part of improvements to IFRSs 2011	January 1, 2013
IAS 32 Amendments as part of improvements to IFRSs 2011	January 1, 2013
IAS 34 Amendments as part of improvements to IFRSs 2011	January 1, 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013
IFRS 10 Consolidated Financial Statements (Transitional arrangements)	January 1, 2013
IFRS 11 Joint Arrangements (Transitional arrangements)	January 1, 2013

2. New and revised standards and interpretations ….*continued*

2.2 Available for early adoption ………….*continued*

	Effective for annual periods beginning on or after
IFRS 12 Disclosure of Interests in Other Entities (Transitional arrangements)	January 1, 2013
IFRS 10 Consolidated Financial Statements (Exemptions)	January 1, 2014
IFRS 12 Disclosure of Interests in Other Entities (Exemptions)	January 1, 2014
IAS 27 Separate Financial Statements (Exemptions)	January 1, 2014
IFRS 9 Additions for Financial Liability Accounting	January 1, 2015
IFRS 9 Financial Instruments: Classification and Measurement	January 1, 2015

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

- ***IFRS 9*** was 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 amortised 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. When adopted, the standards will be applied retrospectively in accordance with IAS 8.

- ***IFRS 13, 11, 12, IAS 27(2011) and IAS 28(2011)*** In May 2011, five Standards on consolidation, joint arrangements, associates and disclosures were issued. The principal requirements of these Standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. IFRS 10 presents one basis for consolidation, and that is control. Control for consolidation is fully explained in the Standard.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. Three types of joint arrangements were set by the standard: jointly controlled entities, jointly controlled assets and jointly controlled operations. The equity method of accounting was identified as the proper method of accounting under IFRS 11.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

New and revised standards and interpretations ….*continued*

Standards and amendments that may impact the Bank etc. …………*continued*

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring and disclosing such fair value measurements. When this standard is adopted, its application may affect amounts reported in the financial statements.

IAS 1 amendments require additional disclosures in Other Comprehensive Income such that items are presented on the basis of whether they are potentially re-classifiable to profit or loss subsequently.

IAS 32 amends the disclosure requirements in IFRS 7, Financial Instruments, to require information about all recognised financial instruments that are set-off and those that are subject to enforceable master netting arrangements.

2.3 Amendment as part of Annual improvements to IFRSs

IFRS 1 – Permits the repeated application of IFRS 1 borrowing costs on certain qualifying assets.
IAS 1 – Clarification of the requirements for comparative information.
IAS 16 – Classification of servicing equipment.
IAS 32 – Clarification that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12, Income Taxes.
IAS 34 – Clarification of interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8, Operating Segments.

The Directors do not anticipate any significant effect to the financial statements as regard to the above revised and/or amended standards.

3. Summary of significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

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

3. 3.3 Foreign currency transaction

Functional and presentation currency
Items included in the non-consolidated financial statements are measured using the currency of the primary economic environment in which the Bank operates.

The non-consolidated 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 recognised 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.

(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 recognised 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 from the shareholders of the Bank. These amounts are taken from reserves.

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

3.4 Financial assets…………………*continued*

(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.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date – the date on which the Bank commits to purchase or sell an asset.

Available-for-sale financial assets are initially recognised at fair value being the transaction price less transaction cost. Available-for-sale financial assets 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 recognised through other comprehensive income until the financial assets are derecognised or impaired, at which time, the cumulative gain or loss previously recognised through other comprehensive income is removed and recognised 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 recognised in the Statement of income. Dividends on available-for-sale equity instruments are recognised in the Statement of income when the right to receive payment is established.

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

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 rate method. Other liabilities include due to customers, due to other financial institutions, other borrowed funds and accumulated provisions, creditors and accruals.

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

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

3.6 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised 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 future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.7 Fee and commission income

Fees and commissions are generally recognised 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 recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised 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 recognised on completion of the underlying transaction.

3.8 Dividend income

Dividends are recognised 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.

3.9 Impairment of financial assets …………*continued*

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

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 recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables 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 recognised 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 collateralised 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.

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

3.9 Impairment of financial assets…………*continued*

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

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

(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 recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

(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 accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised 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.

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

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

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, any revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the fixed asset 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-end, with the effect of any changes in estimates accounted for on a prospective basis.

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

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 sale proceeds and the carrying amount of the asset and is recognised 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 amortized on the basis of the expected useful life 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 recognised 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. Summary of significant accounting policies…….*continued*

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 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 recognised 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 (with a maturity period of less than 90 days) and other eligible bills, loans and advances to banks, amounts due from other banks and other financial institutions and short-term government securities.

3.16 Employee benefits

(a) ***Pension plan***
The Bank participates in a multiemployer 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 and subsidiaries (the “Group”) 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 defined 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. Summary of significant accounting policies…….*continued*

3.17 Current and deferred income tax

Income tax payable on profits, based on applicable tax law is recognised as an expense in the period in which profits arise, except to the extent that it relates to items recognised directly in equity. In such cases, the tax is recognised 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 non-consolidated 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 recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3.18 Borrowings

Borrowings are recognised 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 amortized 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.

3.20 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 recognised in equity in the period in which they are paid by the Board of Directors and or approved by the Bank’s shareholders. Dividends for the year are dealt with in Note 29.

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

3.21 Associate companies

Associate companies are recorded at cost less amounts provided for impairment.

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

The Bank's 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 co-operation 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 risk 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 counterparties will cause financial losses for the Bank by failing to discharge their obligations. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management, therefore, carefully manages its exposure to such credit risks. Credit exposure arises principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised and reported to the Board of Directors.

The Bank's 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. Financial risk management……*continued*

4.1 Credit risk…………………. *continued*

(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 losses that have been incurred at the balance sheet date (the 'incurred loss model').

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.

Bank rating	Description of the classifications
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 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:

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 advanced, 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 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 authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans 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.

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 2013		June 2013	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1 Pass	55.61	-	77.34	-
2 Special mention	28.25	0.00	14.26	0.00
3 Sub-standard	13.14	28.39	6.84	28.39
4 Doubtful	2.87	64.39	1.49	64.39
5 Loss	0.13	7.22	0.07	7.22
	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.

4. Financial risk management…….*continued*

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

	Maximum exposure	
	Sept 2013	**June 2013**
***Credit risk exposures relating to on-balance sheet assets are as follows*:**	**$**	**$**
Treasury bills	138,008,230	134,145,387
Deposits with other financial institutions	616,936,819	525,507,809
Loans and advances:		
• Overdrafts	157,494,514	151,944,678
• Corporate customers	56,451,409	62,880,911
• Term loans	285,180,065	847,112,107
• Mortgages (personal)	131,211,104	129,135,564
• Originated debts	90,060,125	88,615,644
• Available-for-sale investments	154,060,368	153,189,849
• Other assets	89,384,015	24,206,076
• Loan commitments and financial guarantees	43,474,613	38,842,853
Total	**1,762,261,262**	**2,155,580,878**

The above table represents a worse case scenario of credit risk exposure to the Bank at September 30, 2013 and June 30, 2013, 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, 36% (June 2013 – 55%) of the total maximum exposure is derived from loans and advances to banks and customers; 14% (June 2013 – 11%) 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:

- 84% (June 2013 – 92%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;

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.
- 55% (June 2013 – 47%) 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 60% (June 2013 - 59%) of these investments are not rated (Government securities – treasury bills, etc.).

4.1.5 Loans and advances

	Sept 2013 $	June 2013 $
Loans and advances are summarized as follows:		
Loans and advances to customers		
Neither past due nor impaired	328,246,115	545,326,532
Past due but not impaired	214,384,801	559,749,903
Impaired principal	58,454,459	58,963,957
Interest receivable	59,167,888	59,167,888
	660,253,263	**1,223,208,208**
Other Interest receivable	8,654,563	6,435,714
Less allowance for impairment losses (Note 25)	(38,570,734)	(38,570,734)
Net	**630,337,092**	**1,191,073,260**

The total allowance for impairment losses on loans and advances is $38,570,734 (June 2013- $38,570,734). Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 27.

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, 2013

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
Loans and advances to customers					
Classifications:					
1. Pass	81,056,472	71,559,923	76,987,863	26,208,342	255,812,600
2. Special mention	66,383,987	810,438	1,610,508	-	68,804,933
3. Substandard	435,949	26,361	256,429	2,909,843	3,628,582
Gross	**147,876,408**	**72,396,722**	**78,854,800**	**29,118,185**	**328,246,115**

June 30, 2013

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
Loans and advances to customers					
Classifications:					
4. Pass	77,432,297	290,080,606	73,996,310	33,193,878	474,703,091
5. Special mention	64,433,367	498,181	1,497,847	-	66,429,395
6. Substandard	452,400	-	258,953	3,482,693	4,194,046
Gross	**142,318,064**	**290,578,787**	**75,753,110**	**36,676,571**	**545,326,532**

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:

	Term loans $	Mortgages $	Corporate customers $	Total $
At Sept 30, 2013				
Past due up to 30 days	68,710,777	10,070,894	-	78,781,671
Past due 30 – 60 days	169,357	1,824,710	411,255	2,405,322
Past due 60 – 90 days	231,770	325,626	-	557,396
Over 90 days	127,326,064	3,724,503	1,589,845	132,640,412
Gross	**196,437,968**	**15,945,733**	**2,001,100**	**214,384,801**
Fair value of collateral	**197,025,947**	**32,272,552**	**4,725,000**	**234,023,499**

	Term loans $	Mortgages $	Corporate customers $	Total $
At June 30, 2013				
Past due up to 30 days	67,383,194	9,224,461	591,408	77,199,063
Past due 30 – 60 days	469,014	2,701,208	-	3,170,222
Past due 60 – 90 days	270,225	1,060,249	472,390	1,802,864
Over 90 days	472,637,675	4,036,433	903,646	477,577,754
Gross	**540,760,108**	**17,022,351**	**1,967,444**	**559,749,903**
Fair value of collateral	**619,129,779**	**34,756,028**	**5,851,050**	**659,736,857**

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.

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 $58,454,459 (June 2013 - $58,963,957).

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

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
Sept 30, 2013					
Individually impaired	8,791,060	3,786,180	24,917,814	20,959,405	**58,454,459**
Interest receivable	13,247,949	2,325,171	12,616,648	30,978,120	**59,167,888**
Fair value of collateral	10,371,869	12,611,810	36,091,798	81,508,641	140,584,118

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
June 30, 2013					
Individually Impaired	8,799,568	5,432,866	24,867,346	19,864,177	**58,963,957**
Interest receivable	13,247,949	2,325,171	12,616,648	30,978,120	**59,167,888**
Fair value of collateral	10,371,869	12,611,810	36,091,798	81,508,641	140,584,118

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, 2013, based on Standard & Poor's ratings or equivalent:

	Treasury Bills $	**Investment Securities $**	**Loans and receivables - notes & bonds $**	**Total $**
A- to A+		42,553,536		**42,553,536**
Lower than A-		25,463,119		**25,463,119**
Unrated/ Internally rated	138,008,230	85,038,713	90,060,125	**313,107,068**
Total	**138,008,230**	**153,055,368**	**90,060,125**	**381,123,723**

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:

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean States $	Total $
Sept 30, 2013					
Treasury bills	85,884,649			52,123,581	138,008,230
Deposits with Fin. Inst.	43,864,296	462,488,839	18,047,823	92,535,861	616,936,819
Loans and advances	577,346,663	38,464,363	1,759,784	12,766,282	630,337,092
Originated debts	20,466,460			69,593,665	90,060,125
Investments (AFS)	1,005,000	153,055,368			154,060,368
Other assets	1,647,170	87,736,845			89,384,015
	730,214,238	**741,745,415**	**19,807,607**	**227,019,389**	**1,718,786,649**
June 30, 2013					
Treasury bills	85,884,649	-	-	48,260,738	134,145,387
Deposits with Fin. Inst.	44,795,104	371,839,754	16,452,562	92,420,389	525,507,809
Loans and advances	1,137,082,289	38,436,023	2,507,481	13,047,467	1,191,073,260
Originated debts	18,747,379	-	-	69,868,265	88,615,644
Investments (AFS)	1,005,000	151,179,790	-	-	152,184,790
Other assets	2,009,203	22,196,873	-	-	24,206,076
	1,289,523,624	**583,652,440**	**18,960,043**	**223,596,859**	**2,115,732,966**

4. Financial risk management…….*continued*

4.18 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:

Sep 30, 2013	**Public Sector**	**Construction**	**Tourism**	**Financial Institutions**	**Individuals**	**Other Industries**	**Total**
Treasury Bills	138,008,230						138,008,230
Deposit with financial institutions	37,912,050	-	-	578,633,485	380,015	11,269	616,936,819
Loans and receivables:							
- Originated debts	82,570,125	-	-	2,900,000	-	4,590,000	90,060,125
- Loans & Advances	316,872,957	63,057,325	49,499,788	14,915,020	150,509,987	35,482,015	630,337,092
Investments – available-for-sale	-	-	-	154,060,368	-	-	154,060,368
Other assets	-	-	-	526,842	333,815	88,523,358	89,384,015
Total	**575,363,362**	**63,057,325**	**49,499,788**	**751,035,715**	**151,223,817**	**128,606,642**	**1,718,786,649**

June 30, 2013	**Public Sector**	**Construction**	**Tourism**	**Financial Institutions**	**Individuals**	**Other Industries**	**Total**
Treasury Bills	134,145,387						134,145,387
Deposit with financial institutions	36,594,795	-	-	488,647,189	256,504	9,321	525,507,809
Loans and receivables:							
- Originated debts	82,455,644	-	-	1,300,000	-	4,860,000	69,978,837
- Loans & Advances	879,210,616	61,912,707	53,492,622	12,820,127	149,688,151	33,949,037	1,191,073,260
Investments – available-for-sale	-	-	-	152,184,790	-	-	152,184,790
Other assets	-	-	-	2,581,160	80,463	21,544,453	24,206,076
Total	**1,132,406,442**	**61,912,707**	**53,492,622**	**657,533,266**	**150,025,118**	**60,362,811**	**2,115,732,966**

4. Financial risk management…….*continued*

4.19 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 primarily arise from the interest rate management of the Bank retail and commercial banking assets and liabilities and equity risks arising from its available-for-sale investments.

4.2.0 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.

4.2.1 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 following table summarises the Bank exposure to foreign currency exchange rate risk at September 30, 2013. Included in the table are the Bank financial instruments at carrying amounts, categorized by currency.

4. Financial risk management…….*continued*

4.2.1 Foreign exchange risk…….continued

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

As at Sep 30, 2013	ECD	USD	EURO	GBP	CAN	BDS	GUY	TOTAL
Assets								
Cash & balances with Central Bank	439,847,372	3,395,860	62,427	87,581	12,302	12,468	-	443,418,010
Treasury bills	138,008,230	-	-	-	-	-		138,008,230
Deposits with other financial bodies	77,332,227	532,515,090	3,863,893	889,302	1,638,703	679,612	17,992	616,936,819
Loans and receivables								
- Loans and advances to customers	609,096,451	21,240,641	-	-	-	-	-	630,337,092
- Originated debts	75,064,011	14,996,114	-	-	-	-	-	90,060,125
Investments								
- Available-for-sale	12,882,250	361,306,179	-	-	-	-	-	374,188,429
Investment in associates	-	1,629,676	-	-	-	-	-	1,629,676
Other assets	1,174,732	88,209,283	-	-	-	-	-	89,384,015
Total financial assets	1,353,405,273	1,023,292,843	3,926,320	976,883	1,651,005	692,080	17,992	2,383,962,396
Liabilities								
Due to Customers	2,040,264,597	333,256,133	2,211,601	2,823	2,460,330	-	-	2,378,195,484
Due to other financial bodies	-	3,245,626	20,435	-	-	-	-	3,266,061
Other borrowed funds	-	145,582,524	-	-	-	-	-	145,582,524
Other liabilities	24,072,595	57,904,095	42,225	390,847	171,767	116,505	-	82,698,034
Total financial liabilities	2,064,337,192	539,988,378	2,274,261	393,670	2,632,097	116,505	-	2,609,742,103
Net on-balance sheet positions	**(710,931,919)**	**483,304,465**	**1,652,059**	**583,213**	**(981,092)**	**575,575**	**17,992**	**(225,779,707)**
Credit commitment	**38,991,728**	-	-	-	-	-	-	**38,991,728**

4. Financial risk management…….*continued*

4.2.1 Foreign exchange risk…….*continued*

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

As at June 30, 2013	ECD	USD	EURO	GBP	CAN	BDS	GUY	TOTAL
Total financial assets	1,817,250,707	923,387,149	1,952,433	1,231,424	489,778	404,601	-	2,744,716,092
Total financial liabilities	1,927,347,203	485,316,052	48,070	393,499	3,720,627	116,505	14,379	2,416,956,335
Net on-balance sheet positions	**(110,096,496)**	**438,071,097**	**1,904,363**	**837,925**	**(3,230,849)**	**288,096**	**(14,379)**	**327,759,757**
Credit commitments	**34,359,968**	-	-	-	-	-	-	**34,359,968**

4.2.2 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.

4. Financial risk management…….*continued*

4.2.2 Interest rate risk…………*continued*

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:

As at Sep 30, 2013	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Non-interest Bearing $	Total $
Assets							
Cash & balances with Central Bank	-	-	-	-	-	443,418,010	443,418,010
Treasury bills	17,922,819	20,386,522	99,698,889		-	-	138,008,230
Deposits with other financial Inst.	249,229,436	73,972,181	69,467,798	20,335,739	-	203,931,665	616,936,819
Loans and advances – Customers	255,045,515	428,374	14,563,156	140,769,907	216,825,355	2,704,785	630,337,092
- Originated debts	4,600	274,600	19,332,195	46,206,503	24,242,227	-	90,060,125
Investments – Available-for-sale	153,055,368	-	-	-	1,005,000	220,128,061	374,188,429
Investment in associates	-	-	-	-	-	1,629,676	1,629,676
Other assets	-	-	-	8,107,800	-	988,665	9,096,465
Total assets	675,257,738	95,061,677	203,062,038	215,419,949	242,072,582	872,800,862	2,303,674,846
Liabilities							
Due to customers	757,117,570	118,228,464	1,041,801,571	-	-	462,047,879	2,378,195,484
Due to other financial institutions	3,266,061	-	-	-	-	-	3,266,061
Other borrowed funds	405,390	30,042,102	4,864,680	109,520,749	-	749,603	145,582,524
Other liabilities	359,677	-	-	-	-	25,477,087	25,836,764
Total liabilities	760,148,698	148,270,566	1,046,666,251	109,520,749	-	488,274,569	2,552,880,833
Total Interest repricing gap	**(84,890,960)**	**(53,208,889)**	**(843,604,213)**	**105,899,200**	**242,072,582**		

4. Financial risk management…….*continued*

4.2.2 Interest rate risk…………*continued*

As at June 30, 2013	**Up to 1 Month $**	**1 to 3 Months $**	**3 to 12 Months $**	**1 to 5 Years $**	**Over 5 Years $**	**Non-interest Bearing $**	**Total $**
Total financial assets	613,709,950	21,693,197	255,325,927	265,677,766	760,175,114	818,956,385	2,735,538,339
Total financial liabilities	808,305,876	145,724,212	928,550,434	110,095,023	-	390,907,652	2,383,583,197
Total Interest repricing gap	**(194,595,926)**	**(124,031,015)**	**(673,224,507)**	**155,582,743**	**760,175,114**		

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. Financial risk management…….*continued*

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.

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.

As at Sep 30, 2013	Up to 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Over 5 years $	Total $
Financial Liabilities						
Due to customers	1,201,918,827	120,511,305	1,055,765,352	-	-	2,378,195,484
Due to other financial institutions	3,266,061	-	-	-	-	3,266,061
Other borrowed funds	405,390	30,791,705	4,864,680	109,520,749	-	145,582,524
Other liabilities	59,552,084	2,378,955	15,160,768	5,606,227	-	82,698,034
Total financial liabilities	**1,265,142,362**	**153,681,965**	**1,075,790,800**	**115,126,976**	**-**	**2,609,742,103**
Total assets	**1,592,219,292**	**66,926,121**	**260,726,582**	**227,340,981**	**241,067,582**	**2,388,280,558**
As at June 30, 2013						
Total financial liabilities	**1,202,251,389**	**150,660,402**	**948,528,133**	**115,701,250**	**-**	**2,417,141,174**
Total financial assets	**1,410,057,887**	**26,137,179**	**273,280,636**	**278,472,001**	**829,226,645**	**2,747,117,817**

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 33), are summarized in the table below.

	Up to 1 year $	1 – 3 years $	Over 3 years $	Total $
As at Sept 30, 2013				
Loan commitments	17,729,716	18,616,524	2,645,488	**38,991,728**
Guarantees and standby letters of credit	-	4,482,885	-	**4,482,885**
Total	**17,729,716**	**23,099,409**	**2,645,488**	**43,474,613**
As at June 30, 2013				
Loan commitments	9,655,744	21,393,628	3,310,596	**34,359,968**
Guarantees and standby letters of credit	-	4,482,885	-	**4,482,885**
Total	**9,655,744**	**25,876,513**	**3,310,596**	**38,842,853**

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 33. Fair value of financial assets and financial liabilities are also determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

4. Financial risk management…….*continued*

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

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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

(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 on impaired loans and advances. A conservative approach to the present value of such cash flows on performing loans and advances is taken due to the steady rise in values of property collateral. Therefore, initial values are taken as fair value and where observed values are different, adjustments are made.

(d) Originated debt
Originated debt securities include only interest bearing financial assets.

(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.

4. Financial risk management…….*continued*

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

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

	Carrying Value		Fair Value	
	Sept 2013	**June 2013**	**Sept 2013**	**June 2013**
Financial assets	**$**	**$**	**$**	**$**
Treasury bills	138,008,230	134,415,387	138,008,230	134,145,387
Deposits with other financial institutions	616,936,819	525,507,809	616,936,819	525,507,809
Loans and receivables:				
Loans and advances				
Overdrafts	157,494,514	151,944,678	227,729,878	156,746,992
Corporate	56,451,409	62,880,911	229,947,304	186,842,471
Mortgage	131,211,104	129,135,564	250,035,783	231,328,561
Term	285,180,065	847,112,107	409,644,084	966,089,356
Originated debts	90,060,125	88,615,644	90,060,125	88,615,644
AFS – debt	1,005,000	1,005,000	1,005,000	1,005,000
AFS – equity	12,431,803	12,431,803	12,431,803	12,431,803
Financial Liabilities				
Due to customers	2,378,195,484	2,210,464,801	2,378,195,484	2,210,464,801
Due to financial institutions	3,266,061	2,505,944	3,266,061	2,505,944
Other borrowed funds	145,582,524	145,580,180	145,582,524	145,580,180

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

Unlisted equities

The non-consolidated financial statements include positions in unlisted equity securities which are measured at fair value (see note 11). Fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates.

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.

4. Financial risk management…….*continued*

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

- 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).

Available-for-sale financial assets:

	Level 1 $	Level 2 $	Total $
Sept 30, 2013			
Debt securities	153,055,368	-	**153,055,368**
Equities	193,293,218	16,032,717	**209,325,935**
Total	**346,348,586**	**16,032,717**	**362,381,303**

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

Available-for-sale financial assets:

	Level 1 $	Level 2 $	Total $
June 30, 2013			
Debt securities	151,179,790	-	**151,179,790**
Equities	247,741,890	15,912,028	**263,653,918**
Total	**398,921,680**	**15,912,028**	**414,833,708**

The method of valuation on these Level 2 securities was identified as not being directly from unadjusted quoted prices but was based on the investee's net asset value as at its 31st December year end adjusted for the results of the intervening period to quarter end.

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, 2013 and June 30, 2013. During these two periods, the Bank complied with all the externally imposed capital requirements to which it must comply.

4. Financial risk management…….*continued*

4.5 Capital management………..*continued*

	Sept 2013	June 2013
Tier 1 capital	**$**	**$**
Share Capital	135,000,000	135,000,000
Bonus shares from capitalization of unrealized asset revaluation reserve	(4,500,000)	(4,500,000)
Reserves	280,741,963	280,741,963
Retained earnings	17,656,580	11,805,206
Total qualifying Tier 1 capital	**428,898,543**	**423,047,169**
Tier 2 capital		
Revaluation reserve – available-for-sale investments	(18,271,250)	(22,953,955)
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
Total qualifying Tier 2 capital	**32,520,105**	**27,837,400**
Investment in subsidiaries	(26,750,000)	(26,750,000)
Total regulatory capital	**434,668,648**	**424,134,569_**
Risk-weighted assets		
On-balance sheet	1,645,432,404	965,431,931
Off-balance sheet	19,963,290	12,475,052
Total risk-weighted assets	**1,665,395,694**	**977,906,983**
Tier 1 capital ratio	**26%**	**43%**
Basel ratio	**26%**	**43%**

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.

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.

6. Cash and balances with Central Bank

	Sept 2013 $	June 2013 $
Cash in hand	9,298,074	9,020,151
Balances with Central Bank other than mandatory deposits	294,886,016	215,498,621
Included in cash and cash equivalent (Note 32)	**304,184,090**	**224,518,772**
Mandatory deposits with Central Bank	139,233,920	131,052,577
Total	**443,418,010**	**355,571,349**

1) All banks in the Eastern Caribbean Currency Union are required to have a 3-day average daily gross Automated Clearing House (ACH) collateral amount with the Central Bank. The Bank's cash collateral amount stands at $6,364,010.64 and form part of the mandatory deposit.

2) As regards the remaining part of the mandatory deposits with Central Bank, 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 including mandatory deposits do not receive interest payments.

7. Treasury bills

	Sept 2013 $	June 2013 $
Government of St Lucia		
maturing July 17, 2013 at 6% interest	-	2,846,215
maturing November 6, 2013 at 5% interest	2,106,411	-
Government of Grenada		
maturing July 18, 2013 at 6% interest	-	11,980,070
maturing August 16, 2013 at 5.495% interest	-	9,863,001
maturing October 11, 2013 at 6% interest	4,276,060	4,276,060
maturing October 17, 2013 at 6% interest	13,646,759	-
maturing November 15, 2013 at 6% interest	9,850,411	-
maturing November 30, 2013 at 6% interest	1,884,700	1,884,700
maturing July 19, 2014 at 6% interest	13,814,240	-
Government of Antigua and Barbuda		
maturing September 10, 2013 at 6% interest	-	10,865,692
maturing November 13, 2013 at 6.50% interest	6,545,000	6,545,000
Government of St. Kitts and Nevis		
maturing May 16, 2014 at 6.75% interest	85,884,649	85,884,649
	138,008,230	**134,145,387**

Treasury bills are debt securities issued by a sovereign government.

8. Deposits with other financial institutions

	Sept 2013 $	June 2013 $
Operating cash balances	400,719,051	303,084,346
Items in the course of collection	7,109,595	9,373,310
Interest bearing term deposits	16,905,354	16,905,354
Included in cash and cash equivalent (Note 32)	**424,734,000**	**329,363,010**
Special term deposits*	68,395,462	74,788,787
Restricted term deposits**	110,744,022	110,739,569
Interest receivable	13,063,335	10,616,443
Total	**616,936,819**	**525,507,809**

*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. Interest earned on both 'Special term deposits' and 'Restricted term deposits' is credit to income.

9. Loans and advances to customers

	Sept 2013 $	June 2013 $
Overdrafts	145,229,649	140,171,140
Mortgages	74,729,795	74,666,802
Demand	184,013,072	190,626,617
Special Term	108,756,387	671,262,961
Other Secured	21,436,622	20,848,499
Credit Cards	2,646,759	2,146,925
Consumer	5,818,632	5,353,491
Productive loans	**542,630,916**	**1,105,076,435**
Impaired loans and advances	58,454,459	58,963,957
Less allowance for impairment (Note 27)	(38,570,734)	(38,570,734)
	562,514,641	**1,125,469,658**
Interest receivable	67,822,451	65,603,602
Net loans and advances	**630,337,092**	**1,191,073,260**

10. Originated debts	**Sept 2013 $**	**June 2013 $**
Government of St. Kitts and Nevis bonds, original amount	64,423,030	64,423,030
Discount on bond	(46,856,570)	(46,975,651)
Fair value of "New Par Bond" maturing April 18, 2057	**17,566,460**	**17,447,379**
Eastern Caribbean Home Mortgage Bank long-term		
bond maturing July 01, 2013 at 6% interest	-	1,000,000
bond maturing July 01, 2015 at 3.75% interest	2,600,000	-
Antigua Commercial Bank 9 % interest rate Series A bond maturing December 31, 2025	1,483,114	1,487,714
Grenada Electricity Services Limited 10-year 7 % bond maturing December 18, 2017	4,590,000	4,860,000
Government of Antigua 7-year long-term notes Maturing April 30, 2017 at 6.7% interest	40,007,556	40,007,556
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 July 19, 2014 at 4.75% interest	13,513,000	13,513,000
Government of St Vincent & The Grenadines bond maturing December 14, 2013 at 5% interest	4,999,995	4,999,995
Total	**90,060,125**	**88,615,644**

10.1 Loss on bond

Loss on bond (originated debt) represents impairment loss/discount on Government of St. Kitts and Nevis ("Government") 10-year 8.25% per annum $64,423,030 bond which was due to mature on March 03, 2020. As a result of the Government debt restructuring program, the Bank was given the choice to exchange its $64,423,030 bond for (1) a "New Discount Bond" which matures in twenty (20) years with interest rates at 6% per annum for the first forty-eight (48) months and 3% per annum thereafter and a "Goodwill Payment" of $130 per $1,000 on the first payment date following the issue date or (2) a "New Par Bond" which matures in forty five (45) years with interest rate of 1.5% per annum inclusive of 15-year grace period on principal and a one-time "Goodwill Payment" of $11.25 per $1,000 to be paid after the first month of issue. The Bank chose the "New Par Bond".

11. Investment securities

(A)

	Sept 2013	June 2013
Available-for-sale securities	**$**	**$**
Securities at fair value		
-- Unlisted	31,050,249	23,907,588
-- Listed	346,348,586	405,943,653
-- Less provision for impairment	(3,210,406)	(3,210,406)
Sub-total	**374,188,429**	**426,640,835**

11. Investment securities……………continued

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.

Management has decided to a 50% impairment provision as at June 30, 2012 of EC$1,859,106 on its investment in ECIC Holdings Ltd.

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:

	Available for Sale	Investment In Associates	Loans and Receivables:- Debts	Total
	$	$	$	$
Balance – June 30, 2013	**426,640,835**	**1,629,676**	**88,615,644**	**516,886,155**
Additions	131,605,811	-	2,719,081	134,324,892
Disposals (sales/redemption)	(191,965,619)	-	(1,274,600)	(193,240,219)
Fair value gains (losses)	7,907,402	-	-	7,907,402
Total as at Sept 30, 2013	**374,188,429**	**1,629,676**	**90,060,125**	**465,878,230**
Balance – June 30, 2012	**381,696,935**		**69,978,837**	**451,675,772**
Additions	861,714,132		19,726,007	881,440,139
Disposal (sales/redemption)	(810,725,365)		(1,089,200)	(811,814,565)
Fair value gains (losses)	(4,415,191)			(4,415,191)
Transfers	(1,629,676)	1,629,676	-	-
Total as at June 30, 2013	**426,640,835**	**1,629,676**	**88,615,644**	**516,886,155**

11. Investment securities……………continued

(B)	Sept 2013 $	June 2013 $
Included in available-for-sale financial assets are as follows:		
Listed securities:		
- Equity securities – US	188,073,093	242,183,940
- Equity securities – Caribbean	5,557,950	5,557,950
- Debt securities – US	152,717,543	151,179,790
Total listed securities	**346,348,586**	**398,921,680**
Unlisted securities:		
- Equity securities – US	16,032,717	15,912,028
- Equity securities – Caribbean	13,007,473	13,007,474
- Debt securities – Caribbean	2,010,059	2,010,059
- Provision for impairment loss	(3,210,406)	(3,210,406)
Total unlisted securities	**27,839,843**	**27,719,155**
Total available-for-sale securities, net	**374,188,429**	**426,640,835**

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

(C)	Sept 2013 $	June 2013 $
Listed:		
US dollars	340,790,636	393,363,731
EC dollars	5,557,950	5,557,950
Total listed securities and interest	**346,348,586**	**398,921,681**
Unlisted:		
US dollars	23,725,949	23,605,260
Less: Provision for impairment loss	(3,210,406)	(3,210,406)
Sub-total US dollars	20,515,543	20,394,854
EC dollars	7,324,300	7,324,300
Total unlisted securities	**27,839,843**	**27,719,154**
Total available-for-sale securities	**374,188,429**	**426,640,835**

12. Investment in associates

Details of the Bank's associates at the end of the reporting period are as follows:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held Sep 2013	June 2013
Cable Bay Hotel Dev. Company Ltd.	Tourism/Construction	St. Kitts	27%	27%

The Cable Bay Hotel Development Company Limited was incorporated as a private company under the provisions of the St. Christopher and Nevis Companies Act, 1996 (No. 22 of 1996), on July 15, 1999. The principal activity of the Company is development of a residential resort at Cable Bay, Frigate Bay, St. Kitts. The registered office of the Company is located at Ocean Edge, Frigate Bay, St. Kitts.

Investment at the balance sheet date is $1,629,676 (cost).

13. 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
Total	**26,750,000**	**26,750,000**

The subsidiaries are wholly owned except National Caribbean Insurance Company Limited (NCIC) which is 90 percent owned. National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited which is a wholly owned subsidiary of the Bank owns the remaining 10 percent.

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

Letters of credit	4,482,885	4,482,885
Guarantees	-	-
Total	**4,482,885**	**4,482,885**

15. Property, Plant and Equipment

COST/VALUATION	Total $	Property $	Equipment $	Furniture And Fittings $	Motor Vehicles $	Reference Books $	Projects Ongoing $
At June 30, 2013	40,471,597	21,173,770	14,072,031	3,693,187	266,240	140,367	1,126,002
Additions	382,909	-	11,601	2,938	368,370	-	-
Disposal	(85,000)	-	-	-	(85,000)	-	-
Transfers	84,371	-	-	-	-	-	84,371
Sept 30, 2013	40,853,877	21,173,770	14,083,632	3,696,125	549,610	140,367	1,210,373
Accumulated Depreciation							
At June 30, 2013	18,299,958	4,087,848	11,582,867	2,292,706	198,336	138,201	-
Charge for Year	671,911	194,841	331,747	117,410	27,480	433	-
Disposal	-	-	-	-	-	-	-
Sept 30, 2013	18,971,869	4,282,689	11,914,614	2,410,116	225,816	138,634	-
Net Book Value At Sept 30, 2013	**21,882,008**	**16,891,081**	**2,169,018**	**1,286,009**	**323,794**	**1,733**	**1,210,373**
At June 30, 2013	**22,171,639**	**17,085,922**	**2,489,164**	**1,400,481**	**67,904**	**2,166**	**1,126,002**

16. Intangible assets

	Sept 2013 $	June 2013 $
Cost at July 1, 2013	7,964,977	7,892,506
Additions	-	72,471
Total at Sep 30, 2013	**7,964,977**	**7,964,977**
Accumulated amortisation		
At July 1, 2013	7,161,013	6,171,941
Charges for the year-to-date	81,350	989,072
Total at Sep 30, 2013	**7,242,363**	**7,161,013**
Net book value	**722,614**	**803,964**

Intangible assets represent computer software acquired for the Bank use.

17. Other assets

	Sept 2013	June 2013
Prepayments	80,332,453	11,878,216
Stationery and card stock	771,776	667,304
Epassporte receivable	59,470,757	59,470,757
Other receivables	2,746,377	5,632,632
Provision for impairment	(51,362,957)	(51,362,957)
Total	**91,958,406**	**26,285,952**

Due to the continued uncertainty of full repayment by ePassporte's on its debt to the Bank, the Directors have decided to write down the receivable to the value of the collateral at June 30, 2012 (ePassporte software is being used as collateral).

18. Due to customers

	Sept 2013	June 2013
Consumers	426,770,139	403,741,315
Private businesses and subsidiaries	488,427,647	463,749,502
State, statutory bodies and non-financial bodies	1,158,436,402	1,087,450,704
Others	286,275,392	243,573,559
Interest Payable on fixed deposits	18,285,904	11,949,721
Total Customers deposits	**2,378,195,484**	**2,210,464,801**

'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.

19. Other borrowed funds

	Sept 2013 $	June 2013 $
Credit line	115,601,599	116,175,873
Bonds issued	29,231,322	29,231,322
Interest payable	749,603	172,985
Total	**145,582,524**	**145,580,180**

The rate of interest charged on the line-of-credit was 3mth LIBOR plus 75. This credit line is secured by investment securities under management and stands at 50 percent of the portfolio.

Bonds issued represent monies raised for the sole purpose of providing funds to borrowers of major island developmental projects. Sinking Funds/Deposit funds for the retirement of these bonds stand at $27,912,458 (June 2013 - $27,912,458).

Total interest paid and payable in this category was $678,004 (June 2013 - $6,819,583).

20. Accumulated provisions, creditors and accruals

	Sept 2013 $	June 2013 $
Other interest on customers' deposits	14,186,237	13,115,714
Managers cheques and bankers payments	736,721	1,158,950
Unpaid drafts on other banks	1,648,243	1,647,149
Other payables	66,796,395	42,946,905
Total	**83,367,596**	**58,868,718**

21. Taxation

	Sept 2013 $	Sept 2012 $
Tax expense		
Current tax	-	-
Deferred tax	-	-
Total	**-**	**-**
Income for the period before tax	**5,851,375**	**4,619,644**
Income tax at the applicable tax rate of 35%	-	-
Non-deductible expenses	-	-
Total	**-**	**-**

Deferred tax asset/(liability)

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

Deferred tax asset/(liability)	Sept 2013 $	June 2013 $
Balance brought forward	12,309,987	580,930
Current year (recovery)/charge	-	11,729,057
Total	**12,309,987**	**12,309,987**
Tax loss carried forward	-	10,853,931
Capital loss allowance carried forward	-	534,812
Accelerated depreciation	-	921,244
Total	**12,309,987**	**12,309,987**
Deferred tax liability/(asset):		
Balance brought forward	(12,223,970)	(10,766,957)
Net unrealized gains/(losses)	3,224,698	(1,457,013)
Unrealised (loss)/gain on AFS securities	**(8,999,272)**	**(12,223,970)**
Movement is represented by:		
Unrealised gain/(loss) on AFS securities (Note 11)	7,907,402	(4,415,191)
Less amount recognized in equity (Note 23)	(4,682,705)	2,958,178
Current year movement	**3,224,698**	**(1,457,013)**

22. Share Capital

	Sept 2013 $	June 2013 $
Authorised: -		
270,000,000 Ordinary Shares of $1 each	**270,000,000**	**270,000,000**
Issued and Fully Paid: -		
135,000,000 Ordinary Shares of $1 each	**135,000,000**	**135,000,000**

23. Reserves

23.1 Statutory reserve

	Sept 2013 $	June 2013 $
Balance at beginning of year	102,210,953	98,466,591
Addition	-	3,744,362
	102,210,953	**102,210,953**

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.

23.2 Revaluation reserve

	Sept 2013 $	June 2013 $
Balance brought forward	(15,233,334)	(12,275,156)
Movement in market value of investments, net	4,682,705	(2,958,178)
Balance	**(10,550,629)**	**(15,233,334)**
Revaluation reserve is represented by:		
Available for sale investment securities	(18,271,250)	(22,953,955)
Properties	7,720,621	7,720,621
	(10,550,629)	**(15,233,334)**

	Sept 2013 $	June 2013 $
23. Reserves………………*continued*		
23.3 Other reserves		
Balance at beginning of year	174,653,586	174,653,586
	174,653,586	**174,653,586**
Other reserves is represented by:		
Reserve for interest on non-performing loans	16,496,753	16,496,753
General reserve	158,156,833	158,156,833
	174,653,586	**174,653,586**

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.

	Sept 2013 $	Sept 2012 $
24. Net Interest Income		
Interest Income		
Loans and Advances	11,461,111	22,116,263
Deposits with other financial institutions	1,646,693	2,084,068
Treasury Bills	2,421,754	1,724,632
Investments	1,767,229	1,177,489
Lands	4,985,000	-
	22,281,787	**27,102,452**
Interest Expense		
Savings accounts	3,123,018	3,144,264
Call Accounts	503,084	1,993,796
Fixed Deposits	16,886,388	15,481,032
Current and other deposit accounts	945,001	661,765
Debt and other related accounts	678,004	2,093,090
	22,135,495	**23,373,947**
Net	**146,292**	**3,728,505**
25. Net fees and commission income		
Credit related fees and commission	498,461	458,882
International and foreign exchange	2,455,591	2,120,046
Brokerage and other fees and commission	236,700	207,232
Fees and commission income	**3,190,752**	**2,786,160**
Fee expenses		
Brokerage and other related fee expenses	19,300	44,282
International and foreign exchange fee expenses	702,790	542,933
Other fee expenses	77,644	49,594
Fee expenses	**799,734**	**636,809**
Net fees and commission income	**2,391,018**	**2,149,351**

26. Net gains less (losses) on AFS investments

	Sept 2013 $	June 2013 $
Gains on AFS investments at fair value	7,820,583	16,704,869
Losses on AFS investments at fair value	-	(490,877)
Total	**7,820,583**	**16,213,992**

27. Provision for credit impairment

	Sept 2013 $	June 2013 $
Balance brought forward	38,570,734	38,570,734
Charge-offs and write-offs	-	-
Total	**38,570,734**	**38,570,734**

28. Administration and general expenses

	Sept 2013 $	Sept 2012 $
Advertisement and marketing	172,983	192,385
Stationery and supplies	12,741	18,478
Communication	200,120	212,243
Utilities	81,238	168,590
Shareholders' expenses	-	-
Rent and occupancy expenses	151,014	133,864
Taxes and licences	-	330
Security services	62,620	38,509
Insurance	73,651	73,651
Legal expenses	24,273	40,014
Staff employment	3,488,975	3,343,907
Repairs and maintenance	767,817	673,572
Premises upkeep	6,110	4,881
Other general expenses	153,301	177,907
Total	**5,194,843**	**5,078,331**

29. Dividend

The comparative financial statements for June 30, 2013 reflect dividend payments of $15,525,000.00 for the financial year ended June 30, 2012 or $0.115 per share. This represents an interim dividend of $8,100,000 or $0.06 per share for financial year 2012, which was approved by the Directors and paid in December 2012. A final dividend of $7,425,000 or $0.055 per share in respect of the financial year 2012 was approved at the Forty-Second Annual General Meeting on May 30, 2013 and paid.

30. 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.

31. 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, 2013 (loans and advances less deposits) was $654 million in deficit (June 30, 2013 - $32 million deficit). Loans to the public sector are secured by land under mortgage and other government guarantees.

31. Related Parties………………continued

Interest charged to the public sector for the quarter was $6.0 million. Interest paid and payable to the public sector for the quarter ended September 30, 2013 was $12.2 million.

Subsidiaries

Advances outstanding as at September 30, 2013 amounted to $10.996 million (June 30, 2013 - $9.429 million). Deposits balances as at September 30, 2013 amounted to $174.509 million **(**June 30, 2013 - $172.560 million). Advances to the related parties are unsecured.

Interest paid to related party during the quarter was as follows:

- Managed pension plans - $805,373
- Deposit accounts - $148,987

Interest received from related party for the quarter was $11,550

Associates and others

At September 30, 2013 the following balances were recorded:

- Loans and advances - $62,533,098
- Interest received - $1,677,516
- Deposits - $17,654,751
- Interest paid on deposits - $143

Directors and Associates

Advances outstanding as at September 30, 2013 amounted to $0.841 million (June 30, 2013 - $0.787 million). Deposit balances as at September 30, 2013 amounted to $0.571 million (June 30, 2013 - $0.558 million).

Interest received from advances made for the quarter was $16,045, whereas, interest paid on deposits by related party was $3,322. At September 30, 2013 Directors held 84,579 (June 2013 – 84,579) of the outstanding share of the Bank.

31. Related Parties………………continued

Key Management

Key management includes the Bank's senior management team. At the end of September 2013, the following balances were recorded:

- Gross salaries, allowances and bonus payments amounted to $0.3 million (June 2013 - $1.98 million).
- Pension expense nil
- Loans and advances amounted to $4.04 million (June 2013 - $4.12 million);
- Deposit balances totaled $2.92 million (June 2013 - $2.76 million); and
- Total St. Kitts-Nevis-Anguilla National Bank Limited shares held were 155,344 (June 2013 – 155,344)
- Interest paid on deposits was $31,562
- Interest charged on advances was $88,092

Loans advanced to directors and key management during the year is repayable on a monthly basis at a weighted average effective interest rate of 8.25%. Secured loans are collaterised by cash and mortgages over residential properties.

No provisions have been recognized in respect of loans and advances given to related parties, and there is no commitment to extend credit to any related party in the future.

32. Cash and cash equivalent

	Sept 2013 $	**June 2013 $**
Cash and balances with Central Bank (Note 6)	304,184,090	224,518,772
Deposits with other financial institutions (Note 8)	424,734,000	329,363,010
	728,918,090	**553,881,782**

33. Contingent liabilities and commitments

At September 30, 2013 the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	Sept 2013 $	June 2013 $
Loan commitments	38,991,728	34,359,968
Guarantees and standby letters of credit	4,482,885	4,482,885
	43,474,613	**38,842,853**

34. Vesting of Certain Lands

On Friday September 21, 2012 an Act of Parliament entitled the "St. Kitts-Nevis-Anguilla National Bank Limited (Vesting of Certain Lands) Act, 2012" was passed by the Government of St. Kitts and Nevis to transfer twelve hundred (1,200) acres of lands to the Bank.

The Act set into motion the process of a 'Land for Debt' swap between the Government of St. Kitts and Nevis, the Nevis Island Administration and the Bank through which the Bank will acquire land in exchange for the debt owed to it by the Public Sector.

The acreage vested in the Bank by way of this Act represents a first tranche of the secured lands referred to in the agreement and currently held by the Bank under the mortgage.