1. General information

The 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. Adoption and amendments of published standards and interpretations

2.1 Adoption of standards during the year

- IFRS 2, ‘Share-based payment’
- IAS 32, ‘Financial Instruments: Presentation’, ‘Classification of rights issues’
- IFRIC 19, ‘Extinguishing financial liabilities with equity instruments.’

Adoption of these new and amended standards has had no impact on the disclosures or reported results.

2.2 Amendments and published standards effective and relevant

New standards, revisions issued but not yet effective for the non-consolidated financial statements beginning July 1, 2010 and not early adopted.

- *IFRS 9, (Amendment, ‘Financial Instruments’,* issued in October 2010. The amendment to this standard added to the step in the process to replace IAS 39, ‘Financial instruments: recognition and measurement’. This standard introduces new requirements for classification and measurement of financial liabilities and is likely to affect the Bank accounting for its financial liabilities. The standard is not applicable until January 1, 2013 but is available for early adoption.

- *IFRS 7, (Amendment), ‘Financial instruments: Disclosures’,* issued in October 2010. This standard added to the requirements for disclosure of transfers of financial assets with a continuing involvement. The amendment is effective for periods beginning January 01, 2011. This amendment will have no impact on the financial statements.

- *Revised IAS 24, ‘Related party disclosures’*, issued in November 2009. It supersedes IAS 24, ‘Related party disclosures’, issued in 2003. This revised standard is mandatory for periods beginning on or after January 1, 2011. Systems are being put in place to capture the necessary information. It is not possible, at this stage, to disclose the impact, if any, of the revised standard on related party disclosure.

3. Summary of significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

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

3.3 Foreign currency transaction

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

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

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

3.4 Financial assets

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

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

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

3.4 Financial assets ……………*continued*

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

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

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

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

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

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

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

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

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

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

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

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

3.4 Financial assets ……………*continued*

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

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

3.5 Financial Liabilities

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

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

3.6 Interest income and expense

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

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

In the current year, the Bank discontinued the accrual of interest on non-performing loans and advances. This change was applied prospectively and did not have a significant impact on the reported financial position or performance.

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

3.7 Fee and commission income

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

3.8 Dividend income

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

3.9 Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

(b) *Assets classified as available for sale*

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

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

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

(c) ***Renegotiated Loans***

Loans and advances that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Management continuously reviews these accounts to ensure that all criteria are met and that future payments are likely to occur.

3.10 Property, plant and equipment

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

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

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

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

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

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

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

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

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

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

3.11 Intangible assets – computer software

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

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

3.12 Impairment of non-financial assets

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

3.13 Investment in subsidiaries

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

3.14 Leases

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

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

3.15 Cash and cash equivalents

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

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

3.16 Employee benefits

(a) *Pension plan*
The Bank participates in a multi-employer defined benefit plan. The administration of the plan is conducted by National Caribbean Insurance Company Limited, a subsidiary of the Bank. The actuarial valuation relating to the plan for the Bank 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.

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

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

3.17 Current and deferred income tax

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

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

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

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

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

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

3.18 Borrowings

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

3.19 Guarantees and letters of credit

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

3.19 Share capital

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

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

Dividends for the year are dealt with in 'Note 28'.

4. Financial risk management

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

4. Financial risk management…….*continued*

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

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

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

4.1 Credit risk

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

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

4.1.1 Credit risk measurement

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

4. Financial risk management…….*continued*

4.1.1 Credit risk measurement*……continued*

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

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 of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

4.1.2 Risk limit control and mitigation policies

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

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

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

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

4. Financial risk management…….*continued*

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

(a) ***Collateral***

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

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

Longer-term finance and lending to corporate entities and individual credit facilities are generally secured. In addition, in order to minimize the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

(b) ***Credit-related commitments***

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

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 2011		June 2011	
	Loans and advances (%)	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
1 Pass	82.98	-	82.34	-
2 Special mention	11.99	0.02	12.54	0.02
3 Sub-standard	3.69	30.25	3.76	30.25
4 Doubtful	1.30	68.66	1.32	68.66
5 Loss	0.04	1.07	0.04	1.07
	100.00	100.00	100.00	100.00

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

Loans

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

Advances (overdrafts)

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

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

4. Financial risk management…….*continued*

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

	Maximum exposure	
	Sept 2011	**June 2011**
***Credit risk exposures relating to on-balance sheet assets are as follows*:**	**$**	**$**
Treasury bills	85,884,649	85,884,649
Deposits with other financial institutions	337,412,841	357,554,842
Loans and advances:		
• Overdrafts	184,064,190	167,340,846
• Corporate customers	69,564,791	67,064,319
• Term loans	858,955,856	866,378,456
• Mortgages (personal)	114,093,883	113,822,571
• Originated debts	123,167,996	126,011,764
• Available-for-sale investments	93,248,817	97,604,714
• Other assets	60,836,230	70,316,468
• Loan commitments and financial guarantees	43,875,349	75,088,588
Total	**1,971,104,602**	**2,027,067,217**

The above table represents a worse case scenario of credit risk exposure to the Bank at Sept 30, 2011 and June 30, 2011, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 62% (June 2011 – 60%) of the total maximum exposure is derived from loans and advances to banks and customers; 11% (June 2011 – 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:

- 95% (June 2011 – 95%) 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.
- 93% (June 2011 – 93%) 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 28% (June 2011 - 27%) of these investments are not rated (Government securities – treasury bills, etc.).

4.1.5 Loans and advances

	Sept 2011 $	June 2011 $
Loans and advances are summarized as follows:		
Loans and advances to customers		
Neither past due nor impaired	1,122,351,788	1,113,899,032
Past due but not impaired	22,045,154	18,289,610
Impaired	61,271,251	61,402,264
	1,205,668,193	**1,193,590,906**
Interest receivable (see Note 9)	60,083,395	60,088,154
Less allowance for impairment losses (Note 9)	(39,072,868)	(39,072,868)
Net	**1,226,678,720**	**1,214,606,192**

The total allowance for impairment losses on loans and advances is $39,072,868 (June 2011- $39,072,868). Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 25.

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, 2011

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
Loans and advances to customers					
Classifications:					
1. Pass	114,226,516	752,541,591	69,398,266	44,819,242	980,985,615
2. Special mention	57,179,035	81,944,110	1,924,656	318,372	141,366,173
Gross	**171,405,551**	**834,485,701**	**71,322,922**	**45,137,614**	**1,122,351,788**

June 30, 2011

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
Loans and advances to customers					
Classifications:					
3. Pass	90,682,630	762,877,908	71,111,012	42,558,291	967,229,841
4. Special mention	63,992,485	80,332,442	2,344,264	-	146,669,191
Gross	**154,675,115**	**843,210,350**	**73,455,276**	**42,558,291**	**1,113,899,032**

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, 2011				
Past due up to 30 days	3,094,583	11,174,153	38,090	14,306,826
Past due 30 – 60 days	506,933	3,451,093	-	3,958,026
Past due 60 – 90 days	442,465	442,513	747,870	1,632,848
Over 90 days	1,255,910	891,544	-	2,147,454
Gross	**5,299,891**	**15,959,303**	**785,960**	**22,045,154**
Fair value of collateral	**15,647,059**	**26,602,576**	**3,115,000**	**45,364,635**

	Term loans $	Mortgages $	Corporate customers $	Total $
At June 30, 2011				
Past due up to 30 days	2,173,880	9,148,815	53,076	11,375,771
Past due 30 – 60 days	360,096	2,573,369	-	2,933,465
Past due 60 – 90 days	577,993	1,545,179	783,439	2,906,611
Over 90 days	695,077	378,686	-	1,073,763
Gross	**3,807,046**	**13,646,049**	**836,515**	**18,289,610**
Fair value of collateral	**15,647,059**	**26,602,576**	**3,115,000**	**45,364,635**

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 $61,271,251 (June 2011 - $61,402,264).

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, 2011					
Individually impaired	6,480,557	5,405,999	22,193,271	27,191,424	61,271,251
	6,480,557	**5,405,999**	**22,193,271**	**27,191,424**	**61,271,251**
Fair value of collateral	15,316,582	20,008,434	51,295,302	136,022,691	222,643,009

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
June 30, 2011					
Individually Impaired	6,487,649	5,592,036	22,102,859	27,219,720	61,402,264
	6,487,649	**5,592,036**	**22,102,859**	**27,219,720**	**61,402,264**
Fair value of collateral	15,316,582	20,008,434	51,295,302	136,022,691	222,643,009

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, 2011, based on Standard & Poor's ratings or equivalent:

	Treasury Bills $	Investment Securities $	Loans and receivables - notes & bonds $	Total $
A- to A+		59,123,088		**59,123,088**
Unrated/ Internally rated	85,884,649	34,125,729	123,167,996	**243,178,374**
Total	**85,884,649**	**93,248,817**	**123,167,996**	**302,301,462**

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, 2011					
Treasury bills	85,884,649				85,884,649
Deposits with Fin. Inst.	57,324,321	165,087,551	9,772,092	105,228,877	337,412,841
Loans and advances	1,180,757,039	32,561,943	2,020,660	11,339,078	1,226,678,720
Originated debts	68,529,697			54,638,299	123,167,996
Investments (AFS)	2,010,059	91,238,758			93,248,817
Other assets	2,155,318	58,680,912			60,836,230
	1,396,661,083	**347,569,164**	**11,792,752**	**171,206,254**	**1,927,229,253**
June 30, 2011					
Treasury bills	85,884,649				85,884,649
Deposits with Fin. Inst.	40,983,568	199,819,652	12,226,242	104,525,380	357,554,842
Loans and advances	1,169,220,896	31,374,213	2,094,194	11,916,889	1,214,606,192
Originated debts	71,225,172			54,786,592	126,011,764
Investments (AFS)	2,010,059	95,594,655			97,604,714
Other assets	3,231,678	67,084,790			70,316,468
	1,372,556,022	**393,873,310**	**14,320,436**	**171,228,861**	**1,951,978,629**

4. Financial risk management…….*continued*

4.1.8 Sectoral analysis of the loans and advances portfolio

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

	Sept 2011 $	June 2011 $
Consumers	138,485,689	138,236,683
Agriculture, fisheries and manufacturing	5,315,506	5,250,425
Construction and land development	58,267,991	55,753,912
Distributive trade, transportation and storage	10,424,683	11,654,291
Tourism, entertainment and catering	53,213,590	53,253,983
Financial institutions	8,955,534	9,478,843
State, statutory bodies and public utilities	906,273,319	900,134,316
Professional and other services	24,731,881	19,828,453
Total	**1,205,668,193**	**1,193,590,906**

4.19 Concentration of risks of financial assets with credit exposure

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

	Public Sector $	Construction $	Tourism $	Financial Inst. $	Individuals $	Other Industries $	TOTAL $
Sep 30, 2011							
Treasury Bills	85,884,649	-	-	-	-	-	85,884,649
Deposits with financial institutions	-	-	-	337,412,841	-	-	337,412,841
Originated Debt	115,117,996	-	-	1,300,000	-	6,750,000	123,167,996
Investment securities - Debt securities	-	-	-	93,248,817	-	-	93,248,817
Loans & Advances to customers	906,319,952	61,825,729	63,570,300	8,674,683	143,118,387	43,169,669	1,226,678,720
Other Assets	-	-	-	3,279	75,682	60,757,269	60,836,230
Total	**1,107,322,597**	**61,825,729**	**63,570,300**	**440,639,620**	**143,194,069**	**110,676,938**	**1,927,229,253**
June 30, 2011	**1,103,757,362**	**59,311,650**	**63,610,692**	**466,387,644**	**142,925,687**	**115,985,594**	**1,951,978,629**

4. Financial risk management…….*continued*

4.2 Market risk

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

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

4.2.1 Price risk

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

4.2.2 Foreign exchange risk

The Bank is exposed to foreign exchange risk through fluctuation in certain prevailing foreign exchange rates on its financial position and cash flows. The Board of Directors limits the level of exposure by currency and in total which are monitored daily. The Bank exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The Bank uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollar (EC$). The Bank has set the mid-rate of exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) at EC$2.7026=US$1.00 since 1976. The following table summarises the Bank exposure to foreign currency exchange rate risk at September 30, 2011. Included in the table are the Bank financial instruments at carrying amounts, categorized by currency.

4. Financial risk management……*continued*

4.2.2 Foreign exchange risk……continued

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

September 30, 2011	EC$	US$	EURO	GBP	CAN	BDS	GUY	TOTAL
Assets								
Cash & Balances with Central Bank	191,884,735	3,085,789	36,003	104,047	14,450	17,588	-	195,142,612
Treasury Bills	85,884,649	-	-	-	-	-	-	85,884,649
Deposits with other financial Institution	70,084,226	263,295,509	961,905	1,014,481	1,654,697	380,973	21,050	337,412,841
Loans and receivables								
- Loans and advances to customers	1,188,943,952	37,734,768	-	-	-	-	-	1,226,678,720
- Originated Debt	121,671,083	1,496,913	-	-	-	-	-	123,167,996
Investment Securities - avail for sale	13,729,800	357,580,721	-	-	-	-	-	371,310,521
Other Assets	11,474,021	53,948,308	-	-	-	-	-	65,422,329
Total financial Assets	**1,683,672,466**	**717,142,008**	**997,908**	**1,118,528**	**1,669,147**	**398,561**	**21,050**	**2,405,019,668**
Liabilities								
Due to customers	1,443,047,233	223,041,729	97,271	429,539	3,516,601	-	-	1,670,132,373
Due to other financial institutions	-	19,221,071	-	-	-	-	-	19,221,071
Other borrowed funds	-	228,030,139	-	-	-	-	-	228,030,139
Other liabilities	24,210,232	10,227,193	42,179	384,138	150,656	58,262	-	35,072,660
Total financial Liabilities	**1,467,257,465**	**480,520,132**	**139,450**	**813,677**	**3,667,257**	**58,262**	**-**	**1,952,456,243**
Net on-balance sheet positions	**216,415,001**	**236,621,876**	**858,458**	**304,851**	**(1,998,110)**	**340,299**	**21,050**	**452,563,425**
Credit Commitments	**39,289,249**							

June 30, 2011	EC$	US$	EURO	GBP	CAN	BDS	OTHER	TOTAL
Total Financial Assets	1,693,155,506	722,769,660	1,789,105	543,738	2,096,530	642,142	15,255	2,421,011,936
Total Financial Liabilities	1,455,157,521	488,498,948	118,883	824,680	3,856,455	58,262	25,258	1,948,540,007
Net on-balance sheet positions	**237,997,985**	**234,270,712**	**1,670,222**	**(280,942)**	**(1,759,925)**	**583,880**	**(10,003)**	**472,471,929**
Credit Commitments	**70,962,488**							**70,962,488**

4.2.3 Interest rate risk

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

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

Interest Sensitivty of Assets and Liabilities

	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$	$	$	$	$	$	$
As at Sep 30, 2011							
Financial Assets							
Cash & balances with Central Bank	-	-	-	-	-	195,142,612	195,142,612
Treasury Bills	-	-	85,884,649	-	-	-	85,884,649
Deposits with other financial Inst.	177,282,795	56,368,285	56,320,136	-	-	47,441,625	337,412,841
Loans & Advances to customers	249,877,305	29,604,250	3,813,065	151,557,389	787,107,517	4,719,194	1,226,678,720
- Originated Debts	8,064,000	1,422,000	8,800,663	59,359,614	45,521,719	-	123,167,996
Investment securities	91,238,758	-	-	-	2,010,059	278,061,704	371,310,521
Other Assets	2,702,600	2,702,600	-	45,944,200	-	14,072,930	65,422,330
Total Financial Assets	529,165,458	90,097,135	154,818,513	256,861,203	834,639,295	539,438,065	2,405,019,669
Financial Liabilities							
Due to Customers	683,165,050	67,722,304	758,341,853	-	-	160,903,167	1,670,132,374
Due to Other financial Inst.	19,221,071		-	-	-	-	19,221,071
Other Borrowed funds	270,260	540,520	2,432,340	128,537,967	93,540,229	2,708,823	228,030,139
Other Liabilities	301,637	-	489,535	-	-	38,871,459	39,662,631
Total Financial Liabilities	702,958,018	68,262,824	761,263,728	128,537,967	93,540,229	202,483,449	1,957,046,215
Total Interest repricing gap	**(173,792,560)**	**21,834,311**	**(606,445,215)**	**128,323,236**	**741,099,066**		
As at June 30, 2011							
Total Financial Assets	544,675,551	109,692,335	155,152,536	255,275,180	837,214,562	519,001,773	2,421,011,937
Total Financial Liabilities	604,826,906	63,075,422	738,960,383	132,850,088	93,540,229	319,394,139	1,952,647,167
Total Interest repricing Gap	**(60,151,355)**	**46,616,913**	**(583,807,847)**	**122,425,092**	**743,674,333**		

4. Financial risk management…….*continued*

4.2.3 Interest rate risk…………*continued*

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

4.3 Liquidity risk

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

4.3.1 Liquidity risk management

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

- Daily monitoring of the Bank liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers. The Bank ensures that sufficient funds are held to meet its obligation by not converting into foreign deposits, demand deposits, reserve, provision for interest, provision for loan losses, and other net financial assets and liabilities.

- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, currency and term.

- Daily monitoring of the balance sheet liquidity ratios against internal and regulatory requirements.

- Managing the concentration and profile of debt maturities.

- Formalised arrangements with non-regional financial institutions to fund any liquidity needs that may arise.

4.3.2 Funding Approach

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

4. Financial risk management…….*continued*

4.3.3 Non-derivative cash flows

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

Analysis of Assets and Liabilities into relevant maturity grouping

	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	$	$	$	$	$	$
As at Sep 30, 2011						
Financial Liabilities						
Due to Customers	829,527,282	69,841,183	770,763,908	-	-	1,670,132,373
Due to other financial Inst.	19,221,071	-	-	-	-	19,221,071
Other Borrowed funds	270,260	3,249,343	2,432,340	128,537,967	93,540,229	228,030,139
Other Liabilities	14,659,977	6,984,817	11,372,349	6,645,488	-	39,662,631
Total Financial Liabilities	**863,678,590**	**80,075,343**	**784,568,597**	**135,183,455**	**93,540,229**	**1,957,046,214**
Total Financial Assets	**1,032,044,121**	**91,326,250**	**182,755,421**	**261,678,540**	**837,215,336**	**2,405,019,668**
As at June 30, 2011						
Total Financial Liabilities	**816,656,329**	**60,740,473**	**699,527,962**	**13,880,119**	**188,745,904**	**1,779,550,787**
Total Financial Assets	**890,425,900**	**113,934,366**	**145,288,837**	**170,567,166**	**890,656,409**	**2,210,872,678**

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 32), are summarized in the table below.

	Up to 1 year $	1 – 3 years $	Over 3 years $	Total $
As at September 30, 2011				
Loan commitments	28,373,507	1,227,369	9,688,373	39,289,249
Guarantees and standby letters of credit	489,535	-	4,096,565	4,586,100
Total	28,863,042	1,227,369	13,784,938	43,875,349
As at June 30, 2011				
Loan commitments	60,667,668	895,512	9,399,308	70,962,488
Guarantees and standby letters of credit	29,535	-	4,096,565	4,126,100
Total	60,697,203	895,512	13,495,873	75,088,588

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 32.

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

4. Financial risk management…….*continued*

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

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

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

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

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

(f) Due to financial institutions
The estimated fair value of ‘due to financial institutions’ is the amount payable on demand which is the amount recorded.

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

4. Financial risk management…….*continued*

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

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

	Carrying Value		Fair Value	
	Sept 2011	**June 2011**	**Sept 2011**	**June 2011**
Financial assets	**$**	**$**	**$**	**$**
Treasury bills	85,884,649	85,884,649	85,884,649	85,884,649
Deposits with other financial institutions	337,412,841	357,554,842	337,412,841	357,554,842
Loans and receivables:				
Loans and advances				
Overdrafts	184,064,190	167,339,437	198,417,983	169,991,697
Corporate	69,564,791	67,064,319	190,620,749	228,634,843
Mortgage	114,093,883	113,822,571	213,884,781	220,599,932
Term	858,955,856	866,379,865	937,980,637	987,472,231
Originated debts	123,167,996	126,011,764	123,167,996	126,011,764
AFS – debt	2,010,059	2,010,059	2,010,059	2,010,059
AFS – equity	14,637,150	14,637,150	14,637,150	14,637,150
Financial Liabilities				
Due to customers	1,670,132,373	1,670,099,137	1,670,132,373	1,670,099,137
Due to financial institutions	19,221,071	6,898,981	19,221,071	6,898,981
Other borrowed funds	228,030,139	230,497,083	228,030,139	230,497,083

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

4.4.1 Fair Value measurements recognized in the balance sheet

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

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

4. Financial risk management…….*continued*

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

Sept 30, 2011	**Level 1** $	**Total** $
Available-for-sale financial assets		
Debt securities	91,238,758	**91,238,758**
Equities	264,775,854	**264,775,854**
Total	**356,014,612**	**356,014,612**

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

June 30, 2011	**Level 1** $	**Total** $
Available-for-sale financial assets		
Debt securities	95,594,655	95,594,655
Equities	236,098,779	236,098,779
Total	**331,693,434**	**331,693,434**

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

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, 2011 and June 30, 2011. During these two periods, the Bank complied with all the externally imposed capital requirements to which it is subject.

4. Financial risk management…….*continued*

4.5 Capital management………..*continued*

	Sept 2011	June 2011
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	275,141,800	275,141,800
Retained earnings	31,014,681	35,979,556
Total qualifying Tier 1 capital	**436,656,481**	**441,621,356**
Tier 2 capital		
Revaluation reserve – available-for-sale investments	(16,055,097)	49,793,306
Revaluation reserve – property, plant and equipment	7,720,621	7,720,621
Bonus shares capitalization	4,500,000	4,500,000
Accumulated impairment allowance	39,072,868	39,072,868
Total qualifying Tier 2 capital	**35,238,392**	**101,086,795**
Investment in subsidiaries	(26,750,000)	(26,750,000)
Total regulatory capital	**445,144,873**	**515,958,151**
Risk-weighted assets		
On-balance sheet	922,947,454	928,871,447
Off-balance sheet	8,667,177	25,531,021
Total risk-weighted assets	**931,614,631**	**954,402,468**
Tier 1 capital ratio	**47%**	**46%**
Basel ratio	**48%**	**54%**

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. There were no declines in fair value below cost considered significant or prolonged as at September 30, 2011.

(c) Epassporte receivable

It is the opinion of management that the ePassporte Software Collateral has a value in excess of the receivable shown in these financial statements (see Note 16).

6. Cash and balances with Central Bank

	Sept 2011 $	June 2011 $
Cash in hand	8,394,966	7,870,036
Balances with Central Bank other than mandatory deposits	91,679,738	114,824,822
Included in cash and cash equivalent (Note 31)	100,074,704	122,694,858
Mandatory deposits with Central Bank	95,067,908	92,827,820
Total	**195,142,612**	**215,522,678**

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

	Sept 2011	June 2011
7. Treasury bills	**$**	**$**
Government of St. Kitts and Nevis maturing May 16, 2012 at 6.75% interest	**85,884,649**	**85,884,649**

Treasury bills are debt securities issued by a sovereign government. They also form part of cash and cash equivalent (Note 31).

Two million dollars worth of these treasury bills are being held by the Eastern Caribbean Central Bank (ECCB) as collateral for the bank clearing facility.

	Sept 2011	June 2011
8. Deposits with other financial institutions	**$**	**$**
Operating cash balances	69,573,720	106,653,927
Items in the course of collection	18,071,762	3,908,243
Interest bearing term deposits	33,375,353	19,905,354
Included in cash and cash equivalent (Note 31)	121,020,835	130,467,524
Special term deposits*	41,272,173	52,135,917
Restricted term deposits**	168,764,166	168,759,718
Interest receivable	6,355,667	6,191,683
Total	**337,412,841**	**357,554,842**

*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.

9. Loans and advances to customers

	Sept 2011 $	June 2011 $
Overdrafts	171,405,551	154,833,765
Mortgages	72,562,298	72,208,653
Demand	184,201,957	187,005,341
Special Term	691,014,222	693,615,592
Other Secured	19,386,683	18,941,566
Consumer	5,826,231	5,742,376
Productive loans	**1,144,396,942**	**1,132,347,293**
Impaired loans and advances	61,271,251	61,243,613
Less allowance for impairment (Note 26)	(39,072,868)	(39,072,868)
	1,166,595,325	**1,154,518,038**
Interest receivable	60,083,395	60,088,154
Net loans and advances	**1,226,678,720**	**1,214,606,192**

10. Originated debts

	Sept 2011 $	June 2011 $
Government of St. Kitts and Nevis bonds maturing March 03, 2020 at 8.5 % interest	67,229,697	69,925,172
Eastern Caribbean Home Mortgage Bank Long-term bond maturing July 01, 2013 at 6.00 % interest	1,000,000	1,000,000
Antigua Commercial Bank 10 % interest rate Series A bond maturing December 31, 2016	1,496,913	1,496,913
Balance carried forward	**69,726,610**	**72,422,085**

Originated Debt………………………..continued

	Sept 2011 $	June 2011 $
Grenada Electricity Services Limited 10-year 7 % bond maturing December 18, 2017	6,750,000	7,020,000
Government of Antigua 7-year long-term notes Maturing April 30, 2017 at 6.7% interest	41,391,386	41,269,679
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
Sub-total	**123,167,996**	**126,011,764**

11. Investment securities

(A)	Sept 2011 $	June 2011 $
Available-for-sale securities		
Securities at fair value		
-- Unlisted	16,647,209	16,647,209
-- Listed	356,014,612	331,693,434
-- Less provision for impairment	(1,351,300)	(1,351,300)
Sub-total	**371,310,521**	**346,989,343**

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.

11. Investment securities……………continued

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

	Available for Sale	Loans and receivable originated debts	Total
	$	$	$
Balance – June 30, 2011	**346,989,343**	**126,011,764**	**473,001,107**
Additions	154,170,425	697,707	154,868,132
Disposals (sales/redemption)	(28,544,012)	(3,541,475)	(32,085,487)
Fair value gains (losses)	(101,305,235)	-	(101,305,235)
Total as at Sept 30, 2011	**371,310,521**	**123,167,996**	**494,478,517**
Balance – June 30, 2010	**374,448,905**	**130,074,490**	**504,523,395**
Additions	252,119,221	2,668,103	254,787,324
Disposal (sales/redemption)	(277,673,072)	(6,730,829)	(284,403,901)
Fair value gains (losses)	(554,411)	-	(554,411)
Provision for impairment loss	(1,351,300)	-	(1,351,300)
Total as at June 30, 2011	**346,989,343**	**126,011,764**	**473,001,107**

(B)

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

	Sept 2011	June 2011
	$	$
Listed securities:		
- Equity securities - UK	-	-
- Equity securities – US	258,370,354	229,693,279
- Equity securities – Caribbean	6,405,500	6,405,500
- Debt securities – UK	-	-
- Debt securities – US	91,238,758	95,594,655
Unlisted securities:		
- Equity securities – Caribbean	14,637,150	14,637,150
- Debt securities – Caribbean	2,010,059	2,010,059
- Provision for impairment loss	(1,351,300)	(1,351,300)
Total available-for-sale securities	**371,310,521**	**346,989,343**

11. Investment securities……………continued

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

(C)	Sept 2011 $	June 2011 $
Listed:		
US dollars	349,609,112	325,287,934
EC dollars	6,405,500	6,405,500
Total listed securities and interest	**356,014,612**	**331,693,434**
Unlisted:		
US dollars	9,322,909	9,322,909
Less: Provision for impairment loss	(1,351,300)	(1,351,300)
Sub-total US dollars	7,971,609	7,971,609
EC dollars	7,324,300	7,324,300
Total unlisted securities	**15,295,909**	**15,295,909**
Total available-for-sale securities	**371,310,521**	**346,989,343**

12. Investment in subsidiary

National Bank Trust Company (St Kitts-Nevis-Anguilla) Limited	5,750,000	5,750,000
National Caribbean Insurance Company Limited	9,000,000	9,000,000
St Kitts and Nevis Mortgage and Investment Company Limited (MICO)	12,000,000	12,000,000
Total	**26,750,000**	**26,750,000**

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

Letters of credit	489,535	29,535
Guarantees	4,096,565	4,096,565
Total	**4,586,100**	**4,126,100**

14. Property, Plant and Equipment

COST	Total	Property	Equipment	Furniture And Fittings	Motor Vehicles	Reference Books	Projects Ongoing
	$	$	$	$	$	$	$
At June 30, 2011	39,195,140	20,833,039	12,878,285	2,900,284	477,000	140,367	1,966,165
Additions	101,757	-	13,492	4,025	84,240	-	-
Disposals	(100,000)	-	-	-	(100,000)	-	-
Transfer	(150,878)	-	-	-	-	-	(150,878)
Sept 30, 2011	39,046,019	20,833,039	12,891,777	2,904,309	461,240	140,367	1,815,287
Accumulated Depreciation							
At June 30, 2011	14,380,946	2,840,699	9,382,411	1,712,619	310,896	134,321	-
Charge for Year	421,097	109,397	249,354	46,390	15,434	522	-
Eliminated on Disposal	(75,832)	-	-	-	(75,832)	-	-
Sept 30, 2011	14,726,211	2,950,096	9,631,765	1,759,009	250,498	134,843	-
Net Book Value							
At Sept 30, 2011	**24,319,808**	**17,882,943**	**3,260,012**	**1,145,300**	**210,742**	**5,524**	**1,815,287**
At June 30, 2011	**24,814,194**	**17,992,340**	**3,495,784**	**1,187,665**	**166,104**	**6,046**	**1,966,165**

	Sept 2011 $	June 2011 $
15. Intangible assets		
Cost at July 1, 2011	6,921,908	5,036,353
Additions		1,885,555
Total at Sept 30, 2011	**6,921,908**	**6,921,908**
Accumulated amortisation		
At July 1, 2011	4,977,331	3,841,356
Charges for the year-to-date	299,978	1,135,975
Total at Sept 30, 2011	**5,277,309**	**4,977,331**
Net book value	**1,644,599**	**1,944,577**

Intangible assets represent computer software acquired for the Bank use.

16. Other assets

Prepayments	4,853,828	14,189,110
Stationery and card stock	861,342	841,210
Epassporte receivable	53,687,900	53,031,768
Other receivables	2,451,429	3,106,559
Total	**61,854,499**	**71,168,647**

Epassporte receivable, which was set-up in November 2010, is secured by a software platform whose value is estimated to be in excess of US$21 million/EC$56.755 million. During the year under review US$2 million/EC$5.405 million was paid to the Bank by the debtor. It is believed that this debt will be realized in accordance with signed agreements – See Note 5(c).

17. Due to customers

Consumers	376,942,424	364,479,838
Private businesses and subsidiaries	327,340,307	301,831,746
State, statutory bodies and non-financial bodies	789,697,519	776,674,111
Others	159,702,428	217,126,172
Interest Payable on fixed deposits	16,449,695	9,987,270
Total Customers deposits	**1,670,132,373**	**1,670,099,137**

17. Due to customers *continued*

'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.

18. Other borrowed funds

	Sept 2011 $	June 2011 $
Credit line	131,781,087	136,093,208
Bonds issued	93,540,229	93,540,229
Interest payable	2,708,823	863,646
Total	**228,030,139**	**230,497,083**

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

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

Total interest paid and payable in this category was $2,182,962 (June 2011 - $9,640,015).

19. Accumulated provisions, creditors and accruals

Other interest on customers' deposits	12,213,120	11,292,256
Managers cheques and bankers payments	1,503,044	1,176,660
Unpaid drafts on other banks	1,525,595	1,531,663
E-commerce payables	6,446,257	4,924,615
Other payables	13,393,604	20,747,752
Total	**35,081,620**	**39,672,946**

	Sept 2011 $	June 2011 $
20. Taxation		
Tax expense		
Current tax	-	1,903,170
Deferred tax	-	13,689
Prior year income tax expense	-	-
Total	**-**	**1,916,859**
Income for the year before tax	**10,560,125**	**46,770,639**
Income tax at the applicable tax rate of 35%		16,369,724
Non-deductible expenses		2,587,559
Deferred tax over provided	-	-
Income not subject to tax		(17,040,424)
Prior year income tax expense	-	-
Total	**-**	**1,916,859**

Deferred income tax

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

Deferred tax asset	Sept 2011 $	June 2011 $
Balance brought forward	344,097	357,786
Current year (recovery)/charge	8,645,053	(13,689)
Accelerated depreciation	**8,989,150**	**344,097**
Deferred tax liability		
Balance brought forward	-	**27,005,824**
Adjustments during the year	-	-
Net unrealized (loss)/gain for the year		(194,044)
Unrealised gain on available-for-sale securities	-	**26,811,780**

	Sept 2011 $	June 2011 $
21. Share Capital		
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**
	=========	=========

22. Reserves

22.1 Statutory reserve

Balance at beginning of year	96,610,790	87,640,034
Addition	-	8,970,756
	--------------	---------------
	96,610,790	**96,610,790**
	=========	=========

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.

22.2 Revaluation reserve

Balance brought forward	57,513,927	57,874,294
Movement in market value of investments, net	(65,848,403)	(360,367)
	--------------	---------------
Balance	**(8,334,476)**	**57,513,927**
	==========	=========
Revaluation reserve is represented by:		
Available for sale investment securities	(16,055,097)	49,793,306
Properties	7,720,621	7,720,621
	---------------	---------------
	(8,334,476)	**57,513,927**
	==========	=========

22. Reserves………………*continued*

22.3 Other reserves

	Sept 2011 $	June 2011 $
Balance brought forward	174,653,586	154,653,586
Transfer from retained earnings	-	20,000,000
Transfer to share capital	-	-
Transfer for interest on non-performing loans	-	-
	174,653,586	**174,653,586**

	Sept 2011 $	June 2011 $
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 it 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.

23. Net Interest Income

	Sept 2011 $	June 2011 $
Interest Income		
Loans and Advances	19,915,943	79,321,424
Deposits with other financial institutions	2,118,590	8,282,246
Investments	5,256,280	20,423,642
	27,290,813	**108,027,312**
Interest Expense		
Savings accounts	2,911,348	11,009,513
Call Accounts	1,831,416	6,126,928
Fixed Deposits	14,532,727	43,918,113
Current and other deposit accounts	495,484	12,414,748
Debt and other related accounts	2,182,962	9,640,015
	21,953,937	**83,109,317**
Net	**5,336,876**	**24,917,995**

24. Net fees and commission income

	Sept 2011 $	June 2011 $
Credit related fees and commission	423,446	3,222,983
International and foreign exchange	838,274	9,550,173
Brokerage and other fees and commission	134,957	728,063
Fees and commission income	**1,396,677**	**13,501,219**
Fee expenses		
Brokerage and other related fee expenses	50,941	98,105
International and foreign exchange fee expenses	424,205	9,368,875
Other fee expenses	3,638	374,990
Fee expenses	**478,784**	**9,841,970**
Total net	**917,893**	**3,659,249**

	Sept 2011 $	June 2011 $
25. Provision for credit impairment		
Balance brought forward	39,072,868	39,074,583
Charge-offs and write-offs	-	(1,715)
Total	**39,072,868**	**39,072,868**

26. Administration and general expenses

Advertisement and marketing	81,794	380,791
Stationery and supplies	77,100	647,901
Communication	172,993	660,508
Utilities	187,812	838,110
Shareholders' expenses	204,197	174,295
Rent and occupancy expenses	137,366	589,042
Taxes and licences	-	84,430
Security services	81,826	573,715
Insurance	72,012	475,120
Legal expenses	30,972	1,045,716
Staff employment	3,281,674	17,517,339
Repairs and maintenance	638,890	1,870,476
Premises upkeep	7,068	33,766
Other general expenses	208,814	1,129,463
Total	**5,182,518**	**26,020,672**

27. Earnings per share (for the end of the financial year)

Earning per share is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Net income attributable to shareholders	10,560,125	44,853,780
Weighted average number of ordinary shares in issue	135,000,000	135,000,000
Basic earnings per share (annualized)		**$0.33**

28. Dividend

The financial statements reflect a dividend of $15,525,000.00, which was approved at the Fortieth Annual General Meeting held on September 13, 2011, and subsequently paid.

29. Other events

Litigation

Lynn Bass v. St. Kitts-Nevis-Anguilla National Bank Limited
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.

30. 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, 2011 (loans and advances less deposits) was $329 million in deficit (June 30, 2011 - $321 million).

Interest charged to the public sector for the quarter was $17 million (June 2011 - $71 million). Interest paid and payable to the public sector for the quarter ended September 30, 2011 was $10 million (June 30, 2011 - $39 million).

Subsidiaries
Advances outstanding as at September 30, 2011 amounted to $8.389 million (June 30, 2011 - $9.439 million).

Deposits balances as at September 30, 2011 amounted to $146.583 million (June 30, 2011 - $143.355 million).

Directors and Associates
Advances outstanding as at September 30, 2011 amounted to $1,141,875 (June 30, 2011 - $1,156,284).

Deposits balances as at September 30, 2011 amounted to $1,096,787 (June 30, 2011 - $1,051,593).

Senior Management
At the end of September 2011 the following amounts were in place:

- Gross salaries, allowances and bonus payments amounted to $391,443 (June - $1.907 million).
- Loans and advances amounted to $2.555 million (June 2011 - $3.372 million);
- Deposit amounts were $2.091 million (June 2011 - $2.251 million); and
- Total St. Kitts-Nevis-Anguilla National Bank Limited shares held were 1,159,241 (June 2011 – 1,159,241)

31. Cash and cash equivalent

	Sept 2011 $	June 2011 $
Cash and balances with Central Bank (Note 6)	100,074,704	122,694,858
Treasury bills (Note 7)	85,884,649	85,884,649
Deposits with other financial institutions (Note 8)	121,020,835	130,467,524
	306,980,188	**339,047,031**

32. Contingent liabilities and commitments

At September 30, 2011 the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

Loan commitments	39,289,249	70,962,488
Guarantees and standby letters of credit	4,586,100	4,126,100
	43,875,349	**75,088,588**