ST KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Non-consolidated financial statements and independent auditors' report

June 30, 2009

Deloitte.

PKF

Independent auditors' report

To the shareholders of St Kitts-Nevis-Anguilla National Bank Limited

We have audited the accompanying non-consolidated financial statements of St Kitts-Nevis-Anguilla National Bank Limited, which comprise the non-consolidated balance sheet as of June 30, 2009 and the non-consolidated statement of income, non-consolidated statement of changes in shareholders' equity and non-consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes ("the financial statements"). The financial statements for the year ended June 30, 2008 were reported on by another firm of independent auditors whose opinion dated October 15, 2008 was unqualified.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Independent auditors' report (continued)

To the shareholders of St Kitts-Nevis-Anguilla National Bank Limited

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of St Kitts-Nevis-Anguilla National Bank Limited as of June 30, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to the adjustments described in Note 6 that were applied to restate the 2008 financial statements as a result of management's decision to recognise interest on non-performing loans. This policy is not in accordance with the Eastern Caribbean Central Bank prudential guidelines.

Deloitte & Touche

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George Street
St Michael
Barbados

Independence House
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Basseterre
St Kitts

January 15, 2010

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NON-CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2009

	Notes	2009	Restated 2008
Assets		$	$
Cash and balances with Central Bank	7	80,707,270	87,667,922
Treasury bills	8	90,715,601	134,352,762
Deposits with other financial institutions	9	340,374,351	505,703,153
Loans and receivables - loans and advances to customers	10	1,032,119,164	961,638,209
- originated debts	11	86,976,913	90,759,513
Investment securities - available-for-sale	12	349,806,134	380,290,542
- held to maturity	12	-	1,000,000
Investment in subsidiaries	13	17,750,000	17,750,000
Customers' liability under acceptances, guarantees and letters of credit	14	5,186,100	5,165,270
Property, plant and equipment	15	25,241,004	22,032,180
Intangible assets	16	1,572,368	613,798
Other assets	17	32,203,116	36,380,861
Deferred tax asset	21	200,907	382,238
Total Assets		**2,062,852,928**	**2,243,736,448**
Liabilities			
Due to customers	18	1,359,465,172	1,367,354,361
Due to other financial institutions		623,102	12,973,661
Other borrowed funds	19	176,750,620	172,842,357
Acceptances, guarantees and letters of credit	14	5,186,100	5,165,270
Income tax liability		957,999	45,238,258
Accumulated provisions, creditors and accruals	20	87,248,572	161,975,351
Deferred tax liability	21	14,646,767	39,234,412
Total liabilities		**1,644,878,332**	**1,804,783,670**
Shareholders' equity			
Share capital	22	81,000,000	81,000,000
Share premium		3,877,424	3,877,424
Retained earnings		23,307,744	32,490,389
Reserves	23	309,789,428	321,584,965
Total shareholders' equity		**417,974,596**	**438,952,778**
Total liabilities and shareholders' equity		**2,062,852,928**	**2,243,736,448**

Approved by the Board of Directors on December 02,2009

Director Mitchell Gumbs

Director Edmund Lawrence

The attached notes form part of these Financial Statements

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NON-CONSOLIDATED STATEMENT OF INCOME
For the year ended June 30, 2009

	Notes	2009 $	Restated 2008 $
Interest income		114,627,731	127,703,360
Interest expense		(69,124,287)	(67,147,520)
Net interest income	24	45,503,444	60,555,840
Credit impairment losses	26	(5,877,151)	(7,163,549)
Sub-total - interest revenue		**39,626,293**	**53,392,291**
Fees and commission income		45,725,223	52,885,524
Fee expense		(3,570,648)	(1,815,372)
Net fees and commission income	25	**42,154,575**	**51,070,152**
Dividend income		983,434	607,135
Net (losses) gains from investments		(9,145,409)	77,088,922
Gain on foreign exchange		1,505,032	6,397,063
Other operating income		183,620	1,259,799
Other (losses) income		**(6,473,323)**	**85,352,919**
Operating income		**75,307,545**	**189,815,362**
Operating expenses			
Administration and general expenses	27	26,235,780	24,654,285
Directors fees and expenses		333,432	374,333
Audit fees and expenses		260,000	133,829
Depreciation		1,601,993	1,624,260
Amortisation		415,635	228,453
Total operating expenses		**28,846,840**	**27,015,160**
Operating income before tax		**46,460,705**	**162,800,202**
Income tax expense	21	(6,791,113)	(51,189,015)
Net income for the year		**39,669,592**	**111,611,187**
Earnings per share	28	**0.49**	**1.38**

The attached notes form part of these Financial Statements

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For The Year Ended June 30, 2009

	Notes	Share Capital $	Share Premium $	Statutory Reserve $	Other Reserve $	Revaluation Reserve $	Retained Earnings $	Total Shareholders' Equity $
Balance at June 30, 2007 previously reported		**81,000,000**	**3,877,424**	**81,000,000**	**67,000,000**	**2,903,142**	**19,430,224**	**255,210,790**
Prior year adjustment	6						8,623,978	**8,623,978**
Balance at June 30, 2007 as restated		**81,000,000**	**3,877,424**	**81,000,000**	**67,000,000**	**2,903,142**	**28,054,202**	**263,834,768**
Net income		-	-	-	-	-	111,611,187	**111,611,187**
Fair value appreciation - securities, net	23	-	-	-	-	71,869,844	-	**71,869,844**
Fair value appreciation - properties	23	-	-	-	-	5,811,979	-	**5,811,979**
Transfer to Reserves	23	-	-	-	93,000,000	-	(93,000,000)	**-**
Dividends	29	-	-	-	-	-	(14,175,000)	**(14,175,000)**
Balance at June 30, 2008 as restated		**81,000,000**	**3,877,424**	**81,000,000**	**160,000,000**	**80,584,965**	**32,490,389**	**438,952,778**
Net income		-	-	-	-	-	39,669,592	**39,669,592**
Fair value depreciation - securities, net	23	-	-	-	-	(45,662,774)	-	**(45,662,774)**
Reserves for loan impairment	23	-	-	-	(20,000,000)	-	20,000,000	**-**
Transfer to Reserves	23	-	-	-	53,867,237	-	(53,867,237)	**-**
Dividends	29	-	-	-	-	-	(14,985,000)	**(14,985,000)**
Balance at June 30, 2009		**81,000,000**	**3,877,424**	**81,000,000**	**193,867,237**	**34,922,191**	**23,307,744**	**417,974,596**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NON-CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED JUNE 30, 2009

	Notes	2009 $	Restated 2008 $
Cash flows from operating activities			
Operating Income before taxation		46,460,705	162,800,202
Adjustments for:			
Interest income		(114,627,731)	(127,703,360)
Interest expense		69,124,287	67,147,520
Depreciation		1,601,993	1,624,260
Amortisation		415,635	228,453
Provision for impairment, net		5,877,151	7,163,549
(Gain)/loss on disposal of premises and equipment		(65,998)	889
Operating income before changes in operating assets and liabilities		8,786,042	111,261,513
(Increase)/decrease in operating assets:			
Loans and advances to customers		(70,676,341)	29,122,176
Mandatory deposits with the Central Bank		(8,673,700)	(2,065,313)
Other accounts		4,177,746	11,886,951
Increase/(decrease) in operating liabilities:			
Customers' deposits		3,789,002	55,344,124
Due to other financial institutions		(12,350,559)	12,591,719
Accumulated provisions, creditors, and accruals		(75,766,270)	(50,335,968)
Cash (used in)/generated from operations		(150,714,080)	167,805,202
Interest received		109,991,182	129,102,067
Interest paid		(79,762,986)	(61,805,479)
Income tax paid		(50,890,041)	(26,172,835)
Net cash (used in)/generated from operating activities		**(171,375,925)**	**208,928,955**
Cash flows from investing activities			
Purchase premises, equipment and intangibles		(6,254,024)	(1,386,979)
Proceeds from disposal of premises and equipment		135,000	-
Decrease in special term deposits		14,018,520	62,373,268
(Increase) in restricted term deposits		(12,752,390)	(35,691,748)
(Increase) in investment securities, net		(34,956,372)	(179,231,108)
Net cash used in investing activities		**(39,809,266)**	**(153,936,567)**
Cash flows from financing activities			
Other borrowed funds		3,908,263	33,285,149
Dividend paid		(14,985,000)	(14,175,000)
Net cash (used in)/generated from financing activities		**(11,076,737)**	**19,110,149**
Net (decrease)/increase in cash and cash equivalents		**(222,261,928)**	**74,102,537**
Cash and cash equivalents at beginning of period		**493,316,143**	**419,213,606**
Cash and cash equivalents at end of period	32	**271,054,215**	**493,316,143**

The attached notes form part of these Financial Statements

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. Adoption and amendments of published standards and interpretations

2.1 Amendments to published standards and interpretations adopted in current period

- *IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interpretation'*, provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability must be affected by a statutory or contractual minimum funding requirement. This interpretation has no impact on the Bank financial statements.
- *IAS 39 (Amendment), Reclassification of an asset*. The amendment to the standard, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available-for-sale), if the entity has the intention and ability to hold that asset for the foreseeable future. This amendment has no impact on the Bank financial statements.

2.2 Interpretations and amendment effective in current period but not adopted

- IFRIC 11, *'IFRS 2 – Group and treasury share transactions'*, is mandatory for accounting periods beginning on or after March 1, 2007 but is not relevant to the Bank operations.
- *IFRIC 12, 'Service concession Arrangements'*, is mandatory for accounting periods beginning on or after January 1, 2008 but is not relevant to the Bank operations.

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

2.2 Interpretations and amendment effective in current period but not adopted *continued*

- *IAS 19 (Amendment), 'Employee benefits'* (effective for annual periods beginning on or after January 1, 2009). This amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment; an amendment that changes benefit attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short-term and long-term employee benefits is based on whether benefits are due to be settled within or after 12 months of employee service being rendered. IAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed not recognised. IAS 19 has been amended to be consistent in this regard.

2.3 Standards and amendments to existing standards not yet effective and have not been early adopted

- *IAS 1 (Revised), 'Presentation of financial statements'* (effective for annual periods beginning on or after January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Bank will apply IAS 1 (Revised) from July 1, 2009.
- *IAS 1 (Amendment), 'Presentation of financial statements'* (effective for annual periods beginning on or after January 1, 2009). This amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Bank will apply the IAS 39 (Amendment) from July 1, 2009, but it is not expected to have an impact on the Bank financial statements.
- *IAS 36 (Amendment), 'Impairment of assets'* (effective for annual periods beginning on or after January 1, 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Bank will apply IAS 36 (Amendment) from July 1, 2009.

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

2.4 Standards, amendments and interpretations to existing standards in issue but not effective

- *IAS 16 (Amendment), 'Property, Plant and Equipment'* (effective for annual periods beginning on or after January 1, 2009);
- *IAS 19 (Amendment), 'Employee Benefits'* (effective for annual periods beginning on or after January 1, 2009);
- *IAS 20 (Amendment), ' Accounting for Government Grants and Disclosure of Government Assistance'* (effective for annual periods beginning on or after January 1, 2009);
- *IAS23 (Amendment), 'Borrowing Costs'* (effective for annual periods beginning on or after January 1, 2009);
- *IAS27 (Revised), 'Consolidated and Separate Financial Statements'* (effective for annual periods beginning on or after January 1, 2009);
- *IAS27 (Amendment), 'Consolidated and Separate Financial Statements'* (effective for annual periods beginning on or after January 1, 2009);
- *IAS28 (Amendment), 'Investment in Associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial Instruments: Disclosures')* (effective for annual periods beginning on or after January 1, 2009);
- *IAS29 (Amendment), 'Financial Reporting in Hyperinflationary Economies'* (effective for annual periods beginning on or after January 1, 2009);
- *IAS31 (Amendment), 'Interest in Joint Ventures' (and consequential amendments to IAS 32 and IFRS 7)* (effective for annual periods beginning on or after January 1, 2009);
- *IAS 32 (Amendment), 'Financial Instruments: Presentation' and IAS 1 (Amendment), 'Presentation of Financial Statements' – 'Puttable Financial Instruments and obligations arising on liquidation'* (effective for annual periods beginning on or after January 1, 2009);
- *IAS38 (Amendment), 'Intangible Assets'* (effective for annual periods beginning on or after January 1, 2009);
- *IAS39 (Amendment), 'Financial Instruments: Recognition and Measurement'* (effective for annual periods beginning on or after January 1, 2009);
- *IAS40 (Amendment), 'Investment Property'* (effective for annual periods beginning on or after January 1, 2009);
- *IAS41 (Amendment), 'Agriculture'* (effective for annual periods beginning on or after January 1, 2009);
- *IFRS1 (Amendment) 'First-time Adoption of IFRS' and IAS 27 'Consolidated and Separate Financial Statements'* (effective for annual periods beginning on or after January 1, 2009);
- *IFRS2 (Amendment), 'Share-based Payments'* (effective for annual periods beginning on or after January 1, 2009);
- *IFRS3 (Revised), 'Business Combinations'* (effective for annual periods beginning on or after January 1, 2009);

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

2.4 Standards, amendments and interpretations to existing standards in issue but not effective….*continued*

- *IFRS5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations' (and consequential amendment to IFRS1, 'First-time Adoption')* (effective for annual periods beginning on or after January 1, 2009);
- *IFRIC13, 'Customer Loyalty Programmes'* (effective for annual periods beginning on or after January 1, 2009);
- *IFRIC15, 'Agreements to Construction of Real Estate'* (effective for annual periods beginning on or after January 1, 2009);
- *IFRIC16, 'Hedges of Net Investment in Foreign Operations'* (effective for annual periods beginning on or after October 1, 2008).

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. Consolidated financial statements including the 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 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 recognised in the statement of income.

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

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.

(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.

(c) ***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.

(d) ***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.

Financial assets are initially recognised at fair value plus transaction cost for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. 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*

(d) *Available-for-sale financial asset..........continued*

Available-for-sale financial assets and financial assets at fair value through profit or loss are substantially carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial assets are derecognised or impaired, at which time, the cumulative gain or loss previously recognised in equity is then recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the right to receive payment is established.

The fair values of quoted investments in active markets are based on the current bid prices. If the market for a financial asset is not active (such as investments in unlisted entities) and the fair value cannot be reliably measured, these assets are measured at cost.

3.5 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.

The Bank has initiated a change in reporting interest earned which is to include in income all interest charged on delinquent accounts instead of including only overdue interest due up to ninety (90) days. The current treatment is prescribed by the IFRS rules whereas the former is prescribed by the ECCB. The Bank has included in its expenses charged against income for the year and its Reserves, amounts considered adequate to protect the Bank against likely realised losses. The effect of this change has required a restatement of prior year receivables, interest income and taxation thereon and is included in the relevant notes to these Financial Statements.

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

3.6 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.

3.7 Dividend income

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

3.8 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 recognised are not included in a collective assessment of impairment.

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

3.8 Impairment of financial assets……*continued*

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.

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.

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

3.8 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. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

3.9 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.

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

3.10 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.

3.11 Impairment of non-financial assets

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. 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).

3.12 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.

3.13 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.

3.14 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*

3.15 Employee benefits

(a) ***Pension plan***
The Bank operates a defined contribution plan for its employees. The Bank pays annual insurance premiums to fund a post-employment benefit plan. Payment of premiums is used to purchase an insurance policy in the name of a specified plan participant or a group of plan participants that is separate and distinct from the Bank. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Payments of premiums are charged to income.

(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.

3.16 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 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 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 credited or charged directly to deferred tax liability and subsequently recognised in the statement of income together with the deferred gain or loss.

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

3.17 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 differences 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.

3.18 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 recognised in equity in the period in which they are approved by the Bank's shareholders (Note 29).

3.20 Comparatives

Comparative figures have been reclassified to conform to changes in presentation in the current year. These reclassifications include changes in the statement of changes in shareholders' equity whereby capital reserves and loan loss reserves together have been reclassified to other reserves. All other changes relate to the restatement as described in Note 6.

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.

4. Financial risk management……*continued*

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 a 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'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 credit risk. Credit exposures 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.

4.1.1 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 losses 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 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 ready 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’s on-balance sheet and off-balance sheet items relating to loans and advances and associated impairment provision for each of the Bank internal categories:

4. Financial risk management……*continued*

4.1.3 Impairment and provisioning……..*continued*

	2009		2008	
	Loans and advances (%)	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
Bank rating				
1. Pass	79.68	6.74	90.20	3.62
2. Special mention	15.44	1.30	4.73	1.77
3. Sub-standard	3.39	29.93	3.47	33.47
4. Doubtful	1.48	61.30	1.59	59.78
5. Loss	0.01	0.73	0.01	1.36
	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	
Credit risk exposures relating to on-balances sheet assets are as follows:	**2009** **$**	**Restated** **2008** **$**
Treasury bills:	90,715,601	134,352,762
Deposits with other financial institutions	340,374,351	505,703,153
Loans and advances:		
• Overdrafts	274,927,346	219,814,384
• Corporate customers	73,018,737	78,239,848
• Term loans	583,732,288	568,377,332
• Mortgages (personal)	100,440,793	80,939,712
• Originated debts	86,976,913	90,759,513
• Available-for-sale investments	67,997,035	84,817,988
• Held-to-maturity investments	-	1,000,000
Other assets	31,655,570	35,935,186
• Loan commitments and financial guarantees	20,745,455	20,833,386
Total	**1,670,584,089**	**1,820,733,264**

The above table represents a worse case scenario of credit risk exposure to the Bank at June 30, 2009 and 2008, 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% (2008 – 52%) of the total maximum exposure is derived from loans and advances to customers; 9% (2008 – 10%) 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% (2008 – 95%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;
- Term loans, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees;
- 85% (2008 – 85%) of the loans and advances portfolio are considered to be neither past due nor impaired;

4. Financial risk management…….*continued*

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

- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines; and
- 12% (2008 – 5%) of the investments in debt securities and other bills have at least an A- credit rating. Many issuers in the region are not graded; consequently 63% of investments are not rated, compared with 96% last year.

4.1.5 Loans and advances

Loans and advances are summarized as follows:

	2009 $	Restated 2008 $
Loans and advances to customers		
Neither past due nor impaired	860,602,995	812,747,095
Past due but not impaired	103,548,504	95,771,757
Impaired	49,510,163	48,368,443
Gross	**1,013,661,662**	**956,887,295**
Interest receivable (see Note 10)	55,267,449	49,585,682
Less allowance for impairment losses (Note 10)	(36,809,947)	(44,834,768)
Net	**1,032,119,164**	**961,638,209**

The total allowance for impairment losses on loans and advances is $36,809,947 (2008 - $44,834,768). Further information of the allowance for impairment losses on loans and advances to customers is provided in Note 26.

(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 utilised by the Bank.

June 30, 2009	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
Loans and advances to customers					
Classifications:					
1. Pass	175,714,430	355,553,889	65,237,334	107,621,684	704,127,337
2. Special monitoring	85,691,501	1,369,975	4,004,461	65,409,721	156,475,658
Gross	**261,405,931**	**356,923,864**	**69,241,795**	**173,031,405**	**860,602,995**

4. Financial risk management…….*continued*

4.1.5 Loans and advances……..*continued*

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

June 30, 2008 (restated)	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
Loans and advances to customers					
Classifications:					
1. Pass	167,238,959	501,731,225	60,715,462	37,930,590	767,616,236
2. Special monitoring	44,878,167	143,472	88,096	21,124	45,130,859
Gross	**212,117,126**	**501,874,697**	**60,803,558**	**37,951,714**	**812,747,095**

(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:

At June 30, 2009	Term loans $	Mortgages $	Corporate customers $	Total $
Past due up to 30 days	65,324,443	7,693,117	5,939,983	78,957,543
Past due 30 – 60 days	485,682	2,491,639	18,788,689	21,766,010
Past due 60 – 90 days	517,583	423,045	-	940,628
Over 90 days	173,695	1,710,628	-	1,884,323
Gross	**66,501,403**	**12,318,429**	**24,728,672**	**103,548,504**
Fair value of collateral	77,767,240	26,846,188	91,681,125	196,294,553

At June 30, 2008 (restated)	Term loans $	Mortgages $	Corporate customers $	Total $
Past due up to 30 days	68,002,367	4,982,894	1,980,317	74,965,578
Past due 30 – 60 days	481,163	3,331,460	403,880	4,216,503
Past due 60 – 90 days	282,775	117,594	6,993	407,302
Over 90 days	460,518	507,991	15,213,864	16,182,373
Gross	**69,226,823**	**8,939,939**	**17,604,994**	**95,771,756**
Fair value of collateral	80,467,200	23,546,880	84,581,250	188,595,330

4. Financial risk management…….*continued*

4.1.5 Loans and advances……..*continued*

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

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 the same geographical area.

(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 $49,510,163.

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

June 30, 2009	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total loans and advances to customers $
Pass	-	27,170	36,425	-	63,595
Special mention	-	91,349	-	95,870	187,219
Substandard	2,441,011	1,452,591	11,536,566	18,665,458	34,095,626
Doubtful	4,132,802	1,306,961	4,646,945	4,908,210	14,994,918
Loss	166,469	2,330	-	6	168,805
Total	**6,740,282**	**2,880,401**	**16,219,936**	**23,669,544**	**49,510,163**
Fair value of collateral	13,631,713	16,275,247	27,864,831	132,388,199	190,159,910

June 30, 2008 (restated)	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total loans and advances to customers $
Substandard	6,719,129	1,499,629	12,153,174	12,692,874	33,064,806
Doubtful	3,335,019	859,371	2,109,047	8,948,553	15,251,990
Loss	42,071	-	-	9,576	51,647
Total	**10,096,219**	**2,359,000**	**14,262,221**	**21,651,003**	**48,368,443**
Fair value of collateral	13,716,713	15,775,247	25,964,831	131,188,119	186,644,910

(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. Financial risk management…….*continued*

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 June 30, 2009, based on Standard & Poor's ratings or equivalent:

	Treasury Bills $	Investment Securities $	Loans and receivables - notes & bonds $	Total $
AAA		13,003,672		**13,003,672**
AA- to AA+		3,307,480		**3,307,480**
A- to A+		17,041,098		**17,041,098**
Lower than A-		16,402,444		**16,402,444**
Unrated	90,715,601	189,559,161	86,976,913	**367,251,675**
Total	**90,715,601**	**239,313,855**	**86,976,913**	**417,006,369**

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) which is predominantly localised 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 $
As at June 30, 2009					
Treasury bills	90,715,601	-	-	-	90,715,601
Deposit with Fin. Inst.	37,689,057	153,018,744	49,103,188	100,563,362	340,374,351
Loans and advances	991,801,491	25,555,850	1,954,536	12,807,287	1,032,119,164
Originated debts	76,300,000	-	-	10,676,913	86,976,913
Investments (AFS)	-	67,997,035	-	-	67,997,035
Other assets	31,190,447	-	-	-	31,190,447
Total	**1,227,696,596**	**246,571,629**	**51,057,724**	**124,047,562**	**1,649,373,511**

4. Financial risk management…….*continued*

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

	St Kitts & Nevis	United States & Canada	Europe	Other Caribbean States	Total
	$	$	$	$	$
As at June 30, 2008 (restated)					
Treasury bills	80,767,351	-	-	53,585,411	134,352,762
Deposit with Fin. Inst.	39,003,745	330,940,005	66,285,312	69,474,091	505,703,153
Loans and advances	923,732,030	25,352,176	2,077,448	10,476,555	961,638,209
Originated debts	76,300,000	-	-	14,459,513	90,759,513
Investments (AFS)	-	84,817,988	-	-	84,817,988
Other assets	35,784,210	-	-	-	35,784,210
Total	**1,155,587,336**	**441,110,169**	**68,362,760**	**147,995,570**	**1,813,055,835**

4.1.8 Sectoral analysis of the loans and advances portfolio

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

	2009	Restated 2008
	$	$
Consumers	126,200,722	115,460,010
Agriculture, fisheries and manufacturing	5,462,690	8,637,918
Construction and land development	42,268,609	39,259,823
Distributive trade, transportation and storage	10,985,722	10,836,269
Tourism, entertainment and catering	22,895,695	29,333,375
Financial institutions	12,292,632	23,181,337
State, statutory bodies and public utilities	779,757,679	717,236,398
Profession and other services	13,797,913	12,942,164
Gross	1,013,661,662	956,887,294

4. Financial risk management…….*continued*

4.1.9 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:

June 30, 2009	Public Sector $	Construction $	Tourism $	Financial Institutions $	Individuals $	Other Industries $	Total $
Treasury Bills	90,715,601						90,715,601
Deposits with financial institutions	-	-	-	340,374,351	-	-	340,374,351
Loans and receivables:							
- Originated debts	76,496,913	-	-	1,300,000	-	9,180,000	86,976,913
- Loans & Advances	779,757,679	46,309,390	31,349,462	12,196,923	130,368,324	32,137,386	1,032,119,164
Investments – available-for-sale	-	-	-	-	-	67,997,035	67,997,035
Other assets	-	-	-	-	21,799	31,168,648	31,190,447
Total	**946,970,193**	**46,309,390**	**31,349,462**	**353,871,274**	**130,390,123**	**140,483,069**	**1,649,373,511**

June 30, 2008 (restated)	Public Sector $	Construction $	Tourism $	Financial Institutions $	Individuals $	Other Industries $	Total $
Treasury Bills	134,352,762						134,352,762
Deposits with financial institutions	-	-	-	505,703,153	-	-	505,703,153
Loans and receivables:							
- Originated debts	79,199,513	-	-	1,300,000	-	10,260,000	90,759,513
- Loans & Advances	717,236,398	38,846,104	29,227,085	23,181,337	111,746,601	41,370,684	961,638,209
Investments – available-for-sale	-	-	-	-	-	84,817,988	84,817,988
Other assets	-	-	-	-	28,217	35,755,993	35,784,210
Total	**930,788,673**	**38,876,104**	**29,227,085**	**530,184,490**	**111,774,818**	**172,204,665**	**1,813,055,835**

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 dollars (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 June 30, 2009. Included in the table are the Bank financial instruments at carrying amounts, categorised 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

As at June 30, 2009	ECD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	TOTAL $
Assets								
Cash & balances with Central Bank	78,515,373	2,071,334	29,938	56,571	18,082	15,972	-	80,707,270
Treasury bills	90,715,601	-	-	-	-	-	-	90,715,601
Deposits with other financial bodies	52,583,019	284,795,180	583,259	855,781	682,163	869,843	5,106	340,374,351
Loans and receivables								
- Loans and advances to customers	1,032,119,164	-	-	-	-	-	-	1,032,119,164
- Originated debts	85,480,000	1,496,913	-	-	-	-	-	86,976,913
Investments								
- Available-for-sale	9,067,735	340,738,399	-	-	-	-	-	349,806,134
- Held to maturity								
Other assets	54,806,948	332,268	-	-	-	-	-	55,139,216
Total financial assets	1,403,287,840	629,434,094	613,197	912,352	700,245	885,815	5,106	2,035,838,649
Liabilities								
Due to Customers	1,112,100,856	245,002,919	589,694	660,731	1,110,972	-	-	1,359,465,172
Due to other financial bodies	-	623,102	-	-	-	-	-	623,102
Other borrowed funds	-	176,750,620	-	-	-	-	-	176,750,620
Other liabilities	69,439,475	25,883,733	42,179	321,969	143,335	58,300	-	95,888,991
Total financial liabilities	1,181,540,331	448,260,374	631,873	982,700	1,254,307	58,300	-	1,632,727,885
Non on-balance sheet positions	**221,747,509**	**181,173,720**	**(18,676)**	**(70,348)**	**(554,062)**	**827,515**	**5,106**	**403,110,764**
Credit commitments	**15,668,116**	**-**	**-**	**-**	**-**	**-**	**-**	**15,668,116**

4. Financial risk management…….*continued*

4.2.2 Foreign exchange risk…….*continued*

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

As at June 30, 2008 (restated)	ECD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	TOTAL $
Total financial assets	1,382,967,739	829,382,957	2,879,285	4,365,255	768,483	333,451	11,060	2,220,708,230
Total financial liabilities	1,202,736,130	555,772,260	603,566	821,419	590,693	31,764	-	1,760,555,832
Net on-balance sheet positions	**180,231,609**	**273,610,697**	**2,275,719**	**3,543,836**	**177,790**	**301,687**	**11,060**	**460,152,398**
Credit commitments	**15,559,355**	**-**	**-**	**-**	**-**	**-**	**-**	**15,559,355**

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.

4. Financial risk management…….*continued*

4.2.3 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 June 30, 2009	Up to 1 Month $	1 to 3 Months $	3 to 12 Months $	1 to 5 Years $	Over 5 Years $	Non-interest Bearing $	Total $
Cash & balances with Central Bank	-	-	-	-	-	80,707,270	80,707,270
Treasury bills	-	90,715,601	-	-	-	-	90,715,601
Deposits with other financial institutions	134,069,655	69,559,590	83,355,709	-	-	53,389,397	340,374,351
Loans and advances - Customers	348,443,060	1,083,023	6,136,538	58,847,498	609,491,435	8,117,610	1,032,119,164
Originated debts	-	-	-	1,000,000	85,976,913	-	86,976,913
Investments – Available-for-sale	-	-	5,566,624	26,068,571	39,734,729	278,436,210	349,806,134
Other assets	-	-	-	-	-	54,599,515	54,599,515
Total assets	482,512,715	161,358,214	95,058,871	85,916,069	735,203,077	475,250,002	2,035,298,948
Liabilities							
Due to customers	486,467,301	66,149,496	620,117,347	4,520,000	-	182,211,028	1,359,465,172
Due to other financial institutions	623,102	-	-	-	-	-	623,102
Other borrowed funds	-	-	3,031,395	3,270,588	170,448,637	-	176,750,620
Other liabilities	67,257	-	1,089,535	-	-	91,494,275	92,651,067
Total liabilities	487,157,660	66,149,496	624,238,277	7,790,588	170,488,637	273,705,303	1,629,489,691
Total Interest repricing gap	**(4,644,945)**	**95,208,718**	**(529,179,406)**	**78,125,481**	**564,754,440**		
As at June 30, 2008 (restated)							
Total financial assets	372,363,780	258,297,574	147,857,454	73,819,894	765,776,475	602,155,364	2,220,270,541
Total financial liabilities	479,623,039	42,298,288	661,923,726	11,720,158	93,540,229	431,115,348	1,720,311,788
Total Interest repricing gap	**(107,259,259)**	**215,908,286**	**(514,066,272)**	**62,099,736**	**672,236,246**		

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. At June 30, 2009 if market interest rates had been 100 basis points higher/lower with all variables held constant, equity for the year would have been $4,395,370 lower/higher as a result of the decrease/increase in fair value of available-for-sale debt securities.

Cash flow interest rate risk arises from loans and advances to customers at available rates. At June 30, 2009 if variable rates had been 100 basis points higher/lower with all other variables held constant, post-tax profits for the year would have been $10,454,075 higher/lower, mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

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

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 obligations by not converting into loans foreign deposits, demand deposits, reserves, 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.

4. Financial risk management…….*continued*

4.3.1 Liquidity risk management *continued*

- 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.

4.3.3 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.

	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
As at June 30, 2009	**$**	**$**	**$**	**$**	**$**	**$**
Due to customers	660,844,891	68,991,661	625,108,620	4,520,000	-	1,359,465,172
Due to other financial liabilities	623,102	-	-	-	-	623,102
Other borrowed funds	-	-	3,031,395	3,270,588	170,448,637	176,750,620
Other liabilities	72,325,941	2,489,455	13,682,428	4,153,243	-	92,651,067
Total financial liabilities	**733,793,934**	**71,481,116**	**641,822,443**	**11,943,831**	**170,448,637**	**1,629,489,961**
Total assets	**611,118,630**	**161,120,623**	**94,854,165**	**141,648,740**	**1,026,556,790**	**2,035,298,948**
As at June 30, 2008 (restated)						
Total financial liabilities	**860,488,606**	**44,344,794**	**686,274,699**	**24,727,104**	**104,476,585**	**1,720,311,788**
Total financial assets	**650,968,755**	**259,423,293**	**135,198,250**	**73,887,880**	**1,086,525,430**	**2,206,003,608**

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 summarised in the table below.

	Up to 1 year	1 – 3 years	Over 3 years	Total
As at June 30, 2009	$	$	$	$
Loan commitments	6,747,360	2,934,451	5,877,544	15,559,355
Guarantees and standby letters to credit	1,089,535	-	4,096,565	5,186,100
Total	7,836,895	2,934,451	9,974,109	20,745,455
As at June 30, 2008				
Loan commitments	7,100,790	3,451,319	5,116,007	15,668,116
Guarantees and standby letters to credit	1,068,705	-	4,096,565	5,165,270
Total	8,169,495	3,451,319	9,212,572	20,833,386

4.4 Fair values of financial assets and liabilities

Fair value amounts represent estimates of the consideration that would currently 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 value 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.

(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 quoted 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, which 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 in 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 those financial assets and liabilities not presented on the Bank balance sheet at their fair value.

	Carrying Value		Fair Value	
		Restated		Restated
	2009	2008	2009	2008
Financial assets	$	$	$	$
Treasury bills	**90,715,601**	134,352,762	**90,715,601**	134,352,762
Deposits with other financial institutions	**340,374,351**	505,703,153	**340,374,351**	505,703,153
Loans and receivables:				
Loans and advances:				
Overdraft	**274,927,346**	219,814,384	**277,895,643**	233,094,943
Corporate	**73,018,737**	82,995,448	**203,700,129**	186,630,144
Mortgage	**100,440,793**	90,451,045	**184,551,610**	110,906,412
Term	**583,732,288**	568,377,332	**737,697,525**	673,226,153
Originated debts	**86,979,913**	90,759,513	**86,979,913**	90,759,513
Financial liabilities				
Due to customers	**1,359,465,172**	1,367,354,361	**1,359,465,172**	1,367,354,361
Due to financial institutions	**623,102**	12,973,661	**623,102**	12,973,661
Other borrowed funds	**176,750,620**	172,842,357	**176,750,620**	172,842,357

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.

4. Financial risk management…….*continued*

4.5 Capital management…………*continued*

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 unrealised gains arising on the fair valuation of security 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 some 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 years ended June 30, 2009 and 2008. During those two years, the Bank complied with all of the externally imposed capital requirements to which it must comply.

	2009	Restated 2008
Tier 1 capital	**$**	**$**
Share capital	81,000,000	81,000,000
Bonus shares from capitalisation of unrealised assets revaluation gains reserve	(4,500,000)	(4,500,000)
Reserves	278,744,661	244,877,424
Retained earnings	23,307,744	32,490,389
Total qualifying Tier 1 capital	**378,552,405**	**353,867,813**

4. Financial risk management…….*continued*

4.5 Capital management…………*continued*

Tier 2 capital	2009 $	Restated 2008 $
Revaluation reserve – available-for-sale investments	27,201,570	72,864,344
Revaluation reserve – property-for-sale investments	7,720,621	7,720,621
Bonus shares capitalisation	4,500,000	4,500,000
Accumulated impairment allowance	36,809,947	44,834,768
Total qualifying Tier 2 capital	**76,232,138**	**129,919,733**
Investment in subsidiaries	(17,750,000)	(17,750,000)
Total regulatory capital	**437,034,543**	**466,037,546**
Risk-weighted assets:		
On-balance sheet	727,600,298	855,049,284
Off-balance sheet	11,527,055	11,351,291
Total risk-weighted assets	**739,127,353**	**866,400,575**
Basel ratio	**59%**	**54%**

5. Critical accounting estimates and judgements

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

(a) Impairment losses on loans and advances
The Bank reviews its loan 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 judgement 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 a 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 estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated $1,568,519 lower or $1,627,482 higher.

5. Critical accounting estimates and judgements………*continued*

(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 judgement. In making this judgement, 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 June 30, 2009.

6. Restatement of prior year balances

Interest collected on non-performing loans and advances

The Bank has taken the decision to include into income, interest accrued on non-performing loans and to calculate credit impairment in accordance with International Accounting Standard (IAS) 39. The financial statements for the prior period have been restated to show the effect of taking the portion of these items that relates to 2008 into the 2008 statement of income and the portion relating to prior periods through equity, together with its related tax impact. Opening retained earnings at 1 July 2007 has been increased by $8,623,978 which is the amount of the adjustment relating to periods prior to 2008.

The effect of the restatements on the balance sheet for 2008 was as follows:

Increase in Loans and receivables – loans and advances to customers		$ 14,266,933
Net adjustment to Total Assets		**$ 14,266,933**
Increase in income tax liability arising from interest on non-performing loans and advances		4,993,427
Increase in retained earnings arising from interest on non-performing loans and advances:		
- Opening balance at July 1, 2007	8,623,978	
- Closing balance at June 30, 2008	649,528	9,273,506
Net adjustment to Total Liabilities and Shareholders' Equity		**$ 14,266,933**

The effect on the statement of income for 2008 was as follows:

Net profit after taxation previously reported	$ 110,961,659
Adjusted for:	
Increase in net interest income	4,992,703
Increase in provision for loan losses	(3,993,429)
Increase in taxation expense	(349,746)
Net profit for the year after taxation as restated	**$ 111,611,187**

7. Cash and balances with Central Bank

	2009 $	2008 $
Cash in hand	7,982,347	6,711,964
Balances with Central Bank other than mandatory deposits	(6,041,950)	10,862,785
Included in cash and cash equivalent (Note 32)	1,940,397	17,574,749
Mandatory deposits with Central Bank	78,766,873	70,093,173
Total	**80,707,270**	**87,667,922**

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.

8. Treasury bills

	2009 $	2008 $
Government of Antigua and Barbuda maturing July 8, 2008 at 5.2% interest	-	13,946,813
Government of St Vincent and the Grenadines maturing July 24, 2008 at 4.9% interest	-	6,737,773
Government of Antigua and Barbuda maturing July 8, 2008 at 5.2% interest	-	13,125,159
Government of St. Kitts and Nevis maturing August 19, 2009 at 6.5% interest	90,715,601	80,767,351
Government of St. Lucia maturing August 31, 2008 at 4.99% interest	-	19,775,666
Total	**90,715,601**	**134,352,762**

Treasury bills are debt securities issued by a sovereign government. They also form part of cash and cash equivalents (Note 32).

9. Deposits with other financial institutions

	2009	**2008**
	$	**$**
Operating cash balances	121,940,663	293,738,596
Items in the course of collection	5,569,385	5,781,505
Interest bearing term deposits	50,888,169	41,868,531
Included in cash and cash equivalent (Note 32)	178,398,217	341,388,632
Special term deposits *	14,101,431	28,119,950
Restricted term deposits **	143,844,674	131,092,283
Interest receivable	4,030,029	5,102,288
Total	**340,374,351**	**505,703,153**

* 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 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 credited to income. The effective interest rate on ‘Deposits with other financial institutions at June 30, 2009 was 2.34% (2008 – 3.67%).

10. Loans and advances to customers

	2009 $	Restated 2008 $
Overdrafts	261,405,931	212,449,171
Mortgages	68,973,762	61,040,763
Demand	225,458,579	228,433,589
Special Term	387,500,000	387,500,000
Other Secured	14,380,399	11,845,401
Consumer	6,432,828	7,249,929
Non-productive	49,510,163	48,368,442
Gross	**1,013,661,662**	**956,887,295**
Less allowance for impairment (Note 26)	(36,809,947)	(44,834,768)
	976,851,715	**912,052,527**
Interest receivable	55,267,449	49,585,682
Net loans and advances	**1,032,119,164**	**961,638,209**
Current	287,955,075	279,716,791
Non-current	744,164,089	681,921,418
	1,032,119,164	961,638,209

The weighted average effective interest rate on productive loans and advances at amortized cost at June 30, 2009 was 8.15% (2008 – 8.43%) and productive overdraft stated at amortized cost was 10.22% (2008 – 11.00%)

11. Originated debt

	2009 $	2008 $
Government of St. Lucia fixed rate note maturing August 23, 2008 at 6.7% interest	-	2,702,600
Government of St Kitts and Nevis bonds maturing March 3, 2020 at 8.25% interest	75,000,000	75,000,000
Eastern Caribbean Home Mortgage Bank Long-term maturing July 1, 2010 at 5.5% 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
Grenada Electricity Services Limited 10 year 7% bond maturing December 18, 2017	9,180,000	10,260,000
Caribbean Credit Card Corporation unsecured loan at 10% interest with no specific terms of repayment	300,000	300,000
Total	**86,976,913**	**90,759,513**

12. Investment securities

	2009 $	2008 $
Available-for-sale securities		
Securities at fair value		
-- Unlisted	11,062,409	11,838,659
-- Listed	338,296,515	368,031,713
-- Interest receivable	447,210	420,170
Sub-total	**349,806,134**	**380,290,542**
Held-to-maturity		
Debt securities at amortised cost		
-- Unlisted	-	**1,000,000**

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:

	Held to maturity $	Available for-sale $	Fair value through profit or loss $	Loans and receivable originated debts $	Total $
Balance – June 30, 2008	1,000,000	380,290,542	-	90,759,513	472,050,055
Additions	-	182,083,127	-	-	182,083,127
Disposal (sales/redemption)	(1,000,000)	(134,670,441)	-	(3,782,600)	(139,453,041)
Fair value gains (losses)	-	(78,344,304)	-	-	(78,344,304)
Interest receivable	-	447,210	-	-	447,210
Total as at June 30, 2009	-	349,806,134	-	86,976,913	436,783,047
Balance – June 30, 2007	1,000,000	18,948,758	159,294,531	2,796,913	182,040,202
Additions	-	171,776,827	-	87,962,600	259,739,427
Disposal (sales/redemption)	-	(80,718,500)	-	-	(80,718,500)
Reclassification	-	159,294,531	(159,294,531)	-	-
Fair value gains (losses)	-	110,568,756	-	-	110,568,756
Interest receivable	-	420,170	-	-	420,170
Total as at June 30, 2008	1,000,000	380,290,542	-	90,759,513	472,050,055

In November 2007 the Bank reviewed the purpose of its investments as a result of shares received from Visa Inc. It was decided that the purpose of its investment was to support liquidity needs only and not for short-term profit taking (‘held for trading’). As a result, securities totaling $159,294,531 were reclassified to ‘available-for-sale’ (see table above). Since those securities were reported at fair value, the fair value amount of $159,294,531 reclassified in 2008 approximates the carrying amount in that year.

A fair value loss of $2,815,182 net of tax was recorded in revaluation reserve in 2008 on the securities reclassified for a carrying amount of $156,479,349. In 2009 a fair value loss of $4,589,384 net of tax was recorded on the carrying amount of the reclassified securities taking it down to $151,889,965.

12. Investment securities……….*continued*

Had there been no reclassification, the effect of the fair value loss would have been a reduction in profit of $4,589,384 (2008 - $2,815,182). The effective interest rate and estimated amount of cash flows the Bank expected to recover as at the date of reclassification on the financial assets were 4.98% and $159,294,531, respectively.

13. Investment in subsidiaries

	2009 $	2008 $
National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited	5,750,000	5,750,000
St. Kitts and Nevis Mortgage and Investment Company Limited (MICO)	12,000,000	12,000,000
Total	**17,750,000**	**17,750,000**

National Caribbean Insurance Company Limited is a wholly owned subsidiary of the National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited.

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

	2009 $	2008 $
Letters of credit	1,089,535	1,068,705
Guarantees	4,096,565	4,096,565
Total	**5,186,100**	**5,165,270**

15. Property, plant and equipment

COST/VALUATION	Total $	Property $	Equipment $	Furniture And Fittings $	Motor Vehicles $	References Books $	Projects Ongoing $
At June 30, 2008	31,673,194	20,474,781	8,696,644	1,914,686	399,000	131,701	56,382
Additions	4,879,819	-	1,755,984	173,900	342,000	3,207	2,604,728
Disposals	(264,000)	-	-	-	(264,000)	-	-
June 30, 2009	36,289,013	20,474,781	10,452,628	2,088,586	477,000	134,908	2,661,110
Accumulated Depreciation							
At June 30, 2008	9,641,014	993,962	6,917,991	1,311,439	293,997	123,625	-
Charge for Year	1,601,993	627,766	760,299	134,265	75,099	4,564	-
Eliminated on Disposal	(194,998)	-	-	-	(194,998)	-	-
June 30, 2009	11,048,009	1,621,728	7,678,290	1,445,704	174,098	128,189	-
Net Book Value							
At June 30, 2009	**25,241,004**	**18,853,053**	**2,774,338**	**642,882**	**302,902**	**6,719**	**2,661,110**
At June 30, 2008	**22,032,180**	**19,480,819**	**1,788,652**	**603,882**	**105,004**	**8,076**	**56,382**

Included in Property is land at a carrying value of $3,286,073. This is made-up as follows:

Headquarter (Basseterre)	$ 1,575,900
Sandy Point (#1)	31,195
Sandy Point (#2)	17,360
Saddlers	20,210
Nevis	815,400
West Independence Square	674,658
Rosemary Lane (#1)	83,350
(#2)	68,000
Total	**$ 3,286,073**

16. Intangible assets

	2009 $	2008 $
Cost at June 30, 2008	3,308,582	2,881,674
Additions	1,374,205	426,908
Disposals		
Total at June 30, 2009	**4,682,787**	**3,308,582**
Accumulated amortisation		
At June 30, 2008	2,694,784	2,466,331
Charges for the year	415,635	228,453
Disposals		
Total at June 30, 2009	**3,110,419**	**2,694,784**
Net book value	**1,572,368**	**613,798**

Intangible assets represent computer software acquired for the Bank use.

17. Other assets

	2009 $	2008 $
Prepayments	31,190,447	35,784,210
Stationery and credit stock	539,701	437,690
Other receivables	472,967	158,961
Total	**32,203,115**	**36,380,861**

18. Due to customers

	2009 $	2008 $
Consumers	364,568,559	331,402,191
Private businesses and subsidiaries	303,384,666	320,672,807
State, statutory bodies and non-financial bodies	609,332,851	565,037,350
Others	72,655,176	129,039,903
Interest payable	9,523,920	21,202,110
Total	**1,359,465,172**	**1,367,354,361**

18. Due to customers………………..c*ontinued*

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

The Bank pays interest on all categories of customers' deposits. In 2009 total interest paid and payable on deposit accounts amounted to $58,793,561 (2008 - $58,557,025). The average effective rate of interest paid on customers' deposits was 4.36% (2008 – 4.44%).

19. Other borrowed funds

	2009 $	2008 $
Credit line	82,346,746	78,438,483
Bonds issued	93,540,229	93,540,229
Interest payable	863,645	863,645
Total	**176,750,620**	**172,842,357**

The rate of interest charged on the line-of-credit was 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 $10,330,726 (2008 - $8,590,495).

20. Accumulated provisions, creditors and accruals

	2009 $	2008 $
Other interest payable on customers' deposits	10,924,469	9,884,978
Managers cheques and bankers payments	1,305,254	1,650,774
Unpaid drafts on other banks	1,277,347	1,488,962
E-commerce payables	24,269,344	88,085,722
Other payables	49,472,158	60,864,915
Total	**87,248,572**	**161,975,351**

21. Taxation

	2009 $	Restated 2008 $
Tax expenses:		
Current tax	6,615,097	51,244,577
Deferred tax	181,331	(55,562)
Prior year income tax expense	(5,315)	-
Total	**6,791,113**	**51,189,015**
Income for the year before tax	**46,460,705**	**162,800,202**
Income tax at the applicable tax rate of 35%	16,261,246	56,980,071
Non-deductible expenses	2,383,213	3,013,039
Deferred tax over provided	(5,984)	9,271
Income not subject to tax	(11,842,047)	(8,813,366)
Prior year income tax expense	(5,315)	-
Total	**6,791,113**	**51,189,015**

Deferred income tax:

The movement on deferred income tax assets and liabilities during the year, without taking into consideration any offsetting balances is as follows:

	2009 $	2008 $
Tax expenses:		
Deferred tax asset (capital allowance)	(382,238)	(326,676)
Deferred taxes Recovered during the year, net	181,331	(55,562)
Deferred tax liability	14,646,767	39,234,412
Net	**14,445,860**	**38,852,174**
Accelerated depreciation	(200,907)	(382,238)
Available-for-sale securities	14,646,767	39,234,412
Net	**14,445,860**	**38,852,174**

22. Share Capital

	2009 $	2008 $
Authorised:-		
135,000,000 Ordinary Shares of $1 each	**135,000,000**	**135,000,000**
Issued and Fully Paid:-		
81,000,000 Ordinary Shares of $1 each	**81,000,000**	**81,000,000**

23. Reserves

	2009 $	2008 $
23.1 Statutory reserve	81,000,000	81,000,000

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 Banks' paid-up capital.

23.2 Revaluation reserve

	2009	2008
Balance brought forward	80,584,965	2,903,142
Movement in market value of investments, net	(45,662,774)	71,869,844
Movement in market value of land and buildings	-	5,811,979
Balance as at year end	**34,922,191**	**80,584,965**
Revaluation reserve is represented by:		
Available for sale investment securities	27,201,570	72,864,344
Properties	7,720,621	7,720,621
	34,922,191	**80,584,965**

23.3 Other reserves

	2009	2008
Balance at beginning of year	160,000,000	67,000,000
Transfer from retained earnings	53,867,237	93,000,000
Transfer to retained earnings	(20,000,000)	-
Balance as at year end	**193,867,237**	**160,000,000**

23. Reserves…………..*continued*

	2009 $	2008 $
Other reserves is represented by:		
Loan loss reserve	-	20,000,000
Reserve for interest on non-performing loans	54,534,644	48,867,237
General reserve	139,332,593	91,132,763
	193,867,237	**160,000,000**

Included in the 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 Standard (IAS) 39. The prudential guidelines of the 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 it is not available for distribution to shareholders until received (see also Note 6).

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.

24. Net interest income

	2009 $	Restated 2008 $
Interest income		
Loans and Advances (see Note 23)	82,210,785	84,975,845
Deposits with other financial institutions	9,888,156	18,954,443
Investments	22,528,790	23,745,246
Other	-	27,826
Total interest income	114,627,731	127,703,360

24. Net interest income……………*continued*

	2009 $	Restated 2008 $
Interest expense		
Savings accounts	9,713,029	8,958,751
Call accounts	1,266,362	2,390,605
Fixed deposits	38,039,271	37,551,906
Current and other deposits accounts	9,774,899	9,655,763
Debt and other related accounts	10,330,726	8,590,495
Total interest expenses	69,124,287	67,147,520
Net interest income	**45,503,444**	**60,555,840**

25. Net fees and commission income

	2009 $	2008 $
Credit related fees and commission	2,990,135	2,760,316
International business and foreign exchange	42,120,640	49,349,899
Brokerage and other fees and commission	614,448	775,309
Fees and commission income	**45,725,223**	**52,885,524**
Fee expenses		
Brokerage and other related fee expenses	145,661	38,420
International business and foreign exchange fee expenses	3,248,877	1,570,549
Other fee expenses	176,110	206,403
Fee expenses	**3,570,648**	**1,815,372**
Total	**42,154,575**	**51,070,152**

Income earned from international business includes commission and fees on customer debit and credit card transactions worldwide. The Bank is a member of the International Card Association and has contracted with a third party to market and provide these services which have generated gross earnings for the Bank of $41,021,277 (2008 - $48,282,727).

26. Provision for credit impairment

	2009 $	Restated 2008 $
Balance brought forward	44,834,768	41,184,270
Charge-offs and write-offs	(13,901,972)	(3,513,051)
Provisions for impairment losses	5,902,151	7,221,565
Recoveries during the year	(25,000)	(58,016)
	36,809,947	**44,834,768**

27. Administration and general expenses

	2009 $	2008 $
Staff employment	17,898,046	17,723,139
Repairs and maintenance	2,292,408	1,274,157
Legal expenses	1,285,279	481,197
Utilities	857,933	571,773
Stationery and supplies	738,799	696,514
Other general expenses	589,568	696,160
Advertisement and marketing	553,552	724,605
Communication	509,022	450,681
Insurance	439,154	432,575
Security services	408,732	319,421
Rent and occupancy expenses	385,772	360,385
Shareholders’ expenses	128,146	96,752
Taxes and licences	98,566	95,095
Premises upkeep	50,803	731,831
	26,235,780	**24,654,285**

28. Earnings per share

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.

	2009 $	Restated 2008 $
Net income attributed to shareholders	39,669,592	111,611,187
Weighted average number of ordinary shares in issue	81,000,000	81,000,000
Basic earnings per share	**$ 0.49**	**$ 1.38**

29. Dividend

The financial statements reflect a dividend of $14,985,000 (2007 - $14,175,000) for the year ended June 30, 2008, which was approved at the Thirty-eighth Annual General Meeting held on March 26, 2009 and subsequently paid.

30. Subsequent events

Bonus share dividend

At the 38th Annual General Meeting of the St. Kitts-Nevis-Anguilla National Bank Limited held on 26th March 2009, shareholders approved a recommendation by the Board of Directors to issue a bonus share dividend of two (2) new shares for every three (3) existing shares. On 11th September 2009, shareholders received a total of 53,998,883 shares as bonus shares based on their holdings of shares at 31st August 2009.

The Bank is expected to dispose of the remaining 1,117 shares (arising from fractional allocations) by way of sale on the open market with the cash proceeds being then distributed to the shareholders in the same proportion of their fractional share holdings.

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 for 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. A high likelihood of success on the same grounds as the initial claim is expected. The judge gave a detailed precise judgment.

- **NATIONAL CONSUMER MORTGAGE, LLC (a California Limited Liability Company) (Debtor) John P Brincko, Chapter 11 Trustee** (Plaintiff) vs. **St. Kitts-Nevis-Anguilla National Bank Limited** (Defendant) CASE NO. 8:06-10429-TA. The Trustee asserts that the Bank engaged in negligent, reckless and intentional misconduct that enabled a certain company to open and maintain an account into which the Debtor made fraudulent transfers.

  The assertion is based on a belief by the Trustee that the Bank knew or reasonably should have known that the company was a fraudulent business entity.

30. Subsequent events ……………………….*continued*

It is likely that this matter can/will be withdrawn as the Bank performed its due diligence and found that the company in question was a valid company that was properly registered to do business at all material times.

As a result, no provision for a contingent liability is included in these financial statements for either litigation.

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. These 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 is widely held by individuals and other institutions (over 5,200 shareholders). The Bank is the main banker 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 indebtedness to the Bank as at June 30, 2009 was $1,061,755,433 (2008 - $980,768,102). On June 30, 2009 Public sector deposits stood at $609,773,863 (2008 - $542,170,809).

Interest charged to the public sector during the year was $69,297,752 (2008 - $70,470,343). Interest paid and payable to the public sector as at June 30, 2009 was $32,665,232 (2008 - $31,347,149).

Subsidiaries

Advances outstanding as at June 30, 2009 amounted to $9,822,108 (2008 - $21,065,834).

Deposits balances as at June 30, 2009 amounted to $114,515,313 (2008 - $101,099,141).

31. Related Parties…………………*continued*

Directors and Associates
Advances outstanding as at June 30, 2009 amounted to $1,256,869 (2008 - $958,745).

Deposits balances as at June 30, 2009 amount to $1,485,305 (2008 - $1,770,583).

Senior Management
At the end of June 2009 the following amounts were in place:

- Gross salaries, allowances and bonus payments amounted to $1,786,914 (2008 - $1,965,870);
- Loans and advances amounted to $2,084,198 (2008 - $1,908,085);
- Deposit amounts were $2,329,980 (2008 - $1,639,617); and
- Total St. Kitts-Nevis-Anguilla National Bank Limited shares held were 697,750 (2008 – 691,450).

32. Cash and cash equivalents

	2009 $	2008 $
Cash and balances with Central Bank (Note 7)	1,940,397	17,574,749
Treasury bills (Note 8)	90,715,601	134,352,762
Deposits with other financial institutions (Note 9)	178,398,217	341,388,632
Total	**271,054,215**	**493,316,143**

33. Contingent liabilities and commitments

At June 30, 2009 the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	2009 $	2008 $
Loan commitments	15,559,355	15,668,116
Guarantees and standby letters of credit	5,186,100	5,165,270
	20,745,455	20,833,386