Schedule 3

FORM ECSRC – Q

(Select One)

___________________***CENTRAL STREET, BASSETERRE, ST. KITTS***________________________

(Address of principal office)

Reporting issuer's:

Telephone number (including area code): ___(869) 465 2204________________________

Fax number: ___(869) 465 1050________________________

Email address: ____webmaster@sknanb.com______________

Quarterly Report

For the period ended ________***DECEMBER 31, 2010***_____________________________________

or

TRANSITION REPORT ____

(Applicable where there is a change in reporting issuer's financial year)

For the transition period from __________________________to ______________________

Issuer Registration number ____**SKNANB 28071959KN**____________________________

_____________***ST KITTS-NEVIS-ANGUILLA NATIONAL BANK LTD*** _________________________

(Exact name of reporting issuer as specified in its charter)

____________ ***ST KITTS-NEVIS*** ____

(Territory or jurisdiction of incorporation)

____________***CENTRAL STREET, BASSETERRE, ST. KITTS***________________________

(Address of principal office)

Reporting issuer's:

Telephone number (including area code): ___(869) 465 2204________________________

Fax number: ___(869) 465 1050________________________

Email address: ____webmaster@sknanb.com______________

(Provide information stipulated in paragraphs 1 to 8 hereunder)

Indicate the number of outstanding shares of each of the reporting issuer's classes of common stock, as of the date of completion of this report. __________________________________

CLASS	NUMBER
ORDINARY SHARES	135,000,000

SIGNATURES

Name of Chief Executive Officer

_SIR EDMUND LAWRENCE____

____

Signature

____

Date

Name of Director:

__MR WALFORD GUMBS____________

____

Signature

____

Date

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

UNAUDITED

FINANCIAL STATEMENTS

FOR THE SECOND QUARTER ENDED

DECEMBER 31, 2010

SKNA National Bank Ltd. Comptroller Division

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

UNAUDITED FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED DECEMBER 31, 2010

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MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the 2nd quarter ended December 31, 2010

Introduction

The Management Discussion and Analysis gives an overview of the Company's financial condition and results of operations for the second quarter ended December 31, 2010. The report includes forward-looking statements about objectives, strategies and expected financial results. These statements are inherently subject to risks and uncertainties beyond the Bank's control including, but not limited to, economic and financial conditions globally, technological development, competition, and regulatory developments in St. Kitts and Nevis and elsewhere. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements. The reader is therefore cautioned not to place undue reliance on these statements.

Income Statement

Results of Operations

The Bank's Net income before taxes declined by 73.8% for the quarter ended 31 December 2010 when compared with the previous year. The results of the bank continue to be challenged by declining economic growth; however, we anticipate an improvement in results as we carefully adhere to prudent investment and lending policies and encourage operating cost curtailment.

	Dec 2010	**Dec 2009**	
	$ mil	**$ mil**	**% Change**
Income from Loans & Advances	37.6	40.1	-6.2%
Income from Investments	7.7	7.3	5.4%
Income from Deposits with financial Inst.	3.2	5.6	-42.9%
Non-interest income	8.4	13.3	-36.8%
Total income	56.9	66.3	-14.2%
Interest Expenses	40.3	36.2	11.3%
Non-interest expenses	12.4	14.1	-12.0%
Total expenses	52.7	50.3	4.8%
Net Income before taxes	4.2	16.0	-73.8%

Net Interest Income

At December 31, 2010, net interest income fell by $8.6 million or 51.2 % when compared with the results attained for the same period in 2009. The decrease in net interest income resulted mainly from an increase in interest expense by $4.1m, which was influenced by an increase in customers' deposits, and a reduction in interest income by $4.5m.

Net Fees & Commission Income

Net fees and commission income declined by 48% for the quarter ended December 31, 2010 when compared with one year ago. The year-over-year decrease in fees and commission income was due mainly to a fall in income from E-business transactions.

Other Income

At December 31, 2010, income from other sources increased by $1.0 million or 35.7% when compared with December 31, 2009. This was mainly the result of gains derived from investments and foreign currency transactions.

Analysis of Revenue	**Dec 2010**	**Dec 2009**	
Interest Income	**$ 000**	**$ 000**	**% Change**
Interest from loans and advances	37,645	40,106	-6.1%
Interest from investments	7,695	7,349	4.7%
Interest from deposits with Fin. Inst.	3,177	5,582	-42.9%
Total interest	**48,517**	**53,037**	-8.5%
Non-interest income			
Income from fees and commissions, net	4,425	10,371	-57.3%
Gains from foreign exchange	1,717	1,344	27.8%
Gains from investments, net	1,795	1,084	65.6%
Dividend income	359	426	-15.7%
Other income	59	42	40.5%
Total non-interest income	**8,355**	**13,267**	-37.0%
Total Revenue	**56,872**	**66,304**	-14.2%

Operating Expenses

Operating expenses, which were $14.1 million at December 31, 2009 decreased to $12.4 million at December 31, 2010 representing a decrease of 12.0%. The decrease in operating expenses resulted mainly from decreased staff costs, legal expenses and repairs and maintenance.

The company anticipates continued reductions in operating expenses over the next quarter through continued emphasis on cost containment, effective risk management and operational efficiencies. Cost savings will also be attained through continued improvements in the technology infrastructure.

The Company believes that net income will show an improvement over the next quarter and beyond, through continued focus on exploring new avenues to diversify and enhance our non-interest income base.

Balance Sheet

Assets

Total assets grew from $2,272.6 million at June 30, 2010 to $2,322.6 million at December 31, 2010, representing a 2.2% increase. Growth in total assets was due mainly to an increase in loans & advances and other receivables during the period. Loans and advances contributed to 52.8% of total assets at December 31, 2010 (June 2010: 50.4%), while deposits with other financial institutions contributed to 13% (June 2010: 14.6%). All other assets accounted for the remaining 34.2% (June 2010: 35%).

Deposits

At the end of December 2010, customer deposits increased slightly by 1.5% over the amount recorded at the end of fiscal year 2010. The Bank recognizes and appreciates the importance of its core deposit base and as such, management continues to encourage deposits through continuous marketing of new and improved products and services.

Loans and Advances

At December 31, 2010 loans and advances to customers increased by $81.3 million representing a 7.1% rise from $1,145.8 million recorded at June 30, 2010. The increase in loans and advances to customers resulted mainly from the increased utilization of our overdraft facility by the public and private sectors.

Shareholders' Equity

The company continues to realize its goal of providing a satisfactory return to shareholders and increasing the value of investments. Shareholders' Equity was $476.8 million at December 31, 2010 compared with $466.0 million at June 30, 2010. This represents a 2.3% increase, resulting from fair value gains on available-for-sale investments for the period.

Corporate Governance

The Board of Directors continues to search for innovative ways to improve corporate governance, risk management, ethical conduct, best practices and maintenance of international standards. In this regard the Board is focused on:

• Adoption and implementation of corporate governance guidelines and codes of ethics and business conduct.

• Continued emphasis on the Corporate Strategic Plan, which includes management's philosophy, economic outlook and conditions, performance targets and plans for implementation of strategies over the next 5 years.

Additionally, the Board will continue to take vital steps towards culturing a strong corporate governance environment, improving transparency and fostering high levels of integrity, thereby strengthening shareholder confidence in the Company.

Risk Management

The management of risks has emerged as one of the greatest challenges that banks now face. This challenge must be tackled by developing new approaches and by adjusting current processes.

The Bank has taken up this challenge and has placed increased emphasis on the management of risks through the systematic development of tools and strategies to mitigate these risks. Risks are continuously being evaluated in terms of the level of impact they can have on income and asset values.

While the bank places strong emphasis on the management of risks, it does so with the objective of balancing risk taking with expected returns to our shareholders.

Outlook

Over the next quarter, the Company will continue to focus on cost containment, risk management and operational efficiency. We will continue to build on our existing infrastructure and technology to enhance our products and services and focus on initiatives to augment our interest income and non-interest income base.

These measures should boost total revenue. At the end of the third quarter ending March 31, 2011, we anticipate an increase in shareholders equity, deposits and assets when compared to the end of the same period in 2010.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

BALANCE SHEET AS AT DECEMBER 31, 2010

Unaudited Year Ended June 2010 $		Notes	*Unaudited* Quarter Ended December 2010 $	*Unaudited* Quarter Ended December 2009 $
	Assets			
102,459,955	Cash and balances with Central Bank	6	84,036,249	92,490,555
90,715,601	Treasury Bills	7	90,715,601	90,715,601
331,347,078	Deposits with other financial Institutions	8	300,296,458	370,485,255
1,145,755,171	Loans and Advances - customers	9	1,227,114,136	1,088,671,254
130,074,490	- originated debts	10	126,472,352	91,436,913
374,448,905	Investments - available for sale	11	356,698,517	340,574,758
26,750,000	Investment in Subsidiaries	12	26,750,000	17,750,000
5,046,100	Customers' Liability under Acceptances, Guarantees, and Letters of Credit (per contra)	13	4,586,100	5,070,100
7,927,397	Income Tax Asset		7,927,397	
24,859,436	Property, Plant and Equipment	14	23,000,505	24,929,847
1,194,997	Intangible Assets	15	2,416,648	1,661,480
31,683,460	Other Accounts	16	72,264,471	8,052,907
357,786	Deferred Tax	20	357,786	200,907
2,272,620,376	**Total Assets**		**2,322,636,220**	**2,132,039,577**
	Liabilities			
1,483,165,330	Due to Customers	17	1,506,083,385	1,442,851,780
	Due to other financial institutions		4,216,726	3,480,337
202,311,769	Other borrowed funds	18	233,063,671	176,999,958
5,046,100	Acceptances, Guarantees and Letters of Credit (per contra)		4,586,100	5,070,100
	Income tax liability			(6,315,006)
89,064,483	Accumulated Provisions, Creditors, and Accruals	19	63,615,088	63,715,155
27,005,824	Deferred Tax Liability		34,262,206	14,646,767
1,806,593,506	**Total Liabilities**		**1,845,827,176**	**1,700,449,091**
	Shareholders' Equity			
135,000,000	Issued Share Capital	21	135,000,000	134,998,883
3,877,424	Share Premium		3,877,424	3,877,424
26,981,532	Retained Earnings		24,287,567	36,923,634
300,167,914	Other Reserves	22	313,644,053	255,790,545
466,026,870	**Total Shareholders' Equity**		**476,809,044**	**431,590,486**
2,272,620,376	**Total Liabilities and Shareholders' Equity**		**2,322,636,220**	**2,132,039,577**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Statement of Income for the period ended December 31, 2010

Unaudited Year Ended June 2010		Unaudited Quarter Ended December 2010 $	Unaudited Quarter Ended December 2009 $
	INCOME		
111,726,602	Interest income	48,516,944	53,036,955
(74,888,287)	Interest expense	(40,320,830)	(36,233,641)
36,838,315	Net interest income	**8,196,114**	**16,803,314**
(2,315,888)	Credit Impairment losses	**-**	**-**
34,522,427	**Sub-total - Interest Revenue**	**8,196,114**	**16,803,314**
23,457,669	Fees and commission income	6,001,804	11,540,875
(1,959,939)	Fee expense	(1,577,094)	(1,170,260)
21,497,730	**Net fees and commission income**	**4,424,710**	**10,370,615**
786,871	Dividend income	358,496	426,187
1,391,045	Gains less losses from investments	1,795,027	1,083,986
2,955,976	Gain on foreign exchange	1,717,248	1,344,246
364,924	Other operating income	59,443	41,835
5,498,816	**Other Income**	**3,930,214**	**2,896,254**
61,518,973	**Operating income**	**16,551,038**	**30,070,183**
	Operating expenses		
24,515,467	Administration and general expenses	10,662,436	13,027,549
330,679	Directors fees and expenses	171,419	190,084
292,691	Audit fees and expenses	84,000	-
1,903,586	Depreciation	1,034,010	657,576
643,370	Amortisation	408,138	176,280
27,685,793	**Total operating expenses**	**12,360,003**	**14,051,489**
33,833,180	**Operating income before tax**	**4,191,035**	**16,018,694**
(633,009)	**Income tax expense**		(2,402,804)
33,200,171	**Net income for the year**	**4,191,035**	**13,615,890**
0.27	**Earnings per share (Annualized)**	**0.06**	**0.20**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Statement of Comprehensive Income for the period ended December 31, 2010

Unaudited Year Ended June 2010		Notes	Unaudited Quarter Ended December 2010	Unaudited Quarter Ended December 2009
33,200,171	**Net Income for the period**		**4,191,035**	**13,615,890**
	Other Comprehensive Income:			
22,952,103	Available for sale financial assets		13,476,139	0
22,952,103	**Other comprehensive Income for the period**		**13,476,139**	**0**
56,152,274	**Total Comprehensive Income for the period**		**17,667,174**	**13,615,890**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LTD.
STATEMENT OF CASHFLOW
FOR THE PERIOD ENDED DECEMBER 31, 2010

Unaudited Year Ended June 2010		Notes	Unaudited Quarter Ended December 2010 $	Unaudited Quarter Ended December 2009 $
	Cash flows from operating activities			
33,833,180	Operating Income before taxation		4,191,035	16,018,694
	Adjustments for:			
(111,726,602)	Interest Income		(48,516,944)	(53,036,955)
74,888,287	Interest Expense		40,320,830	36,233,641
1,903,586	Depreciation		1,034,010	657,576
643,370	Amortisation		408,138	176,280
2,315,888	Provision for loan impairment, net			
	Prior year adjustments			
(363)	Gain/Loss on disposal of fixed assets			(1,690)
1,857,346	Operating income before changes in operating assets and liabilities		**(2,562,931)**	**47,546**
	(Increase) decrease in operating assets:			
(111,251,894)	Loans and advances to customers		(81,264,334)	(56,895,877)
(7,189,502)	Mandatory deposits with Central Bank		(1,122,970)	(5,185,880)
519,655	Other accounts		(40,581,010)	24,150,208
	Increase (decrease) in operating liabilities:			
124,104,087	Customers' deposits		9,486,318	71,725,175
(623,102)	Due to other financial institutions		4,216,726	2,857,235
1,473,852	Accumulated provisions, creditors, and accruals		(25,449,395)	(23,706,027)
8,890,442	**Cash generated from operations**		**(137,277,596)**	**12,992,380**
105,692,376	Interest received		48,403,019	52,304,649
(74,950,157)	Interest paid		(26,896,782)	(24,399,598)
(9,675,284)	Income tax paid		0	(9,675,809)
29,957,377	***Net cash generated in operating activities***		**(115,771,359)**	**31,221,622**
	Cash flows from investing activities			
(1,789,344)	Purchase fixed assets		(804,869)	(611,810)
1,690	Proceeds from disposal of assets		0	1,690
(36,260,609)	(Increase)/Decrease in special term deposits		114,625	(13,184,042)
(15,533,593)	(Increase)/Decrease in restricted term deposits		(1,159,435)	(7,706,106)
(9,000,000)	Investment in Subsidiaries		0	0
(32,694,650)	(Increase)/Decrease in investments		41,903,300	4,677,221
(95,276,506)	***Net cash used in investing activities***		**40,053,621**	**(16,823,047)**
	Cash flows from financing activities			
25,561,148	Other Borrowed Funds		30,759,590	249,338
(8,100,000)	Dividend paid		(6,885,000)	
17,461,148	***Net cash used in financing activities***		23,874,590	249,338
(47,857,981)	**Increase (Decrease) in cash and cash equivalents**		**(51,843,148)**	**14,647,913**
271,054,215	**Cash and cash equivalents at beginning of period**		**223,196,234**	**271,054,215**
223,196,234	**Cash and cash equivalents at end of period**	31	**171,353,086**	**285,702,128**
	Represented by:			
8,586,933	Cash in hand		11,809,489	9,834,496
92,290,660	Operating cash balances		53,295,115	129,106,067
3,781,039	Items in course of collection		8,480,112	7,001,084
19,905,354	Term deposits		21,905,354	50,341,574
90,715,601	Treasury bills		90,715,601	90,715,601
7,916,647	Deposits with ECCB other than mandatory deposits		(14,852,585)	(1,296,694)
223,196,234			**171,353,086**	**285,702,128**

STATEMENT OF CHANGES IN EQUITY

For The Quarter Ended December 31, 2010

	Notes	Share Capital $	Share Premium $	Statutory Reserves $	Other Reserves $	Available for Sale Financial Assets $	Revaluation Surplus $	Retained Earnings $	Total Shareholders' Equity $
Balance at December 31, 2009		**134,998,883**	**3,877,424**	**81,000,000**	**139,868,354**	**27,201,570**	**7,720,621**	**36,923,634**	**431,590,486**
Total Comprehensive Income		-	-	-	-	22,952,103	-	19,584,281	42,536,384
Increase in Share Capital		1,117	-	-	(1,117)	-	-	-	-
Transfer to Reserves	22	-	-	6,640,034	14,786,349	-	-	(21,426,383)	-
Dividends	28	-	-	-	-	-	-	(8,100,000)	(8,100,000)
Balance at June 30, 2010		**135,000,000**	**3,877,424**	**87,640,034**	**154,653,586**	**50,153,673**	**7,720,621**	**26,981,532**	**466,026,870**
Total Comprehensive Income		-	-	-	-	13,476,139	-	4,191,035	17,667,174
Dividends		0	-	-	-	-	-	(6,885,000)	(6,885,000)
Balance at December 31, 2010		**135,000,000**	**3,877,424**	**87,640,034**	**154,653,586**	**63,629,812**	**7,720,621**	**24,287,567**	**476,809,044**

1. Incorporation

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

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

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

The Bank is listed on the Eastern Caribbean Securities Exchange.

2. Adoption and amendments of published standards and interpretations

2.1 Amendments and published standards adopted in current period

- *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.

- 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). The Bank chose two statements. 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.

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

2.1 Amendments and published standards adopted in current period……………continued

- *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. IAS 39 (Amendment) has had no 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.

- *IAS 38 (Amendment*), *'Intangible assets'* (effective for annual periods on or after January 1, 2009). Prepayments may only be recognised in the event that those payments have been made in advance of obtaining right of access to goods or receipt of services. The amendment deletes the wording that states that there is ''rarely if ever' support for use of a method that results in a lower rate of amortization than the straight line method. The amendment does not have an impact on the Bank operations as all intangible assets are amortised using the straight line method.

- *IAS 7 (Amendment), 'financial instruments: Disclosures' (*effective from March 1, 2009). The amendment requires enhanced disclosure about fair value measurements and liquidity risk. Also, the amendment requires disclosure of fair value measurements by level in a fair value hierarchy. This amendment has no impact on the Bank.

- *IFRS 8, 'Operating segments'*, replaces IAS 14, 'Segment reporting' (effective for annual periods beginning on or after January 1, 2009). The new standard requires that segment reporting be based on the internal reporting to the Board of Directors (in its function as chief operating decision-maker), which makes decisions on the allocation of resources and assesses the performance of each reportable segment. Application of this standard will have no material effect on the Bank.

- *IAS 37, 'Provisions, contingent liabilities and contingent assets'*, requires contingent liabilities to be disclosed, not recognised. As a result, IAS 19 has been amended to be consistent.

- *IAS 27 (Amendment), 'Consolidated and separate financial statements'* (effective for annual periods beginning on or after January 1, 2009). Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: Recognition and measurement' is classified as held for sale under IFRS 5, 'Non-current assets held for sale and discontinued operations', IAS 39 continues to be applied. The amendment has no impact on the Bank.

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

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

- IFRS 9, 'Financial instrument: Classification and measurement' (effective for annual periods beginning on or after January 1, 2013). This standard replaces those parts in IAS 39 relating to the classification and measurement of financial assets. The principal features to the standard are as follows:

    1. Financial assets are required to be classified into two (2) measurement categories: those to be subsequently measured at amortised cost and those to be subsequently measured at fair value. The measurement decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial assets and the contractual cash flow characteristics of the financial assets.

    2. A financial asset is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows, and the financial asset's contractual cash flows represent only payments of principal and interest.

    3. All equity instruments are to be measured subsequent at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity instruments, an irrevocable election can be made at initial recognition, to recognize realized and unrealized gains or losses through other comprehensive income rather than profit or loss. This election may be made on an instrument-by-instrument basis.

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

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

3.3 Foreign currency transaction

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

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

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

3.4 Financial assets

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

(a) ***Financial assets at fair value through profit or loss***
Certain investments, such as equity investments, principal protected investments and others, that are managed and evaluated on a fair value basis in accordance with a documented investment strategy and reported to management on that basis are designated at fair value through profit or loss.

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

Loans and receivables are recognized when cash or the right to cash is advanced to a borrower.

(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.

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

3.4 Financial assets ……………*continued*

(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 recognized on trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction cost for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized 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 derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

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 recognized directly in equity, until the financial assets is derecognized or impaired, at which time, the cumulative gain or loss previously recognized in equity is then recognized 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 recognized in the income statement. Dividends on available-for-sale equity instruments are recognized 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 recognized within 'interest income' and 'interest expense' in the statement of income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

3.5 Interest income and expense…………..continued

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

3.6 Fee and commission income

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

3.7 Dividend income

Dividends are recognized 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.

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

3.8 Impairment of financial assets…………*continued*

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

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

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

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

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

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

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

3.8 Impairment of financial assets*…………continued*

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

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

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

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

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

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

3.9 Property, plant and equipment……….continued

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, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

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

3.12 Leases

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

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

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

3.13 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.

3.14 Employee benefits

(a) ***Pension plan***
The Bank operates a defined contribution plan for its employees. The Bank pays for 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.

3.15 Current and deferred income tax

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

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

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

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

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

3.15 Current and deferred income tax………..continued

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

3.16 Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with differences between proceeds net of transaction costs and the redemption value being recognized in the statement of income over the period of the borrowing using the effective interest method.

3.17 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.

3.18 Share capital

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

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

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

3.19 Comparatives

Where it has been necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. Financial risk management

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

4. Financial risk management…….*continued*

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

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

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

4.1 Credit risk

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

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

4.1.1 Credit risk measurement

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

4. Financial risk management…….*continued*

4.1.1 Credit risk measurement……*continued*

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

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

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

4.1.2 Risk limit control and mitigation policies

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

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

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

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

4. Financial risk management…….*continued*

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

(a) ***Collateral***

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

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

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

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

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

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

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

4.1.3 Impairment and provisioning

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

Bank rating

	Dec 2010		June 2010	
	Loans and advances (%)	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
1 Pass	81.89	-	83.70	-
2 Special mention	13.46	0.02	11.53	0.02
3 Sub-standard	3.43	30.25	3.49	30.25
4 Doubtful	1.18	68.66	1.27	68.66
5 Loss	0.04	1.07	0.01	1.07
	100.00	100.00	100.00	100.00

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

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

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

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

4. Financial risk management……*continued*

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

	Maximum exposure	
	Dec 2010	June 2010
***Credit risk exposures relating to on-balance sheet assets are as follows*:**	$	$
Treasury bills	90,715,601	90,715,601
Deposits with other financial institutions	300,296,458	331,347,078
Loans and advances:		
• Overdrafts	210,987,593	168,488,332
• Corporate customers	170,477,892	135,079,860
• Term loans	734,293,766	735,337,536
• Mortgages (personal)	111,354,885	106,849,444
• Originated debts	126,472,352	130,074,490
• Available-for-sale investments	83,660,326	120,467,552
• Other assets	71,033,343	31,025,378
• Loan commitments and financial guarantees	47,763,186	53,693,153
Total	**1,947,055,402**	**1,903,078,424**

The above table represents a worse case scenario of credit risk exposure to the Bank at December 31, 2010 and June 30, 2010, 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, 63% (June 2010 – 60%) of the total maximum exposure is derived from loans and advances to banks and customers; 11% (June 2010 – 13%) represents investments in debt securities.

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

- 95% (June 2010 – 95%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;

4. Financial risk management…….*continued*

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

- Term loans, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees.
- 91% (June 2010 – 88%) of the loans and advances portfolio are considered to be neither past due nor impaired.
- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines;
- 9% 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 88% of these investments are not rated.

4.1.5 Loans and advances

	Dec 2010 $	June 2010 $
Loans and advances are summarized as follows:		
Loans and advances to customers		
Neither past due nor impaired	1,097,772,396	988,784,854
Past due but not impaired	53,092,402	81,710,843
Impaired	55,261,840	54,366,608
	1,206,126,638	**1,124,862,305**
Interest receivable (see Note 9)	60,062,081	59,967,449
Less allowance for impairment losses (Note 9)	(39,074,583)	(39,074,583)
Net	**1,227,114,136**	**1,145,755,171**

The total allowance for impairment losses on loans and advances is $39,074,583 (June 2010- $39,074,583). Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 25.

4. Financial risk management…….*continued*

4.1.5 Loans and advances…………continued

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

Dec 31, 2010

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
Loans and advances to customers					
Classifications:					
1. Pass	120,423,376	706,835,183	68,726,551	43,031,029	939,016,139
2. Special mention	78,294,736	943,321	4,650,778	74,867,422	158,756,257
Gross	**198,718,112**	**707,778,504**	**73,377,329**	**117,898,451**	**1,097,772,396**

June 30, 2010

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
Loans and advances to customers					
Classifications:					
3. Pass	108,973,418	648,102,621	63,953,268	42,854,274	863,883,581
4. Special mention	47,193,453	901,624	4,928,883	71,877,313	124,901,273
Gross	**156,166,871**	**649,004,245**	**68,882,151**	**114,731,587**	**988,784,854**

4. Financial risk management…….*continued*

4.1.5 Loans and advances…………continued

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

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

	Term loans $	Mortgages $	Corporate customers $	Total $
At Dec 31, 2010				
Past due up to 30 days	1,722,798	8,367,372	263,902	10,354,072
Past due 30 – 60 days	275,964	444,420	35,065,957	35,786,341
Past due 60 – 90 days	271,780	1,883,514	-	2,155,294
Over 90 days	777,784	3,660,779	358,132	4,796,695
Gross	**3,048,326**	**14,356,085**	**35,687,991**	**53,092,402**
Fair value of collateral	**16,151,548**	**27,618,820**	**57,816,800**	**101,587,168**

	Term loans $	Mortgages $	Corporate customers $	Total $
At June 30, 2010				
Past due up to 30 days	1,725,913	8,995,294	530,401	11,251,608
Past due 30 – 60 days	659,019	3,465,238	-	4,124,257
Past due 60 – 90 days	62,914,456	1,854,557	-	64,769,013
Over 90 days	587,320	978,645	-	1,565,965
Gross	**65,886,708**	**15,293,734**	**530,401**	**81,710,843**
Fair value of collateral	**86,796,432**	**29,844,878**	**840,000**	**117,481,310**

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

4. Financial risk management…….*continued*

4.1.5 Loans and advances…………continued

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

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $55,261,840.

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

	Overdrafts $	**Term loans $**	**Mortgages $**	**Corporate customers $**	**Total Loans and advances to customers $**
Dec 31, 2010					
Pass		28,693	44,377		73,070
Special mention		4,920	442,508		447,428
Substandard	2,130,662	6,322,695	13,915,924	17,665,041	40,034,322
Doubtful	3,795,676	3,367,983	4,284,290	2,776,610	14,224,559
Loss	166,470		315,985	6	482,461
	6,092,808	**9,724,291**	**19,003,084**	**20,441,657**	**55,261,840**
Fair value of collateral	11,819,271	38,404,937	46,250,363	112,765,130	209,239,701

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
June 30, 2010					
Pass		95,135	146,503		241,638
Special mention		93,659	353,180		446,839
Substandard	2,144,102	3,590,773	13,266,800	20,218,869	39,220,544
Doubtful	3,834,216	3,019,002	4,288,689	3,149,204	14,291,111
Loss	166,470			6	166,476
	6,144,788	**6,798,569**	**18,055,172**	**23,368,079**	**54,366,608**
Fair value of collateral	11,819,271	19,586,128	34,023,874	135,851,757	201,281,030

4. Financial risk management…….*continued*

4.1.5 Loans and advances…………continued

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

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

4.1.6 Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at December 31, 2010, based on Standard & Poor's ratings or equivalent:

	Treasury Bills $	Investment Securities $	Loans and receivables - notes & bonds $	Total $
AAA				
AA- to AA+				
A- to A+		26,816,754		**26,816,754**
Lower than A-		7,549,100		**7,549,100**
Unrated	90,715,601	49,294,472	126,472,352	**266,482,425**
Total	**90,715,601**	**83,660,326**	**126,472,352**	**300,848,279**

4. Financial risk management…….*continued*

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

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

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean States $	Total $
Dec 31, 2010					
Treasury bills	90,715,601				90,715,601
Deposits with Fin. Inst.	41,902,104	155,481,613	3,911,522	99,001,219	300,296,458
Loans and advances	1,181,327,204	32,923,296	2,395,128	10,468,508	1,227,114,136
Originated debts	73,813,862			52,658,490	126,472,352
Investments (AFS)	2,010,059	81,650,267			83,660,326
Other assets	19,656,493	51,376,850			71,033,343
	1,409,425,323	**321,432,026**	**6,306,650**	**162,128,217**	**1,899,292,216**
June 30, 2010					
Treasury bills	90,715,601				90,715,601
Deposits with Fin. Inst.	40,927,492	149,254,476	14,833,192	126,331,918	331,347,0 78
Loans and advances	1,099,559,570	31,674,079	2,291,224	12,230,298	1,145,755,171
Originated debts	76,300,000			53,774,490	130,074,490
Investments (AFS)	2,010,059	118,457,493			120,467,552
Other assets	31,025,378				31,025,378
	1,340,538,100	**299,386,048**	**17,124,416**	**192,336,706**	**1,849,385,270**

4. Financial risk management…….*continued*

4.1.8 Sectoral analysis of the loans and advances portfolio

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

	Dec 2010 $	June 2010 $
Consumers	136,392,057	130,257,994
Agriculture, fisheries and manufacturing	5,516,262	5,275,998
Construction and land development	45,977,450	40,774,101
Distributive trade, transportation and storage	10,338,518	10,527,540
Tourism, entertainment and catering	53,227,464	20,751,091
Financial institutions	15,678,341	16,046,801
State, statutory bodies and public utilities	918,700,215	879,402,690
Professional and other services	20,296,331	21,826,090
Total	**1,206,126,638**	**1,124,862,305**

4.19 Concentration of risks of financial assets with credit exposure

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

	Public Sector $	Construction $	Tourism $	Financial Inst. $	Individuals $	Other Industries $	TOTAL $
Dec 31, 2010							
Treasury Bills	90,715,601	-	-	-	-	-	90,715,601
Deposits with banks & Non bank financial Inst.	-	-	-	300,296,458	-	-	300,296,458
Originated Debt	117,612,352	-	-	1,300,000	-	7,560,000	126,472,352
Investment securities - Debt securities	-	-	-	83,660,326	-	-	83,660,326
Loans & Advances to customers	918,746,848	49,535,188	63,584,174	15,680,061	141,109,809	38,458,056	1,227,114,136
Other Assets	-	-	-	-	1,818,065	69,215,278	71,033,343
Total	**1,127,074,801**	**49,535,188**	**63,584,174**	**400,936,845**	**142,927,874**	**115,233,334**	**1,899,292,216**
June 30, 2010	**1,100,374,313**	**44,331,839**	**31,107,801**	**456,862,507**	**135,458,461**	**81,250,349**	**1,849,385,270**

4. Financial risk management…….*continued*

4.2 Market risk

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

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

4.2.1 Price risk

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

4.2.2 Foreign exchange risk

The Bank is exposed to foreign exchange risk through fluctuation in certain prevailing foreign exchange rates on its financial position and cash flows. The Board of Directors limits the level of exposure by currency and in total which are monitored daily. The Bank exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The Bank uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollar (EC$). The Bank has set the mid-rate of exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) at EC$2.7026=US$1.00 since 1976. The following table summarises the Bank exposure to foreign currency exchange rate risk at December 31, 2010. Included in the table are the Bank financial instruments at carrying amounts, categorized by currency.

4. Financial risk management…….*continued*

4.2.2 Foreign exchange risk…….continued

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

December 31, 2010	EC$	US$	EURO	GBP	CAN	BDS	GUY	TOTAL
Assets								
Cash & Balances with Central Bank	80,128,134	3,511,141	102,430	208,635	55,638	30,271	-	84,036,249
Treasury Bills	90,715,601	-	-	-	-	-	-	90,715,601
Deposits with other financial Institution	56,889,363	240,519,776	318,461	81,735	1,977,193	474,424	35,506	300,296,458
Loans and receivables								
- Loans and advances to customers	1,227,003,305	110,831	-	-	-	-	-	1,227,114,136
- Originated Debt	124,975,439	1,496,913	-	-	-	-	-	126,472,352
Investment Securities - avail for sale	14,098,665	342,599,852	-	-	-	-	-	356,698,517
Other Assets	7,001,651	68,617,792	-	-	-	-	-	75,619,443
Total financial Assets	**1,600,812,158**	**656,856,305**	**420,891**	**290,370**	**2,032,831**	**504,695**	**35,506**	**2,260,952,756**
Liabilities								
Due to customers	1,289,931,208	211,075,987	615,420	546,594	3,914,176	-	-	1,506,083,385
Due to other financial institutions	-	4,194,700	-	22,026	53	-	-	4,216,779
Other borrowed funds	-	233,063,671	-	-	-	-	-	233,063,671
Other liabilities	25,090,100	42,484,657	42,179	379,114	146,983	58,155	-	68,201,188
Total financial Liabilities	**1,315,021,308**	**490,819,015**	**657,599**	**947,734**	**4,061,212**	**58,155**	**-**	**1,811,565,023**
Net on-balance sheet positions	**285,790,850**	**166,037,290**	**(236,708)**	**(657,364)**	**(2,028,381)**	**446,540**	**35,506**	**449,387,734**
Credit Commitments	**43,177,086**							

June 30, 2010	EC$	US$	EURO	GBP	CAN	BDS	OTHER	TOTAL
Total Financial Assets	1,533,574,260	670,587,124	1,063,044	832,786	4,177,894	624,955	12,615	2,210,872,678
Total Financial Liabilities	1,266,692,857	507,521,568	599,905	904,774	3,773,528	58,155	-	1,779,550,787
Net on-balance sheet positions	**266,881,403**	**163,065,556**	**463,139**	**(71,988)**	**404,366**	**566,800**	**12,615**	**431,321,892**
Credit Commitments	**48,647,053**							

4.2.3 Interest rate risk

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

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

Interest Sensitivty of Assets and Liabilities

	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$	$	$	$	$	$	$
As at Dec 31, 2010							
Financial Assets							
Cash & balances with Central Bank	-	-	-	-	-	84,036,249	84,036,249
Treasury Bills	-	90,715,601	-	-	-	-	90,715,601
Deposits with other financial Inst.	150,144,556	786,360	114,165,503	-	-	35,200,039	300,296,458
Loans & Advances to customers	309,319,267	1,683,608	4,572,371	107,852,716	803,598,953	87,221	1,227,114,136
- Originated Debts	576,000	1,422,000	5,994,000	32,968,000	85,512,352	-	126,472,352
Investment securities	64,931,151	1,360,354	-	-	4,709,686	285,697,326	356,698,517
Other Assets	-	-	-	51,349,400	-	24,270,042	75,619,442
Total Financial Assets	524,970,974	95,967,923	124,731,874	192,170,116	893,820,991	429,290,877	2,260,952,755
Financial Liabilities							
Due to Customers	562,862,781	294,207,173	485,275,333	-	-	163,738,098	1,506,083,385
Due to Other financial Inst.	4,216,726	-	-	-	-	-	4,216,726
Other Borrowed funds	270,260	540,000	2,432,340	9,729,360	219,235,754	855,957	233,063,671
Other Liabilities	266,262	-	489,535	-	-	67,445,391	68,201,188
Total Financial Liabilities	567,616,029	294,747,173	488,197,208	9,729,360	219,235,754	232,039,446	1,811,564,970
Total Interest repricing gap	**(42,645,055)**	**(198,779,250)**	**(363,465,334)**	**182,440,756**	**674,585,237**		
As at June 30, 2010							
Total Financial Assets	388,125,430	109,883,070	137,193,509	197,050,704	912,796,934	465,823,031	2,210,872,678
Total Financial Liabilities	581,065,919	56,526,697	680,758,993	9,729,360	188,745,904	262,723,914	1,779,550,787
Total Interest repricing Gap	**(192,940,489)**	**53,356,373**	**(543,565,484)**	**187,321,344**	**724,051,030**		

4. Financial risk management…….*continued*

4.2.3 Interest rate risk…………*continued*

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

4.3 Liquidity risk

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

4.3.1 Liquidity risk management

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

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

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

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

- Managing the concentration and profile of debt maturities.

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

4.3.2 Funding Approach

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

4. Financial risk management…….*continued*

4.3.3 Non-derivative cash flows

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

Analysis of Assets and Liabilities into relevant maturity grouping

	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	$	$	$	$	$	$
As at Dec 31, 2010						
Financial Liabilities						
Due to Customers	704,834,852	306,103,748	495,144,785	-	-	1,506,083,385
Due to other financial Inst.	4,216,726	-	-	-	-	4,216,726
Other Borrowed funds	270,260	540,520	3,288,297	9,729,360	219,235,234	233,063,671
Other Liabilities	51,399,659	5,398,886	7,306,078	4,096,565	-	68,201,188
Total Financial Liabilities	**760,721,497**	**312,043,154**	**505,739,160**	**13,825,925**	**219,235,234**	**1,811,564,970**
Total Financial Assets	**906,054,058**	**98,732,746**	**151,058,255**	**211,410,291**	**893,697,405**	**2,260,952,755**
As at June 30, 2010						
Total Financial Liabilities	**816,656,329**	**60,740,473**	**699,527,962**	**13,880,119**	**188,745,904**	**1,779,550,787**
Total Financial Assets	**890,425,900**	**113,934,366**	**145,288,837**	**170,567,166**	**890,656,409**	**2,210,872,678**

4. Financial risk management…….*continued*

4.3.4 Off-balance sheet items

(a) Loan commitments
The dates of the contractual amounts of the Bank off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 32), are summarized in the table below.

	Up to 1 year $	1 – 3 years $	Over 3 years $	Total $
As at December 31, 2010				
Loan commitments	36,847,728	790,209	5,539,149	43,177,086
Guarantees and standby letters of credit	489,535	-	4,096,565	4,586,100
Total	37,337,263	790,209	9,635,714	47,763,186
As at June 30, 2010				
Loan commitments	39,217,448	3,052,861	6,376,744	48,647,053
Guarantees and standby letters of credit	949,535	-	4,096,565	5,046,100
Total	40,166,983	3,052,861	10,473,309	53,693,153

4.4 Fair values of financial assets and financial liabilities

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

The fair values of cash resources, other assets and liabilities, items in transit are assumed to approximate their carrying values due to their short term nature. The fair values of off balance sheet commitments are also assumed to approximate the amount disclosed in Note 32.

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

4. Financial risk management…….*continued*

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

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

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

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

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

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

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

4. Financial risk management…….*continued*

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

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

	Carrying Value		Fair Value	
	Dec 2010	June 2010	Dec 2010	June 2010
Financial assets	$	$	$	$
Treasury bills	90,715,601	90,715,601	90,715,601	90,715,601
Deposits with other financial institutions	300,296,458	331,347,078	300,296,458	331,347,078
Loans and receivables:				
Loans and advances				
Overdrafts	210,987,593	168,488,332	212,537,593	170,460,174
Corporate	170,477,892	197,482,280	190,620,749	326,405,300
Mortgage	111,354,885	106,849,444	213,884,781	213,884,781
Term	734,293,766	672,935,115	937,980,637	802,196,086
Originated debts	126,472,352	130,074,490	126,472,352	130,074,490
Investments	83,660,326	120,467,552	83,660,326	120,467,552
Financial Liabilities				
Due to customers	1,506,083,385	1,483,165,330	1,506,083,385	1,483,165,330
Due to financial institutions	4,216,726		4,216,726	
Other borrowed funds	233,063,671	202,311,769	233,063,671	202,311,769

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 unrealized gains arising on the fair valuation of equity instruments held as available for sale.

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the period ended December 31, 2010 and June 30, 2010. During these two periods, the Bank complied with all the externally imposed capital requirements to which it is subject.

	Dec 2010	June 2010
Tier 1 capital	**$**	**$**
Share Capital	135,000,000	135,000,000
Bonus shares from capitalization of unrealized asset revaluation reserve	(4,500,000)	(4,500,000)
Reserves	246,171,044	246,171,044
Retained earnings	24,287,567	26,981,532
Total qualifying Tier 1 capital	**400,958,611**	**403,652,576**
Tier 2 capital		
Revaluation reserve – available-for-sale investments	63,629,812	50,153,673
Revaluation reserve – property, plant and equipment	7,720,621	7,720,621
Bonus shares capitalization	4,500,000	4,500,000
Accumulated impairment allowance	39,074,583	39,074,583
Total qualifying Tier 2 capital	**114,925,016**	**101,448,877**
Investment in subsidiaries	(26,750,000)	(26,750,000)
Total regulatory capital	**489,133,627**	**478,351,453**

4. Financial risk management…….*continued*

4.5 Capital management………..*continued*

	Dec 2010 $	**June 2010 $**
Risk-weighted capital		
On-balance sheet	915,324,337	770,768,399
Off-balance sheet	33,260,836	12,483,399
Total risk-weighted assets	**948,585,173**	**783,251,798**
Basel ratio	**52%**	**61%**

5. Critical accounting estimates and judgments

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

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolio of assets impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences in estimates and actual loss experienced.

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

The Bank determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, when there is evidence of deterioration in the financial health of the investee industry and sector performance, changes in technology and operational and financing cash flows. There were no declines in fair value below cost considered significant or prolonged as at December 2010.

6. Cash and balances with Central Bank

	Dec 2010 $	June 2010 $
Cash in hand	11,809,489	8,586,933
Balances with Central Bank other than mandatory deposits	(14,852,585)	7,916,647
Included in cash and cash equivalent (Note 31)	(3,043,096)	16,503,580
Mandatory deposits with Central Bank	87,079,345	85,956,375
Total	**84,036,249**	**102,459,955**

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.

7. Treasury bills

Government of St. Kitts and Nevis maturing February 15, 2011 at 6.5% interest	**90,715,601**	**90,715,601**

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

8. Deposits with other financial institutions

Operating cash balances	53,295,115	92,290,660
Items in the course of collection	8,480,112	3,781,039
Interest bearing term deposits	21,905,354	19,905,354
Included in cash and cash equivalent (Note 31)	83,680,581	115,977,053
Special term deposits*	50,247,416	50,362,040
Restricted term deposits**	160,537,703	159,378,267
Interest receivable	5,830,758	5,629,718
Total	**300,296,458**	**331,347,078**

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

8. Deposits with other financial institutions…………continued

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

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

9. Loans and advances to customers

	Dec 2010 $	June 2010 $
Overdrafts	198,718,112	156,166,871
Mortgages	73,792,850	71,551,831
Demand	248,205,380	210,511,948
Special Term	606,316,947	609,978,832
Other Secured	16,965,886	15,901,588
Consumer	6,865,623	6,384,627
Non-productive	55,261,840	54,366,608
Gross	1,206,126,638	1,124,862,305
Less allowance for impairment (Note 25)	(39,074,583)	(39,074,583)
	1,167,052,055	**1,085,787,722**
Interest receivable	60,062,081	59,967,449
Net loans and advances	**1,227,114,136**	**1,145,755,171**

Current	315,662,467	173,992,228
Non-current	911,451,669	971,762,943
	1,227,114,136	**1,145,755,171**

10. Originated debts

	Dec 2010 $	June 2010 $
Government of St. Kitts and Nevis bonds maturing March 03, 2020 at 8.5 % interest	72,513,863	75,000,000
Eastern Caribbean Home Mortgage Bank Long-term bond maturing July 01, 2013 at 6.00 % interest	1,000,000	1,000,000
Antigua Commercial Bank 10 % interest rate Series A bond maturing December 31, 2016	1,496,913	1,496,913
Grenada Electricity Services Limited 10-year 7 % bond maturing December 18, 2017	7,560,000	8,100,000
Government of Antigua 7-year long-term notes Maturing April 30, 2017 at 6.7% interest	38,601,576	39,177,577
Government of St. Vincent & The Grenadines 10-year bond maturing December 17, 2019 at 7.5% interest	5,000,000	5,000,000
Caribbean Credit Card Corporation unsecured loan at 10 % interest (no specific repayment terms)	300,000	300,000
Sub-total	**126,472,352**	**130,074,490**

11. Investment securities

(A)

Available-for-sale securities	Dec 2010 $	June 2010 $
Securities at fair value		
-- Unlisted	16,540,548	11,207,209
-- Listed	340,157,969	363,059,949
-- Interest receivable	-	181,747
Sub-total	**356,698,517**	**374,448,905**
Total	**483,170,869**	**504,523,395**

11. Investment securities……………continued

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

	Held to maturity	Available for Sale	Loans and receivable-:	Total
	$	$	$	$
Balance – June 30, 2010	**-**	**374,448,905**	**130,074,490**	**504,523,395**
Additions	-	70,146,762		70,146,762
Disposals (sales/redemption)	-	(108,629,671)	(3,602,138)	(112,231,809)
Fair value gains (losses)	-	20,732,521		20,732,521
Interest receivable	-	-		-
Total as at Dec 31, 2010	**-**	**356,698,517**	**126,472,352**	**483,170,869**
Balance – June 30, 2009	**-**	**349,806,134**	**86,976,913**	**436,783,047**
Additions	-	168,888,289	44,177,577	213,065,866
Disposal (sales/redemption)	-	(179,738,192)	(1,080,000)	(180,818,192)
Fair value gains (losses)	-	35,310,927	-	35,310,927
Interest receivable	-	181,747	-	181,747
Total as at June 30, 2010	**-**	**374,448,905**	**130,074,490**	**504,523,395**

(B)	**Dec 2010**	**June 2010**
	$	**$**
Included in available-for-sale financial assets are as follows:		
Listed securities:		
- Equity securities - UK	-	8,502,798
- Equity securities – US	251,626,676	229,218,633
- Equity securities – Caribbean	6,881,025	6,881,025
- Debt securities – UK	-	14,211,894
- Debt securities – US	81,650,267	104,245,599
- Interest receivable	-	181,747
Unlisted securities:		
- Equity securities – Caribbean	14,530,490	9,197,150
- Debt securities – Caribbean	2,010,059	2,010,059
Total available-for-sale securities	**356,698,517**	**374,448,905**

11. Investment securities…………..continued

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

(C)	Dec 2010 $	June 2010 $
Listed:		
US dollars	333,276,944	356,360,671
EC dollars	6,881,025	6,881,025
Total listed securities and interest	**340,157,969**	**363,241,696**
Unlisted:		
US dollars	9,322,908	9,322,909
EC dollars	7,217,640	1,884,300
Total unlisted securities	**16,540,548**	**11,207,209**
Total available-for-sale securities	**356,698,517**	**374,448,905**

12. Investment in subsidiary

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

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

Letters of credit	489,535	949,535
Guarantees	4,096,565	4,096,565
Total	**4,586,100**	**5,046,100**

14. Property, Plant and Equipment

COST	Total	Property	Equipment	Furniture And Fittings	Motor Vehicles	Reference Books	Projects Ongoing
	$	$	$	$	$	$	$
At June 30, 2010	37,339,785	20,474,781	11,183,757	2,125,663	477,000	140,367	2,938,217
Additions	493,260	-	489,622	3,638	-	-	-
Disposals	(1,318,181)	-	-	-	-	-	(1,318,181)
Dec 31, 2010	36,514,864	20,474,781	11,673,379	2,129,301	477,000	140,367	1,620,036
Accumulated Depreciation							
At June 30, 2010	12,480,349	2,245,392	8,324,486	1,536,436	242,497	131,538	-
Charge for Year	1,034,010	311,832	564,407	115,897	40,200	1,674	-
Eliminated on Disposal							
Dec 31, 2010	13,514,359	2,557,224	8,888,893	1,652,333	282,697	133,212	-
Net Book Value							
At Dec 31, 2010	**23,000,505**	**17,917,557**	**2,784,486**	**476,968**	**194,303**	**7,155**	**1,620,036**
At June 30, 2010	**24,859,436**	**18,229,389**	**2,859,271**	**589,227**	**234,503**	**8,829**	**2,938,217**

		Dec 2010 $	June 2010 $
15.	**Intangible assets**		
	Cost at July 1, 2010	5,036,353	4,682,787
	Additions	1,629,790	353,566
	Disposal		
	Total at Dec 31, 2010	**6,666,143**	**5,036,353**
	Accumulated amortisation		
	At July 1, 2010	3,841,356	3,110,419
	Charges for the year-to-date	408,139	730,937
	Disposals		
	Total at Dec 31, 2010	**4,249,495**	**3,841,356**
	Net book value	**2,416,648**	**1,194,997**

Intangible assets represent computer software acquired for the Bank use.

16.	**Other assets**		
	Prepayments	17,353,805	30,035,884
	Stationery and card stock	870,878	657,986
	Other receivables	54,039,788	989,590
	Total	**72,264,471**	**31,683,460**

17.	**Due to customers**		
	Consumers	361,428,763	378,787,283
	Private businesses and subsidiaries	293,051,794	293,791,937
	State, statutory bodies and non-financial bodies	698,776,751	692,553,378
	Others	130,274,350	108,912,742
	Interest Payable	22,551,727	9,119,990
	Total	**1,506,083,385**	**1,483,165,330**

17. Due to customers *continued*

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

The Bank pays interest on all categories of customers' deposits. In December 2010 total interest paid on deposit accounts amounted to $36,102,905 (June 2010 - $66,457,526). The average effective rate of interest paid on customers' deposits was 2.45% (June 2010– 4.68%).

18. Other borrowed funds

	Dec 2010 $	June 2010 $
Credit line	138,667,484	107,907,894
Bonds issued	93,540,229	93,540,229
Interest payable	855,957	863,646
Total	**233,063,671**	**202,311,769**

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

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

19. Accumulated provisions, creditors and accruals

	Dec 2010 $	June 2010 $
Other interest on customers' deposits	11,216,179	11,266,528
Managers cheques and bankers payments	1,531,433	1,541,821
Unpaid drafts on other banks	1,379,167	1,431,227
E-commerce payables	28,070,589	48,958,168
Other payables	21,417,720	25,866,739
Total	**63,615,088**	**89,064,483**

	Dec 2010 $	June 2010 $
20. Taxation		
Tax expense		
Current tax	-	846,769
Deferred tax	-	(156,879)
Prior year income tax expense	-	(56,881)
Total	**-**	**633,009**
Income for the year before tax	**4,191,035**	**33,833,180**
Income tax at the applicable tax rate of 35%		11,841,613
Non-deductible expenses		2,359,029
Deferred tax over provided	-	20,347
Income not subject to tax		(13,531,099)
Prior year income tax expense	-	(56,881)
Total		**633,009**

Deferred income tax

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

	Dec 2010 $	June 2010 $
Tax asset	(357,786)	(200,907)
Recovered during the year, net	-	(156,879)
Tax liability	34,262,206	27,005,824
Net	**33,904,420**	**26,648,038**
Accelerated depreciation	(357,786)	(357,786)
Available-for-sale securities	34,262,206	27,005,824
Net	**33,904,420**	**26,648,038**

	Dec 2010 $	June 2010 $
21. Share Capital		
Authorised: -		
135,000,000 Ordinary Shares of $1 each	**135,000,000**	**135,000,000**
	=========	=========
Issued and Fully Paid: -		
135,000,000 Ordinary Shares of $1 each	**135,000,000**	**135,000,000**
	=========	=========

22. Reserves

22.1 Statutory reserve

Balance at beginning of year	87,640,034	81,000,000
Addition	-	6,640,034
	--------------	---------------
	87,640,034	**87,640,034**
	=========	=========

In accordance with Section 14 (1) of Saint Christopher and Nevis Banking Act No. 6 of 1991, the St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain a reserve fund into which it shall transfer not less than 20% of its net profit of each year whenever the reserve fund is less than the Bank paid-up capital.

22.2 Revaluation reserve

Balance brought forward	57,874,294	34,922,191
Movement in market value of investments, net	13,476,139	22,952,103
	--------------	---------------
Balance	**71,350,433**	**57,874,294**
	==========	=========
Revaluation reserve is represented by:		
Available for sale investment securities	63,629,812	50,153,673
Properties	7,720,621	7,720,621
	---------------	---------------
	71,350,433	**57,874,294**
	=========	=========

22. Reserves………………*continued*

22.3 Other reserves

	Dec 2010 $	June 2010 $
Balance brought forward	154,653,586	193,867,237
Transfer from retained earnings	-	10,000,000
Transfer to share capital	-	(54,000,000)
Transfer for interest on non-performing loans	-	4,786,349
	154,653,586	**154,653,586**
Other reserves is represented by:		
Reserve for interest on non-performing loans	16,496,753	16,496,753
General reserve	138,156,833	138,156,833
	154,653,586	**154,653,586**

Included in Other reserves are the following individual reserves:

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

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

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

	Dec 2010 $	June 2010 $
23. Net Interest Income		
Interest Income		
Loans and Advances	37,644,897	82,517,754
Deposits with other financial institutions	3,177,157	10,575,733
Investments	7,694,890	18,633,115
	48,516,944	**111,726,602**
Interest Expense		
Savings accounts	5,589,409	10,204,179
Call Accounts	2,635,009	4,355,245
Fixed Deposits	27,226,627	41,261,645
Current and other deposit accounts	651,860	10,636,457
Debt and other related accounts	4,217,925	8,430,761
	40,320,830	74,888,287
Net	**8,196,114**	**36,838,315**

	Dec 2010 $	June 2010 $
24. Net fees and commission income		
Credit related fees and commission	1,670,807	3,105,479
International and foreign exchange	4,048,684	19,887,888
Brokerage and other fees and commission	282,313	464,302
Fees and commission income	**6,001,804**	**23,457,669**
Fee expenses		
Brokerage and other related fee expenses	66,309	130,976
International and foreign exchange fee expenses	1,218,059	1,329,162
Other fee expenses	292,726	499,801
Fee expenses	**1,577,094**	**1,959,939**
Total net	**4,424,710**	**21,497,730**

	Dec 2010 $	June 2010 $
25. Provision for loan impairment, net of recoveries		
Balance brought forward	39,074,583	36,809,947
Charge-offs and write-offs	-	(51,252)
Provision for impairment losses	-	2,321,785
Recoveries during the year	-	(5,897)
Total	**39,074,583**	**39,074,583**

26. Administration and general expenses

	Dec 2010 $	June 2010 $
Advertisement and marketing	153,962	385,476
Stationery and supplies	207,582	880,550
Communication	318,265	567,355
Utilities	307,959	695,045
Shareholders' expenses	169,855	5,545
Rent and occupancy expenses	305,268	565,178
Taxes and licences	448	78,379
Security services	201,862	300,468
Insurance	69,794	482,464
Legal expenses	588,656	207,901
Staff employment	6,948,971	17,079,677
Repairs and maintenance	835,464	2,753,992
Premises upkeep	17,172	49,101
Other general expenses	537,178	464,336
Total	**10,662,436**	**24,515,467**

27. 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.

	Dec 2010 $	June 2010 $
Net income attributable to shareholders	4,191,035	33,200,171
Weighted average number of ordinary shares in issue	135,000,000	121,500,000
Basic earnings per share (annualized)	**$0.06**	**$0.27**

28. Dividend

The financial statements reflect a final dividend of $6,885,000 for the year ended June 30, 2009, which was approved by the Board of Directors and paid.

29. Other 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 remaining 1,117 shares (arising from fractional allocations) were sold on the open market and the cash proceeds distributed to the shareholders in the same proportion of their fractional share holdings.

Litigation

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

National Consumer Mortgage, LLC (a California Limited Liability Company) (Debtor) John P Brincko, Chapter 11 Trustee (Plaintiff) v. 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. It is likely that this matter can/will be withdrawn as the Bank performed its due diligence and the company in question was a valid company properly registered to do business at all material times.

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

30. Related Parties

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

A number of banking transactions are entered into with our subsidiaries and directors in the normal course of business. Those transactions, which include deposits, loans and other transactions, are carried out on commercial terms and conditions, at market rates.

Government of St Kitts and Nevis

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

Public sector indebtedness to the Bank as at December 31, 2010 was $1.110 billion (June 30, 2010 - $1.074 billion). Public Sector deposits stood at $687.533 million as at December 31, 2010 (June 30, 2010 - $657.757 million).

Subsidiaries

Advances outstanding as at December 31, 2010 amounted to $12.769 million (June 30, 2010 - $14.119 million).

Deposits balances as at December 31, 2010 amounted to $134.793 million **(**June 30, 2010 - $133.408 million).

Directors and Associates

Advances outstanding as at December 31, 2010 amounted to $876,452 (June 30, 2010 - $688,399).

Deposits balances as at December 31, 2010 amounted to $988,357 (June 30, 2010 - $992,162).

Senior Management

At the end of December 2010 the following amounts were in place:

- Gross salaries, allowances and bonus payments amounted to $1,130,506
- Loans and advances amounted to $1.878 million (June 2010 - $2.092 million);
- Deposit amounts were $1.961 million (June 2010 - $1.886 million); and
- Total St. Kitts-Nevis-Anguilla National Bank Limited shares held were 1,152,417 (June 2010 – 1,152,417)

	Dec 2010 $	June 2010 $

31. Cash and cash equivalent

	Dec 2010 $	June 2010 $
Cash and balances with Central Bank (Note 6)	(3,043,096)	16,503,580
Treasury bills (Note 7)	90,715,601	90,715,601
Deposits with other financial institutions (Note 8)	83,680,581	115,977,053
	171,353,086	**223,196,234**

32. Contingent liabilities and commitments

At December 31, 2010 the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	Dec 2010 $	June 2010 $
Loan commitments	43,177,086	48,647,053
Guarantees and standby letters of credit	4,586,100	5,046,100
	47,763,186	53,693,153