ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

UNAUDITED FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED DECEMBER 31, 2012

C O N T E N T S

1. General information

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

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

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

The Bank is listed on the Eastern Caribbean Securities Exchange.

2. Adoption and amendments of published standards and interpretations

2.1 Adoption of standards during the year

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

2.2 Amendments, interpretations and published standards effective and relevant

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

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

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

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

- **IAS 1,** Amendments to this standard retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, additional disclosures are required in other comprehensive income such that items are grouped into two categories: (1) items that will not be reclassified subsequently to profit or loss and (2) items that will be reclassified subsequently to profit or loss when specific conditions are met. These modifications will have no effect on the financial statements.

- **IAS 12,** Amendments provide an exception to the general principles in the standard that the measurement of deferred tax assets and deferred tax liability should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset. Specifically, under the amendments, investment properties that are measured using the fair value method are presumed to be recovered through sale for the purpose of measuring deferred taxes, unless the presumption is incorrect. This amendment will have no effect on the financial statements.

- **IFRS 9,** First issued in November 2009 with requirements to be applied from January 1, 2013. However, new requirements were added in November 2010 with a revised date of January 1, 2015 for adoption. The standard specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are to be initially measured at fair value plus particular transaction costs, in the case of financial assets not at fair value through profit or loss. Subsequent measurements are to be either at amortized cost or fair value. It is not possible, at this stage, to disclose the impact on the financial statements, if any, of the new standard.

- **IFRS 13,** Establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. It defines fair value, establishes a framework for measuring fair value while requiring disclosures about fair value measurements. It applies to both financial and nonfinancial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specific circumstances. The disclosure of the impact of this standard on the Bank's financial statements is not possible at this stage.

- **IAS 19,** Amendments change the accounting for defined benefit plans and termination benefits. Most significant of the changes relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligation and fair value of plan assets when they occur thereby eliminating the 'corridor approach' permitted under previous versions of IAS 19 and an acceleration of the recognition of past service costs. All actuarial gains and losses are to be recognized immediately through other comprehensive income in order for the net pension assets or liability recognized in the balance sheet to reflect the full value of the plan surplus or deficit. This amendment may have limited impact on the financial statements.

3.1 Statement of compliance

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

3.2 Basis of preparation

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

3.3 Foreign currency transaction

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

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

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

3.4 Financial assets

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

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

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

3.4 Financial assets ……………*continued*

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

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

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

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

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

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

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

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

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

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

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

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

3.4 Financial assets ……………*continued*

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

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

3.5 Financial Liabilities

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

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

3.6 Interest income and expense

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

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

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

3.7 Fee and commission income

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

3.8 Dividend income

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

3.9 Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) *Renegotiated Loans*

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

3.10 Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

3.11 Intangible assets – computer software

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

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

3.12 Impairment of non-financial assets

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

3.13 Investment in subsidiaries

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

3.14 Leases

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

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

3.15 Cash and cash equivalents

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

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

3.16 Employee benefits

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

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

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

3.17 Current and deferred income tax

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

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

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

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

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

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

3.18 Borrowings

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

3.19 Guarantees and letters of credit

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

3.19 Share capital

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

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

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

4. Financial risk management

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

4. Financial risk management…….*continued*

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

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

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

4.1 Credit risk

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

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

4.1.1 Credit risk measurement

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

4. Financial risk management…….*continued*

4.1.1 Credit risk measurement*……continued*

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

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

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

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

4.1.2 Risk limit control and mitigation policies

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

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

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

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

4. Financial risk management…….*continued*

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

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

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

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

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

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

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

4.1.3 Impairment and provisioning

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

Bank rating

	Dec 2012		June 2012	
	Loans and advances (%)	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
1 Pass	78.19	-	81.90	-
2 Special mention	14.15	0.02	12.93	0.02
3 Sub-standard	6.41	38.46	3.93	30.25
4 Doubtful	1.19	52.56	1.17	68.66
5 Loss	0.06	8.96	0.07	1.07
	100.00	100.00	100.00	100.00

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

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

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

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

4. Financial risk management…….*continued*

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

	Maximum exposure	
	Dec 2012	**June 2012**
***Credit risk exposures relating to on-balance sheet assets are as follows*:**	**$**	**$**
Treasury bills	110,264,600	95,638,074
Deposits with other financial institutions	542,339,227	417,251,179
Loans and advances:		
• Overdrafts	155,937,856	160,872,612
• Corporate customers	66,492,797	74,952,150
• Term loans	858,709,731	860,143,897
• Mortgages (personal)	118,359,415	117,990,552
• Originated debts	86,918,119	69,978,837
• Available-for-sale investments	178,691,963	171,552,901
• Other assets	36,193,527	9,970,000
• Loan commitments and financial guarantees	13,522,305	20,855,687
Total	**2,167,429,540**	**1,999,205,889**

The above table represents a worse case scenario of credit risk exposure to the Bank at December 31, 2012 and June 30, 2012, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 55% (June 2012 – 61%) of the total maximum exposure is derived from loans and advances to banks and customers; 12% (June 2012 – 12%) represents investments in debt securities.

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

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

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.
- 90% (June 2012 – 81%) of the loans and advances portfolio are considered to be neither past due nor impaired.
- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines;
- A number of issuers and debt instruments in the region are not rated; consequently 53% (June 2012 - 55%) of these investments are not rated (Government securities – treasury bills, etc.).

4.1.5 Loans and advances

	Dec 2012 $	**June 2012** $
Loans and advances are summarized as follows:		
Loans and advances to customers		
Neither past due nor impaired	1,062,120,573	960,053,439
Past due but not impaired	56,598,832	171,054,305
Impaired	59,059,605	61,345,149
	1,177,779,010	**1,192,452,893**
Interest receivable	60,291,523	60,077,052
Less allowance for impairment losses (Note 25)	(38,570,734)	(38,570,734)
Net	**1,199,499,799**	**1,213,959,211**

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

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, 2012

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
Loans and advances to customers					
Classifications:					
1. Pass	81,257,659	711,120,830	71,814,315	33,493,208	897,686,012
2. Special mention	66,271,422	93,020,848	1,659,598	3,482,693	164,434,561
Gross	**147,529,081**	**804,141,678**	**73,473,913**	**36,975,901**	**1,062,120,573**

June 30, 2012

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

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, 2012				
Past due up to 30 days	2,520,616	7,193,467	-	9,714,083
Past due 30 – 60 days	1,148,847	3,844,244	-	4,993,091
Past due 60 – 90 days	361,324	829,193	3,751,997	4,942,514
Over 90 days	32,019,869	3,302,556	1,626,719	36,949,144
Gross	**36,050,656**	**15,169,460**	**5,378,716**	**56,598,832**
Fair value of collateral	**59,978,833**	**32,935,587**	**10,025,000**	**102,939,420**

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

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 $59,059,605 (June 2012 - $61,345,149).

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, 2012					
Individually impaired	8,575,991	6,714,398	21,302,207	22,467,009	59,059,605
	8,575,991	**6,714,398**	**21,302,207**	**22,467,009**	**59,059,605**
Fair value of collateral	10,029,815	18,160,687	29,450,532	85,568,143	143,209,177

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

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, 2012, based on Standard & Poor's ratings or equivalent:

	Treasury Bills $	**Investment Securities $**	**Loans and receivables - notes & bonds $**	**Total $**
A- to A+		122,655,541		**122,655,541**
Lower than A-		16,655,801		**16,655,801**
Unrated/ Internally rated	**110,264,600**	**38,375,621**	**86,918,119**	**235,558,341**
Total	**110,264,600**	**177,686,963**	**86,918,119**	**374,869,682**

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, 2012					
Treasury bills	85,884,649			24,379,951	110,264,600
Deposits with Fin. Inst.	49,205,416	339,679,420	16,800,394	136,653,997	542,339,227
Loans and advances	1,146,405,889	36,396,664	2,644,022	14,053,224	1,199,499,799
Originated debts	18,331,105			68,587,014	86,918,119
Investments (AFS)	1,005,000	177,686,963			178,691,963
Other assets	1,497,533	34,695,994			36,193,527
	1,302,329,592	**588,459,041**	**19,444,416**	**243,674,186**	**2,153,907,235**
June 30, 2012					
Treasury bills	85,884,649	-	-	9,753,425	95,638,074
Deposits with Fin. Inst.	46,546,493	239,321,304	12,262,433	119,120,949	417,251,179
Loans and advances	1,161,348,219	35,080,211	2,258,949	15,271,832	1,213,959,211
Originated debts	18,331,105	-	-	51,647,732	69,978,837
Investments (AFS)	2,010,059	169,542,842	-	-	171,552,901
Other assets	388,254	9,581,746	-	-	9,970,000
	1,314,508,779	**453,526,103**	**14,521,382**	**195,793,938**	**1,978,350,202**

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 2012 $	June 2012 $
Consumers	138,272,118	136,777,148
Agriculture, fisheries and manufacturing	4,197,842	4,264,872
Construction and land development	65,839,666	66,167,914
Distributive trade, transportation and storage	10,381,736	10,306,243
Tourism, entertainment and catering	45,385,774	55,652,847
Financial institutions	16,729,951	12,493,597
State, statutory bodies and public utilities	877,033,966	887,446,452
Professional and other services	19,937,957	19,343,820
Total	**1,177,779,010**	**1,192,452,893**

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, 2012							
Treasury Bills	110,264,600	-	-	-	-	-	110,264,600
Deposits with financial institutions	7,854,124	-	-	533,832,397	384,551	268,155	542,339,227
Originated Debt	80,218,119	-	-	1,300,000	-	5,400,000	86,918,119
Investment securities - Debt securities	-	-	-	178,691,963	-	-	178,691,963
Loans & Advances to customers	879,600,247	62,547,108	54,067,448	16,731,969	148,152,689	38,400,338	1,199,499,799
Other Assets	-	-	-	1,318,566	88,604	34,786,357	36,193,527
Total	**1,077,937,090**	**62,547,108**	**54,067,448**	**731,874,895**	**148,625,844**	**78,854,850**	**2,153,907,235**
June 30, 2012	**1,053,465,805**	**62,599,648**	**63,498,609**	**600,490,300**	**145,384,235**	**52,911,605**	**1,978,350,202**

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, 2012. 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

Dec 31, 2012	EC$	US$	EURO	GBP	CAN	BDS	GUY	TOTAL
Assets								
Cash & Balances with Central Bank	196,424,282	3,832,293	64,973	146,111	69,022	27,662	-	200,564,343
Treasury Bills	110,264,600	-	-	-	-	-	-	110,264,600
Deposits with other financial Institutio	81,030,034	455,610,093	1,119,801	2,556,894	1,084,950	887,960	49,495	542,339,227
Loans and receivables								
- Loans and advances to customers	1,172,978,086	26,521,713	-	-	-	-	-	1,199,499,799
- Originated Debt	71,908,205	15,009,914	-	-	-	-	-	86,918,119
Investment Securities - avail for sale	13,313,500	326,307,856	-	-	-	-	-	339,621,356
Other Assets	1,497,533	34,695,994	-	-	-	-	-	36,193,527
Total financial Assets	**1,647,416,240**	**861,977,863**	**1,184,774**	**2,703,005**	**1,153,972**	**915,622**	**49,495**	**2,515,400,971**
Liabilities								
Due to customers	1,589,156,594	288,270,376	5,906	282,760	3,666,161	-	-	1,881,381,797
Due to other financial institutions	-	2,265,996	-	-	-	-	-	2,265,996
Other borrowed funds	-	212,963,728	-	-	-	-	-	212,963,728
Other liabilities	24,554,453	24,393,824	42,179	387,902	153,169	58,999	-	49,590,526
Total financial Liabilities	**1,613,711,047**	**527,893,924**	**48,085**	**670,662**	**3,819,330**	**58,999**	**-**	**2,146,202,047**
Net on-balance sheet positions	**33,705,193**	**334,083,939**	**1,136,689**	**2,032,343**	**(2,665,358)**	**856,623**	**49,495**	**369,198,924**
Credit Commitments	**9,039,420**							**9,039,420**

June 30, 2012	EC$	US$	EURO	GBP	CAN	BDS	OTHER	TOTAL
Total Financial Assets	1,669,553,512	772,777,693	579,452	795,075	291,779	803,905	15,258	2,444,816,674
Total Financial Liabilities	1,584,247,705	520,670,901	127,966	706,722	3,368,395	58,999	-	2,109,180,688
Net on-balance sheet positions	**85,305,807**	**252,106,792**	**451,486**	**88,353**	**(3,076,616)**	**744,906**	**15,258**	**335,635,986**
Credit Commitments	**16,760,337**							**16,760,337**

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, 2012							
Financial Assets							
Cash & balances with Central Bank	-	-	-	-	-	200,564,343	200,564,343
Treasury Bills	-	11,674,192	98,590,408	-	-	-	110,264,600
Deposits with other financial Inst.	156,887,361	29,695,581	92,447,857	92,923,324	-	170,385,104	542,339,227
Loans & Advances to customers	253,612,227	856,788	5,358,311	190,564,885	746,435,643	2,671,945	1,199,499,799
- Originated Debts	-	270,000	19,323,000	43,497,100	23,828,019	-	86,918,119
Investment securities	177,686,963	-	-	-	1,005,000	160,929,393	339,621,356
Other Assets	-	-	-	-	-	31,345,990	31,345,990
Total Financial Assets	588,186,551	42,496,561	215,719,576	326,985,309	771,268,662	565,896,775	2,510,553,434
Financial Liabilities							
Due to Customers	680,842,689	358,513,341	579,237,500	-	-	262,788,267	1,881,381,797
Due to Other financial Inst.	2,265,996		-	-	-	-	2,265,996
Other Borrowed funds	405,390	810,780	4,864,680	112,486,692	93,540,229	855,957	212,963,728
Other Liabilities	351,508	-	-	-	-	29,837,050	30,188,558
Total Financial Liabilities	683,865,583	359,324,121	584,102,180	112,486,692	93,540,229	293,481,274	2,126,800,079
Total Interest repricing gap	**(95,679,032)**	**(316,827,560)**	**(368,382,604)**	**214,498,617**	**677,728,433**		
As at June 30, 2012							
Total Financial Assets	464,522,409	17,923,439	191,856,570	330,916,033	779,749,429	654,407,374	2,439,375,254
Total Financial Liabilities	775,825,296	69,984,133	788,582,545	113,996,543	93,540,229	253,328,055	2,095,256,801
Total Interest repricing Gap	**(311,302,887)**	**(52,060,694)**	**(596,725,975)**	**216,919,490**	**686,209,200**		

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, 2012						
Financial Liabilities						
Due to Customers	943,630,956	358,513,341	579,237,500	-	-	1,881,381,797
Due to other financial Inst.	2,265,996	-	-	-	-	2,265,996
Other Borrowed funds	405,390	810,780	5,720,637	112,486,692	93,540,229	212,963,728
Other Liabilities	24,153,933	8,752,785	11,348,668	5,335,140	-	49,590,526
Total Financial Liabilities	**970,456,275**	**368,076,906**	**596,306,805**	**117,821,832**	**93,540,229**	**2,146,202,047**
Total Financial Assets	**1,094,931,083**	**45,216,591**	**234,593,399**	**365,396,237**	**775,263,662**	**2,515,400,972**
As at June 30, 2012						
Total Financial Liabilities	**1,005,822,413**	**80,336,254**	**810,699,083**	**122,878,059**	**93,540,229**	**2,113,276,038**
Total Financial Assets	**1,099,252,046**	**1,423,766**	**226,809,908**	**339,591,583**	**829,226,645**	**2,496,303,948**

4. Financial risk management…….*continued*

4.3.4 Off-balance sheet items

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

	Up to 1 year	1 – 3 years	Over 3 years	Total
	$	$	$	$
As at Dec 31, 2012				
Loan commitments	3,336,958	1,501,072	4,201,390	9,039,420
Guarantees and standby letters of credit	-	4,482,885	-	4,482,885
Total	3,336,958	5,983,957	4,201,390	13,522,305
As at June 30, 2012				
Loan commitments	8,878,711	1,530,464	6,351,162	16,760,337
Guarantees and standby letters of credit	-	4,095,350	-	4,095,350
Total	8,878,711	5,625,814	6,351,162	20,855,687

4.4 Fair values of financial assets and financial liabilities

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

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

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

4. Financial risk management…….*continued*

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

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

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

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

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

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

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

4. Financial risk management…….*continued*

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

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

	Carrying Value		Fair Value	
	Dec 2012	**June 2012**	**Dec 2012**	**June 2012**
Financial assets	**$**	**$**	**$**	**$**
Treasury bills	110,264,600	95,638,074	110,264,600	95,638,074
Deposits with other financial institutions	542,339,227	417,251,179	542,339,227	417,251,179
Loans and receivables:				
Loans and advances				
Overdrafts	155,937,856	160,872,612	156,614,402	163,078,913
Corporate	66,492,797	74,952,150	199,775,159	199,775,159
Mortgage	118,359,415	117,990,552	232,133,024	232,133,024
Term	858,709,731	860,143,897	989,560,552	989,560,552
Originated debts	86,918,119	69,978,837	86,918,119	69,978,837
AFS – debt	2,010,059	2,010,059	2,010,059	2,010,059
AFS – equity	14,637,150	14,637,150	14,637,150	14,637,150
Financial Liabilities				
Due to customers	1,881,381,797	1,853,775,084	1,881,381,797	1,853,775,084
Due to financial institutions	2,265,996	424,554	2,265,996	424,554
Other borrowed funds	212,963,728	215,697,437	212,963,728	215,697,437

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

4.4.1 Fair Value measurements recognized in the balance sheet

Unlisted equities

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

4. Financial risk management…….*continued*

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

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Available-for-sale financial assets:

	Level 1 $	Level 2 $	Total $
Dec 31, 2012			
Debt securities	177,686,963	-	**177,686,963**
Equities	135,746,822	12,750,768	**148,497,590**
Total	**313,433,785**	**12,750,768**	**326,184,553**

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

Available-for-sale financial assets:

	Level 1 $	Level 2 $	Total $
June 30, 2012			
Debt securities	165,100,446	-	**165,100,446**
Equities	190,336,021	12,823,665	**203,159,686**
Total	**355,436,467**	**12,823,665**	**368,260,132**

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

4. Financial risk management…….*continued*

4.5 Capital management

The Bank objectives when managing capital, which is a broader concept than the "equity" on the face of the balance sheet, are:

- To comply with the capital requirement set by the Eastern Caribbean Central Bank.
- To safeguard the Bank ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank management, employing techniques based on the guidelines developed by the Eastern Caribbean Central Bank ('the Authority') for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

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

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

- Tier 1 capital: share capital, retained earnings and reserves created by appropriation of retained earnings.
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowance and unrealized gains arising on the fair valuation of equity instruments held as available for sale.

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the period ended December 31, 2012 and June 30, 2012. During these two periods, the Bank complied with all the externally imposed capital requirements to which it is subject.

4. Financial risk management…….*continued*

4.5 Capital management………..*continued*

	Dec 2012	June 2012
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	293,141,800	293,141,800
Retained earnings	14,092,191	17,836,137
Total qualifying Tier 1 capital	**437,733,991**	**441,477,937**
Tier 2 capital		
Revaluation reserve – available-for-sale investments	(14,737,835)	(19,995,777)
Revaluation reserve – property, plant and equipment	7,720,621	7,720,621
Bonus shares capitalization	4,500,000	4,500,000
Accumulated impairment allowance	38,570,734	38,570,734
Total qualifying Tier 2 capital	**36,053,520**	**30,795,578**
Investment in subsidiaries	(26,750,000)	(26,750,000)
Total regulatory capital	**447,037,511**	**445,523,515**
Risk-weighted assets		
On-balance sheet	1,009,982,407	909,368,870
Off-balance sheet	6,851,968	12,445,672
Total risk-weighted assets	**1,016,834,375**	**921,814,542**
Tier 1 capital ratio	**43%**	**48%**
Basel ratio	**44%**	**48%**

5. Critical accounting estimates and judgments

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

5. Critical accounting estimates and judgments………continued

(a) Impairment losses on loans and advances

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

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

The Bank determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, when there is evidence of deterioration in the financial health of the investee industry and sector performance, changes in technology and operational and financing cash flows.

6. Cash and balances with Central Bank

	Dec 2012 $	June 2012 $
Cash in hand	12,368,227	10,244,706
Balances with Central Bank other than mandatory deposits	81,678,373	139,212,799
Included in cash and cash equivalent (Note 30)	**94,046,600**	**149,457,505**
Mandatory deposits with Central Bank	106,517,743	105,005,827
Total	**200,564,343**	**254,463,332**

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

7. Treasury bills

	Dec 2012 $	June 2012 $
Government of Antigua and Barbuda maturing December 12, 2012 at 5% interest	-	9,753,425
Government of Grenada maturing February 18, 2013 at 6% interest	1,970,082	-
Government of Antigua and Barbuda maturing March 11, 2013 at 6% interest	9,704,109	-
Government of St. Kitts and Nevis maturing May 16, 2013 at 6.75% interest	85,884,649	85,884,649
Government of Grenada maturing October 11, 2013 at 6% interest	4,276,060	-
Government of Antigua and Barbuda maturing November 13, 2013 at 6.50% interest	6,545,000	-
Government of Grenada maturing November 30, 2013 at 6% interest	1,884,700	
	110,264,600	**95,638,074**

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

8. **Deposits with other financial institutions**	**Dec 2012 $**	**June 2012 $**
Operating cash balances	273,729,899	171,005,976
Items in the course of collection	9,967,190	8,630,001
Interest bearing term deposits	16,905,354	16,905,354
Included in cash and cash equivalent (Note 30)	**300,602,443**	**196,541,331**
Special term deposits*	73,437,596	58,466,756
Restricted term deposits**	154,992,932	154,981,782
Interest receivable	13,306,256	7,261,310
Total	**542,339,227**	**417,251,179**

*Special term deposits are interest bearing fixed deposits with a maturity period longer than 3 months.
**Restricted term deposits are interest bearing fixed deposits collateral used in the Bank's international business operations. These deposits are not available for use in the day-to-day operations of the Bank. Interest earned on both 'Special term deposits' and 'Restricted term deposits' is credit to income.

9. Loans and advances to customers

	Dec 2012 $	**June 2012 $**
Overdrafts	145,516,745	151,767,596
Mortgages	72,898,112	72,828,704
Demand	192,139,035	193,095,175
Special Term	680,062,481	687,119,195
Other Secured	20,509,993	19,879,534
Credit Cards	2,012,336	1,330,395
Consumer	5,580,703	5,087,145
Productive loans	**1,118,719,405**	**1,131,107,744**
Impaired loans and advances	59,059,605	61,345,149
Less allowance for impairment (Note 25)	(38,570,734)	(38,570,734)
	1,139,208,276	**1,153,882,159**
Interest receivable	60,291,523	60,077,052
Net loans and advances	**1,199,499,799**	**1,213,959,211**

	Dec 2012 $	June 2012 $
10. Originated debts		
Government of St. Kitts and Nevis bonds maturing April 18, 2057 at 1.5 % interest		64,423,030
Less provision for impairment		(47,391,925)
Net balance	17,031,105	17,031,105
Eastern Caribbean Home Mortgage Bank long-term bond maturing July 01, 2013 at 6% interest	1,000,000	1,000,000
Antigua Commercial Bank 9 % interest rate Series A bond maturing December 31, 2025	1,496,913	1,496,913
Grenada Electricity Services Limited 10-year 7 % bond maturing December 18, 2017	5,400,000	5,940,000
Government of Antigua 7-year long-term notes Maturing April 30, 2017 at 6.7% interest	38,177,101	39,210,819
Government of St. Vincent & The Grenadines 10-year bond maturing December 17, 2019 at 7.5% interest	5,000,000	5,000,000
Caribbean Credit Card Corporation unsecured loan at 10 % interest (no specific repayment terms)	300,000	300,000
Government of St Lucia 1-year Fixed Rate Note maturing August 2, 2013 at 5% interest	13,513,000	-
Government of St Vincent & The Grenadines bond maturing December 14, 2013 at 5% interest	5,000,000	
Total	**86,918,119**	**69,978,837**

11. Investment securities

(A)	Dec 2012 $	June 2012 $
Available-for-sale securities		
Securities at fair value		
-- Unlisted	29,397,977	29,470,874
-- Listed	313,433,785	355,436,467
-- Less provision for impairment	(3,210,406)	(3,210,406)
Sub-total	**339,621,356**	**381,696,935**

11. Investment securities……………continued

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

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

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

	Available for Sale	Loans and receivable originated debts	Total
	$	$	$
Balance – June 30, 2012	**381,696,935**	**69,978,837**	**451,675,772**
Additions	247,924,833	18,513,000	266,437,833
Disposals (sales/redemption)	(298,089,554)	(1,573,718)	(299,663,272)
Fair value gains (losses)	8,089,142	-	8,089,142
Total as at Dec 31, 2012	**339,621,356**	**86,918,119**	**426,539,475**
Balance – June 30, 2011	**346,989,343**	**126,011,764**	**473,001,107**
Additions	769,729,567	64,423,030	834,152,597
Disposal (sales/redemption)	(625,795,049)	(73,064,032)	(698,859,081)
Fair value gains (losses)	(107,367,820)	-	(107,367,820)
Provision for Impairment loss	(1,859,106)	(47,391,925)	(49,251,031)
Total as at June 30, 2012	**381,696,935**	**69,978,837**	**451,675,772**

11. Investment securities……………continued

(B)	Dec 2012 $	June 2012 $
Included in available-for-sale financial assets are as follows:		
Listed securities:		
- Equity securities – US	129,757,622	179,904,425
- Equity securities – Caribbean	5,989,200	5,989,200
- Debt securities – US	177,686,963	169,542,842
Total listed securities	**313,433,785**	**355,436,467**
Unlisted securities:		
- Equity securities – US	12,750,768	12,823,665
- Equity securities – Caribbean	14,637,150	14,637,150
- Debt securities – Caribbean	2,010,059	2,010,059
- Provision for impairment loss	(3,210,406)	(3,210,406)
Total unlisted securities	**26,187,571**	**26,260,468**
Total available-for-sale securities, net	**339,621,356**	**381,696,935**

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

(C)	Dec 2012 $	June 2012 $
Listed:		
US dollars	307,444,585	349,447,267
EC dollars	5,989,200	5,989,200
Total listed securities and interest	**313,433,785**	**355,436,467**
Unlisted:		
US dollars	22,073,677	22,146,574
Less: Provision for impairment loss	(3,210,406)	(3,210,406)
Sub-total US dollars	18,863,271	18,936,168
EC dollars	7,324,300	7,324,300
Total unlisted securities	**26,187,571**	**26,260,468**
Total available-for-sale securities	**339,621,356**	**381,696,935**

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**

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

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

Letters of credit	4,482,885	4,095,350
Guarantees	-	-
Total	**4,482,885**	**4,095,350**

14. Property, Plant and Equipment

COST/VALUATION	Total $	Property $	Equipment $	Furniture And Fittings $	Motor Vehicles $	Reference Books $	Projects Ongoing $
At June 30, 2012	39,490,969	21,139,893	13,214,561	3,443,933	551,240	140,367	1,000,975
Additions	1,058,020	-	193,476	65,538	-	-	799,006
Disposal	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-
Dec 31, 2012	40,548,989	21,139,893	13,408,037	3,509,471	551,240	140,367	1,799,981
Accumulated Depreciation							
At June 30, 2012	16,220,411	3,464,488	10,500,829	1,947,097	171,588	136,409	-
Charge for Year	1,170,211	268,950	686,447	167,264	46,624	926	-
Disposal	-	-	-	-	-	-	-
Dec 31, 2012	17,390,622	3,733,438	11,187,276	2,114,361	218,212	137,335	-
Net Book Value At Dec 31, 2012	**23,158,367**	**17,406,455**	**2,220,761**	**1,395,110**	**333,028**	**3,032**	**1,799,981**
At June 30, 2012	**23,270,558**	**17,675,405**	**2,713,732**	**1,496,836**	**379,652**	**3,958**	**1,000,975**

15. Intangible assets

	Dec 2012 $	June 2012 $
Cost at July 1, 2012	7,892,506	6,921,908
Additions	28,358	970,598
Total at Dec 31, 2012	**7,920,864**	**7,892,506**
Accumulated amortisation		
At July 1, 2012	6,171,940	4,977,331
Charges for the year-to-date	506,310	1,194,610
Total at Dec 31, 2012	**6,678,250**	**6,171,941**
Net book value	**1,242,614**	**1,720,565**

Intangible assets represent computer software acquired for the Bank use.

	Dec 2012	June 2012

16. Other assets

	Dec 2012	June 2012
Prepayments	4,870,031	9,574,123
Stationery and card stock	941,326	690,321
Epassporte receivable	59,470,757	59,470,757
Other receivables	2,804,945	1,062,421
Provision for impairment	(29,735,379)	(29,735,379)
Total	**38,351,680**	**41,062,243**

17. Due to customers

	Dec 2012	June 2012
Consumers	392,276,582	366,611,016
Private businesses and subsidiaries	312,512,421	337,691,100
State, statutory bodies and non-financial bodies	964,031,044	908,889,399
Others	186,252,065	229,657,711
Interest Payable on fixed deposits	26,309,685	10,925,858
Total Customers deposits	**1,881,381,797**	**1,853,775,084**

‘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.

	Dec 2012 $	June 2012 $
18. Other borrowed funds		
Credit line	118,567,542	121,293,563
Bonds issued	93,540,229	93,540,229
Interest payable	855,957	863,645
Total	**212,963,728**	**215,697,437**

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

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

Total interest paid and payable in this category was $4,338,556 (June 2012 - $9,277,009).

19. Accumulated provisions, creditors and accruals

Other interest on customers' deposits	13,504,334	12,284,507
Managers cheques and bankers payments	737,007	991,046
Unpaid drafts on other banks	1,547,288	1,540,868
Other payables	35,613,872	24,726,549
Total	**51,402,501**	**39,542,970**

	Dec 2012 $	Dec 2011 $
20. Taxation		
Tax expense		
Current tax	-	-
Deferred tax	-	-
Prior year income tax expense	-	-
Total	**-**	**-**
Income for the period before tax	**4,356,053**	**30,274,533**
Income tax at the applicable tax rate of 35%	-	-
Non-deductible expenses	-	-
Deferred tax over provided	-	-
Income not subject to tax	-	-
Total	**-**	**-**

Deferred tax asset/(liability)

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

	Dec 2012 $	June 2012 $
Deferred tax asset		
Balance brought forward (capital allowance)	580,930	344,097
Current year (recovery)/charge	-	236,833
Accelerated depreciation	**580,930**	**580,930**
Deferred tax liability:		
Balance brought forward	(10,766,957)	26,811,780
Net unrealized gains/(losses)	2,831,200	(37,578,737)
Unrealised (loss)/gain on AFS securities	**(7,935,757)**	**(10,766,957)**
Movement is represented by:		
Unrealised gain/(loss) on AFS securities (Note 11)	8,089,142	(107,367,820)
Less amount recognized in equity (Note 22)	(5,257,942)	69,789,083
Current year (charge)	**(2,831,200)**	**(37,578,737)**

	Dec 2012 $	June 2012 $
21. Share Capital		
Authorised: -		
270,000,000 Ordinary Shares of $1 each	**270,000,000**	**270,000,000**
Issued and Fully Paid: -		
135,000,000 Ordinary Shares of $1 each	**135,000,000**	**135,000,000**

22. Reserves

22.1 Statutory reserve

	Dec 2012 $	June 2012 $
Balance at beginning of year	102,792,106	96,610,790
Addition	-	6,181,316
	102,792,106	**102,792,106**

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

	Dec 2012 $	June 2012 $
Balance brought forward	(12,275,156)	57,513,927
Movement in market value of investments, net	5,257,942	(69,789,083)
Balance	**(7,017,214)**	**(12,275,156)**
Revaluation reserve is represented by:		
Available for sale investment securities	(14,737,835)	(19,995,777)
Properties	7,720,621	7,720,621
	(7,017,214)	**(12,275,156)**

	Dec 2012 $	June 2012 $
22. Reserves……………..*continued*		
22.3 Other reserves		
Balance at beginning of year	186,472,270	174,653,586
Transfer from retained earnings	-	11,818,684
	186,472,270	**186,472,270**
Other reserves is represented by:		
Reserve for interest on non-performing loans	16,496,753	16,496,753
General reserve	169,975,517	169,975,517
	186,472,270	**186,472,270**

Included in Other reserves are the following individual reserves:

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

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

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

	Dec 2012 $	Dec 2011 $
23. Net Interest Income		
Interest Income		
Loans and Advances	41,660,860	40,249,800
Deposits with other financial institutions	4,317,747	4,086,962
Investments	6,237,617	10,637,943
	52,216,224	**54,974,705**
Interest Expense		
Savings accounts	6,393,715	5,853,881
Call Accounts	3,925,475	3,657,003
Fixed Deposits	31,115,924	29,070,653
Current and other deposit accounts	1,216,101	1,021,394
Debt and other related accounts	4,338,556	4,554,084
	46,989,771	**44,157,015**
Net	**5,226,453**	**10,817,690**

24. Net fees and commission income		
Credit related fees and commission	1,160,676	1,097,193
International and foreign exchange	3,568,558	3,395,007
Brokerage and other fees and commission	613,578	318,876
Fees and commission income	**5,342,812**	**4,811,076**
Fee expenses		
Brokerage and other related fee expenses	63,282	74,994
International and foreign exchange fee expenses	1,182,436	1,051,732
Other fee expenses	199,296	7,402
Fee expenses	**1,445,014**	**1,134,128**
Total net	**3,897,798**	**3,676,948**

25. Provision for credit impairment

	Dec 2012 $	June 2012 $
Balance brought forward	38,570,734	39,074,583
Charge-offs and write-offs	-	(502,134)
Total	**38,570,734**	**38,570,734**

26. Administration and general expenses

	Dec 2012 $	Dec 2011 $
Advertisement and marketing	336,672	274,732
Stationery and supplies	29,331	217,429
Communication	393,111	366,799
Utilities	492,367	474,274
Shareholders' expenses	9,827	264,680
Rent and occupancy expenses	299,442	241,103
Taxes and licences	-	281
Security services	97,920	146,052
Insurance	73,651	72,012
Legal expenses	125,386	97,315
Staff employment	7,851,274	6,904,368
Repairs and maintenance	1,201,727	1,218,701
Premises upkeep	14,108	13,253
Other general expenses	411,429	475,965
Total	**11,336,245**	**10,766,964**

27. Dividend

The quarterly financial statements reflect an interim dividend payment of $8,100,000 for financial year 2012 that was paid on December 24, 2012 to all shareholders on record as at December 14, 2012. The comparative financial statements for the year ended June 30, 2012 reflect dividend of $31,050,000.00 for financial year 2011 of $15,525,000 and financial year 2010 of $15,525,000.

28. Other events

Litigation

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

Claims

The following claims were served on the Bank on August 01, 2012:

1. Claim No. NEVHCV2012/0109 – Data Rain Limited (Claimant) and Intersphere Payments Limited and St. Kitts-Nevis-Anguilla National Bank Ltd (Defendants); and

2. Claim No. NEVHCV2012/0110 – Zaberglobe Limited (Claimant) and Intersphere Payments Limited and St. Kitts-Nevis-Anguilla National Bank Limited (Defendants).

In claim 1 (above), Data Rain Limited claims the sum of US$261,854.58 plus interest as well as damages and cost from the defendants jointly and severally. In claim 2 (above), Zaberglobe Limited claims the sum of US$212,596.48 plus interest as well as damages and cost from the defendants jointly and severally.

In both cases the claimants claim that the defendants held monies on trust for the claimants together with the interest pursuant to contract and that they (the defendants) have failed to pay the said monies over to them. The Bank's position is strong in these matters as it has paid out all monies it was obligated to pay which has been confirmed in writing by the first defendant. Acknowledgement of Service of Claim and Defence were filed in both matters.

These matters are not yet at the case management stage, but the Bank expects the claims against it to be struck out.

Other Events……………*continued*

Vesting of Certain Lands

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

29. Related Parties

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

Government of St Kitts and Nevis

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

Public sector net position with the Bank as at December 31, 2012 (loans and advances less deposits) was $51 million in deficit (June 30, 2012 - $246 million). Loans to the public sector are secured by land under mortgage and other government guarantees.

Interest charged to the public sector for the quarter was $29.1 million. Interest paid and payable to the public sector for the quarter ended December 31, 2012 was $22.7 million.

Subsidiaries
Advances outstanding as at December 31, 2012 amounted to $12.062 million (June 30, 2012 - $8.776 million). Deposits balances as at December 31, 2012 amounted to $163.491 million (June 30, 2012 - $161.263 million). Advances to the related parties are unsecured.

Interest paid to related party was as follows:
- Managed pension plans - $6,673,717
- Deposit accounts - $480,232

Interest received from related party was $281,083

Related Parties……………*Continued*

Directors and Associates
Advances outstanding as at December 31, 2012 amounted to $0.821 million (June 30, 2012 - $0.727 million). Deposit balances as at December 31, 2012 amounted to $0.374 million (June 30, 2012 - $1.053 million).

Interest received from advances made was $29,751, whereas, interest paid on deposits by related party was $6,730. At December 31, 2012 Directors held 92,495 (June 2012 – 92,495) of the outstanding share of the Bank.

Key Management

Key management includes the Bank's senior management team. At the end of December 2012, the following balances were recorded:

- Gross salaries, allowances and bonus payments amounted to $1.25 million (June 2012- $2.04 million).
- Pension expense nil
- Loans and advances amounted to $4.2 million (June 2012 - $3.4 million);
- Deposit balances totaled $2.75 million (June 2012 - $2.66 million); and
- Total St. Kitts-Nevis-Anguilla National Bank Limited shares held were 1,158,341 (June 2012 – 1,158,341)
- Interest paid on deposits was $64,740
- Interest charged on advances was $158,978

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

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

	Dec 2012 $	June 2012 $
30. Cash and cash equivalent		
Cash and balances with Central Bank (Note 6)	94,046,600	149,457,505
Deposits with other financial institutions (Note 8)	300,602,443	196,541,331
	394,649,043	**345,998,836**

31. Contingent liabilities and commitments

At December 31, 2012 the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	Dec 2012 $	June 2012 $
Loan commitments	9,039,420	16,760,337
Guarantees and standby letters of credit	4,482,885	4,095,350
	13,522,305	**20,855,687**

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Second quarter ended December 31, 2012

Introduction

The Management Discussion and Analysis of Financial Condition and Results of Operations include forward-looking statements about objectives, strategies and expected financial results and positions. These statements are based on the Bank's current plans, expectations and beliefs about future events. They 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 both at home and abroad. 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.

Overview

At the end of its second quarter, December 31, 2012, the Bank reported a net operating income of $4.4 million. This represents a decrease of $25.9 million when compared with the $30.3 million reported at 31st December 2011, and an $11.5 million (or 72.5%) shortfall when compared with the $15.9 million budgeted for this period. Realized gains from the sale of securities during this period were much lower than the preceding year, resulting in a year-over-year reduction in net operating income.

Nonetheless, the balance sheet strengthened with significant growth in total assets, which grew by $108.3 million (or 4.3%) and customer deposits, which increased by $182.5 million (or 10.7%) when compared with the preceding year.

Income Statement

Results of Operations

The Bank's pre-tax profits for the quarter ended 31st December 2012 decreased by 85.6% when compared with the preceding year's result. This must, however, be assessed in the context of the global economic downturn which continues to impact the local economy resulting in reduced interest rates on earning assets, which in turn causes a decline in profitability. National Bank, in these continued challenging economic times, remains a strong, well capitalized bank and continues to grow in asset size.

Outlined below is a summary of the results of operations at the end of December 2012 and 2011.

	Dec 2012 $ mil	Dec 2011 $ mil	% Change
Income from Loans & Advances	41.7	40.3	3.5%
Income from Investments	4.3	4.1	4.9%
Income from Deposits with financial Inst.	6.3	10.6	-40.6%
Non-interest income	13.8	33.0	-58.1%
Total income	66.1	88.0	-25.0%
Interest Expenses	47.0	44.2	6.3%
Non-interest expenses	14.7	13.5	8.9%
Total expenses	61.7	57.7	6.9%
Net Income before taxes	4.4	30.3	-85.5%

Net Interest Income

Net interest income reported at 31st December 2012 decreased by 51.7% when compared with the $10.8 million recorded at the end of the same period in 2011. The $2.8 million decrease in interest income coupled with a $2.8 million rise in interest expenses resulted in a $5.6 million decrease in net interest income for the period.

The $2.8 million net decrease in interest income resulted from:

- An increase in interest on loans and advances by $1.4 million
- An increase in interest on deposits with financial institutions by $0.2 million
- A decrease in interest on investments by $4.4 million

Net Fees & Commission Income

Net fees and commission income increased by $0.2 million (or 6.1%) at the end of December 2012 when compared with the amount attained for the quarter ended 30th December 2011. This year-over-year increase in fees and commission income was due mainly to an increase in income from E-commerce transactions.

Other Income

At 31st December 2012, income from other sources decreased by $19.7 million or 69.9% when compared to the $28.2 million reported at 31st December 2011. The decrease in other income was due mainly to a decrease in realized gains on marketable securities.

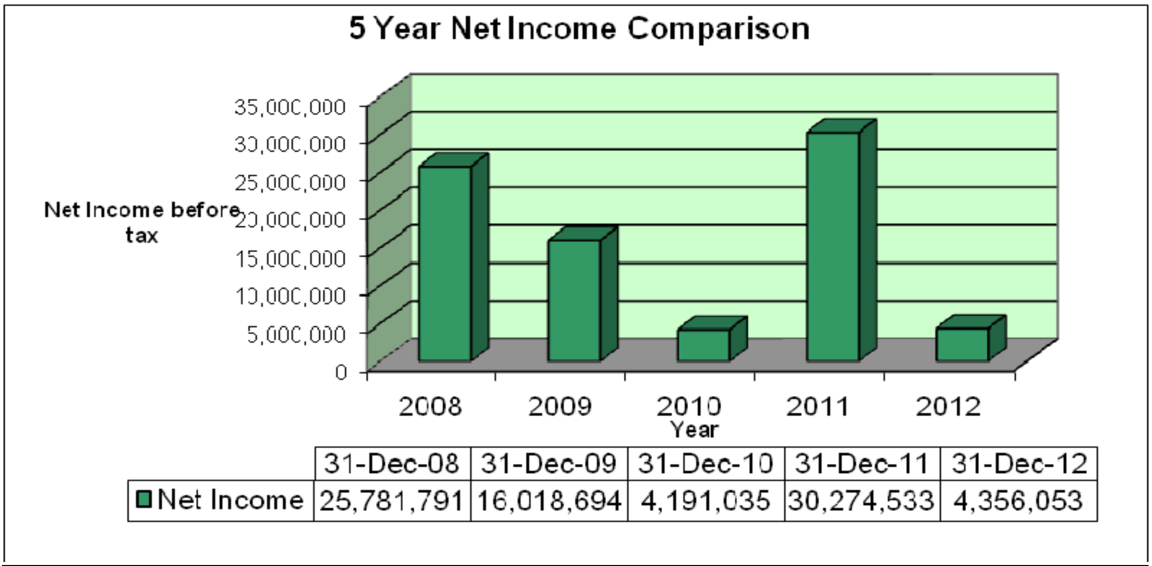
Operating Expenses

At the end of the review period, December 31 2012, operating expenses increased to $13.3 million from $12.4 million at 31st December 2011. Operating cost management and curtailment must remain a critical area of focus for the bank.

Net Income

Over the past 5 years net income before tax has decreased from $25.8 million in the second quarter of 2008 to $4.4 million for the same period in 2012. The Company is optimistic that net income will improve over the next quarter and beyond, however increased focus must be placed on exploring new avenues to augment our non-interest income base and curtail interest costs.

Outlined below is the movement of net operating income for the period ending December 31st over a five year period.



	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12
Net Income	25,781,791	16,018,694	4,191,035	30,274,533	4,356,053

Balance Sheet

Assets

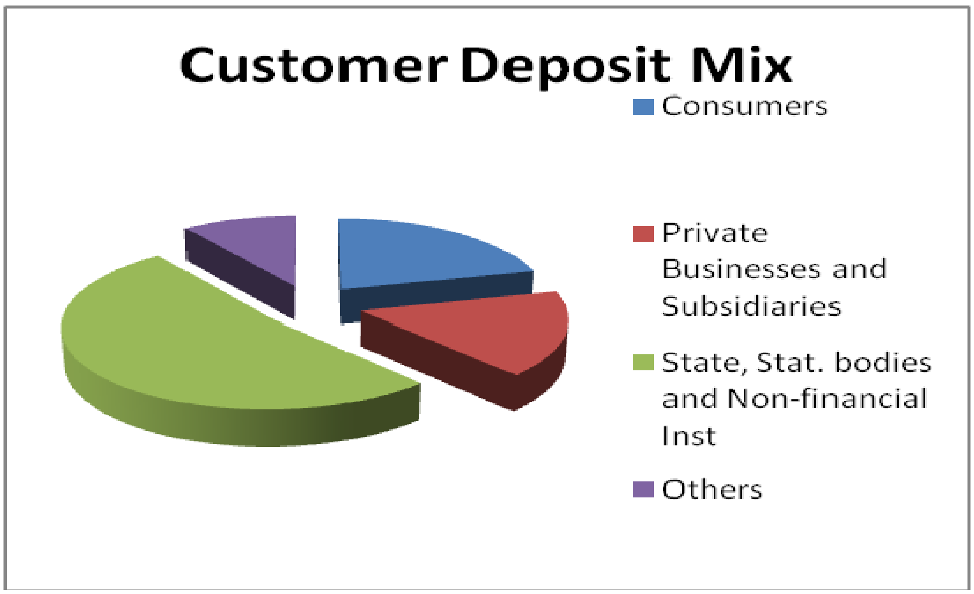
Over the past five years, the Bank has grown from an asset base of $2.1 billion in 2008 to $2.6 billion as at December 31, 2012. Total assets at the end of the review period increased by $40.5 million (or 1.6%) when compared with total assets of $2.547 billion at 30th June 2012. The increase in total assets at 31st December 2012 was due mainly to an increase in deposits with other financial institutions, treasury bills and originated debts offset by a decrease in loans and advances, cash reserves and investments.

Loans and advances contributed to 49.7% of total assets at 31st December 2012 (June 2012: 50.4%), while deposits with other financial institutions contributed to 21.0% (June 2012: 16.3%). All other assets accounted for the remaining 29.3% (June 2012: 33.3%).

Liabilities

At the end of December 2012, total liabilities increased by $39.0 million to $2.152 billion, representing a 1.8% increase when compared with total liabilities of $2.113 billion at the end of June 2012. An increase in customer's deposits and other liabilities were the main factors that contributed to the increase in total liabilities.

Customer's deposits increased by $27.6 million (or 1.5%) and other liabilities increased by $11.8 million (or 30.0%) during the quarter. Below is a diagram showing the customers deposit mix for the quarter ended December 31, 2012.



Shareholders' Equity

Shareholders' Equity recorded at December 31, 2012 was $435.2 million compared with $433.7 million recorded at June 30, 2012, an increase of $1.5 million. This represents a slight increase of 0.3%, resulting from net operating income for the period of $4.4 million and an increase in revaluation reserves of $5.2 million, offset by a dividend payment of $8.1 million.

Corporate Governance

The Board of Directors continue to monitor the business affairs of the Bank to ensure compliance with relevant statutes, regulations, rules, established policies and procedures. They are charged with the oversight responsibility of increasing operational efficiency, strengthening shareholder and customer confidence, and the investment attractiveness of the Bank. 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.

The Bank will improve business standards by implementing strategies geared towards the strengthening of the Bank. These measures should boost total revenue. We anticipate an improvement in the performance of the Bank resulting in positive returns on its investments in the near future. Careful investment for the future, in line with a well thought-out strategy, will be beneficial in the long-run.