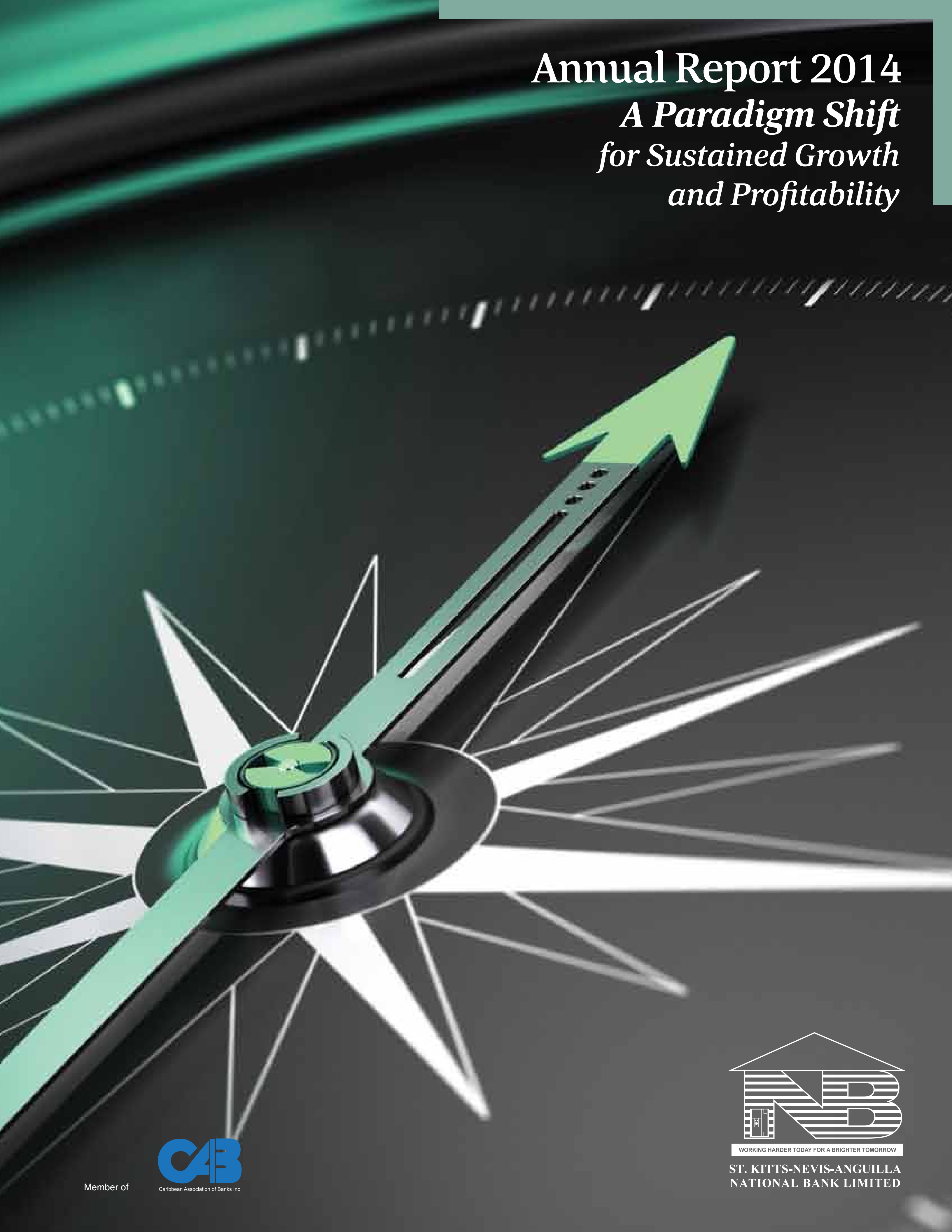
Annual Report 2014

A Paradigm Shift
for Sustained Growth and Profitability



WORKING HARDER TODAY FOR A BRIGHTER TOMORROW

ST. KITTS-NEVIS-ANGUILLA
NATIONAL BANK LIMITED

Member of Caribbean Association of Banks Inc

VISION

To be recognized internationally as the premier financial institution through advanced technology, strategic alliances and superior products and services.

MISSION

To be an efficient, profitable and growth-oriented financial institution, promoting social and economic development in the national and regional community by providing high quality financial services and products at competitive prices.

CUSTOMER CHARTER

- To keep the Bank a customer friendly institution.
- To treat customers as an integral part of the Bank and serve them with the highest levels of integrity, fairness and goodwill.
- To provide customers with the products and services they need, in the form and variety they demand them, at the time they require them, and at prices they can afford.
- To give our customers good value for the prices they pay.

POLICY STATEMENT

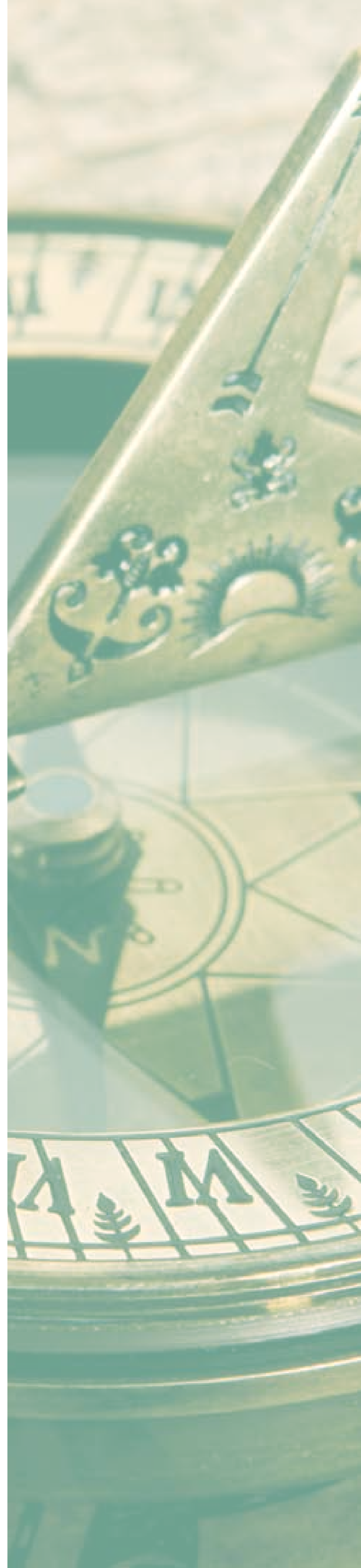
- To mobilise domestic and foreign financial resources and allocate them to efficient productive uses to gain the highest levels of economic development and social benefits.
- To promote and encourage the development of entrepreneurship for the profitable employment of available resources.
- To exercise sound judgment, due diligence, professional expertise and moral excellence in managing our corporate business and advising our customers and clients.
- To maintain the highest standard of confidentiality, integrity, fairness and goodwill in all dealing with customers, clients and the general public.
- To create a harmonious and stimulating work environment in which our employees can experience career fulfillment, job satisfaction and personal accomplishment; to provide job security; to pay fair and adequate compensation based on performance, and to recognize and reward individual achievements.
- To promote initiative, dynamism and a keen sense of responsibility in our Managers; to hold them accountable personally for achieving performance targets and to require of them sustained loyalty and integrity.
- To provide our shareholders with a satisfactory return on their capital and thus preserve and increase the value of their investment.
- To be an exemplary corporate citizen providing managerial, organizational and ethical leadership to the business community.

The policies set out above inform and inspire our customer relationships, staff interactions and public communication; guide our corporate decision making process; influence the manner in which we perform our daily tasks and direct our recruitment, organizational, operational and development policies, plans and programmes.

Our Directors, Management and Staff are unreservedly committed to the observance of the duties and responsibilities stated above for the fulfillment of our Mission.

THEME

The St. Kitts Nevis Anguilla National Bank Limited whose history dates back to 1971, continues to deliver solid performances. To ensure it stays the course, a paradigm shift signaling the adjustment necessary to combat the changing economic conditions whilst ensuring sustainable growth, is now in full effect. This is a journey, not a destination, allowing for a seamless transition as this great ship turns into the wind, adjusting its sails to ensure it reaps the benefits of the carefully considered move. The horizon is in sight as the bank enters the rough seas with a team of steady hands at the helm and a clear vision of the future.



CONTENTS

NOTICE OF MEETING

Notice is hereby given that the FORTY - FOURTH ANNUAL GENERAL MEETING of St. Kitts-Nevis-Anguilla National Bank Limited will be held at St. Kitts Marriott Resort on
Thursday, 18th December, 2014, at 5.00pm for the following purposes:-

1. To read and confirm the Minutes of the Meeting held on 19th December, 2013
2. To consider matters arising from the Minutes
3. To receive the Directors' Report
4. To receive the Auditors' Report
5. To receive and consider the Accounts for the year ended 30th June, 2014
6. To declare a dividend
7. To elect Directors
8. To appoint Auditors for the year ending 30th June, 2015 and to authorize the Directors to fix their remuneration
9. To discuss any other business for which notice in writing is delivered to the Company's Secretary three clear banking days prior to the meeting.

By Order of the Board

Stephen O. A .Hector
Secretary

SHAREHOLDERS OF RECORD

All shareholders of record as at 10th November, 2014 will be entitled to receive a final dividend in respect of the financial year ended 30th June, 2014.

PROXY

A member of the Company who is entitled to attend and vote at this meeting is entitled to appoint a proxy to vote in his stead. No person shall be appointed a proxy who is not entitled to vote at the meeting for which the proxy is given. The proxy form must be delivered to the Company Secretary 48 hours before the meeting.

ARTICLES GOVERNING MEETINGS

ARTICLE 42

At any meeting, unless a poll is demanded as hereinafter provided, every resolution shall be decided by a majority of the Shareholders or their proxies present and voting, either by show of hands or by secret ballot, and in case there shall be an equality of votes, the Chairman of such meeting shall have a casting vote in addition to the vote to which he may be entitled as a member.

ARTICLE 43

If at any meeting a poll is demanded by ten members present in person or by proxy and entitled to vote, the poll shall be taken in every such manner as the Chairman shall direct; and in such case every member present at the taking of the poll, either personally or by proxy, shall have a number of votes, to which he may be entitled as hereinafter provided; and in case at any such poll there shall be an equality of votes, the Chairman of the meeting at which such poll shall be taken shall be entitled to a casting vote in addition to any votes to which he may be entitled as a member and proxy.

ARTICLE 45

Every member shall on a poll have one vote for every dollar of the capital in the Company held by him.

ARTICLE 56

At every ordinary meeting one-third of the Directors shall retire from office. If the number of Directors be not divisible by three, then the nearest to one-third of the number of Directors shall retire from office. The Directors to retire shall be those who have been longest in office since their last election. As between Directors of equal seniority in office the Directors to retire shall be selected from amongst them by lot. A retiring Director shall be immediately, or at any future time, if still qualified, eligible for re-election.

ARTICLE 59

No one (other than a retiring Director) shall be eligible to be a Director, unless notice in writing that he is a candidate for such office shall have been given to the Company by two other members of the Company at least seven days before the day of holding the meeting at which the election is to take place.

FINANCIAL HIGHLIGHTS

	2014 $'000	2013 $'000	2012 $'000	2011 $'000	2010 $'000
BALANCE SHEET INFORMATION					
Total assets	3,172,239	2,863,194	2,551,912	2,513,484	2,297,155
Total customer's deposits	2,507,885	2,066,969	1,692,865	1,527,180	1,350,902
Loans & advances (gross)	666,743	1,155,469	1,184,831	1,185,035	1,112,185
Investment securities	616,510	522,288	452,335	484,298	516,265
Cash and Money at call	818,748	630,050	406,082	403,495	313,933
OPERATING RESULTS					
Gross operating income	181,361	156,031	262,624	202,044	168,598
Interest income	112,226	96,859	106,322	108,570	111,618
Interest expense	77,018	81,915	87,248	74,919	72,781
Net Income	25,254	21,952	13,970	48,611	34,562
Operating expenses/provisions	84,593	62,222	157,597	67,599	59,415
Number of employees	245	241	245	242	241
Gross revenue per employee	740	647	1,072	835	700
Total assets per employee	12,948	11,880	10,387	10,386	9,536
SHARE CAPITAL & DIVIDEND INFORMATION					
Common shares issued and outstanding (in thousands)	135,000	135,000	135,000	135,000	135,000
Total shareholder's equity	485,378	460,786	457,658	536,701	495,348
Dividends paid	10,800	15,525	31,050	6,885	8,100
Number of shareholders	5,459	5,433	5,399	5,357	5,340
Earnings per share ($)	0.19	0.16	0.10	0.36	0.26
Dividends per share ($)	0.080	0.115	0.230	0.085	0.10
Book value per common share	3.60	3.41	3.39	3.98	3.67
BALANCE SHEET AND OPERATING RESULTS RATIOS (%)	**%**	**%**	**%**	**%**	**%**
Loans and advances to deposits	26.6	55.9	70.0	77.6	82.3
Staff Cost/Total Cost	15.0	16.6	10.3	17.4	18.9
Staff Cost/Total Revenue	13.3	15.4	9.6	12.9	15.0
Cost/Income (Efficiency) before impairment	58.6	83.9	32.4	55.0	59.0
Cost/Income (Efficiency) after impairment	81.1	83.9	89.9	56.1	61.4
Return on Equity	5.3	4.8	2.8	9.4	7.3
Return on Assets	0.8	0.8	0.6	2.0	1.6
Asset Utilization	6.0	5.8	10.4	8.4	7.7
Yield on Earning Assets	5.5	4.5	5.1	5.3	5.9
Cost to fund Earning Assets	3.8	3.8	4.2	4.0	3.8
Net Interest Margin	1.7	0.7	0.9	1.3	2.1

CORPORATE INFORMATION

BOARD OF DIRECTORS

Linkon Willcove Maynard	Chairperson
Mitchell Gumbs	1st Vice Chairperson
Dr Mervyn Laws	2nd Vice Chairperson
Halva Maurice Hendrickson	Director
Elsie Eudorah Mills	Director
Sharylle V I Richardson	Director
Clement Williams	Director
Mellicia Phillip	Director
Hastings Daniel	Director

SECRETARY

Stephen O.A. Hector

SOLICITORS

Kelsick, Wilkin & Ferdinand
Chambers
South Independence Square
BASSETERRE
St. Kitts

AUDITORS

Grant Thornton
Corner Bank Street & West Independence Square
P.O. Box 1038
BASSETERRE
St. Kitts

BRANCHES, ATMS AND SUBSIDIARIES

BRANCHES

Nevis Branch
Charlestown, Nevis

Sandy Point Branch
Main Street, Sandy Point, St. Kitts

Saddlers Branch
Main Street, Saddlers, St. Kitts

Pelican Mall Branch
Bay Road, Basseterre, St. Kitts

Airport Branch
RLB International Airport

ATMS

Basseterre Branch
Camps
Cayon
CAP Southwell Industrial Park
Frigate Bay
Lodge
Nevis Branch
Old Road
Pelican Mall
Port Zante
RLB International Airport
Sandy Point Branch
Saddlers Branch
St. Paul
St. Peter
Tabernacle
Vance W Amory International Airport

SUBSIDIARIES CONSOLIDATED

National Bank Trust Company
(St. Kitts-Nevis-Anguilla) Limited
Port Zante, BASSETERRE, St. Kitts

National Caribbean Insurance Company Limited
Church Street, BASSETERRE, St. Kitts

St. Kitts and Nevis Mortgage and Investment Company Limited
Port Zante, BASSETERRE, St. Kitts

REGISTERED OFFICE OF THE PARENT COMPANY

St. Kitts-Nevis-Anguilla National Bank Limited
Central Street, BASSETERRE, St. Kitts

LETTER FROM THE CHAIRMAN

Linkon W. Maynard
Chairman

INTRODUCTION

The St. Kitts-Nevis-Anguilla National Bank Limited (National) continued to deliver solid performance and substantial returns to its shareholders in 2014. On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of the St. Kitts-Nevis-Anguilla National Bank Limited for the Financial Year ended June 30, 2014. It was a year in which our organization welcomed new leadership in the person of Ms. Dawne Williams as its new Chief Executive Officer in September of 2013. The Board takes this opportunity to applaud the new CEO and her leadership team for answering so resolutely the call to move National into a new paradigm. Shareholders and National's esteemed depositors would be proud to know that the Financial Year July 01, 2013 to June 30, 2014 marked another year when the Bank has moved from strength to strength despite many challenges both regionally and internationally.

CURRENT ECONOMIC REALITIES AND IMPACT ON BANK'S PERFORMANCE

Eastern Caribbean Central Bank (ECCB) estimated positive growth in the economy of St. Kitts and Nevis in 2013 and the first half of 2014, following a contraction of 0.9 percent in 2012 and a decline of 1.8 percent in the 2011. The current economic expansion in St. Kitts and Nevis is projected by ECCB to rise to 3 percent or more in the next two to three years. The Central Bank indicated that the increase was led by developments in the construction, hotels and restaurants, transport, storage and communications and manufacturing sectors. In a rapidly changing environment filled with diverse challenges and opportunities, National has charted a course designed to ensure its competitiveness and relevance to discerning customers and clients. As a result of this St. Kitts-Nevis-Anguilla National Bank Limited posted a respectable performance of profit after taxation amounting to EC$25.254 million, for the year ended June 30, 2014, with earnings per diluted share of $0.19. Based on this performance, as well as other critical factors affecting National's business and operations, the Directors recommend a dividend of 10% for the financial year ended June 30, 2014. This recommendation, if approved by the Annual General Meeting, will result in a total dividend of EC$13.5 million being paid in 2014.

Confidence levels of the shareholders and depositors in National continued in 2014 to be exceptionally high as indicated by the continued steady growth in customers' deposits reaching a total of EC$2.50 billion as of June 2014 compared to EC$2.06 billion in the previous financial year. This follows a 21% increase in deposits in 2014 over the 2013 financial year. In addition, shareholders can be proud that National which started 43 years ago with assets of just under EC$500,000 now shows an asset level for the year ending June 30, 2014 of US$1.1billion or EC$3.2 billion.

HUMAN RESOURCE ENHANCEMENT AND DEVELOPMENT

The new paradigm shift in business that National now subscribes to, brings with it many challenges and needs that must be dealt with and met if the institution is to achieve its strategic goals. As such, National continues to insist on high standards of performance from staff at all levels. This Institution is committed to providing the necessary resources to ensure that this happens, therefore, National invested in a number of on-site and off-site seminars, webinars and courses that helped to enhance the general skills and business awareness of the staff. Additionally, National is committed to continuous enhancement of requisite skilled talent stock to deal with the additional new challenges related to the Corporate Lending and Risk Management Team.

CONSOLIDATING FOR A SUSTAINABLE FUTURE

With a rebounding local economy and good prospects for the international economic outlook, National continues to ready itself to take advantage of imminent opportunities that present themselves. This suggests strongly that National's outlook and strategic plan must continue to display the element of sustainability. Our Organization has already committed to integrating energy efficient, green building principles into its internal operations and shortly into any real estate management partnership that the Bank is involved in. Also, as a lending institution, National wants to encourage and support lending policies that facilitate the growth of developments in renewable energy sources.

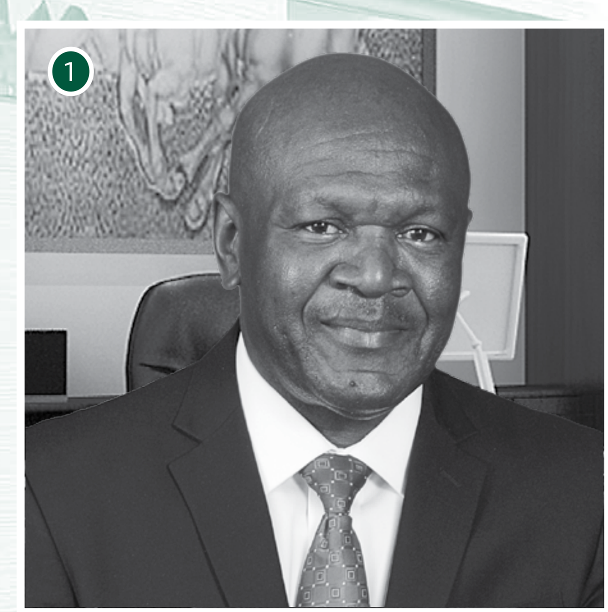
National Bank does not take for granted the confidence reposed in it by its depositors, shareholders and other stakeholders. As such, the National Bank organization continues with a strategic plan that requires that we do all in our power to secure our shareholders' investment and our depositors' hard-earned cash. This is why quite recently National has committed to an extensive revamping of its video surveillance network and monitoring system deployed in branches, ATMs and other critical areas. Even though National is already considered a leader in the areas of Security and Technology, Management realizes that it cannot rest on its laurels as technology continues to evolve at a rapid pace. The investment in National's overall security infrastructure is significant and is viewed by the Board as strategic to the Bank's risk mitigation efforts.

CONCLUSION

The Board of Directors wishes to express gratitude to management and staff for buying into our new mantra and paradigm shift. The Board knows that the success that National has enjoyed over the years, as well as in the Financial Year under review is, in no small measure, attributable to the dedication and commitment of the Organization's management and staff. It is indeed heartening that the staff continues to rise to the challenge and deliver outstanding performance to ensure the fulfillment of the strategic goals of the Institution. As the St. Kitts-Nevis-Anguilla National Bank Limited prepares itself to take on the challenges of the future and to bolster the fortunes of our Organization, the Board shares in the confidence of the depositors and other stakeholders that National is indeed poised for even greater achievements in the near and distant future. You can rest assured that National shall explore all means to be as competitive as possible in its immediate space and beyond.

The Board is thrilled that with each passing year, ever-increasing numbers of customers continue to access National's numerous offered services. The Board and Management therefore take this opportunity to thank all of the loyal customers, depositors, shareholders and other stakeholders as our Organization continues to provide you with world-class services at truly affordable and competitive rates.

Linkon W. Maynard
Chairman



BOARD OF DIRECTORS

1. Linkon Willcove Maynard	Chairperson
2. Mitchell Gumbs	1st Vice Chairperson
3. Dr Mervyn Laws	2nd Vice Chairperson
4. Halva Maurice Hendrickson	Director

5. Elsie Eudorah Mills	Director
6. Sharylle V I Richardson	Director
7. Clement Williams	Director
8. Mellicia Phillip	Director
9. Hastings Daniel	Director
10. Stephen O.A. Hector	Secretary

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report for the financial year ended June 30, 2014.

DIRECTORS

In accordance with the Bank's Articles of Association one third of the Directors shall retire by rotation at every Annual General Meeting.

The retiring Directors by rotation are:

Mr. Mitchell Gumbs
Dr. Mervyn Laws
Ms. Sharylle Richardson

The retiring Directors, being eligible, offer themselves for re-appointment.

BOARD COMMITTEES

In keeping with its management function and fiduciary duties, the Board of Directors operates through seven (7) committees namely Asset/Liability Management, Audit, Budget, Corporate Governance, Credit, Executive and Investment.

All committees work closely with management to deal with the many challenges facing the financial services industry and the Bank in particular.

FINANCIAL RESULTS AND DIVIDENDS

Activities of the Group are focused on increasing shareholders value by providing them with a reasonable return on investment. During the period June 2010 to June 2014, dividend payments to shareholders were \$6.885m (2010), \$31.05m(2011), \$15.525m (2012) and \$10.8m (2013), for a total of \$64.26m over the five year period.

The Directors report that profit after taxation for the year ended June 30, 2014 amounted to \$25.254 Million, with earnings per diluted common share of \$0.19.

Further discussion of the performance of the Company can be found in the CEO's Discussion and Analysis on the results of operations presented in a separate section of this Annual Report.

The Directors have decided to recommend a dividend of 10% for the financial year ended June 30, 2014. This recommendation, if approved by the Annual General Meeting, will mean a total dividend of \$13.5 million will be paid in 2014.

By Order of the Board of Directors

Stephen O. A. Hector
Secretary

SENIOR EXECUTIVE TEAM

Dawne E. Williams
Chief Executive Officer

Winston Hutchinson
Chief Financial Officer

Donald Thompson
Chief Retail Banking Officer

Anthony Galloway
Chief Internal Auditor

A J Patricia Wilkinson
Chief Operating Officer

Warren Nisbett
Chief Information Officer

Bernice Grant-Kelly
Chief Electronic Services Officer

Curtis A Martin
Chief Human Resources Officer

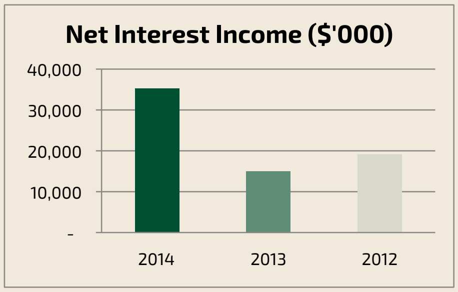
CEO'S REPORT

Dawne E. Williams
Chief Executive Officer

As one who embraces the positive features of change, I am extremely delighted to have started my journey with St. Kitts-Nevis-Anguilla National Bank Group (the National Group) at a crucial juncture in the organization's history. It was a time when the Bank, in particular, could no longer carry on its business in the usual manner and required a paradigm shift to keep it on the path of sustainable growth. Holistically, the Group's continued success is dependent on the effective implementation of strategies to strengthen profitability and a continuing assessment of all risks facing the bank, in particular. Such actions will increase shareholders' wealth and combat the ongoing global economic and other challenges.

During the financial year 2013/14, the National Group was confronted with a global liquidity glut that kept interest rates on deposits with foreign banks near zero and the challenge of implementing a new infrastructure, policies and procedures necessary to comply with new regulations and legislation, especially the United States Foreign Account Tax Compliance Act (FATCA). Additionally, at the commencement of this financial year, the transaction signaling the first tranche of the public sector debt restructuring took effect, resulting in a significant decrease in the total loans and advances. The net interest margin remains lower than the industry average of 3%, notwithstanding a 100 basis point improvement to 1.7% over the prior year.

Confronted with these and other challenges, the National Group took a new strategic approach to ensure continued success whilst maintaining its competitive advantage and retaining its strong market position. In addition, we created a new vision that more accurately reflects our short and long term aspirations. We focused on our management structure, risk management and products/services. Several



marketing campaigns were undertaken to augment the loans and advances portfolio and thus increase our earnings capabilities.

Such initiatives have placed us in a position to meet the demands of our many valued customers and comply with international standards and other best practices. These initiatives are also substantially responsible for the success we have achieved in this financial year.

PERFORMANCE

I am pleased to report that for financial year 2013/14 the National Group recorded another successful year of operations. The operating income of $99.5 million in 2014 was $29.4 million or 41.9% more than the operating income of $70.1 million in 2013. This resulted from an increase in net interest income and gains on investment securities.

Net interest income in 2014 was $35.2 million which was $20.3 million or 136.2% higher than the net interest income of $14.9 million in 2013. Higher net interest income was due to a $15.4 million or 15.9% increase in interest income and a $4.9 million or 6% decrease in interest expenses. The fall in interest expenses resulted from the decision taken during the fiscal year to reduce the costs of funds while still remaining competitive. Another of the Group's success stories this year is the lowering of our efficiency ratio from 83.9% to 58.6% before impairment expenses and from 83.9% to 81.1% after impairment expenses.

Other income increased by $9.4 million or 19.3% to $58.0 million when compared with 2013. This increase is due mainly to gains on available-for-sale securities (AFS). Net gains on AFS investments at fair value in 2014 was $24.5 million compared with $16.2 million in 2013, resulting in an increase of $8.3 million or 51.4% in 2014 over 2013.

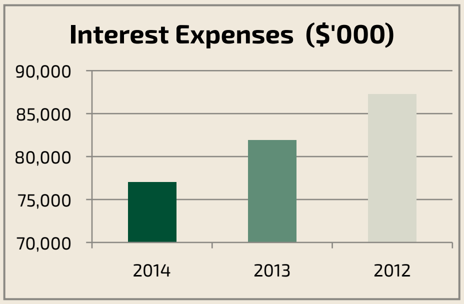
In 2014, total operating expenses increased by $21.6 million or 36.9% from $58.2 million in 2013. The increase was primarily driven by impairment losses on equity, originated debts and loans and advances. Nonetheless, other operating expenses declined by $1.9 million or 3.3% over the review period.

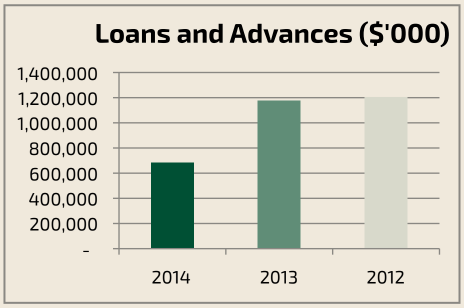
LOAN PORTFOLIO ANALYSIS

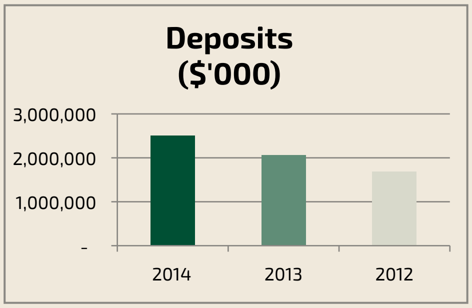
Total loans and advances to customers in 2014 was $683 million, which is $494 million or 41.9% lower than total loans and advances to customers of $1.2 billion in 2013. Although total loans and advances fell in 2014 as a result of the restructuring of a portion of public sector debt, private sector loans and advances increased by $62.6 million or 24.1% from $259.5 million in 2013 to $322.1 million in 2014. Additionally, 1,300 more private sector loans were granted in 2014 than in 2013. Loan growth occurred across multiple portfolios including commercial loans, mortgages, staff loans and credit cards.

DEPOSITS

Customer deposits grew by $455.6 million or 22.3% to $2.5 billion in 2014 when compared with $2.1 billion in 2013. Loans to deposits ratio fell from 55.9% in







2013 to 26.6% in 2014, reflecting lower loans and advances but higher deposit balances.

LIQUIDITY

Over the review period, cash and cash equivalents increased by $207.4 million or 37.3% to $762.7 million in 2014 from $555.3 million in 2013. Increases in cash flow indicate that the National Group has significant flexibility to take advantage of a number of investment and other opportunities.

Financial assets and financial liabilities maturing within 1 year totaled $2.1 million and $2.6 million, respectively, in 2014. This was an improved position on $1.7 billion and $2.2 billion, respectively, in 2013. The National Group remains well within the guidelines set out by its Asset/Liability Management Committee, which monitors liquidity on an ongoing basis to ensure that the National Group will be able to meet its obligations as they fall due.

CAPITAL

Shareholders' equity increased by $24.6 million or 5.3% to $485.4 million in 2014 from $460.8 million in 2013. The return on equity increased to 5.3% in 2014 from 4.8% in 2013, while our earnings per share grew by 18.8% to $0.19 in 2014.

Based on the Basel Capital Accord, bank regulators recommend minimum requirements for capital adequacy for their member banks as a protection to depositors as well as to promote stability and efficiency in the financial sector.

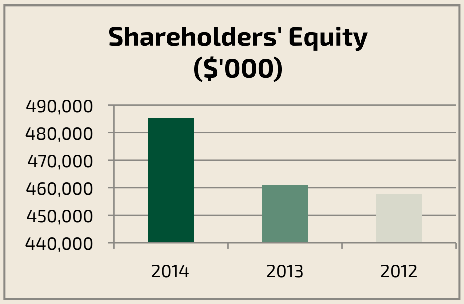
Tier 1 Capital: the Basel Capital Accord recommends a minimum Tier 1 Capital ratio of 4%. The National Group recorded a Tier 1 Capital of 48% in 2014 and 47% in 2013, evidencing the strength of the National Group.

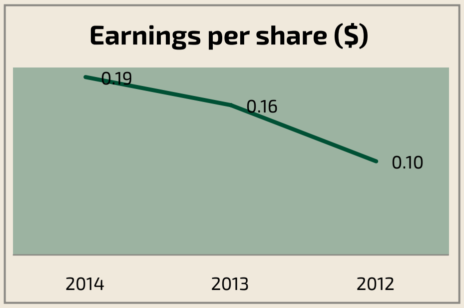
Total Capital: the National Group's Total Capital Ratio was 54% in 2014 and 50% in 2013, significantly in excess of the 8% minimum required by the Basel Capital Accord.

RISK MANAGEMENT

Risk is inherent in all business activities we undertake. Our business exposes us to a variety of risks including credit, market, liquidity, compliance, operational and reputational risks. In order to maximize our long-term results and safeguard the National Group's ability to continue as a going concern, it is imperative that we continue to closely and proactively manage these risks. The Audit, Credit and Compliance Committees of the Board of Directors have the principal responsibility of assisting the Board in fulfilling its oversight responsibilities by monitoring management's approach with respect to financial reporting, accounting, internal controls and regulatory compliance.

In 2014, strong emphasis was placed on adapting a risk management framework to meet new regulatory requirements. We continue to strengthen our risk function while limiting the impact of any negative development, should they arise.





STAFF TRAINING AND DEVELOPMENT

The financial results are significant; but it cannot be overstated that they are the product of the hardworking and dedicated two hundred and forty five (245) employees who continue to set the bar for the National Group. A commitment to reaching new heights is a very strong part of the culture here at the National Group and so to accomplish this, in fiscal year 2013/14, the National Group continued its programme of investing in employees through the provision of financial support for the pursuit of formal academic education and professional qualifications in a wide range of related disciplines.
Additionally, we invested in a number of on-site and off-site seminars, webinars and courses that helped to improve the knowledge, skills and competencies of our Staff. Compliance training was one of the heavily focused areas during the review period. Our goal is to ensure that all of our employees are well informed, equipped and ready to deal with the new international regulations and legislation.

COMMUNITY INVOLVEMENT

The National Group continues to be an exemplary corporate citizen, giving strong financial support to a wide range of sporting, athletic, educational, health, civil, sport and cultural activities. During the review period we contributed more than $350,000 in sponsorships and donations to community festivals, sporting events, civic groups, schools and churches.

LOOKING AHEAD

Going forward we will continue to meet the changing needs of our customers and help to grow the communities we serve. Service excellence, revenue growth, cost curtailment and risk management will remain our top priorities. We will also continue to pay special attention to growth of the National Group's loans and advances portfolio and strengthening our efficiency ratio through aggressive marketing and relationship management.

We want to thank our Boards of Directors for their guidance and leadership during this year of great challenges and outstanding achievements. We also want to thank our Shareholders, whose investment in the National Bank makes our success possible; our loyal Customers who continue to support our various businesses; and finally, our Management and Staff for their ongoing commitment and contribution to the success of our businesses.

We will forever remain dedicated to adding value to the National Group for the benefit of all stakeholders by staying true to our Vision and Mission and by delivering on our promise to our customers to deliver exemplary service at all times.

Dawne E. Williams
Chief Executive Officer

AUDITED FINANCIAL STATEMENTS

Grant Thornton
Corner Bank Street and West
Independence Square
P.O. Box 1038
Basseterre, St. Kitts
West Indies

T +1 869 466 8200
F +1 869 466 9822
www.grantthornton.kn

Independent Auditors' Report

To the Shareholders
St. Kitts-Nevis-Anguilla National Bank Limited

We have audited the accompanying consolidated financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** which comprise the consolidated statement of financial position as of June 30, 2014, and the consolidated statements of income, comprehensive income, changes in shareholders'equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **St. Kitts-Nevis-Anguilla National Bank Limited** as of June 30, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton

Chartered Accountants
November 10, 2014
Basseterre, St. Kitts

St. Kitts-Nevis-Anguilla National Bank Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

	Notes	June 30 2014 $	June 30 2013 Restated $	July 01 2012 Restated $
Assets				
Cash and balances with Central Bank	5	**293,229**	355,574	254,466
Treasury bills	6	**167,199**	139,769	99,179
Deposits with other financial institutions	7	**712,312**	520,242	418,865
Loans and receivables - Loans and advances to customers	8	**683,330**	1,177,711	1,203,417
- Originated debt	9	**90,518**	92,385	69,979
Investment securities -available–for–sale	10	**525,992**	429,903	382,356
Financial asset	31	**566,695**	–	–
Property inventory	11	**8,193**	10,317	10,317
Investment property	12	**4,040**	4,040	–
Income tax recoverable	19	**6,004**	6,004	6,005
Property, plant and equipment	13	**27,551**	28,877	30,077
Intangible assets	14	**403**	952	1,909
Other assets	15	**67,182**	80,083	70,705
Deferred tax asset	19	**19,591**	17,337	4,637
Total assets		**3,172,239**	2,863,194	2,551,912
Liabilities				
Customers' deposits	16	**2,507,885**	2,066,969	1,692,865
Other borrowed funds	17	**5,386**	152,569	220,217
Income tax liability	19	**142**	853	2,879
Accumulated provisions, creditors and accruals	18	**173,448**	182,017	178,293
Total liabilities		**2,686,861**	2,402,408	2,094,254
Shareholders' equity				
Issued share capital	20	**135,000**	135,000	135,000
Share premium		**3,877**	3,877	3,877
Retained earnings		**27,335**	19,698	19,392
Reserves	21	**319,166**	302,211	299,389
Total shareholders' equity		**485,378**	460,786	457,658
Total liabilities and shareholders' equity		**3,172,239**	2,863,194	2,551,912

The notes on pages 30 to 114 are an integral part of these consolidated financial statements.

Approved for issue by the Board of Directors on November 5th 2014

________________ Director

________________ Director

St. Kitts-Nevis-Anguilla National Bank Limited

CONSOLIDATED STATEMENT OF INCOME

For the year ended June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2014 $	2013 Restated $
Interest income		**112,226**	96,859
Interest expense		**(77,018)**	(81,915)
Net interest income	22	**35,208**	14,944
Fees and commission income		**11,121**	10,567
Fees expense		**(4,838)**	(3,985)
Net fees and commission income	23	**6,283**	6,582
Other income	24	**58,014**	48,605
Operating income		**99,505**	70,131
Non-interest expenses			
Administrative and general expenses	25	**37,264**	37,393
Other expenses		**19,036**	20,844
Impairment expense	26	**23,455**	–
Total operating expenses		**79,755**	58,237
Net income before tax		**19,750**	11,894
Income tax	19	**5,504**	10,058
Net income for the year		**25,254**	21,952
Earnings per share (basic and diluted)	27	**0.19**	0.16

The notes on pages 30 to 114 are an integral part of these consolidated financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2014 $	2013 Restated $
Net income for the year		**25,254**	21,952
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale financial assets:			
Net unrealised gain/(losses) on investment securities, net of tax		**2,560**	(2,247)
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year		**11,526**	(1,387)
	21	**14,086**	(3,634)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement (loss)/gain on defined benefit plan	33	**(5,893)**	501
Income tax relating to item not reclassified		**1,945**	(166)
		(3,948)	335
Total comprehensive income for the year		**35,392**	18,653

The notes on pages 30 to 114 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

	Notes	Issued share capital $	Share premium $	Statutory reserves $	Other reserves $	Revaluation reserves $	Retained earnings $	Total $
Balance at July 01, 2012, as previously reported		**135,000**	**3,877**	**98,466**	**199,659**	**(10,020)**	**22,781**	**449,763**
Prior period adjustments	36	–	–	–	–	–	7,895	7,895
Transfer to reserves	21 & 36	–	–	–	11,284	–	(11,284)	–
Balance at July 01, 2012, (Restated)		**135,000**	**3,877**	**98,466**	**210,943**	**(10,020)**	**19,392**	**457,658**
Net income for the year		–	–	–	–	–	21,952	21,952
Other comprehensive income		–	–	–	335	(3,019)	–	(2,684)
Prior period adjustment	36	–	–	–	–	(615)	–	(615)
Total comprehensive income for the year		–	–	–	335	(3,634)	21,952	18,653
Transfer to reserves	21	–	–	3,744	2,377	–	(6,121)	–
Transaction with owners								
Dividends	28	–	–	–	–	–	(15,525)	(15,525)
Balance at June 30, 2013, (Restated)		**135,000**	**3,877**	**102,210**	**213,655**	**(13,654)**	**19,698**	**460,786**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY ...continued

For the year ended June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

	Notes	Issued share capital $	Share premium $	Statutory reserves $	Other reserves $	Revaluation reserves $	Retained earnings $	Total $
Balance at June 30, 2013, (Restated)		**135,000**	**3,877**	**102,210**	**213,655**	**(13,654)**	**19,698**	**460,786**
Net income for the year		–	–	–	–	–	25,254	25,254
Other comprehensive income		–	–	–	(3,948)	14,086	–	10,138
Total comprehensive income for the year		–	–	–	(3,948)	14,086	25,254	35,392
Transfer to reserves	21	–	–	4,639	2,178	–	(6,817)	–
Transaction with owners								
Dividends	28	–	–	–	–	–	(10,800)	(10,800)
Balance at June 30, 2014		**135,000**	**3,877**	**106,849**	**211,885**	**432**	**27,335**	**485,378**

The notes on pages 30 to 114 are an integral part of these consolidated financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2014 $	2013 Restated $
Cash flows from operating activities			
Operating income before taxation		**19,750**	11,894
Adjustments for:			
Interest income		**(112,226)**	(96,859)
Interest expense		**77,018**	81,915
Depreciation and amortisation		**3,116**	3,565
Retirement benefit income		**(328)**	(636)
Retirement benefit contribution		**(319)**	(343)
Provision for impairment, net		**23,455**	–
Gain on disposal of premises and equipment		**–**	1
Operating income before changes in operating assets and liabilities		**10,466**	(463)
(Increase)/decrease in operating assets:			
Loans and advances to customers		**488,726**	29,363
Mandatory deposit with the Central Bank		**(28,463)**	(26,047)
Other assets		**(557,583)**	(10,890)
Increase/(decrease) in operating liabilities:			
Customers' deposits		**440,148**	359,964
Due to other financial institutions		**(1,859)**	2,081
Accumulated provisions, creditors, and accruals		**(8,522)**	16,008
Cash generated from operations		**342,913**	370,016
Interest received		**98,642**	89,847
Interest paid		**(74,434)**	(80,750)
Income tax paid		**(2,588)**	(3,994)
Net cash generated from operating activities		**364,533**	375,119
Cash flows from investing activities			
Purchase of plant, equipment and intangible assets		**(1,268)**	(1,648)
Proceeds from disposal of plant and equipment		**25**	242
Increase in special term deposits		**18,728**	(16,322)
Investment property		**2,124**	(626)
Decrease in restricted term deposits and treasury bills		**58,800**	5,459
Net proceeds from investments		**(79,311)**	(69,626)
Net cash used in investing activities		**(902)**	(82,521)
Cash flows from financing activities			
Other borrowed funds		**(145,404)**	(69,427)
Dividend paid	28	**(10,800)**	(15,525)
Net cash used in financing activities		**(156,204)**	(84,952)
Net decrease in cash and cash equivalents		**207,427**	207,646
Cash and cash equivalents, beginning of year		**555,261**	347,615
Cash and cash equivalents, end of year	32	**762,688**	555,261

The notes on pages 30 to 114 are an integral part of these consolidated financial statements.

St. Kitts-Nevis-Anguilla National Bank Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

1 Incorporation and principal activity

St. Kitts-Nevis-Anguilla National Bank Limited (the "Bank") was incorporated as a private limited company on February 15, 1971 under the Companies Act Chapter 335, and was reregistered under the new Companies Act No. 22 of 1996 on April 14, 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 listed on the Eastern Caribbean Securities Exchange.

The Bank's registered office is at Central Street, Basseterre, St. Kitts. The principal activities of the Bank and its subsidiaries ("the Group") are described below.

The Bank is principally involved in the provision of financial services.

The Bank's subsidiaries and their activities are as follows:

- *National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited ("Trust Company")*

  The Trust Company was incorporated on the 26th day of January, 1972 under the Companies Act chapter 335, but was re-registered under the new Companies Act No. 22 of 1996 on the 14th day of April 1999.

  The principal activity of the Trust Company is the provision of long-term mortgage financing, raising long-term investment funds, real estate development, property management and the provision of trustee services.

- *National Caribbean Insurance Company Limited ("Insurance Company")*

  The Insurance Company was incorporated on the 20th day of June, 1973 under the Companies Act chapter 335, but was re-registered under the new Companies Act No. 22 of 1996 on the 14th day of April 1999.

  The Insurance Company provides coverage of life assurance, non-life assurance and pension schemes.

- *St. Kitts and Nevis Mortgage and Investment Company Limited ("MICO")*

  MICO was incorporated on the 25th day of May, 2001 under the Companies Act No. 22 of 1996 and commenced operations on the 13th day of May, 2002.

  MICO acts as the real estate arm of the Bank with its main operating activities being the acquisition and sale of properties.

2 Significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2 Significant accounting policies...*continued*

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

IAS 1.10(f) requires an entity to present an additional statement of financial position as of the beginning of the preceding period when an entity:

- applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, and

- the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.

Related notes to the additional statement of financial position are not required. The retrospective application of certain new and revised IFRSs (see Note 2.2 below) in 2014 has a material effect on the statement of financial position as of July 1, 2012.

Therefore, the Group presents a third statement of financial position as of July 1, 2012 without related notes except for the disclosures required by IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'

2.2 Changes in accounting policy

New and revised standards that are effective for annual periods beginning on or after January 1, 2013

A number of new and revised standards are effective for annual periods beginning on or after January 1, 2013. Information on these new standards is presented below.

- *IFRS 13 'Fair Value Measurement'*, clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

  IFRS 13 applies prospectively for annual periods beginning on or after January 1, 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. The Group has however included as comparative information the IFRS 13 disclosures

2 Significant accounting policies...*continued*

2.2 Changes in accounting policy… *continued*

New and revised standards that are effective for annual periods beginning on or after January 1, 2013*...continued*

that were required previously by IFRS 7 'Financial Instruments: Disclosures'.

The Group has applied IFRS 13 for the first time in the current year. The application of IFRS 13 did not have a material impact on the Group's financial statements.

- *Amendments to IAS 19 'Employee Benefits'*. The 2011 amendments to IAS 19 made a number of changes to the accounting for employee benefits, the most significant relating to defined benefit plans. The amendments:

    - eliminate the 'corridor method' and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
    - change the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit asset or liability; and
    - enhance disclosures, including more information about the characteristics of defined benefit plans and related risks.

The revised standard has been adopted as a change in accounting policy and has been applied retrospectively with the restatement of the comparative 2013 amounts and of the cumulative impact at the beginning of 2013. The impact on the Group's results has been:

- An increase in equity and the net defined benefit pension asset of $11,284 and $16,841 respectively at the beginning of 2013;
- For the year ended June 30, 2013, an increase in net income of $282 and in other comprehensive income of $335.

These restatements are summarised in note 36 .

- *Amendment to IAS 1, 'Financial statement presentation'* - This amendment pertains to presentation of other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

- *IFRS 10 'Consolidated Financial Statements' (IFRS 10)* - IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' (IAS 27) and SIC 12 'Consolidation-Special Purpose Entities'. IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore to change the scope of

2 Significant accounting policies*…continued*

2.2 Changes in accounting policy*… continued*

New and revised standards that are effective for annual periods beginning on or after January 1, 2013*…continued*

consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with IFRS 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Group's investees held during the period or comparative periods covered by these financial statements.

- *Consequential amendments to IAS 27 'Separate Financial Statements' (IAS 27) and IAS 28 'Investments in Associates and Joint Ventures' (IAS 28)* - IAS 27 now only addresses separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

- *IFRS 12 'Disclosure of Interests in Other Entities' (IFRS 12)* - IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments in other entities, including unconsolidated structured entities, joint arrangements, associates and other off balance sheet vehicles. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted by the Group.

At the date of authorisation of these consolidated financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's consolidated financial statements is provided below. Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

- *IFRS 9, 'Financial Instruments'* - The IASB recently released IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The Group's management have yet to assess the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

2 Significant accounting policies*...continued*

2.2 Changes in accounting policy*… continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted by the Group*...continued*

- *Offsetting financial assets and financial liabilities (Amendments to IAS 32)* - The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

    i. the meaning of 'currently has a legally enforceable right of set-off';
    ii. that some gross settlement systems may be considered equivalent to net settlement.

  The Amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the Group's consolidated financial statements from these Amendments.

- *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)* - These amendments clarify that an entity is required to disclose the recoverable amount of an asset (or cash generating unit) whenever an impairment loss has been recognised or reversed in the period. In addition, they introduce several new disclosures required to be made when the recoverable amount of impaired assets is based on fair value less costs of disposal, including:

    i. additional information about fair value measurement including the applicable level of the fair value hierarchy, and a description of any valuation techniques used and key assumptions made;
    ii. the discount rates used if fair value less costs of disposal is measured using a present value technique.

- *IFRS 7, Financial instruments: disclosure. A*mendments of December 2011 modified the relief from restating comparative periods and the associated disclosures.

- *IFRS 10, IFRS 12 and IAS 27* provide investment entities an exemption from consolidating particular subsidiaries and instead require that the entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 and IAS 39. It requires also disclosures on unconsolidated subsidiaries, the nature of the relationship and certain transactions with subsidiaries.

  The Group does not anticipate any significant effect on its financial statements.

- *IAS 19* sets out that contributions from employees or third parties that are linked to service should be attributed to periods of service. It also permits a practical expedient should the amounts contributed are independent of the number of years of service.

  The application of this standard should have little or no impact on the financial statements.

2 Significant accounting policies*...continued*

2.2 Changes in accounting policy*… continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted by the Group*...continued*

Management do not anticipate any significant effect to the consolidated financial statements on implementation of these amendments. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.3 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of June 30, 2014. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of June 30. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.4 Cash and cash equivalents

Cash comprises cash in hand and demand and call deposits with banks. Cash equivalents are short–term, highly liquid investments with original maturities of 90 days or less that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short–term cash commitments rather than for investment or other purposes.

Cash and cash equivalents are subject to an insignificant risk of change in value. Cash and cash equivalents exclude balances held to meet statutory requirements and restricted deposits.

2.5 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – are recognised in the statement of financial position and measured in accordance with their assigned category.

Financial assets

The Group allocates its financial assets to the IAS 39 category of: loans and receivables and available–for–sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

St. Kitts-Nevis-Anguilla National Bank Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies*...continued*

2.5 Financial assets and liabilities*...continued*

(i) 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: (a) those that the Group intends to sell immediately or in the short term, which are classified or held for trading and those that the entity upon initial recognition designates at fair value through profit or loss; (b) those that the Group upon initial recognition designates as available–for– sale; (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivable are recognised when cash or the right to cash is advanced to a borrower and are carried at amortised cost using the effective interest method. The Group's loans and receivables include cash in bank and cash equivalents, treasury bills, deposit with other financial institution, loans and advances to customers, and originated debts.

(ii) Available–for–sale financial assets

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

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

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

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

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

The Group's available–for–sale financial assets are separately presented in the statement of financial position.

2 Significant accounting policies*...continued*

2.5 Financial assets and liabilities*...continued*

Financial liabilities

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

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

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Reclassification of financial assets

The Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held–for–trading or available–for–sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held–to–maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2 Significant accounting policies *...continued*

2.6 Classes of financial instruments

The Group classifies the financial instruments into classes that reflect the nature of information disclosed and take into account the characteristics of those financial instruments. The classification hierarchy can be seen in the table below:

<table>
<tr><td rowspan="5">Financial assets</td><td rowspan="4">Loans and receivables</td><td>Cash and cash equivalents and deposits with other financial institutions</td><td>Bank accounts</td></tr>
<tr><td>Treasury bills and originated loans</td><td>Government fixed rated bonds and long term note</td></tr>
<tr><td>Loans and advances to customers</td><td>Primary lenders</td></tr>
<tr><td>Investment securities</td><td>Equity and debt securities</td></tr>
<tr><td>Available–for–sale financial assets</td><td colspan="2">Available–for–sale investments</td></tr>
<tr><td rowspan="2">Financial liabilities</td><td rowspan="2">Financial liabilities at amortised cost</td><td colspan="2">Customers' deposits and borrowings</td></tr>
<tr><td colspan="2">Other liabilities and accrued expenses</td></tr>
</table>

2.7 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a 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 loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group 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.

2 Significant accounting policies*...continued*

2.7 Impairment of financial assets*...continued*

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

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

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

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

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

2 Significant accounting policies*...continued*

2.7 Impairment of financial assets*...continued*

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.9 Employee benefits

(a) Gratuity

The Group 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 financial position.

2 Significant accounting policies*...continued*

2.9 Employee benefits*...continued*

(b) Pension plan

The Group operates a defined benefit plan. The administration of the plan is conducted by National Caribbean Insurance Company Limited, one of the subsidiaries. The plan is funded through payments to trustee-administered deposit funds determined by periodic actuarial calculations. A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement based on factors such as age, year of service and final salary. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period.

The asset figure recognised in the statement of financial position in respect of net defined benefit assets is the fair value of the plan assets less the present value of the defined benefit obligation at the reporting date . The retirement benefit asset recognised in the statement of financial position represents the actual surplus in the defined benefit plan. Re-measurements comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Re-measurement recorded in other comprehensive income is not recycled. However, the Group may transfer those amounts recognised in other comprehensive income within equity.

2.10 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 statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity, usually every five years, such that the carrying amount does not differ materially from that which would be determined using fair values at the year end.

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

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

2 Significant accounting policies*...continued*

2.10 Property, plant and equipment*...continued*

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

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

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

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

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

2.11 Intangible assets

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

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

2.12 Impairment of non–financial assets

Non–financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash–generating units). Non–financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies*...continued*

2.13 Insurance contracts

i) Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

ii) Recognition and measurement

Insurance contracts issued are classified as short-term insurance contracts and long-term insurance contracts with fixed and guaranteed payments.

Short-term insurance contracts

Property and casualty insurance business

- Property and casualty insurance contracts are generally one year renewable contracts issued by the Group covering insurance risks over property, motor, accident and marine. Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of the property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

  Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damages (public liability).

  Premiums are recognized as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unexpired insurance risk. Premiums are shown before deduction of commissions.

  Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using:

  - the input of assessments for individual cases reported to the Company; and
  - statistical analyses for the claims incurred but not reported.

These are used to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

2 Significant accounting policies*...continued*

2.13 Insurance contracts*...continued*

ii) Recognition and measurement

- Health insurance business

  Health insurance contracts are generally one year renewable contracts issued by the Group covering insurance risks for medical expenses of insured persons. The liabilities of health insurance policies are estimated in respect of claims that have been incurred but not reported and claims that have been reported but not yet paid, due to the time taken to process the claim.

Long-term insurance contracts with fixed and guaranteed terms

- Life insurance business

  These contracts insure events associated with human life (for example, death and survival) over a long duration. Premiums are recognized as revenue when they are received or become receivable from the policyholder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

  The determination of actuarial liabilities on life polices is based on the Net Level Premium ("NLP") reserve method. This reserve method uses net premiums as opposed to calculating reserves on a first principles gross premium valuation. The NLP reserve method does not use lapse rates or expenses and takes into consideration only the bonus additions allocated to the policy to date. Future bonus additions are not considered in the valuation. The Group utilises an actuary for the determination of the actuarial liabilities. These liabilities consist of amounts that together with future premiums and investment income are required to provide for policy benefits, expenses and taxes on life insurance contracts. The process of calculating actuarial liabilities for future policy benefits involves the use of estimates concerning factors such as mortality and morbidity rates, future investment yields and future expense levels and persistency.

  The liabilities are recalculated at each end of the reporting period using the assumptions established at inception of the contracts.

iii) Reinsurance contracts held

The Group obtains reinsurance contracts coverage for insurance risks underwritten. The Group cedes insurance premiums and risk related to property and casualty contracts in the normal course of business in order to limit the potential for losses arising from its exposures. Reinsurance does not relieve the Group of its liability. The benefits to which the Group are entitled under reinsurance contracts held are recognised as reinsurance assets. Reinsurance assets are assessed for impairment and if evidence that the asset is impaired exists, the impairment is recorded in the statement of income. The obligations of the Group under reinsurance contracts held are included under insurance contract liabilities.

2 Significant accounting policies*...continued*

2.13 Insurance contracts*...continued*

iv) Liability adequacy test

At the date of the financial statements, liability adequacy tests are performed by the Group to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows.

If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. The deficiency is included in the statement of income under claims and benefits.

v) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of comprehensive income. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated under the same method used for these financial assets.

vi) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets until the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets until the liability is settled. The allowance is the amount of the assets that can be recovered from the action against the liable third party.

2.14 Investment in associates

Associates are those entities over which the Group is able to exert significant influence but which are not subsidiaries. Associate companies are accounted for using the equity method.

2 Significant accounting policies...*continued*

2.14 Investment in associates...*continued*

The carrying amount of the investment in associates is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

2.15 Borrowings

Borrowings are recognised initially at fair value (which is their issue proceeds and fair value of the considerations received), net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

2.16 Guarantees and letters of credit

Guarantees and letters of credit comprise undertaking by the Group 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.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre−tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Leases

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

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

2 Significant accounting policies*...continued*

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services rendered, stated net of discounts and taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities as described below.

a) Interest income and expense

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

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

b) Fee and commission income

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

c) Dividend income

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

2 Significant accounting policies*...continued*

2.19 Revenue recognition*...continued*

d) Premiums

Written premiums for non-life insurance relate to contracts incepting in the financial year and are stated gross of commissions payable to intermediaries and exclusive of taxes levied on premiums. Written premiums for life contracts are recognised when due from the policyholder. Unearned premiums are those proportions of the premium which relate to periods of risk after the reporting date.

e) Property sales

Revenue from property sales are recognized when title of the properties has passed to the buyer.

2.20 Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the Group operates (the "functional currency"). The financial statements are presented in Eastern Caribbean dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re–measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year–end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of income within 'Other income'.

2.21 Share capital

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

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are paid by the Board of Directors and or approved by the Group's shareholders.

2.22 Current and deferred income tax

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

2 Significant accounting policies*...continued*

2.22 Current and deferred income tax*...continued*

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 separate financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted by the reporting 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 reporting date are used to determine deferred income tax.

Deferred tax asset is recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of available-for-sale investment securities) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

(i) Premium tax rates
Insurers are subject to tax on premium revenues generated in certain jurisdictions. The principal rate of premium tax is 5% for general insurance and nil for life insurance.

(ii) Income tax rates
The Group is subject to corporate income taxes at a rate of 33%.

2.23 Deposit funds

Deposit administration contracts are issued by the Group to registered pension schemes for the deposit of pension plan assets with the Group.

Deposit administration liabilities are recognised initially at fair value and are subsequently stated at:

- amortised cost where the insurer is obligated to provide investment returns to the pension scheme in the form of interest;
- fair value through income where the Group is obligated to provide investment returns to the pension scheme in direct proportion to the investment returns on specified blocks of assets.

Deposit administration contributions are recorded directly as liabilities. Withdrawals are deducted directly from the liability. The interest or investment return provided is recorded as an interest expense.

2 Significant accounting policies...*continued*

2.24 Investment property

Investment properties are properties held to earn rental and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured at cost, including transaction cost.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in income in the period in which the property is derecognised.

2.25 Inventory

Inventory is measured at the lower of cost and net realizable value. The cost of inventory comprises all costs purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition. Net realizable value represents the estimated selling price less all estimated costs necessary to make the sale.

2.26 Comparatives

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

3 Management of financial and insurance risk

The Group'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 insurance, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

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

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

3 Management of financial and insurance risk*...continued*

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

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparties will cause financial losses for the Group by failing to discharge their obligations. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management, therefore, carefully manages its exposure to such credit risks. Credit exposure arises principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio.

There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised and reported to the Board of Directors.

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

(a) Loans and advances

The prudential guidelines of the Group's regulators are included in the daily credit operational management of the Group. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date (the 'incurred loss model').

The Group assesses the probability of default of individual borrowers using internal rating tools tailored to the various categories of the counterparty. These rating tools are fashioned from the guidelines of the commercial bank's regulators. Advances made by the Group 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.

Group's 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 Group Treasury/Fund Managers for managing the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

3 Management of financial and insurance risk*...continued*

3.1.2 Risk limit control and mitigation policies

The Group 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 Group 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:

(a) Collateral

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

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

Longer-term finance and lending to corporate entities and individual credit facilities are generally secured. In addition, in order to minimize credit loss, the Group 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 Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans and advances, guarantees or letters of credit. With respect to credit risk, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.2 Risk limit control and mitigation policies*...continued*

(b) Credit-related commitments ...continued

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 Group monitors the term of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning

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

		2014		2013	
		Loans and advances (%)	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
	Group's rating				
1	Pass	**58.83**	**–**	77.34	–
2	Special mention	**27.00**	**–**	14.26	–
3	Sub-standard	**11.53**	**30.57**	6.84	28.39
4	Doubtful	**2.52**	**62.94**	1.49	64.39
5	Loss	**0.12**	**6.49**	0.07	7.22
		100.00	**100.00**	100.00	100.00

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

(i) 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.

(ii) 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 hardcode which was not converted.

The Group requires the review of individual financial assets that are above materiality thresholds on an annual basis or more regularly when individual circumstances require.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.3 Impairment and provisioning*...continued*

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting 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.

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

Credit risk exposure relating to on/off balance sheet assets is as follows:

	Maximum exposure	
	2014	**2013**
	$	**$**
Treasury bills	**167,199**	139,769
Deposits with other financial institutions	**712,312**	520,242
Loans and receivable:		
Overdrafts	**144,651**	142,359
Corporate customers	**123,806**	62,881
Term loans	**284,906**	842,320
Mortgages (personal)	**129,967**	130,151
Originated debts	**90,518**	92,385
Available-for-sale debt investments	**202,848**	153,190
Financial asset	**566,695**	–
Other assets	**40,410**	70,184
Credit risk exposures relating to off-balance sheet assets are as follows:		
Loan commitments	**132,668**	34,360
Total	**2,595,980**	2,187,841

The above table represents a worst case scenario of credit risk exposure at the statement of financial positions dates, 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 statement of financial position. As shown above, 26% (2013: 54%) of the total maximum exposure is derived from loans and advances to customers. Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loans and advances portfolio and debt securities based on the following:

- 74% (2013: 92%) of the loans and advances portfolio are categorized in the top two grades of the internal rating system;
- Term loans, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees;
- 71% (2013: 47%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- The Group continues to grant loans and advances in accordance with its lending policies and guidelines; and
- A number of issuers and debt instruments in the region are not rated; consequently 35% (2013: 59%) of these investments are not rated (Government securities – treasury bills, etc.).

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.5 Loans and advances

Loans and advances to customers are summarized as follows:

	2014 $	2013 $
Loans and advances to customers		
Neither past nor impaired	**517,799**	536,755
Past due not impaired	**23,033**	559,750
Impaired principal	**125,911**	58,964
Interest receivable	**73,017**	60,813
	739,760	1,216,282
Less allowance for impairment losses	**(56,430)**	(38,571)
Net	**683,330**	1,177,711

The total allowance for impairment losses on loans and advances is $56,430 (2013: $38,571). Further information of the allowance for impairment losses on loans and advances to customers is provided in note 8.

(a) Loans and advances to customers neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the rating system utilised by the Group.

As of June 30, 2014

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total $
Classifications:					
1. Pass	9,511	132,136	79,782	81,242	302,671
2. Special mention	66,246	112,102	1,715	–	180,063
3. Substandard	332	31,359	548	2,826	35,065
Gross	**76,089**	**275,597**	**82,045**	**84,068**	**517,799**

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.5 Loans and advances*...continued*

(a) Loans and advances to customers neither past due nor impaired *...continued*

As of June 30, 2013

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total $
Classifications:					
1. Pass	67,846	290,080	75,011	33,194	466,131
2. Special mention	64,434	498	1,498	–	66,430
3. Substandard	452	–	259	3,483	4,194
Gross	**132,732**	**290,578**	**76,768**	**36,677**	**536,755**

(b) Loans and advances to customers 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. Loans and advances 90 days past due but not impaired are those with special arrangements.

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 $
As of June 30, 2014				
Past due up to 30 days	2,491	10,731	890	14,112
Past due 31 – 60 days	510	2,232	–	2,742
Past due 61 – 90 days	360	1,451	–	1,811
Over 90 days	688	3,680	–	4,368
Gross	**4,049**	**18,094**	**890**	**23,033**
Fair value of collateral	**16,937**	**39,536**	**3,961**	**60,434**

	Term loans $	Mortgages $	Corporate customers $	Total $
As of June 30, 2013				
Past due up to 30 days	67,383	9,225	591	77,199
Past due 31 – 60 days	469	2,701	–	3,170
Past due 61 – 90 days	270	1,060	473	1,803
Over 90 days	472,638	4,036	904	477,578
Gross	**540,760**	**17,022**	**1,968**	**559,750**
Fair value of collateral	**619,130**	**34,756**	**5,851**	**659,737**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.5 Loans and advances*...continued*

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

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

(c) Loans and advances to customers individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $125,911 (2013: $58,964).

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

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total $
As of June 30, 2014					
Individually impaired	74,386	4,800	25,293	21,432	125,911
Interest receivable	12,835	2,654	15,082	42,446	73,017
Gross	**87,221**	**7,454**	**40,375**	**63,878**	**198,928**
Fair value of collateral	**66,513**	**9,312**	**30,435**	**130,044**	**236,304**
As of June 30, 2013					
Individually impaired	8,800	5,433	24,867	19,864	58,964
Interest receivable	12,348	2,105	12,930	33,430	60,813
Gross	**21,148**	**7,538**	**37,797**	**53,294**	**119,777**
Fair value of collateral	**10,372**	**12,612**	**36,092**	**81,508**	**140,584**

(d) Loans and advances to customers 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. Renegotiated loans at the reporting date stood at $3,933.

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.6 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 the reporting date and based on Standard & Poor's ratings or equivalent:

As of June 30, 2014	Treasury bills $	Investment securities $	Loans ad receivables-originated debts $	Total $
AA- to AA+	–	22,663	–	22,663
A- to A+	–	45,912	–	45,912
Lower than A-	–	36,347	–	36,347
Unrated/internally rated	167,199	97,926	90,518	355,643
	167,199	**202,848**	**90,518**	**460,565**

As of June 30, 2013	Treasury bills $	Investment securities $	Loans ad receivables-originated debts $	Total $
A to A+	–	39,174	–	39,174
Lower than A-	–	23,568	–	23,568
Unrated/internally rated	139,769	90,448	92,385	322,602
	139,769	**153,190**	**92,385**	**385,344**

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.7 Geographical concentrations of on balance sheet and off balance sheet assets with credit risk exposure

The Group operates three business segments as follows:

- commercial and retail banking;
- insurance coverage, investment and real estates; and
- long term financing and trust services.

These are predominantly localised to St. Kitts and Nevis. Commercial banking activities, however, account for a significant portion of credit risk exposure.

The credit risk exposure is, therefore, spread geographically and over a diversity of personal and commercial customers.

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean States $	Total $
As of June 30, 2014					
Treasury bills	86,651	–	–	80,548	167,199
Deposit with financial institutions	45,699	621,230	17,332	28,051	712,312
Loans and advances to customers	621,578	49,107	1,636	11,009	683,330
Originated debts	20,921	–	–	69,597	90,518
Investments (AFS)	1,281	201,567	–	–	202,848
Financial asset	566,695	–	–	–	566,695
Other assets	11,422	28,988	–	–	40,410
	1,354,247	**900,892**	**18,968**	**189,205**	**2,463,312**
As of June 30, 2013					
Treasury bills	87,042	–	–	52,727	139,769
Deposit with financial institutions	45,369	365,197	16,453	93,223	520,242
Loans and advances to customers	1,123,740	38,417	2,507	13,047	1,177,711
Originated debts	18,747	–	–	73,638	92,385
Investments (AFS)	1,005	152,185	–	–	153,190
Other assets	47,987	22,197	–	–	70,184
	1,323,890	**577,996**	**18,960**	**232,635**	**2,153,481**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.1.8 Concentration of risks of financial assets with credit exposure

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

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2014							
Treasury bills	167,199	–	–	–	–	–	167,199
Deposit with financial institutions	36,651	–	–	675,661	–	–	712,312
Loans and receivables							
Originated debts	83,781	–	–	2,950	–	3,787	90,518
Loans and advances	318,335	81,789	73,845	4,814	151,358	53,189	683,330
Investments (AFS)	10,883	116	1,118	112,813	–	77,918	202,848
Financial asset	566,695	–	–	–	–	–	566,695
Other assets	–	–	–	38,377	1,547	486	40,410
	1,183,544	**81,905**	**74,963**	**834,615**	**152,905**	**135,380**	**2,463,312**
As of June 30, 2013 (restated)							
Treasury bills	139,769	–	–	–	–	–	139,769
Deposit with financial institutions	36,595	–	–	483,381	257	9	520,242
Loans and receivables							
Originated debts	86,189	–	–	1,300	–	4,896	92,385
Loans and advances	874,419	61,913	53,493	4,249	149,688	33,949	1,177,711
Investments (AFS)	8,165	87	839	84,637	–	59,462	153,190
Other assets	–	–	–	48,560	80	21,544	70,184
	1,145,137	**62,000**	**54,332**	**622,127**	**150,025**	**119,860**	**2,153,481**

3 Management of financial and insurance risk...*continued*

3.2 Market risk

The Group 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 Group's exposure to market risks primarily arise from the interest rate management of the Group's retail and commercial banking assets and liabilities, debt investment securities and equity risks arising from its available-for-sale investments.

3.2.1 Price risk

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

3.2.2 Foreign exchange risk

The Group 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 Group's exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The Group uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollars (EC$). The Group has set the mid-rate of exchange rate of the Eastern Caribbean (EC$) to the United States dollar (US$) at EC$2.7026 = US$1.00 since 1976.

The following table summarises the Group's exposure to foreign currency exchange rate risk at the reporting date. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk...*continued*

3.2.2 Foreign exchange risk...*continued*

Concentration of currency risk

As of June 30, 2014	ECD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	289,424	3,643	35	101	13	13	–	293,229
Treasury bills	167,199	–	–	–	–	–	–	167,199
Deposit with financial bodies	49,626	655,928	2,396	2,733	880	746	3	712,312
Loans and receivables:								
Loans and advances to customers	623,934	59,396	–	–	–	–	–	683,330
Originated debts	74,896	15,622	–	–	–	–	–	90,518
Investments (AFS)	11,272	514,720	–	–	–	–	–	525,992
Financial asset	566,695	–	–	–	–	–	–	566,695
Other assets	23,381	17,029	–	–	–	–	–	40,410
Total financial assets	**1,806,427**	**1,266,338**	**2,431**	**2,834**	**893**	**759**	**3**	**3,079,685**
Liabilities								
Customers' deposits	2,107,592	397,843	157	3	2,290	–	–	2,507,885
Other borrowed funds	4,742	644	–	–	–	–	–	5,386
Other liabilities	166,961	1,608	42	412	172	117	–	169,312
Total financial liabilities	**2,279,295**	**400,095**	**199**	**415**	**2,462**	**117**	**–**	**2,682,583**
Net on-balance sheet positions	**(472,868)**	**866,243**	**2,232**	**2,419**	**(1,569)**	**642**	**3**	**397,102**
Credit commitment	**132,668**	**–**	**–**	**–**	**–**	**–**	**–**	**132,668**

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.2.2 Foreign exchange risk*...continued*

Concentration of currency risk *...continued*

As of June 30, 2013	ECD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Total financial assets	1,859,853	924,998	1,953	1,231	490	404	–	2,788,929
Total financial liabilities	1,761,289	485,316	48	394	3,721	117	14	2,250,899
Net on-balance sheet positions	98,564	439,682	1,905	837	(3,231)	287	(14)	538,030
Credit commitment	34,360	–	–	–	–	–	–	34,360

3 Management of financial and insurance risk*...continued*

3.2.3 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 Group 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.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.2.3 Interest rate risk*...continued*

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

As of June 30, 2014	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
Assets							
Cash and balances with Central Bank	–	–	–	–	–	293,229	293,229
Treasury bills	23,008	21,604	122,587	–	–	–	167,199
Deposit with other financial institutions	401,856	–	38,707	21,065	–	250,684	712,312
Loans and receivables:							
Loans and advances to customers	268,348	847	146,739	37,217	230,179	–	683,330
Originated debts	14,176	275	6,069	45,397	24,601	–	90,518
Investments (AFS)	202,408	–	–	–	1,005	322,579	525,992
Other asset	–	–	7,086	–	–	33,324	40,410
Financial asset	–	–	–	566,695	–	–	566,695
Total assets	**909,796**	**22,726**	**321,188**	**670,374**	**255,785**	**899,816**	**3,079,685**
Liabilities							
Customers' deposits	664,993	181,000	788,894	–	–	872,998	2,507,885
Other borrowed funds	5,386	–	–	–	–	–	5,386
Other liabilities	37	–	–	–	–	169,275	169,312
Total liabilities	**670,416**	**181,000**	**788,894**	–	–	**1,042,273**	**2,682,583**
Total interest repricing gap	**239,380**	**(158,274)**	**(467,706)**	**670,374**	**255,785**	**(142,457)**	**397,102**

(expressed in thousands of Eastern Caribbean dollars)

3.2.3 Interest rate risk...*continued*

	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $
As of June 30, 2013							
Total financial assets	614,251	32,580	264,589	280,680	761,190	820,590	2,773,880
Total financial liabilities	809,092	145,724	771,153	110,095	–	381,461	2,217,525
Total interest repricing gap	(194,841)	(113,144)	(506,564)	170,585	761,190	439,129	556,355

The Group's fair value interest rate risk arises from debt securities classified as available-for-sale. Had market interest rates at the reporting date been 100 basis points higher/lower with all variables held constant, equity for the year would have been $1,760 million lower/higher as a result of the decrease/increase in fair value of available-for-sale debt securities.

Cash flow interest rate risk arises from loans and advances to customers at available rates. Had variable rates at the reporting date been 100 basis points higher/lower with all other variables held constant, post-tax profits for the year would have been $6.169 million higher/lower, mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

3 Management of financial and insurance risk*...continued*

3.3 Liquidity risk

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

3.3.1 Liquidity risk management

The Group's liquidity is managed and monitored by the Comptroller Division with guidance, where necessary, from the Board of Directors. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This includes:

- Daily monitoring of the Group's liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers.
- 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, industry and term.
- Daily monitoring of the statement of financial position 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.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed to maintain a wide diversification of geography, currency, providers, products and terms. The Group holds a diversified portfolio of cash loans and investment securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk include the following:

- Cash and balances with the Central Bank;
- Due from other financial institutions;
- Loans and advances to customers
- Treasury bills; and
- Available-for-sale investment securities

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk...*continued*

3.3.3 Cash flows

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

As of June 30, 2014	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
Financial liabilities						
Customers' deposits	1,527,051	184,079	831,783	–	–	2,542,913
Other borrowed funds	5,386	–	–	–	–	5,386
Other liabilities	8,570	2,200	11,677	146,865	–	169,312
Total financial liabilities	**1,541,007**	**186,279**	**843,460**	**146,865**	**–**	**2,717,611**
Total financial assets	**1,758,744**	**23,162**	**347,616**	**703,600**	**253,874**	**3,086,996**
As of June 30, 2013						
Total financial liabilities	**1,211,098**	**152,769**	**801,410**	**115,701**	**–**	**2,280,978**
Total financial assets	**1,428,797**	**31,399**	**279,783**	**293,947**	**759,170**	**2,793,096**

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.3.4 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (note 30), are summarised in the table below.

As of June 30, 2014	**Up to 1 year $**	**1 to 3 years $**	**Over 3 years $**	**Total $**
Loan commitments	128,403	1,763	2,502	**132,668**
As of June 30, 2013				
Loan commitments	9,656	21,394	3,310	**34,360**

3.4 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

To limit the Group's exposure of potential loss on an insurance policy, the Group ceded certain levels of risk to a reinsurer. The Group selects reinsurers which have a well-established capability to meet their contractual obligations and which generally have high credit ratings.

For its property risks, the Group uses quota share and excess of loss catastrophe reinsurance treaties to obtain reinsurance coverage. Catastrophe reinsurance is obtained for multiple claims arising from one event or occurring within a specified time period. However, treaty limits may apply and may expose the insurer to further claim exposure.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefits payments exceed the carrying amount of the insurance liabilities. This could occur because of the frequency or severity of claims and if benefits payments are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.4 Insurance risk*...continued*

The concentration of insurance risk before and after reinsurance by risk category is summarised below, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from insurance contracts:

	Gross liability		Reinsurers' share		Net liability	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
	$	**$**	**$**	**$**	**$**	**$**
St. Kitts	**6,207**	7,321	**415**	595	**5,792**	6,726
Nevis	**107**	211	–	–	**107**	211
Anguilla	**356**	379	–	–	**356**	379
	6,670	7,911	**415**	595	**6,255**	7,316
Property	**429**	768	**415**	595	**14**	173
Liability	**52**	198	–	–	**52**	198
Motor	**4,317**	4,125	–	–	**4,317**	4,125
Health & Life	**1,871**	2,820	–	–	**1,871**	2,820
	6,669	7,911	**415**	595	**6,254**	7,316

3 Management of financial and insurance risk *...continued*

3.4 Insurance risk *…continued*

i) Property insurance

Property insurance contracts are underwritten using the following main risk categories: fire, business interruption, weather damage and theft.

Frequency and severity of claims
For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, flooding, hurricanes, earthquake, etc), increase the frequency and severity of claims and their consequences. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from fire, hurricane and earthquake damage. The Group has reinsurance cover for such damage to limit losses to $0.50 million in any one occurrence, per individual property risk.

Sources of uncertainty in the estimation of future claim payments
Claims on property contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. There are several variables that affect the amount and timing of cash flows from these contracts. The compensation paid on these contracts is the monetary awards granted for property damage caused by insured perils as stated in the contract of insurance.

The estimated costs of claims include direct expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Property claims are less sensitive as the shorter settlement period for these claims allows the Group to achieve a higher degree of certainty about the estimated cost of claims. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported (IBNR) and a provision for reported claims not yet paid (outstanding claims) at the reporting date.

ii) Casualty insurance

The Group's casualty insurance is motor, marine and liability insurance.

Frequency and severity of claims
The frequency and severity of claims can be affected by several factors. The most significant is the number of cases coming to Court that have been inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period required to settle these cases.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

3 Management of financial and insurance risk ... *continued*

3.4 Insurance risk ...*continued*

ii) Casualty insurance...*continued*

Frequency and severity of claims*...continued*
Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Furthermore, the Group's strategy limits the total exposure to the Group only by the use of reinsurance treaty arrangements. The reinsurance arrangements include excess of loss cover. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance loss of more than $0.75 million per risk for casualty insurance.

Sources of uncertainty in the estimation of future claim payments
Claims on casualty contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract even if the loss is discovered after the end of the contract term. As a result, casualty and financial risk claims are settled over a longer period of time. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employers' liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur because of the accident.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for incurred but not reported (IBNR) and a provision for reported claims not yet paid (outstanding claims) and a provision for unexpired risks at the reporting date. The Group's IBNR loss reserves are derived using paid loss development estimation method (triangular method). Each business classes' IBNR was calculated using claims data and loss history. The quantum of casualty claims is particularly sensitive to the level of Court awards and to the development of legal precedent on matters of contract and tort.

iii) Life insurance contracts

The Group is exposed to potential loss on its life insurance policies from the possibility that an insured event occurs. The Group has no reinsurance on its life insurance contracts. Hence, this risk is fully borne by the Group.

iv) Claims development

The Group employs loss (claims) development tables as a means of measuring actual claims compared with previous estimates. Claims are typically resolved within one year and are assessed on a case-by-case basis. The claims that tend to extend beyond one year are normally from the Accident line of business and to a lesser extent, the Motor line.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.4 Insurance risk *...continued*

iv) Claims development *...continued*

Claims reserve for the individual accident years at the respective reporting dates (gross)

EC$	**Accident year**										
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
Date	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
30/6/2005	3,792	–	–	–	–	–	–	–	–	–	**3,792**
30/6/2006	2,210	3,076	–	–	–	–	–	–	–	–	**5,286**
30/6/2007	1,799	748	2,267	–	–	–	–	–	–	–	**4,814**
30/6/2008	1,610	975	766	2,216	–	–	–	–	–	–	**5,567**
30/6/2009	1,470	873	633	861	14,817	–	–	–	–	–	**18,654**
30/6/2010	1,292	869	511	768	13,167	1,646	–	–	–	–	**18,253**
30/6/2011	892	763	461	1,120	12,572	267	2,698	–	–	–	**18,773**
30/6/2012	161	689	369	792	12,113	198	542	2,526	–	–	**17,390**
30/6/2013	46	29	247	508	1,196	195	521	747	4,422	–	**7,911**
30/6/2014	41	29	148	28	752	195	505	693	1,571	2,707	**6,669**

Claims reserves are made up as follows:

	$
Outstanding claims – life	**225**
Non-life	**4,683**
Claims IBNR - non-life	**1,761**
	6,669

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk *...continued*

3.5 Fair values of financial assets and liabilities

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

The fair values of cash resources, other assets and liabilities, items in transit are assumed to approximate their carrying values due to their short term nature. The fair values of off balance sheet commitments are also assumed to approximate the amount disclosed in note 30. Fair values of financial assets and financial liabilities are also determined as follows:

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

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

(a) Treasury bills

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

(b) Deposits with other financial institutions

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

(c) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair values of loans and advances represent the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rate to determine fair value on impaired loans and advances. A conservative approach to the present value of such cash flows on performing loans and advances is taken due to the steady rise in values of property collateral. Therefore, initial values are taken as fair value and where observed values are different adjustments are made.

(d) Originated debt

Originated debt securities include only interest bearing financial assets.

(e) Customers' deposits

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. Deposits payable on a fixed date and 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.

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.5 Fair values of financial assets and liabilities*...continued*

(g) Other borrowed funds

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

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at their fair value.

	Carrying value		Fair value	
	2014	**2013**	**2014**	**2013**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with Central Bank	**293,229**	355,574	**293,229**	355,574
Treasury bills	**167,199**	139,769	**167,199**	139,769
Deposits with financial institutions	**712,312**	520,242	**712,312**	520,242
Financial asset	**566,695**	–	**566,695**	–
Loans and advances:				
Overdraft	**144,651**	142,359	**223,150**	230,001
Corporate	**123,806**	62,881	**233,469**	186,842
Mortgage	**129,967**	130,151	**213,852**	231,330
Term	**284,906**	842,321	**334,014**	966,089
Originated debts	**90,518**	92,385	**90,518**	92,385
Other assets	**40,410**	70,184	**12,937**	25,055
	2,553,693	2,355,866	**2,847,375**	2,747,287
Financial liabilities				
Customers' deposits	**2,507,885**	2,066,969	**2,507,885**	2,066,969
Other borrowed funds	**5,386**	152,569	**5,386**	152,569
Other liabilities	**169,312**	168,991	**169,312**	168,991
	2,682,583	2,388,529	**2,682,583**	2,388,529

3.5.1 Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair values 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).

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.5.1 Fair value measurements recognised in the statement of financial position*...continued*

- Level 3 fair value measurements are those derived 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	Level 3	Total
As of June 30, 2014	**$**	**$**	**$**	**$**
Debt securities	200,745	–	3,010	203,755
Equities	306,816	7,019	14,637	328,472
	507,561	**7,019**	**17,647**	**532,227**
As of June 30, 2013				
Debt securities	151,180	–	3,010	154,190
Equities	248,308	15,912	14,637	278,857
	399,488	**15,912**	**17,647**	**433,047**

The method of valuation on these Level 2 securities was identified as not being directly from unadjusted quoted prices but was based on the investee's net asset value at its December 31, year-end adjusted for the results of the intervening six-month period to June 30.

3.6 Fair value measurement of non-financial assets

The following table shows the level within the hierarchy of non-financial assets measured at fair value:

	Level 1	Level 2	Level 3	Total
	$	**$**	**$**	**$**
As of June 30, 2014				
Land and property	–	–	22,307	**22,307**

3.7 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirement set by the Eastern Caribbean Central Bank (Central Bank);
- To safeguard the Group's 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 Group's management, employing techniques based on the guidelines developed by the Central Bank for supervisory purposes.

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

3.7 Capital management*...continued*

In addition, there are also capital requirements for the insurance business based on the Insurance Act No. 8 of 2009. According to the Act, the required paid-up capital is $2,000 (2013: $2,000). The Group has met this capital requirement for its insurance business.

The Central Bank requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of $5 million 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 commercial bank's regulatory capital as managed by management is divided into two tiers:

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the two-year presentation. During those two years, the commercial bank complied with all of the externally imposed capital requirements to which it must comply.

	2014 $	2013 $
Tier 1 capital		
Share capital	**135,000**	135,000
Bonus shares from capitalisation of unrealised assets revaluation gain reserve	**(4,500)**	(4,500)
Reserves	**322,611**	319,742
Retained earnings	**27,335**	19,698
Total qualifying Tier 1 capital	**480,446**	469,940
Tier 2 capital		
Revaluation reserve – available-for-sale investments	**(9,234)**	(23,320)
Revaluation reserve – property, plant and equipment	**9,666**	9,666
Bonus shares capitalisation	**4,500**	4,500
Accumulated impairment allowance	**56,430**	38,571
Total qualifying Tier 2 capital	**61,362**	29,417
Total regulatory capital	**541,808**	499,357

(expressed in thousands of Eastern Caribbean dollars)

3 Management of financial and insurance risk*...continued*

3.7 Capital management*...continued*

	2014 $	2013 $
Risk-weighted assets:		
On-balance sheet	**995,856**	965,432
Off-balance sheet	**12,475**	12,475
Total risk-weighted assets	**1,008,331**	977,907
Tier 1 capital ratio	**48%**	47%
Total capital ratio	**54%**	50%

4 Critical accounting estimates and judgements

The Group's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements. 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.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below:

(a) Impairment losses on investment securities

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group 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.

(b) Impairment losses on mortgage loans portfolio

The Group reviews its loan portfolio of assets for impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with 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. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated as $2,233 lower or $2,232 higher.

4 Critical accounting estimates and judgements*...continued*

(c) Pension benefits

The present value of the pension benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 33.

(d) Estimate of insurance actuarial liabilities

The Group issues whole life, limited payment life, endowment, term insurance, health and medical insurance policies. The estimation of the actuarial liabilities arising under these insurance contracts is dependent on estimates made by the Group. The estimate is subject to several sources of uncertainty that need to be considered in determining the future benefit payments.

i. Mortality - Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to the risk. The Group bases these estimates on the UK A67/70 for assured lives. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments. An increase in the rate of mortality will lead to a larger number of claims, resulting in lower income. Were the mortality rate to differ by 10% from management's estimate, the actuarial liabilities would increase or decrease by approximately $4,516.
ii. Discount rate – Estimates are also made as to the discount rate use in the valuation of the insurance plans to determine the actuarial liabilities. A net rate of 3% was used as the discount rate in the valuation of insurance plans having a reversionary bonus, which is used to distribute profits to the policies. A net rate of 3.75% is used in the valuation for plans which do not participate in profits. Were the discount rate to differ by +/- 50 basis points from management's estimate, the actuarial liabilities would decrease by approximately $9,785 or increase by approximately $14,301.

The estimation of the ultimate liability arising from claims incurred under property and casualty insurance contracts is subject to several sources of uncertainty that need to be considered in determining the amount that the insurer will ultimately pay for such claims. Provisions are made at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Group. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. These are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions, economic conditions and changes in medical condition of claimants.

(expressed in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates and judgements*...continued*

(d) Estimate of insurance actuarial liabilities…continued

However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claims has happened.

If the IBNR rates were adjusted by +/- 1%, the change in the statement of comprehensive income would be to decrease or increase reported profits by approximately -/+$187.

Management engages loss adjusters and independent actuaries, either to assist in making or to confirm the estimate of claim liabilities. The ultimate liability arising from claims incurred under property and casualty insurance contracts may be mitigated by recovery arising from reinsurance contracts held.

5 Cash and balances with Central Bank

	2014 $	**2013 $**
Cash on hand	**10,412**	9,020
Balances with Central Bank other than mandatory deposits	**123,302**	215,502
Included in cash and cash equivalents (note 32)	**133,714**	224,522
Mandatory deposits with Central Bank	**159,515**	131,052
	293,229	355,574

All banks in the Eastern Caribbean Currency Union are required to have a 3-day average daily gross Automated Clearing House (ACH) collateral amount with the Eastern Caribbean Central Bank. The Bank's cash collateral amount stands at $6,364 (2013: $6,364) and form part of the mandatory deposit with the Central Bank.

As regards the remaining part of the mandatory deposits with Central Bank, commercial banks are required under Section 17 of the Banking Act, 1991 to maintain a reserve deposit with the Central Bank equivalent to 6 percent of their total customer deposits. This reserve deposit is not available to finance the Bank's day-to-day operations.

Cash and balances with Central Bank which include mandatory and ACH collateral deposits do not receive interest payments.

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

6 Treasury bills

	2014 $	2013 $
Government of Antigua and Barbuda		
maturing September 10, 2013 at 6% interest	–	10,865
maturing November 13, 2013 at 6.5% interest	–	6,545
maturing October 9, 2014 at 6.5% interest	**10,384**	–
maturing November 8, 2014 at 6% interest	**13,060**	–
Government of St. Lucia		
maturing July 13, 2013 at 6% interest	–	2,846
maturing August 15, 2014 at 5% interest	**11,530**	–
maturing August 19, 2014 at 5% interest	**4,938**	–
Government of Grenada		
maturing July 18, 2013 at 6% interest	–	11,980
maturing August 16, 2013 at 5.495% interest	–	9,863
maturing October 11, 2013 at 6% interest	–	4,276
maturing November 30, 2013 at 6% interest	–	1,885
maturing July 17, 2014 at 6% interest	**4,021**	–
maturing July 19, 2014 at 6% interest	**13,814**	–
maturing October 11, 2014 at 6% interest	**9,400**	–
maturing August 15, 2014 at 6% interest	**4,997**	–
maturing June 6, 2015 at 5% interest	**2,025**	–
Government of St. Kitts and Nevis		
maturing May 16, 2015 at 6.75% interest	**85,885**	85,885
maturing August 14, 2014 at 6.75% interest	**2,690**	2,504
maturing August 11, 2014 at 6.5% interest	**196**	176
Government of Nevis		
maturing July 13, 2014 at 6.5% interest	**1,214**	1,137
	164,154	137,962
Interest receivable	**3,045**	1,807
	167,199	139,769

Treasury bills are debt securities issued by a sovereign government. $2,000 of the treasury bills balances is being held by the Central Bank as collateral for the Bank's clearing facility and $3,817 (2013: $3,817) is used as collateral for the Group's pension plans.

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

7 Deposits with other financial institutions

	2014 $	2013 $
Operating cash balances	**619,924**	303,087
Items in the course of collection	**6,215**	9,373
Interest bearing term deposits	**2,835**	18,279
Included in cash and cash equivalents (note 32)	**628,974**	330,739
Special term deposits	**56,060**	74,789
Restricted term deposits	**25,559**	110,740
Interest receivable	**1,719**	3,974
	712,312	520,242

Cash at bank is held with OECS banks and earns interest at rates of 1% to 3% (2013: 1% to 3%). The amounts held in these accounts are to facilitate the short-term commitments and day-to-day operations of the Group.

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 Group's international business operations. These deposits are not available for use in the day-to-day operations of the Group.

Interest earned on both 'Special term deposits' and 'Restricted term deposits' is credited to income. The effective interest rate on 'Deposits with other financial institutions' at June 30, 2014 was 1.04% (2013: 1.58%).

8 Loans and advances to customers

	2014 $	2013 $
Demand	**252,042**	190,627
Special term	**104,072**	671,263
Mortgages	**75,923**	75,682
Overdrafts	**71,992**	130,585
Other secured	**26,474**	20,848
Consumer	**6,234**	5,353
Credit cards	**4,095**	2,147
Productive loans	**540,832**	1,096,505
Impaired loans and advances	**125,911**	58,964
Less: allowance for impairment	**(56,430)**	(38,571)
	610,313	1,116,898
Interest receivable	**73,017**	60,813
	683,330	1,177,711
Current	**415,920**	253,480
Non-current	**267,410**	924,231
	683,330	1,177,711

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

8 Loans and advances to customers*...continued*

The weighted average effective interest rate on productive loans and advances at amortized cost at June 30, 2014 was 7.61% (2013: 6.78%) and productive overdraft stated at amortized cost was 10.40% (2013: 10.50%).

	2014 **$**	**2013** **$**
Neither past due nor impaired	**517,799**	536,755
Impaired	**125,911**	58,964
Past due but not impaired	**23,033**	559,750
	666,743	1,155,469
Interest receivable	**73,017**	60,813
Less allowance for credit impairment	**(56,430)**	(38,571)
Net	**683,330**	1,177,711

Allowance for loan impairment

The movement in allowance for loan impairment is as follows:

	2014 **$**	**2013** **$**
Beginning balance	**38,571**	38,571
Current year impairment losses (note 26)	**17,859**	–
Ending balance	**56,430**	38,571

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $21,990 (2013: $15,792). Where the ECCB loan loss provision is greater than the loan loss provision calculated under IAS 39, the difference is set aside as a specific reserve through equity. As of June 30, 2014, the loan loss provision calculated under IAS 39, 2014 was greater than the ECCB provision. Therefore, a specific reserve through equity was not required at the reporting date. The gross carrying value of impaired loans at the year end was $125,005 (2013: $58,964).

Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $23,906, and is included in ‘Other reserves’ in equity (note 21).

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debt

	2014 $	2013 $
Government of Antigua 7-year long-term notes maturing April 30, 2017 at 6.7% interest	**37,535**	40,008
Government of St. Kitts and Nevis bonds maturing April 18, 2057 at 1.5% interest	**17,939**	17,447
Government of St. Lucia USD Fixed Rate Note maturing July 19, 2014 at 5% interest	**13,513**	13,513
Government of St. Vincent Bond maturing December 17, 2014 at 5% interest	**5,250**	5,000
Government of St. Vincent & The Grenadines 10-year bond maturing December 17, 2019 at 7.5% interest	**5,000**	5,000
Grenada Electricity Services Limited 10-year 7% bond maturing December 18, 2017	**3,780**	4,860
Eastern Caribbean Home Mortgage Bank long-term bond maturing July 02, 2015 at 6% interest	**2,600**	1,000
Antigua Commercial Bank 10% interest rate Series A bond maturing December 31, 2016	**1,469**	1,488
Caribbean Credit Card Corporation unsecured loan at 10 % interest with no specific terms of repayment	**300**	300
	87,386	88,616
Interest receivable	**3,132**	3,769
	90,518	92,385
Current	**24,495**	23,282
Non-current	**66,023**	69,103
	90,518	92,385

10 Investment securities

	2014 $	2013 $
(A) Available-for-sale securities		
Securities at fair value		
Unlisted	**16,794**	25,537
Listed	**514,433**	406,510
Total available-for-sale securities, gross	**531,227**	432,047
Less provision for impairment	**(6,333)**	(3,210)
	524,894	428,837
Interest receivable	**1,098**	1,066
Total available-for-sale securities, net	**525,992**	429,903

St. Kitts-Nevis-Anguilla National Bank Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities...*continued*

(B) The movement in available-for-sale and loans and receivables – originated debt financial assets during the year is as follows:

	Available for sale $	Loans and receivables: originated debts $	Total $
Balance – June 30, 2013, restated	429,903	92,385	**522,288**
Additions	1,414,470	3,341	**1,417,811**
Disposal (sales/redemption)	(1,337,380)	(5,867)	**(1,343,247)**
Fair value gains	21,024	–	**21,024**
Current period impairment (note 26)	(3,123)	(2,473)	**(5,596)**
Interest receivable	1,098	3,132	**4,230**
Total as of June 30, 2014	525,992	90,518	**616,510**
Balance – June 30, 2012, restated	382,356	69,979	**452,335**
Additions	861,714	19,726	**881,440**
Disposal (sales/redemption)	(810,725)	(1,089)	**(811,814)**
Fair value losses	(4,508)	–	**(4,508)**
Interest receivable	1,066	3,769	**4,835**
Total as of June 30, 2013, restated	429,903	92,385	**522,288**

(C) Provision for impairment – available-for-sale investments include:

	2014 $	**2013 $**
Beginning balance	**3,210**	3,210
Addition for the year (note 26)	**3,123**	–
Ending balance	**6,333**	3,210

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities*...continued*

(D) Available-for-sale financial assets are as follows**:**

	2014 $	2013 Restated $
Listed securities:		
- Equity securities – US	**308,741**	249,206
- Equity securities – Caribbean	**4,947**	6,124
- Debt securities – US	**200,745**	151,180
Total listed securities	**514,433**	406,510
Unlisted securities:		
- Equity securities – US	**147**	8,890
- Equity securities – Caribbean	**14,637**	14,637
- Debt securities – Caribbean	**2,010**	2,010
Total unlisted securities	**16,794**	25,537
Total available-for-sale securities, gross	**531,227**	432,047
Provision for impairment loss	**(6,333)**	(3,210)
	524,894	428,837
Interest receivable	**1,098**	1,066
Total available-for-sale securities, net	**525,992**	429,903

St. Kitts-Nevis-Anguilla National Bank Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities...*continued*

(E) AFS securities are denominated in the following currencies:

	2014 $	2013 $
Listed:		
US dollars	**509,486**	400,386
EC dollars	**4,947**	6,124
Total listed securities	**514,433**	406,510
Unlisted:		
US dollars	**147**	18,213
EC dollars	**16,647**	7,324
Total unlisted securities	**16,794**	25,537
Total available-for-sale securities, gross	**531,227**	432,047
Less: Provision for impairment loss	**(6,333)**	(3,210)
	524,894	428,837
Interest receivable	**1,098**	1,066
Total available-for-sale securities, net	**525,992**	429,903

11 Property inventory

	2014 $	2013 $
Balance at beginning of the year	**10,317**	10,317
Movement during the year	**(2,124)**	–
Balance at end of year	**8,193**	10,317

Investment in properties, relates mainly to land and buildings held for sale by certain companies within the Group and, is measured at the lower of cost and net realisable value.

(expressed in thousands of Eastern Caribbean dollars)

12 Investment property

	2014 $	2013 $
Balance brought forward	**4,040**	–
Additions		
Camps	–	2,021
Brighton	–	2,019
Balance at end of year	**4,040**	4,040

All of the Group's investment property is held under freehold interests. Based on a review of the current real estate market, the Directors have estimated the fair value of the above lands to be approximately $6,970.

(expressed in thousands of Eastern Caribbean dollars)

13 Property, plant and equipment

	Land and property $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2013						
Opening net book value	23,524	5,023	522	7	1,001	30,077
Additions	34	1,284	136	1	125	1,580
Disposals	–	(226)	(285)	–	–	(511)
Depreciation charge	(781)	(1,625)	(129)	(3)	–	(2,538)
Write-back on disposals	–	226	43	–	–	269
Closing net book value	**22,777**	**4,682**	**287**	**5**	**1,126**	**28,877**
At June 30, 2013						
Cost or valuation	27,805	21,193	810	161	1,126	51,095
Accumulated depreciation	(5,028)	(16,511)	(523)	(156)	–	(22,218)
Net book value	**22,777**	**4,682**	**287**	**5**	**1,126**	**28,877**
Year ended June 30, 2014						
Opening net book value	22,777	4,682	287	5	1,126	28,877
Additions	–	545	417	–	243	1,205
Disposals	(25)	–	(85)	–	–	(110)
Depreciation charge	(784)	(1,548)	(170)	(3)	–	(2,505)
Write-back on disposals	–	–	84	–	–	84
Closing net book value	**21,968**	**3,679**	**533**	**2**	**1,369**	**27,551**
At June 30, 2014						
Cost or valuation	27,780	21,738	1,142	161	1,369	52,190
Accumulated depreciation	(5,812)	(18,059)	(609)	(159)	–	(24,639)
Net book value	**21,968**	**3,679**	**533**	**2**	**1,369**	**27,551**

(expressed in thousands of Eastern Caribbean dollars)

13 Property, plant and equipment*...continued*

As of June 30, 2007 the Group's land and buildings were revalued based on the appraisal made by an independent firm of appraisers. Valuations were made on the basis of comparative recent market transactions on arm's length terms. The revaluation surplus was credited to 'revaluation reserve' in shareholder's equity.

The land and buildings were not revalued by an independent appraiser as of June 30, 2014. Management determined that based on their review and knowledge of the properties and current market conditions, the effect of changes in fair values since the last independent valuation was performed and the reporting date is immaterial.

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of June 30, 2014:

	Land $	**Buildings** $	**Total** $
Cost	2,928	13,340	16,268
Accumulated depreciation	–	(2,321)	(2,321)
Net book value	**2,928**	**11,019**	**13,947**

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

14 Intangible assets

	Computer software $
Year ended June 30, 2013	
Opening balance	1,909
Additions	72
Amortisation charge	(1,029)
Net book amount	**952**
At June 30, 2013	
Cost or valuation	8,931
Accumulated amortisation	(7,979)
Net book value	**952**
Year ended June 30, 2014	
Opening balance	952
Additions	62
Amortisation charge	(611)
Net book amount	**403**
At June 30, 2014	
Cost or valuation	8,993
Accumulated amortisation	(8,590)
Net book value	**403**

15 Other assets

	2014 $	2013 Restated $
Insurance and other receivables	**28,378**	32,129
Net defined benefit asset (note 33)	**17,572**	22,818
ePassporte receivable	**8,108**	8,108
Prepayments	**7,661**	11,878
Customer's liability under acceptances guarantees and letters of credit	**4,736**	4,483
Stationery and card stock	**727**	667
	67,182	80,083
Current	**38,355**	46,347
Non-current	**28,827**	33,736
	67,182	80,083

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

16 Customers' deposits

	2014 $	2013 $
State, statutory bodies and non-financial bodies	**1,301,286**	1,087,451
Private businesses	**490,356**	307,137
Consumers	**421,249**	403,741
Others	**284,597**	243,574
Interest payable	**10,397**	25,066
	2,507,885	2,066,969

'Customers' deposits' represents all types of deposit accounts held by the Group on behalf of customers. The deposits include demand deposit accounts, call accounts, savings accounts and fixed deposits. All balances that comprise 'Customers' deposits' at the reporting date represent current amounts.

The Group pays interest on all categories of customers' deposits. As of the reporting date, total interest paid on deposit accounts for the year amounted to $74,434 (2013: $80,750). The average effective rate of interest paid on customers' deposits was 3.425% (2013: 4.17%).

17 Other borrowed funds

	2014 $	2013 $
Acceptance guarantees and letters of credit	**4,736**	4,483
Due to other financial institutions	**647**	2,506
Line of credit	**3**	116,176
Bonds issued	**–**	29,231
Interest payable	**–**	173
	5,386	152,569

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

All balances that comprise 'Other borrowed funds' at the reporting date represent current amounts.

Total interest expense during the year amounted to $1,713 (2013: $9,277).

Bonds issued represent monies raised for the sole purpose of providing funds to borrowers of major island developmental projects. All debts in respect of these bonds were paid during the year.

St. Kitts-Nevis-Anguilla National Bank Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

18 Accumulated provisions, creditors and accruals

	2014 $	2013 $
Actuarial liabilities	**75,269**	72,891
Deposit funds	**38,104**	36,192
Insurance contract liabilities	**25,233**	26,589
Other payables	**26,978**	43,539
Unpaid drafts on other banks	**6,673**	1,647
Managers' cheques and bankers' payments	**1,191**	1,159
	173,448	182,017

Actuarial liabilities
Actuarial liabilities comprise the reserves maintained on the Group's individual life insurance business. The actuarial liabilities are calculated using the Net Level Premium (NLP) reserve method. This reserve method is a net premium reserve method that does not use lapse rates or expenses.

	2014 $	2013 $
Whole life plans	**65,595**	63,888
Endowment plans	**5,990**	5,772
Limited payment life plans	**2,394**	1,988
Other plans	**1,290**	1,243
Total actuarial liabilities	**75,269**	72,891

The actuarial liabilities are largely backed by short-term deposits, cash and treasury bills. The valuation rate for insurance plans is based on an expected ultimate short-term (one year or less) reinvestment rate assumption. Non-participating plans use an ultimate rate of 3.75%. A spread of 0.75% is deducted for the plans with reversionary bonuses in support of bonus payments for a net rate of 3.0%.

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

18 Accumulated provisions, creditors and accruals...*continued*

Insurance contract liabilities

The insurance contract liabilities primarily relate to the non-life insurance business and are comprised of the following:

	2014 $	2013 $
Life		
Outstanding claims	**225**	351
Non-life		
Unexpired risks	**12,300**	12,213
Reinsurance premiums payable	**5,456**	5,652
Outstanding claims	**4,682**	5,575
IBNR	**1,761**	1,985
Premiums received in advance	**809**	813
	25,008	26,238
	25,233	26,589

Deposit funds

The deposit funds represent pension funds which the Group manages for its employees and a third party entity. The fund provides a guaranteed minimum rate of 7% (2013: 7%). The fund balance represents the amount standing on account of the contributors to the fund and those liabilities are supported by term deposits and treasury bills.

19 Taxation

	2014 $	2013 Restated $
Income for the year before tax	**19,750**	11,894
Income tax expense at rate of 33%	**6,518**	3,925
Non-deductible expenses	**1,875**	2,390
Deferred tax movement not recorded	**317**	(29)
Prior year's income tax	**257**	(28)
Income not subject to tax	**(14,860)**	(17,079)
Prior year's deferred income tax	**(163)**	(21)
Other applicable tax differences	**552**	784
	(5,504)	(10,058)
Represented as follows:		
Current tax expense	**1,877**	1,968
Deferred tax credit	**(7,381)**	(12,026)
	(5,504)	(10,058)

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

The net deferred tax asset is comprised as follows:

	2014 $	2013 $
Deferred tax asset		
Tax loss carried forward	**18,363**	11,605
Capital loss allowance carried forward	**995**	535
Accelerated depreciation	**473**	230
Unrealised loss on AFS securities	**5,559**	12,497
Net defined benefit asset	**(5,799)**	(7,530)
	19,591	17,337

The movements on deferred tax asset/liability are as follows:

	2014 $	2013 $
Balance, beginning of year	**17,337**	4,637
Current year change	**7,247**	11,375
Net unrealised (loss)/gain in movement for the year	**(6,938)**	1,490
Loss on re-measurement of defined benefit asset	**1,945**	(165)
Balance, ending of year	**19,591**	17,337

The movement in the current income tax liability is as follows:

	2014 $	2013 $
Balance at beginning of year	**853**	2,879
Tax expense for the year	**1,877**	1,968
Tax paid during the year	**(2,588)**	(3,994)
Balance at end of year	**142**	853

St. Kitts-Nevis-Anguilla National Bank Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

Tax losses

The Group has incurred income tax losses amounting to $61,556 (2013: $38,282) which may be carried forward and applied to reduce taxable income by an amount not exceeding one half of taxable income in any one year of assessment within 5 years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department.

The losses expire as follows:

	$
2015	**117**
2016	**685**
2017	**835**
2018	**35,645**
2019	**23,274**
	60,556

Tax losses arise primarily from interest and investment income earned, which is exempted from income taxes. A deferred tax asset of $18,363 (2013: $11,471) has been recognised on $55,645 of these tax losses. No deferred tax asset has been recognised on the remaining tax losses of $4,911 (2013: $2,662) due to the uncertainty of its recovery.

Income tax recoverable

Included in the statement of financial position is an amount of $6,004 (2013: $6,004) that relate income tax credits/advance tax payments due from the Inland Revenue Department in respect of tax assessments that were finalised up to the year ended June 30, 2011. The amount may be applied against any future taxes payable by the Group.

20 Share capital

	2014 $	2013 $
Authorised		
270,000,000 ordinary shares of $1 each	**270,000**	270,000
Issued and fully paid		
135,000,000 ordinary shares of $1 each	**135,000**	135,000

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves

a) Statutory reserve

	2014 $	2013 Restated $
Balance at beginning of year	**102,210**	98,466
Addition	**4,639**	3,744
Total	**106,849**	102,210

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 income of each year whenever the reserve fund is less than the Bank's paid-up capital.

b) Revaluation reserve

	2014 $	2013 Restated $
Balance, beginning of year	**(13,654)**	(10,020)
Movement in market value of investments, net	**14,086**	(3,634)
Balance as of year end	**432**	(13,654)
Revaluation reserve is represented by:		
Available-for-sale investment securities	**(9,234)**	(23,320)
Properties (note 13)	**9,666**	9,666
Balance, ending of year	**432**	(13,654)

c) Other reserves

	2014 $	2013 Restated $
Balance at beginning of year	**213,655**	210,943
Other comprehensive income	**(3,948)**	335
Transfers from retained earnings	**2,178**	2,377
Balance ending of year	**211,885**	213,655
Other reserves is represented by:		
General reserve	**151,599**	163,800
Insurance and claims equalization reserves	**28,709**	26,531
Reserve for interest on non-performing loans	**23,906**	11,705
Defined benefit pension plan	**7,671**	11,619
	211,885	213,655

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves...*continued*

c) Other reserves...*continued*

Insurance and claims equalisation reserve

The insurance reserve is a discretionary reserve for the health and public liability insurance business. The underlying assets are included in the Group's cash balances which form part of 'Cash and cash equivalents' (Note 32).

Claims equalisation reserves represent cumulative amounts appropriated from retained earnings based on the discretion of the Board of Directors as part of the Company's risk management strategies to mitigate against catastrophic events. Annually the claims equalisation reserve is assessed and transfers made as considered necessary by the Board of Directors. These reserves are in addition to the catastrophe reinsurance cover.

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 is created to set aside interest accrued on non-performing loans where certain conditions are met in accordance with paragraph AG93 of International Accounting Standard (IAS) 39. The prudential guidelines of the Eastern Caribbean Central Bank do not allow for the accrual of such interest. As a result, the interest is set aside in a reserve and it is not available for distribution to shareholders until received.

Defined benefit plan reserve

This reserve is used to record the actuarial re-measurement of the defined benefit pension asset in other comprehensive income.

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

22 Net interest income

	2014 $	2013 $
Interest income		
Loans and advances	**63,377**	73,847
Financial asset (note 31)	**19,777**	–
Others	**10,343**	7,812
Deposits with other financial institutions	**8,844**	6,025
Available-for-sale investments	**7,244**	4,433
Originated debts	**2,641**	4,742
Interest income for the year	**112,226**	96,859
Interest expense		
Fixed deposits	**57,271**	52,961
Savings accounts	**12,572**	12,734
Current and other deposit accounts	**2,865**	2,311
Call accounts	**2,597**	5,794
Debt and other related accounts	**1,713**	8,115
Interest expense for the year	**77,018**	81,915
Net interest income	**35,208**	14,944

23 Net fees and commission income

	2014 $	2013 $
Fees and commission income		
International business and foreign exchange	**5,143**	4,659
Credit related fees and commission	**2,798**	2,672
Brokerage and other fees and commission	**3,180**	3,236
Fees and commission income for year	**11,121**	10,567
Fee expenses		
International business and foreign exchange	**4,066**	3,527
Other fee expenses	**695**	415
Brokerage and other related fee expenses	**77**	43
Fee expenses for year	**4,838**	3,985
Net fees and commission income	**6,283**	6,582

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

24 Other income

	2014 $	2013 $
Net gain on AFS investments at fair value	**24,551**	16,214
Net Insurance related income	**24,508**	23,888
Foreign exchange gain	**5,805**	4,522
Dividend income	**2,750**	2,894
Other operating income	**400**	1,087
	58,014	48,605

25 General and administrative expenses

	2014 $	2013 Restated $
Employee benefit expense (note 25.1)	**24,185**	24,035
Repairs and maintenance	**4,827**	5,495
Utilities	**1,350**	624
Other general expenses	**1,330**	1,161
Rent and occupancy expenses	**1,083**	1,836
Communication	**1,074**	986
Advertisement and marketing	**885**	792
Stationery and supplies	**854**	661
Insurance	**583**	440
Security services	**276**	376
Property management	**203**	170
Legal fees and expenses	**194**	207
Shareholders' expenses	**174**	172
Taxes and licences	**132**	243
Premises upkeep	**114**	195
	37,264	37,393

(expressed in thousands of Eastern Caribbean dollars)

25 General and administrative expenses*...continued*

25.1 *Employee benefit expense*

	2014 $	2013 Restated $
Salaries and wages	**14,869**	10,857
Pension and social security expense	**1,735**	1,789
Other staff cost	**7,581**	11,389
	24,185	24,035

26 Impairment expense

	2014 $	2013 $
Equity investments	**3,123**	–
Originated debt	**2,473**	–
Loans and advances	**17,859**	–
	23,455	–

27 Earnings per share

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

	2014 $	2013 $
Net income attributable to shareholders	**25,254**	21,952
Weighted average number of ordinary shares in issue	**135,000**	135,000
Basic and diluted earnings per share	**0.19**	0.16

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

28 Dividend

The financial statements reflect dividend of $10,800 or $0.08 per share for the financial year ended June 30, 2014 (2013: $15,525 or $0.115 per share) which was approved at the Forty-third Annual General Meeting held on December 19, 2013 and subsequently paid.

29 Related parties balances and transactions

Government of St. Kitts and Nevis

The Government of St. Kitts and Nevis holds 51% of the Group issued share capital. The remaining 49% of the issued share capital is held by individuals and other institutions (over 5,200 shareholders). The government is a customer of the Group and, as such, all transactions executed by the Group on behalf of the government are performed on strict commercial banking terms at existing market rates.

	2014 $	2013 $
Public sector		
Net position (loans, advances and deposits)	**844,175**	32,406
Interest on deposits	**47,262**	47,246
Interest on loans, advances and other	**36,081**	62,663
Interest on special financial asset	**19,777**	–
Insurance contract liabilities	**1,824**	11,896
Gross premium written	**11,923**	10,299
Gross claims incurred	**6,568**	5,013
Associated companies		
Loans and advances	**66,536**	61,342
Deposits	**6,295**	16,755
Interest on deposits	**218**	294
Interest from loans and advances	**6,956**	5,933
Directors and associates		
Loans and advances	**1,014**	787
Deposits	**804**	558
Interest on deposits	**22**	12
Interest from loans and advances	**54**	60
SKNANB $1 shares held by directors	**135**	85
Directors fees and expenses	**647**	544
Insurance premium written	**34**	17
Outstanding insurance balances	**2**	3

St. Kitts-Nevis-Anguilla National Bank Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

29 Related parties balances and transactions *...continued*

	2014 $	2013 $
Key management		
Number of company $1 shares held	**51**	155
Loans and advances	**5,835**	4,510
Deposits	**1,133**	2,762
Interest on deposits	**40**	126
Interest from loans and advances	**366**	297
Salaries and short-term benefits	**3,148**	3,030
Insurance premium written	**13**	16
Outstanding insurance balances	**5**	39

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.27% (2013: 8.25%). Secured loans are collaterised by cash and mortgages over residential properties.

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

30 Contingent liabilities and commitments

Commitments

As of the reporting date the Group had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	2014 $	2013 $
Loan commitments	**132,668**	34,360

Contingent liability

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

31 Financial asset

The financial asset of $566,695 includes $565,070 which represents the Group's right to that amount of cash flows from the sale of certain lands pursuant to a shareholder's agreement dated April 18, 2012 between the Bank and its majority shareholder the Government of St. Kitts & Nevis ("GOSKN"). Under the terms of the Agreement the secured debt obligations owed to the Bank by the GOSKN and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain land assets to the Bank by GOSKN. Further, the unsecured debt obligations owed to the Bank by GOSKN and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer by GOSKN of certain unencumbered land assets to a specially created entity, Special Land Sales Company (St. Kitts) Limited ("SLSC") and the allocation of certain shares in SLSC to the Bank. SLSC was incorporated for the purpose of selling land assets transferred from the GOSKN under the terms of the Agreement in order to return the value realised from their sale to the Bank and GOSKN.

By way of supplement agreements the effective date of the shareholder's agreement was amended to July 1, 2013. Accordingly, the first step in the 'Land for Debt' swap took place on July 1, 2013 in the amount of $565,070, which is the value of the 1200 acres of land in the first tranche based on an independent valuation. Based on the terms of the Shareholder's agreement:

1. On the effective date, SLSC shall use all appropriate commercial efforts to sell the secured land assets that were vested to the Bank at the best price reasonably possible and as soon as reasonably practicable.

2. Commencing from the effective date of the agreement, July 1, 2013, the Bank is entitled to receive interest payments at a rate of 3.5% per annum on the face value of the eligible secured debt that was exchanged for the secured land assets. The amount is to be paid by the GOSKN annually from the effective date.

3. Distribution of sales proceeds of the land assets Bank shall be applied as follows:

    a. First towards the payment of selling and operational costs of SLSC;

    b. Secondly to the Bank until the Bank has received the face amount of the eligible secured debt immediately prior to the effective date and the interest payments, less amounts paid to the Bank;

    c. Thirdly to the Bank in exchange for the redemption of its relative interest in SLSC which was allotted for the release of eligible unsecured debt that was owed to the Bank prior to the effective date; and

    d. Fourthly to the Government of St. Kitts and Nevis.

For the year ended June 30, 2014, the Group's statement of income includes interest payments totalling $19,777 of which $18,152 was received from the GOSKN at June 30, 2014 and the remaining $1,625 is a receivable.

Based on the terms of the Shareholder's Agreement, all of the risks and rewards of ownership of the secured land assets have not been transferred to the Bank. The Bank is only entitled to receive cash flows from the sales of said lands up to the face value of the eligible secured debt that was exchanged and any interest payments as noted above. Additionally, if the lands are sold for less than the value that was transferred, the GOSKN is obligated to transfer additional lands to make up for the shortfall. The Bank's interest in the land

St. Kitts-Nevis-Anguilla National Bank Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

31 Financial asset...*continued*

assets in not subject to variation of returns as there is no risk of loss for the Bank, and also the Bank does not stand to benefit should the lands be sold for more than the value. Therefore, the Group has not classified the amounts received in exchange for the loans as inventory, but as a loan and receivable financial asset based on its rights to the cash flows from the sales of the land assets under the Shareholder's Agreement.

The Group has not included in these financial statements any investment in SLSC. As of June 30, 2014 SLSC is currently operational, however no unsecured land assets have been vested in the Company. Further the Group has not invested any funds in SLSC and its interest in SLSC has no carrying value as of June 30, 2014.

32 Cash and cash equivalents

	2014 $	2013 $
Cash and balances with Central Bank (note 5)	**133,714**	224,522
Deposits with other financial institutions (note 7)	**628,974**	330,739
	762,688	555,261

33 Defined benefit asset

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of June 30, 2014 by KPMG (Canada). The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2014 Per annum %	2013 Per annum %
Actuarial assumptions		
Discount rate	**4.0**	4.0
Return on plan assets	**6.0**	6.0
Future salary increases	**3.5**	3.5

Mortality table - (UP94 table projected to 2020 using Scale AA) in both years

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

33 Defined benefit asset...*continued*

	2014 $	2013 Restated $
Changes in the present value of defined benefit obligation		
Opening defined benefit obligation	**28,098**	25,459
Current service cost	**1,603**	1,155
Interest cost	**1,124**	1,018
Actuarial losses	**5,753**	821
Benefits paid	**(507)**	(355)
Closing defined benefit obligation	**36,071**	28,098
Changes in the fair value of plan assets		
Opening fair value of plan assets	**50,916**	46,817
Interest income	**3,055**	2,789
Return on plan assets (other than net interest)	**(140)**	1,322
Employer's contribution	**319**	343
Benefit paid	**(507)**	(355)
Closing defined benefit assets	**53,643**	50,916
Benefit cost		
Current service cost	**1,603**	1,155
Interest cost	**1,124**	1,018
Interest on plan assets	**(3,055)**	(2,789)
Decrease in employee benefit expense (note 25)	**(328)**	(616)
Amount recognised in other comprehensive income		
Gain from experience	**5,753**	821
Interest on plan assets	**3,055**	2,789
Actual return on plan assets	**(2,915)**	(4,111)
Loss/(gain) on re-measurement of net defined benefit asset	**5,893**	(501)
Net defined benefit asset recognised in the statement of financial position		
Fair value of plan assets	**53,643**	50,916
Present value of funded obligation	**(36,071)**	(28,098)
Net defined benefit asset (surplus)	**17,572**	22,818

St. Kitts-Nevis-Anguilla National Bank Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

33 Defined benefit asset*...continued*

Mortality table - (UP94 table projected to 2020 using Scale AA) in both years*...continued*

	2014 $	2013 Restated $
Reconciliation: Net defined benefit asset		
Opening net defined benefit asset	**22,818**	21,358
Period cost	**328**	616
Effect of other comprehensive income	**(5,893)**	501
Employer's contribution	**319**	343
Closing balance (note 15)	**17,572**	22,818

Plan assets allocation is as follows:

	2014 %	2013 %
Treasury bills	**–**	5.3
Equity	**1.4**	1.5
Cash and cash equivalents	**98.6**	93.2

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. The following table summarises the effects of changes in these actuarial assumptions on the defined benefit obligation.

	Discount rate plus 50 basis points $	Discount rate minus 50 basis points $
(Decrease)/ increase in obligation	**(3,809)**	**2,895**
	Mortality plus 10%	**Mortality minus 10%**
(Decrease)/ increase in obligation	**(2,038)**	**1, 263**

(expressed in thousands of Eastern Caribbean dollars)

34 Subsidiaries

	Percentage of equity interest held	
	2014	**2013**
	%	**%**
National Bank Trust Company (St. Kitts-Nevis Anguilla) Limited	**100**	100
National Caribbean Insurance Company Limited	**90**	90
St. Kitts and Nevis Mortgage and Investment Company Limited	**100**	100

35 Business segments

As of June 30, 2014 the operating segments of the Group were as follows:

1. Commercial and retail banking incorporating deposit accounts, loans and advances, investment brokerage services and debit, prepaid and gift cards;
2. Real estate, investment, mutual funds and coverage of life assurance, non-life assurance and pension schemes; and
3. Long-term mortgage financing, raising long-term investment funds, property management and the provision of trustee services.

Transactions between the business segments are carried out on normal commercial terms and conditions. These operating segments are monitored by the Group's chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results.

(expressed in thousands of Eastern Caribbean dollars)

35 Business segments *...continued*

The table below gives the results and balances of those transactions:

	Commercial and retail banking $	Insurance, real estate and investments $	Long-term financing and trust services $	Consolidation and other adjustments $	Total $
June 30, 2014					
Total segment revenues	154,959	49,705	813	–	**205,477**
Intersegment revenues	(5,109)	(18,404)	(603)	–	**(24,116)**
Revenue for the year from external customers	149,850	31,301	210	–	**181,361**
Cost of revenue generation	(121,951)	(37,414)	(2,246)	–	**(161,611)**
Income tax expense	7,513	(1,929)	(80)	–	**5,504**
	35,412	(8,042)	(2,116)	–	**25,254**
Property, plant and equipment and intangibles	21,300	6,654	–	–	**27,954**
Depreciation and amortisation	2,638	478	–	–	**3,116**
Segment assets	3,155,499	223,627	7,927	(214,814)	**3,172,239**
Segment liabilities	2,714,881	156,201	2,844	(187,065)	**2,686,861**
June 30, 2013					
Total segment revenues	130,985	35,786	777	–	**167,548**
Intersegment revenues	(6,013)	(4,871)	(633)	–	**(11,517)**
Revenue for the year from external customers	124,972	30,915	144	–	**156,031**
Cost of revenue generation	(119,960)	(23,506)	(671)	–	**(144,137)**
Income tax expense	12,223	(2,092)	(73)	–	**10,058**
	17,235	5,317	(600)	–	**21,952**
Property, plant, equipment and intangibles	22,976	10,892	1	–	**33,869**
Depreciation and amortisation	3,111	453	1	–	**3,565**
Segment assets	2,840,505	215,593	8,295	(201,199)	**2,863,194**
Segment liabilities	2,421,903	149,708	1,715	(170,918)	**2,402,408**

Segment information is based on internal reporting about the results of operating segments, such as revenue, expenses, profits or losses, assets, liabilities and other information on operations that are regularly reviewed by the Boards of Directors of the various Group companies

(expressed in thousands of Eastern Caribbean dollars)

36 Restatement of prior period

35.1 Amendments to IAS 19 "Employee Benefits" (IAS 19)

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under previous version of IAS 19 and, therefore, accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan surplus or deficit. Following are the amendments required to fully comply with IAS 19 (as revised in 2011):

	Retirement benefit asset $	Deferred tax asset $	Equity $
Balance as previously reported at July 01, 2012	**4,517**	**10,663**	**449,763**
Effect of IAS 19 (as revised in 2011)	16,841	(5,557)	11,284
Balance as previously reported at June 30, 2013	**5,055**	**23,708**	**454,304**
Effect of IAS 19 (as revised in 2011)			
- Brought forward adjustment from 2012	16,841	(5,557)	11,284
- Total comprehensive income for the year	922	(305)	617

The effect on the statements of income and comprehensive income was as follows:

	2014 $	2013 $
Effect of IAS 19 (as revised in 2011)		
Decrease of employment benefit expense	**328**	421
Increase in income tax	**(214)**	(139)
Increase in net income	**114**	282
Loss on re-measurement of defined benefit asset	**(5,893)**	501
Income tax relating to item not reclassified	**1,945**	(166)
Decrease in other comprehensive income	**(3,948)**	335
Decrease of total comprehensive income for year	**(3,834)**	617

(expressed in thousands of Eastern Caribbean dollars)

36 Restatement of prior period*...continued*

36.1 Amendments to IAS 19 "Employee Benefits" (IAS 19) …continued

The application of IAS 19 did not have a material impact on the statement of cash flows for the years ended June 30, 2013 and 2014.

36.2 Correction of prior period errors for deferred income taxes and interest income

a. The Group did not record the deferred income taxes associated with its net defined benefit pension asset in prior years. As a result, the deferred tax liability was understated and retained earnings overstated. The correction of the prior period error has been accounted for retrospectively, and the comparative financial information has also been restated. The effect has been tabulated below. Opening retained earnings has been decreased by $1,807, which is the amount of the adjustment related to 2013. There was no cash flow impact as a result of the restatement other than the consequential adjustments arising as a result of restatement of the comparative balances as of June 30, 2013.

b. In the prior year, there was an error in the tax rate used to calculate deferred income taxes. The correction was made in the current year to reflect the changes in income tax rate in fiscal year 2013, from 35% to 33%. The effect on the statement of financial position was a decrease of $615 in the *Investment Revaluation Reserve* and *Deferred Tax Liability* to correspond to the new income tax rate of 33%.

c. Over the period July 01, 2010 to June 30, 2013 the Group recorded payments made by customers in respect of non-performing loans on the same basis as current loans. As a result, interest payments were incorrectly taken into income, since outstanding interest balances up to June 30, 2010 were already taken into income, and therefore, were incorrectly recorded twice. The financial statements of the prior period have been restated to show the effect of taking the portion of these items that relates to 2013 into the 2013 statement of income and the portion relating to prior periods through equity, together with the related tax impact.

Opening retained earnings at July 01, 2012 has been reduced by $1,898 which is the amount of the adjustment relating to periods prior to 2012.

	Loans and advances to customers $	Deferred tax asset $	Equity $
Balance as previously reported at July 01, 2012	**1,206,337**	**10,663**	**449,763**
Correction of prior period error for deferred income taxes (a)	–	(1,491)	(1,491)
Correction of prior period error on interest income and tax effect(c)	(2,920)	1,022	(1,898)

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

36 Restatement of prior period*...continued*

36.2 Correction of prior period errors for deferred income taxes and interest income ...continued

	Loans and advances to customers $	Deferred tax asset $	Equity $
Balance as previously reported at June 30, 2013	**1,182,502**	**23,708**	**454,304**
Correction of prior period error for deferred income taxes (a)	–	(1,807)	(1,807)
Correction of prior period error on interest income and tax effect(c)	(4,791)	1,655	(3,136)
Correction of prior period to reflect changes in tax rates	–	(615)	(615)

The effect on the statement of comprehensive income is as follows:

	2014 $	2013 $
Decrease in interest income	**(1,871)**	(2,920)
Increase/(decrease) in income tax	**316**	(468)
Decrease in total comprehensive income for year	**(1,555)**	(3,388)

The effect of the restatements on the statement of financial position is as follows:

	Loans and advances to customers $	Retirement benefit asset $	Deferred tax asset $	Equity $
Balances as previously reported at July 01, 2012	**1,206,337**	**4,517**	**10,663**	**449,763**
Effect of IAS 19 (as revised in 2011)	–	16,841	(5,557)	11,284
Correction of error for deferred income taxes on pension assets	–	–	(1,491)	(1,491)
Correction of error on interest receivable	(2,920)	–	1,022	(1,898)
Restated balance at July 01, 2012	**1,203,417**	**21,358**	**4,637**	**457,658**

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

36 Restatement of prior period*...continued*

36.2 Correction of prior period errors for deferred income taxes and interest income ...continued

	Loans and advances to customers $	Retirement benefit asset $	Deferred tax asset $	Equity $
Balances as previously reported at June 30, 2013	**1,182,502**	**5,055**	**23,827**	**454,304**
Effect of IAS 19 (as revised in 2011)	–	17,763	(5,862)	11,901
Correction of error for deferred income taxes on pension assets	–	–	(1,668)	(1,668)
Correction of error on interest receivable	(4,791)	–	1,655	(3,136)
Correction in prior year to correct tax rate changes	–	–	(615)	(615)
Restated balance at June 30, 2013	**1,177,711**	**22,818**	**17,337**	**460,786**

37 Subsequent events

Subsequent to the year ended June 30, 2014 a second transaction in the "Land for debt" swap between the Government of St. Kitts and Nevis and the Group was concluded. The amount swapped was $201,934.

38 Reclassification of accounts

	As previously classified 2013 $	Reclassification 2013 $	As reclassified 2013 $
Effect on statement of financial position			
Treasury bills	137,962	1,807	139,769
Deposits with other financial institutions	526,884	(6,642)	520,242
Loans and receivables – originated debts	88,616	3,769	92,385
Investment securities – available-for-sale	428,837	1,066	429,903
Customers' deposits	2,053,853	13,116	2,066,969
Accumulated provisions, creditors and accruals	195,133	(13,116)	182,017

St. Kitts-Nevis-Anguilla National Bank Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(expressed in thousands of Eastern Caribbean dollars)

38 Reclassification of accounts*...continued*

The classification of certain items in the financial statements has been changed from the prior period to achieve a clearer or more appropriate presentation. The items reclassified are as follows:

a) Cash and cash equivalents that have more than 90 days maturity dates were reclassified to the term deposits and treasury bills

b) The related interest receivable on the term deposit and treasury bills previously grouped under "accrued income and other assets" was reclassified to the financial statement line item under "term deposit and treasury bills".

c) Cash account with an overdraft balance was reclassified to "Bank overdraft" shown under liability on the statement of financial position.

d) Interest payable on "Customers' deposits" was reclassified from accumulated provisions, creditors and accruals to the financial statement line item "Customers' deposits".

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED SUMMARY SEPARATE AUDITED FINANCIAL STATEMENTS

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Independent auditors' report

To the Shareholders
St. Kitts-Nevis-Anguilla National Bank Limited

The accompanying summary separate financial statements, which comprise the summary separate statement of financial position as at June 30, 2014, the summary separate statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, are derived from the audited separate financial statements of **St. Kitts-Nevis-Anguilla National Bank** (the "Bank") for the year ended June 30, 2014. We expressed an unqualified audit opinion on those financial statements in our report dated November 10, 2014.

The summary separate financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary separate financial statements, therefore, is not a substitute for reading the audited separate financial statements of the Bank.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with International Financial Reporting Standards.

Auditors' Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standards on Auditing (ISA) 810, *Engagements to Report on Summary Financial Statements*.

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** for the year ended June 30, 2014 are consistent, in all material respects, with those financial statements, in accordance with International Financial Reporting Standards.

Grant Thornton

Chartered Accountants
November 10, 2014
Basseterre, St. Kitts

St. Kitts-Nevis-Anguilla National Bank Limited

SEPARATE STATEMENT OF FINANCIAL POSITION

As of June 30, 2014

(expressed in Eastern Caribbean dollars)

	June 30 2014 $	June 30 2013 Restated $	July 01 2012 Restated $
Assets			
Cash and balances with Central Bank	**293,226,003**	355,571,349	254,463,332
Treasury bills	**162,908,892**	135,952,664	96,404,250
Deposits with other financial institutions	**710,787,386**	518,865,085	412,217,793
Financial asset	**566,695,449**	–	–
Loans and receivables – loans and advances to customers	**694,712,311**	1,186,282,011	1,211,039,294
– originated debts	**90,518,117**	92,384,815	73,815,179
Investment securities – available-for-sale	**525,426,711**	429,336,787	382,127,804
Investment in subsidiaries	**26,750,000**	26,750,000	26,750,000
Customers' liability under acceptances, guarantees and letters of credit	**4,735,557**	4,482,885	4,095,350
Income tax recoverable	**6,004,006**	6,004,006	6,004,006
Property, plant and equipment	**21,039,067**	22,171,639	23,270,558
Intangible assets	**260,522**	803,964	1,720,565
Other assets	**29,883,740**	41,295,828	34,671,519
Deferred tax asset	**22,551,710**	20,604,955	7,341,696
Total assets	**3,155,499,471**	2,840,505,988	2,533,921,346
Liabilities			
Customers' deposits	**2,680,140,065**	2,223,580,515	1,853,775,084
Due to other financial institutions	**646,839**	2,505,944	424,554
Other borrowed funds	**2,709**	145,580,180	215,697,437
Acceptances, guarantees and letters of credit	**4,735,557**	4,482,885	4,095,350
Accumulated provisions, creditors and accruals	**29,355,360**	45,753,004	39,542,971
Total liabilities	**2,714,880,530**	2,421,902,528	2,113,535,396
Shareholders' equity			
Issued share capital	**135,000,000**	135,000,000	135,000,000
Share premium	**3,877,424**	3,877,424	3,877,424
Retained earnings	**15,010,408**	8,935,074	10,454,812
Reserves	**286,731,109**	270,790,962	271,053,714
Total shareholders' equity	**440,618,941**	418,603,460	420,385,950
Total liabilities and shareholders' equity	**3,155,499,471**	2,840,505,988	2,533,921,346

Approved for issue by the Board of Directors on November 5, 2014.

_______________ Director   _______________ Director

St. Kitts-Nevis-Anguilla National Bank Limited

SEPARATE STATEMENT OF INCOME

For the year ended June 30, 2014

(expressed in Eastern Caribbean dollars)

	2014 $	2013 Restated $
Interest income	**110,748,316**	97,361,826
Interest expense	**(85,244,458)**	(92,907,409)
Net interest income	**25,503,858**	4,454,417
Fees and commission income	**10,705,032**	9,924,352
Fees expense	**(4,838,357)**	(3,984,992)
Net fees and commission income	**5,866,675**	5,939,360
Dividend income	**2,750,107**	2,864,683
Net realised gains and losses from investments	**24,550,734**	16,213,992
Gain on foreign exchange	**5,805,169**	4,522,412
Other operating income	**399,939**	97,878
Other income	**33,505,949**	23,698,965
Total operating income	**64,876,482**	34,092,742
Operating expenses		
Administrative and general expenses	**24,407,160**	24,500,826
Directors fees and expenses	**400,293**	398,408
Audit fees and expenses	**516,678**	540,412
Depreciation and amortisation	**2,637,998**	3,111,368
Impairment charges	**22,913,459**	–
Total operating expenses	**50,875,588**	28,551,014
Income before tax	**14,000,894**	5,541,728
Income tax credit	**7,513,139**	12,207,896
Net income for the year	**21,514,033**	17,749,624
Basic earnings per share (Basic)	**0.16**	0.13

St. Kitts-Nevis-Anguilla National Bank Limited

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2014

(expressed in Eastern Caribbean dollars)

	2014 $	2013 Restated $
Net income for the year	**21,514,033**	17,749,624
Other comprehensive income:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale financial assets:		
Unrealised gain (loss) on investment securities, net of tax	**2,561,448**	(2,186,479)
Reclassification adjustments for gains/losses included in income	**11,525,329**	(1,386,953)
	14,086,777	(3,573,432)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Loss on re-measurement of defined benefit assets	**(4,157,207)**	(647,286)
Income tax relating to items not reclassified	**1,371,878**	213,604
	(2,785,329)	(433,682)
Total comprehensive income for the year	**32,815,481**	13,742,510

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended June 30, 2014

(expressed in Eastern Caribbean dollars)

	Issued share capital $	Share premium $	Statutory reserves $	Other reserves $	Available-for-sale investment revaluation reserves $	Property revaluation reserve $	Retained earnings $	Total $
Balance at July 01, 2012, as previously reported	**135,000,000**	**3,877,424**	**98,466,591**	**174,653,586**	**(19,995,777)**	**7,720,621**	**12,352,758**	**412,075,203**
Prior period adjustments	–	–	–	–	–	–	8,310,747	8,310,747
Transfer to reserves	–	–	–	10,208,693	–	–	(10,208,693)	–
Balance at July 01, 2012, (Restated)	**135,000,000**	**3,877,424**	**98,466,591**	**184,862,279**	**(19,995,777)**	**7,720,621**	**10,454,812**	**420,385,950**
Net income for the year	–	–	–	–	–	–	17,749,624	17,749,624
Other comprehensive income	–	–	–	(433,682)	(2,958,178)	–	–	(3,391,860)
Prior period adjustment	–	–	–	–	(615,254)	–	–	(615,254)
Total comprehensive income for the year	–	–	–	(433,682)	(3,573,432)	–	17,749,624	13, 742,510
Transfer to reserves	–	–	3,744,362	–	–	–	(3,744,362)	–
Transaction with owners								
Dividends	–	–	–	–	–	–	(15,525,000)	(15,525,000)
Balance at June 30, 2013, (Restated)	**135,000,000**	**3,877,424**	**102,210,953**	**184,428,597**	**(23,569,209)**	**7,720,621**	**8,935,074**	**418,603,460**

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY …CONTINUED

For the year ended June 30, 2014

(expressed in Eastern Caribbean dollars)

	Issued share capital $	Share premium $	Statutory reserves $	Other reserves $	Available-for-sale investment revaluation reserves $	Property revaluation reserve $	Retained earnings $	Total $
Balance at June 30, 2013, (Restated)	**135,000,000**	**3,877,424**	**102,210,953**	**184,428,597**	**(23,569,209)**	**7,720,621**	**8,935,074**	**418,603,460**
Net income for the year	–	–	–	–	–	–	21,514,033	21,514,033
Other comprehensive income	–	–	–	(2,785,329)	14,086,777	–	–	11,301,448
Total comprehensive income for the year	–	–	–	(2,785,329)	14,086,777	–	21,514,033	32,815,481
Transfer to reserves	–	–	4,638,699	–	–	–	(4,638,699)	–
Transaction with owners								
Dividends	–	–	–	–	–	–	(10,800,000)	(10,800,000)
Balance at June 30, 2014	**135,000,000**	**3,877,424**	**106,849,652**	**181,643,268**	**(9,482,432)**	**7,720,621**	**15,010,408**	**440,618,941**

St. Kitts-Nevis-Anguilla National Bank Limited

SEPARATE STATEMENT OF CASH FLOWS

June 30, 2014

(expressed in Eastern Caribbean dollars)

	2014 $	2013 $
Cash flows from operating activities		
Income before taxation	**14,000,894**	5,541,728
Adjustments for:		
Interest income (note)	**(110,748,316)**	(97,361,826)
Interest expense	**85,244,458**	92,907,409
Depreciation and amortisation	**2,637,998**	3,111,368
Provision for impairment	**22,913,459**	–
(Gain)/loss on disposal of premises and equipment	**(24,999)**	251
Operating income before changes in operating assets and liabilities	**14,023,494**	4,198,930
(Increase)/decrease in operating assets:		
Loans and advances to customers	**486,456,577**	28,412,501
Mandatory deposit with the Central Bank	**(28,462,849)**	(26,046,750)
Financial asset	**(566,695,449)**	–
Other assets	**8,880,424**	(7,271,595)
Increase/decrease in operating liabilities:		
Customers' deposits	**455,791,502**	355,665,854
Due to other financial institutions	**(1,859,104)**	2,081,390
Accumulated provisions, creditors, and accruals	**(16,397,644)**	18,494,541
Cash generated from operations	**351,736,951**	375,534,871
Interest received	**98,729,565**	90,351,475
Interest paid	**(84,649,393)**	(91,742,999)
Net cash generated from operating activities	**365,817,123**	374,143,347
Cash flows from investing activities		
Purchase of equipment and intangible assets	**(961,985)**	(1,338,099)
Proceeds from disposal of equipment	**25,000**	242,000
Decrease/(increase) in special term deposits	**18,728,544**	(16,322,030)
Decrease in restricted term deposits and treasury bills	**59,273,263**	5,734,899
Net proceeds from investment securities	**(79,399,363)**	(69,625,574)
Net cash used in investing activities	**(2,334,541)**	(81,308,804)
Cash flows from financing activities		
Other borrowed funds	**(145,404,486)**	(69,426,597)
Dividend paid	**(10,800,000)**	(15,525,000)
Net cash used in financing activities	**(156,204,486)**	(84,951,597)
Net increase in cash and cash equivalents	**207,278,096**	207,882,946
Cash and cash equivalents, beginning of year	**553,881,782**	345,998,836
Cash and cash equivalents, end of year	**761,159,878**	553,881,782

WORKING HARDER TODAY FOR A BRIGHTER TOMORROW

ST. KITTS-NEVIS-ANGUILLA
NATIONAL BANK LIMITED

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