ANNUAL REPORT 2018

SHARED OWNERSHIP
SHARED VALUES

WORKING HARDER TODAY FOR A BRIGHTER TOMORROW

ST. KITTS-NEVIS-ANGUILLA
NATIONAL BANK LIMITED

-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.

Shared Ownership - Shared Values

This year's Annual Report for the St. Kitts-Nevis-Anguilla-National Bank Ltd. focuses on shareholder value and the deep and undeniable relationship between shareholders of a national institution of empowerment, betterment and development. The theme underscores the benefit of a wide cross section of the population holding share value in the Bank and the resultant shared national value of the Bank across the populace. The imagery and content of the annual report centres on strength through numbers and shares the broad national scope of the Bank's mission and vision. The Bank is seen as a natural expression of shared interests and a successful venture rooted in the philosophical mantra of the nation where self interest is sub-served in the national interest. The annual report celebrates this core ideology and reflects on the Bank's performance over the past year which has seen further strengthening and entrenchment in the life-goal of its customers, shareholders and wider national stakeholders.

CONTENTS

03
Vision and Mission

04
Customer Charter and Policy Statement

05
Theme

07
Notice of Meeting

09
Financial Highlights

10
Corporate Information

12
Corporate Governance

18
Chairman's Report

20
Board of Directors

22
Directors' Report

24
Senior Executive Team

26
Management's Discussion and Analysis

29
Consolidated Financial Statements

30
Independent Auditor's Report

34
Consolidated Statement of Financial Position

35
Consolidated Statement of Income

36
Consolidated Statement of Comprehensive Income

37
Consolidated Statement of Changes in Shareholders' Equity

38
Consolidated Statement of Cash Flows

40
Notes to Consolidated Financial Statements

134
Summary Separate Financial Statements

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

NOTICE OF MEETING

Notice is hereby given that the **FORTY–EIGHTH ANNUAL GENERAL MEETING OF ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED** will be held at Park Hyatt St. Kitts Christophe Harbour on Thursday 20th December, 2018 at 5:00 p.m. for the following purposes:-

1. To read and confirm the Minutes of the Meeting held on 31st May, 2018
2. To consider matters arising from the Minutes
3. To receive the Directors' Report
4. To receive the Auditor's Report
5. To receive and consider the Accounts for the year ended 30th June, 2018
6. To declare a Dividend
7. To elect Directors
8. To reconfirm the appointment of Auditors for year ending 30th June, 2019 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 (3) 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 31st October, 2018 will be entitled to receive a dividend in respect of the financial year ended 30th June, 2018.

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's 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

	2018 $'000	2017 $'000	2016 $'000	Revised 2015 $'000	Revised 2014 $'000
BALANCE SHEET INFORMATION					
Total assets	3,683,801	3,778,329	3,697,059	3,649,229	3,163,145
Total customer's deposits	2,834,300	3,032,091	3,049,273	2,996,093	2,507,885
Loans & advances (gross)	828,885	767,377	758,341	703,130	666,743
Investment securities	1,250,766	1,030,054	728,586	493,314	616,510
Cash and Money at call	551,695	764,096	952,871	1,186,313	818,748
OPERATING RESULTS					
Gross operating income	223,662	181,676	161,236	172,969	181,361
Interest income	82,899	85,643	92,372	94,240	112,226
Interest expense	45,874	53,614	60,188	67,114	77,018
Net Income	52,087	39,450	28,374	25,803	25,254
Operating expenses/provisions	95,261	92,207	70,976	82,475	84,593
Number of employees	266	258	257	255	245
Gross revenue per employee	841	704	627	678	740
Total assets per employee	13,849	14,645	14,385	14,311	12,911
SHARE CAPITAL & DIVIDEND INFORMATION					
Common shares issued and outstanding (in thousands)	135,000	135,000	135,000	135,000	135,000
Total shareholder's equity	595,048	549,439	467,572	475,817	476,284
Dividends paid	13,500	13,500	13,500	13,500	10,800
Number of shareholders	5,470	5,568	5,612	5,491	5,459
Earnings per share ($)	0.39	0.29	0.21	0.19	0.19
Dividends per share ($)	0.10	0.10	0.10	0.10	0.080
Book value per common share	4.41	4.07	3.46	3.52	3.53
BALANCE SHEET AND OPERATING RESULTS RATIOS (%)	%	%	%	%	%
Loans and advances to deposits	29.2	25.3	24.9	23.4	26.6
Staff Cost/Total Cost	20.5	21.6	19.2	16.4	15.0
Staff Cost/Total Revenue	12.9	17.3	15.7	14.2	13.3
Cost/Income (Efficiency) before impairment	49.0	63.3	69.9	75.0	58.6
Cost/Income (Efficiency) after impairment	53.6	72.0	70.2	77.9	81.1
Return on Equity	9.1	7.8	6.0	5.4	5.3
Return on Assets	1.4	1.1	0.8	0.8	0.8
Asset Utilization	6.0	4.9	4.4	5.1	6.0
Yield on Earning Assets	2.7	2.8	3.3	3.7	5.5
Cost to fund Earning Assets	1.5	1.8	2.1	2.6	3.8
Net Interest Margin	1.2	1.1	1.1	1.1	1.7

CORPORATE INFORMATION

BOARD OF DIRECTORS

Alexis Nisbett	Chairman
Dr. Analdo Bailey	1st Vice Chairman
Franklin Maitland	2nd Vice Chairman
Talibah Byron	Director
Elreter Simpson-Browne	Director
Dr. Cardell Rawlins	Director
Lionel Benjamin	Director
Lorna Hunkins	Director
Wallis Wilkin	Director
William George Liburd	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

Central Street,
Basseterre (Head Office)

Nevis Branch
Charlestown, Nevis

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

Pelican Mall Branch
Bay Road, Basseterre, St. Kitts

Bureau de Change
RLB International Airport

ATMS

Basseterre Branch
Buckley's
Cayon
CAP Southwell Industrial Park
Frigate Bay
Lodge
Molineux
Nevis Branch
Old Road
Pelican Mall
RLB International Airport
Sandy Point
Saddlers
St. Kitts Marriot Hotel
St. Paul's
St. Peter's
Tabernacle
The Circus

SUBSIDIARIES CONSOLIDATED

National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited
Sands Complex, BASSETERRE, St. Kitts

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

St. Kitts and Nevis Mortgage and Investment Company Limited
Sands Complex, BASSETERRE, St. Kitts

REGISTERED OFFICE OF THE PARENT COMPANY

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

CORPORATE GOVERNANCE

Introduction

This report on Corporate Governance encompasses the financial year commencing July 1, 2017 and ending June 30, 2018.

The National Bank Group of Companies is committed to maintaining the highest standards of corporate governance. To this end, we continuously monitor and update as necessary our internal systems in order to ensure our standards reflect the requirements of our regulators, the Eastern Caribbean Central Bank, the Financial Services Regulatory Commission, the Eastern Caribbean Securities Exchange, the Eastern Caribbean Regulatory Commission and best international practices tailored to the specific needs of the Group.

The Board of Directors exercises leadership, enterprise, integrity and good judgment in guiding the Group to achieve continuing growth, prosperity, efficiency and effectiveness. The Board acts in the best interests of the Group and its stakeholders guided by a philosophy based on transparency, accountability and responsibility. The Group's values and standards are established to ensure that its obligations to its shareholders, employees, and customers are met. Our ethics and operating principles remind us that the National Bank Group functions with the highest standards of ethical conduct. The Governance framework seeks to put a structure in place to guide Directors, Management and staff. The Group continually seeks to improve and strengthen the framework.

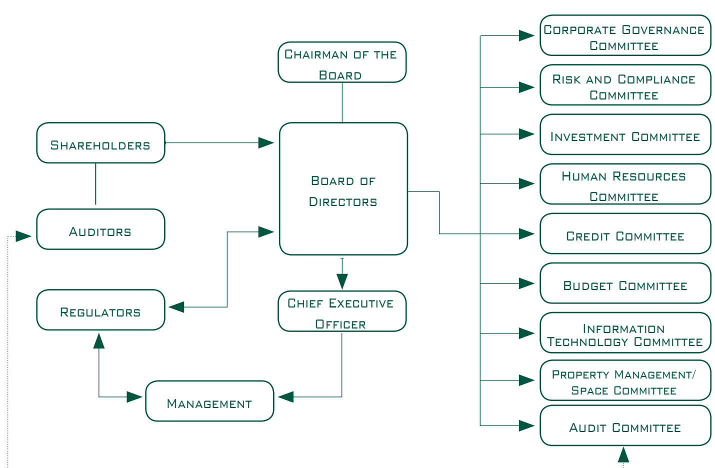
Major Shareholdings and Voting Rights

Name of Shareholder	Class of Shares	No. of Shares	Voting Rights (%)
Government of St Kitts & Nevis	Ordinary Shares	68,850,000	51.00
National Commercial Bank of Anguilla Ltd	Ordinary Shares	8,843,681	6.55
Social Security Board (St Kitts & Nevis)	Ordinary Shares	8,598,506	6.37

Board Responsibilities

The Board's key responsibilities include oversight of and decision-making on: strategic planning, risk management, human resources, talent management and succession planning, corporate governance, financial information, communications, Board committees and Director development and evaluation. The Board is responsible for supervising the management of National Bank Group's business and affairs. The Board, directly and through its subcommittees, provides direction to management, generally through the Chief Executive Officer (CEO), to pursue the best interest of the Group of companies.

The diagram below provides an overview of how the Board interacts with the various stakeholder groups.



Directors' Independence

The Board believes that director independence is very important. A Director is considered independent only where the Board determines that the director has no material relationship with the National Bank Group of Companies. A material relationship is a relationship which could be reasonably expected to interfere with the exercise of an independent director's judgment.

All Directors must take decisions objectively in the best interest of the Group. The Board has established clear delineation of responsibilities between the operation of the Board and the executive responsible for the day to day running of the Group. No one individual has unrestricted powers of decision making. The roles of Chairman and Chief Executive Officer cannot be exercised by the same individual and no one individual or group of individuals dominates the decision-making process.

Board size and Composition

The Articles of Association mandates a Board size for effective decision-making is between five to ten directors for the Bank, four to ten for NCIC, and four to fifteen for the National Bank Trust Company. Board size and composition are reviewed annually based on changes in legal requirements, best practices, the skills and experiences required to enhance the Board's effectiveness and the number of directors needed to discharge the duties of the Board and its sub-committees effectively.

The Board of the St. Kitts-Nevis-Anguilla National Bank Ltd. comprises ten members who are elected or appointed by the holders of ordinary shares. The Board of NCIC and National Bank Trust Company comprised seven members and five members, respectively.

On May 31, 2018, the Annual General Meeting of Shareholders elected Mr. Franklin Maitland and Ms. Lorna Hunkins as Board directors to replace directors, Messrs. Howard McEachrane and Theodore Hobson, who retired in August and September 2017 respectively.

Attendance at Board Meetings

SKNANB Board Meeting Attendance Report

The attendance at Board meetings is shown in the table below.

Director	No. of Meetings	Meeting Attendance	
		Number	Rate (%)
Alexis Nisbett	23	23 of 24	95.8
Dr. Analdo Bailey	21	21 of 24	87.5
Franklin Maitland *	2	2 of 2	100.0
Dr. Cardell Rawlins	21	21 of 24	87.5
Elreter Simpson-Browne	23	23 of 24	95.8
Talibah Byron	23	23 of 24	95.8
Lionel Benjamin	24	24 of 24	100.0
Lorna Hunkins *	2	2 of 2	100.0
Wallis Wilkin	23	23 of 24	95.8
William Liburd	22	22 of 24	91.7
Howard McEachrane*	2	2 of 4	50.0
Theodore Hobson*	6	6 of 6	100.0
Stephen Hector (Secretary)	23	23 of 24	95.8
No. of Meetings	**24**		

*Mr Franklin Maitland and Ms Lorna Hunkins replaced Messrs Howard McEachrane and Theodore Hobson at AGM held 31 May 2018.

It should be noted that there were some instances where Directors were absent from the meetings of the Board as a result of the Group's business.

Meetings of the Board of NCIC are held monthly. The attendance at Board meetings is shown in the table below.

NCIC Board Meeting Attendance Report

Director	No. of Meetings	Meeting Attendance	
		Number	Rate (%)
Howard Richardson	10	10 of 13	76.9
Jenifer Howell	13	13 of 13	100.0
Marcella Lanns-Monish *	12	12 of 13	92.3
Jacynth Francis	13	13 of 13	100.0
Reginald James *	6	6 of 7	85.7
Sonia Henry	11	11 of 13	84.6
Joycelyn Mitcham	13	13 of 13	100.0
Tracy Herbert * (Secretary)	6	6 of 6	100.0
No. of Meetings	**13**		

*Mr. Reginald James, deceased since January 2018, has not been replaced. Mrs. Tracy Herbert replaced Mrs. Carmen Versailles as Secretary having retired. Mrs. Lanns-Monish resigned from the Board in August 2018 and has not been replaced to date.

St. Kitts-Nevis-Anguilla National Bank Trust Company Limited Board of Directors

The Board of Directors of the St. Kitts-Nevis-Anguilla National Bank Trust Company Ltd is comprised of:

O'Grenville Browne – CHAIRMAN

Patricia Bartlette

Shirley Julius

Cyndie Demming

Crace Lewis

The Board of Directors for the National Bank Trust Company Ltd convened ten (10) meetings during the year.

St Kitts and Nevis Mortgage and Investment Company Limited

The Board of Directors of the St. Kitts-Nevis-Anguilla National Bank Ltd functions as the Board of Directors for the St. Kitts and Nevis Mortgage and Investment Company Ltd (MICO). However, the St. Kitts-Nevis-Anguilla National Bank Trust Company Ltd assumed responsibility for those operations previously conducted by the company effective March 1, 2017.

Conflicts of interest

All Directors of the Company and its subsidiaries must avoid any situation which might give rise to a conflict between their personal interests and those of the Group. Prior to appointment, potential conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent that person from taking on the role. Directors are responsible for notifying the Chairman and Company Secretary as soon as they become aware of actual or potential conflict situations. If directors or executive officers have an interest in a material transaction or agreement with the National Group that is being considered by the Board or a Board committee, they:

1) disclose that interest;

2) leave the meeting during Board or committee discussion; and

3) do not vote on the matter.

Directors' Training and Development

During the financial period, Directors participated in various regional and international seminars and conferences covering various topics including:

- Correspondence Banking Relationships – De-risking
- Payment Systems and Card Services
- Anti-Money Laundering/Anti-terrorist Financing Compliance
- Corporate Governance
- Risk Leadership
- Internal Auditing
- Human Resources Management
- Disaster Preparedness Management

Directors' Rotation

At every ordinary general 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 retiring Directors shall be those who have been in office longest since being last elected. Where Directors are 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.

Directors' Remuneration

Directors' fees are included in Note 26 Other Expenses.

Directors' Shareholdings

Director	No. of Shares Owned	Type of Director
Alexis Nisbett	635	Non-Executive
Dr. Analdo Bailey	32,500	Non-Executive
Franklin Maitland	8,250	Non-Executive
Dr. Cardell Rawlins	5,333	Non-Executive
Elreter Simpson-Browne	500	Non-Executive
Talibah Byron	200	Non-Executive
Lionel Benjamin	50,000	Non-Executive
Lorna Hunkins	600	Non-Executive
Wallis Wilkin	4,700	Non-Executive
William Liburd	25,416	Non-Executive

Directors' Qualification

Director	Qualification
Alexis Nisbett	Master of Science (Accounting); Bachelor of Commerce (Accounting); Audit Committee Certified (ACC)
Dr. Analdo Bailey	Doctor of Divinity Master of Business Administration Accredited Director (Acc. Dir)
Franklin Maitland	Fellow Chartered Certified Accountant; Master of Science – Finance; GCIB
Dr. Cardell Rawlins	Bachelor of Science – Medical Doctor
Elreter Simpson-Browne	Bachelor of Science Management Accredited Director (Acc. Dir)
Talibah Byron	Bachelor of Laws, Master of Laws Accredited Director (Acc. Dir)
Lionel Benjamin	Certificate Business Management Accredited Director (Acc. Dir)
Lorna Hunkins	Bachelor of Science – Economics/Accounts
Wallis Wilkin	Bachelor of Science – Management Studies Associate of Science – Architectural Engineering Accredited Director (Acc. Dir)
William Liburd	Bachelor Economics and History

Election

Unless it be resolved to reduce the number of Directors, the ordinary general meeting at which Directors retire shall elect a successor to each retiring Director. A retiring Director shall remain in office until the close of the meeting notwithstanding the election of his successor.

Retiring Directors to continue if no others elected

If at any meeting where there is no one elected to replace a retiring Director, the retiring Director shall continue to be a Director as though he/she had been re-elected at such meeting.

Notice of Candidates

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.

Resignation

A Director may at any time give one month's notice in writing to the Company of his desire to resign, and at the expiration of such notice his office shall be vacated.

The role of the Board Committees

In an effort to effectively allocate tasks and responsibilities at the Board level, the Board has established nine (9) standing committees for the Bank and three (3) for the NCIC.

The Boards are supported by its sub-committees which make recommendations to the Board on matters delegated to them, in particular in relation to internal control, risk, financial reporting, governance and employee matters. This enables the Board to spend a greater proportion of its time on strategic, forward looking agenda items. Each Committee is chaired by an experienced Chairman.

St. Kitts-Nevis-Anguilla National Bank Ltd Board Committees

The Board of the St. Kitts-Nevis-Anguilla National Bank Limited is supported by the following committees which make recommendations to the Board on matters delegated to them.

Audit Committee

The Audit Committee is responsible for reviewing the integrity of the financial statements of the National Bank Group of Companies, related management's discussion and analysis (MD&A) and internal control over financial reporting, monitoring the system of internal control, monitoring compliance with legal and regulatory requirements, selecting external auditors for shareholder approval, reviewing the qualifications, independence and performance of the external auditors, reviewing the qualifications, independence and performance of the internal auditors, monitoring the internal audit function and reviews significant accounting and reporting issues; including critical accounting estimates and judgments used in applying accounting principles as well as the treatment of complex or unusual transactions to understand their impact on the financial statements.

The members of the Committee are as follows:

Franklin Maitland – CHAIRMAN

Talibah Byron

Dr. Analdo Bailey

Lorna Hunkins

David Walters – RECORDER*

**Mr. David Walters resigned effective 24 August 2018 and was subsequently replaced by Mr. Bentley Bissette.*

Budget Committee

The Budget Committee is responsible for reviewing the strategy and goals, and monitor progress toward these goals, provide oversight of the company's budget and financial performance reports, review the company's annual planning and budgeting prior to consideration by the Board of Directors.

The members of the committee are as follows:

Alexis Nisbett – CHAIRMAN

Franklin Maitland

Elreter Simpson-Browne

Dr. Cardell Rawlins

Anthony Galloway – RECORDER

Donald Thompson – EX OFFICIO

Risk and Compliance Committee

The Risk and Compliance Committee shall ensure that the Group has an appropriate program in place to identify and effectively mitigate compliance risk, consider and approve the scope of the compliance function having regard to each regulatory framework and the Group's compliance standards, review and monitor the Group's compliance activities and the effectiveness of the compliance program for the Group, ensure that Senior Management are taking the appropriate measures to satisfy all of the regulatory requirements applicable to the Group and monitor compliance with regulatory, prudential, legal and ethical standards.

The members of the committee are as follows:

Talibah Byron – CHAIRMAN

Lionel Benjamin

Alexis Nisbett

Elreter Simpson-Browne

Lorna Hunkins

Jacqueline Hewlett – RECORDER

Corporate Governance Committee

The Corporate Governance Committee's major responsibilities are to provide oversight of corporate governance matters, make recommendation on Board and Committee structure and composition, make recommendations on nomination, resignation and removal of Directors and establishing an annual performance assessment of Directors.

The members of the committee are as follows:

Franklin Maitland – CHAIRMAN

Dr. Cardell Rawlins

William Liburd

Dr. Analdo Bailey

Anthony Galloway – RECORDER

Donald Thompson – EX OFFICIO

Credit Committee

The Credit Committee/Nonperforming Facilities is responsible for reviewing credit applications, and monitoring and reviewing nonperforming facilities. The Committee also reviews applications and approved loans to ensure that they are in compliance with the lending regulations and the Group's lending policy. The Credit Committee reviews all special lending products and make appropriate recommendations to the Board of Directors. The Credit Committee also reviews all loan requests when special considerations are necessary.

The members of the committee are as follows:

Alexis Nisbett – CHAIRMAN

Dr. Analdo Bailey

Lionel Benjamin

Talibah Byron

Elreter Simpson-Browne

Dr. Cardell Rawlins

William Liburd

Wallis Wilkin

Lorna Hunkins

Franklin Maitland

Stephen Hector – SECRETARY

Donald Thompson – EX OFFICIO

Human Resources Committee

The Committee is responsible for assisting the Board in fulfilling its governance and supervisory responsibilities for strategic oversight of the Group's human capital, including organization effectiveness, succession planning and compensation, and their alignment with the Group's strategy of consistent, sustainable performance, its risk appetite and control framework.

The members of the committee are as follows:

Elreter Simpson-Browne – CHAIRMAN

Lionel Benjamin

Alexis Nisbett

Talibah Byron

Pansyna Bailey – RECORDER

Donald Thompson – EX OFFICIO

Information Technology Committee

The Information Technology Committee is responsible for assisting the Board of Directors in fulfilling its governance and supervisory responsibilities for strategic oversight of National Bank Group change initiatives, information technology and security effectiveness, and their alignment with the strategy of consistent, sustainable performance, as well as control matters.

The members of the committee are as follows:

Dr. Analdo Bailey – CHAIRMAN

Wallis Wilkin

Elreter Simpson-Browne

Lorna Hunkins

Junior Jules – RECORDER*

Donald Thompson – EX OFFICIO

**Mr. Junior Jules resigned effective July 17, 2018 and was subsequently replaced by Mr. Quincy Prentice.*

Investment Committee

The Committee shall draw up and regularly review Investment Guidelines and recommend Investment Policy amendments to the Board, regularly monitor the investments of the Group to ensure that they are consistent with the Investment Policy and report to the Board, regularly review the performance of both the investment portfolio and external fund managers against agreed benchmarks and report the findings to the Board.

The members of the committee are as follows:

Dr. Analdo Bailey – CHAIRMAN

Wallis Wilkin

Talibah Byron

Dr. Cardell Rawlins

Anthony Galloway – RECORDER

Donald Thompson – EX OFFICIO

Property Management/Space Committee

The Property Management/Space Committee works closely with the facilities management Team to provide safe and comfortable environment for employees and customers through space planning construction and renovation projects.

The members of the committee are as follows:

Wallis Wilkin – CHAIRMAN

William Liburd

Lionel Benjamin

June O'Brien – RECORDER

Donald Thompson – EX OFFICIO

National Caribbean Insurance Company Limited (NCIC) Board Committees

The Board of the National Caribbean Insurance Company Limited (NCIC) is supported by the following committees which make recommendations to the Board on matters delegated to them.

Audit Committee

The Audit Committee of NCIC has the same responsibility as outlined above. *(page 15 Audit Committee)*

The members of the Committee are as follows:

Marcella Lanns-Monish – CHAIRMAN*

Reginald James (deceased)*

Jenifer Howell

Jacynth Francis

David Walters – RECORDER*

**Mr. Reginald James (deceased) and Mrs. Lanns-Monish who resigned from the committee in August 2018 have not been replaced to date. Mr. David Walters who resigned in August 2018 was replaced by Mr. Bentley Bissette.*

Compliance Committee

The Compliance Committee of NCIC has the same responsibility as outlined above. *(page 15 Risk and Compliance Committee)*

The members of the committee are as follows:

Howard Richardson – CHAIRMAN

Marcella Lanns-Monish *

Sonia Henry

Joycelyn Mitcham

Patricia Herbert – RECORDER

Jacqueline Hewlett – EX OFFICIO

**Mrs. Lanns-Monish subsequently resigned from the committee in January 2018 and has not been replaced to date.*

Investment Committee

The Investment Committee of NCIC has the same responsibility as outlined above for the Investment and Budget Committees.

The members of the committee are as follows:

Howard Richardson – CHAIRMAN

Marcella Lanns-Monish *

Jenifer Howell

Cedric L. K. Jeffers

Carmen Versailles *

Sherlene Johnson – RECORDER

**Mrs. Lanns-Monish subsequently resigned from the committee in August 2018 and has not been replaced to date. Mrs. Carmen Versailles retired from the company in December 2017.*

Internal Audit Function Oversight

The Audit Committee has the ultimate responsibility for the internal audit function and oversees its performance.

Organization Placement

The Chief Internal Auditor (or designate) is responsible for the independent functioning of the Internal Audit Unit, reports functionally to the Audit Committee and administratively to the Chief Executive Officer. The Chief Internal Auditor has unencumbered access to the Audit Committee and may freely discuss audit policies, audit findings, and recommendations, audit follow-up, guidance issues and other matters.

Professional Standards and Independence

The Internal Audit Unit follows the professional standards of relevant professional organizations including:

i) Code of Ethics of the Institute of Internal Auditors; and

ii) The International Standards for the Professional Practice of Internal Auditing.

Resources and skill set

The Committee recognizes that internal auditors must possess the required expertise and knowledge to perform his/her functions consistent with the requirements of the professional standards as outlined above.

The Chief Internal Auditor therefore provides the Audit Committee with a regular report on the Unit's personnel, including the sufficiency of resources, their qualifications, certifications, and training and development needs.

Independence

The Chief Internal Auditor periodically discusses standards of professional audit independence with the Audit Committee Chair and Audit Committee. The Audit Committee reviews the reporting relationships of the Chief Internal Auditor periodically.

To emphasize the Internal Audit Unit independence, the Unit is restricted from implementing internal controls, developing procedures, installing systems, preparing records, or engaging in any other activity that may impair the internal auditor's judgment.

Periodic Review

The Audit Committee is responsible for reviewing the effectiveness of the Internal Audit function and receives reports from the Chief Internal Auditor. On a periodic basis, the Audit Committee may engage an independent third party to assess the Internal Audit function in accordance with professional standards promulgated by the Institute of Internal Auditors and in the context of regulatory expectations and practices of leading institutions. The Audit Committee reviews the results of those assessments.

Audit Plan

The Audit Committee is responsible for reviewing and approving the annual audit plan which includes the audit scope and the overall risk assessment methodology presented by the Chief Internal Auditor to assess whether it is appropriate, risk based and addresses all relevant activities over a measurable cycle. The Chief Internal Auditor, on a quarterly basis, reviews the status of the audit plan and any changes needed, including reviews of:

i) the results of audit activities, including any significant issues reported to management and management's response and/or corrective actions;

ii) the status of identified control weaknesses;

iii) the adequacy and degree of compliance with its systems of internal control.

CHAIRMAN'S REPORT

Beyond the numbers -
seeing the true value
that performance brings

Alexis Nisbett
Chairman of the Board

Introduction

On behalf of the Board of Directors of the St. Kitts-Nevis-Anguilla National Bank Limited (SKNANB) and indeed on behalf of the Bank and its subsidiaries as a whole, it gives me great pleasure to present the Annual Report and Audited Financial Statements of SKNANB for the Financial Year ended June 30, 2018.

Over the course of the year SKNANB continued to deliver on its promise of excellent performance, substantial returns and the committed adherence to the highest levels of Corporate Governance and Best Practices.

The Board Of Directors

The recently concluded Financial Year once again brought numerous challenges to the Board of Directors as the Board sought to address the challenges head on while continuing to pursue strategies to bolster and buttress the value of the Bank to its shareholders and the fiscal stability to its depositors.

The Board met even more frequently than its established two meetings per month, as did the Credit Committee which is comprised of all the Directors on the Board. The regularity of the meetings was a direct reflection of the commitment of the Board to ensure speedy and efficient attention to the afore-said challenges facing the Bank.

The oversight function of the Board continues to be supported and enhanced by the diligent work of the nine (9) sub-Committees of the Board that on a regular basis address challenging aspects of human resources and corporate governance while at the same time seeking to keep the Bank as a leading force in the use of the highest levels of technology to enhance efficiency and value.

It is worth mentioning that the Board also established a sub-set of Directors to meet with Senior Management at the Bank to treat with the larger debt exposures faced by the Bank. These meetings often required the attendance of representatives of the said large borrowers to systematically address the issues at hand face to face with the intention of achieving forthright discourse and clear plans of action to deal with the performance of such facilities moving forward.

The Board made a concerted effort over the course of the year to pursue training opportunities for Directors in areas such as (a) Corporate Credit Risk Analysis (b) Disaster Preparedness Management for Financial Institutions and (c) Investment Portfolio Risk Management. In the competitive financial atmosphere that is a reality of the present day, the Board recognized that while it is undoubtedly necessary for the staff at the Bank to continue improving their capabilities by way of training, it is also imperative that the Directors themselves gain the necessary training in order to familiarize themselves with products and strategies over which it is the Board's mandate to oversee. These efforts have already borne fruit in the levels of deliberations at the various meetings of the Board.

The Senior Executive Team

The relationship between the Board of Directors and the Senior Executive Team at the Bank continues to be the key relationship in the quest to protect and enhance the interests of the shareholders and the depositors. The Board approved the selection of a Chief Human Resources Officer to add stability to the Bank's most important resource – its staff, and a Chief Information Officer to lead the ever-important IT Department. It is of note that the Board also approved the introduction of an Executive Manager in Marketing to add to the Senior Executive Team as the Board saw this as an important element to be added to what we all can see is an ever-increasingly competitive market. At the same time the Board continues to recruit persons for the key positions of Chief Credit Risk Officer and Chief Internal Audit Officer and, as at the time of this report, the Board is confident that both searches are at a point that is close to completion. The Board continues to work closely with the CEO Mr. Donald Thompson to support his stewardship of the Bank while the Bank seeks to complete the full complement of the Senior Executive Team.

The Economy

During the period under review, the local economy expanded to a larger overall fiscal surplus compared with the corresponding period in 2017. The economy exhibited increased activity in hotel and restaurants, transport, storage and communications and real estate sectors.

The Park Hyatt opened its doors at the South East Peninsula in October 2017 and work is scheduled to begin at the Sixth Senses Resort at La Valle in Sandy Point. These developments will play a major part in the provision of additional employment in the Federation.

Work has commenced on major public infrastructural projects including, construction of a Second Pier at Port Zante, resurfacing of the island main road and the East Line Bus Terminal. These advances will generate positive spill-offs to other sectors, which would in turn further bolster the local economy.

The Eastern Caribbean Central Bank has projected real GDP growth rate (basic prices) of 4.16% for 2019 compared with 2.64 % for 2018. Using market prices, the real growth rate is projected to grow to 4.06% in 2019 from 2.07% in 2018.

We expect as the local economy continues to expand, the banking industry, and in particular SKNANB, will continue to see positive growth.

Financial Results

The Group of Companies enjoyed a satisfactory year in so far as it relates to asset quality, business developments and diversification, investment returns and contracts with third parties. Relationships with our Correspondent Banks and reinsurance providers continued to develop and grow to the benefit of the Bank and its stakeholders. It is noteworthy that the Bank's correspondent banking relationships continue to be strong in the face of obstacles that would otherwise threaten harm to such relationships (namely the qualification of accounts in the last financial year). This strength of relationship is undoubtedly due to the Board's honest and forthright approach to dealing with sensitive and challenging issues so that there is a clear understanding of the strategic approach and strategic direction of the Bank.

Net income for the year was $52,087k compared to $39,450k for the year ended June 30, 2017. There was little movement in Total assets as they held firm at $3,683,801k compared to $3,778,329k at the end of the year ended June 30, 2017. The Bank's Liquidity position also held firm, a reality that provides various opportunities to provide comfort and value to the shareholders and depositors of the Bank.

The Bank has recently rebranded its GRASP and HELP programmes as the National PRIDE and the GRAD programmes respectively with the aim of providing even more financial support to the local economy.

Qualification To Accounts

For the second consecutive year the Board has had to confront issues concerning the Bank's purchase of Certificates of Participation in a Government of Antigua and Barbuda 7 Year Long Term Note (the "Certificates of Participation"), which was securitized by the ABI Bank Limited (ABIB) of Antigua and the impact that these present for the asset quality of the Bank.

The position of our auditor remains the same and has resulted in a qualification to the accounts. Once again, the reasons given by the auditor are stated in the Financial Statements exhibited in the Annual Report. It goes without saying that the Board and the Auditor continue to hold different views on the potential for recoverability with regards to this matter.

Whereas the position of the qualification remains the same, it would be inaccurate to say that there have been no developments over the course of the year. External Legal Counsel for the Bank has continued to discuss with External Legal Counsel for the Eastern Caribbean Central Bank (ECCB) as to the quickest resolution of this matter. The Bank explored the possibility of Mediation in this matter but to date this option has not materialized.

The Board remains convinced that the Bank will recover its investment or, at the very least, a significant portion of its investment in this matter.

The Board continues to rely on the expert legal advice received by the Bank thus far as pertains to the prospects of enforcing recovery should this prove necessary. The Board also remains resolute in its commitment to its fiduciary duties to the Bank and further to the defense of the rights of its shareholders and depositors.

CONCLUSION

The Board is heartened by the performance of the Bank and the Group over the course of the Year. The performance of the Bank reflected in the Profits seen is a testament to the people involved with the daily operations of the Group of Companies. In fact the Net Income for the Year is second only to Financial Year ended June 30, 2008 – a year in which the Bank received a windfall from the sale of securities.

Having regard to this performance forces the Board to remain vigilant in all attempts to protect the Bank now and in the future.

The Board takes this opportunity to thank you the shareholders as well as all our depositors and prized stakeholders for the confidence that you continue to place in the Board and the Bank as we continue this incredible NATIONAL journey together.

Alexis Nisbett

Chairman

BOARD OF DIRECTORS

A deep commitment to all stakeholders

Alexis Nisbett
Chairman

Dr. Analdo Bailey
1st Vice Chairman

Franklin Maitland
2nd Vice Chairman

Talibah Byron
Director

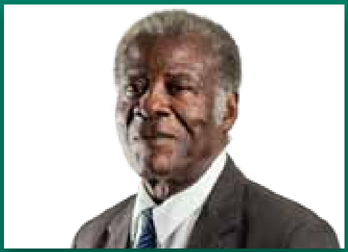
Elreter Simpson-Browne
Director

Dr. Cardell Rawlins
Director

Lionel Benjamin
Director

Lorna Hunkins
Director

Wallis Wilkin
Director



William George Liburd
Director

Stephen O.A. Hector
Corporate Secretary

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report for the financial year ended June 30, 2018.

Directors

In accordance with the Bank's Articles of Association one third of the Directors shall retire by rotation at every annual General Meeting. Retiring Directors shall be eligible for re-election.

The retiring Directors by rotation are:

Alexis Nisbett

William Liburd

Dr. Cardell Rawlins

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 nine (9) committees namely Audit, Budget, Corporate Governance, Credit, Human Resources, Investment, Risk and Compliance, Information Technology and Property Management/Space.

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 Bank are focused on increasing shareholders value by providing them with a reasonable return on their investments. During the period June 2014 to June 2017, dividend payments were $13.5m (2014), $13.5m (2015), $13.5m (2016) and $13.5m (2017) for a total of $54.0m over a four-year period.

The Directors report that profit after taxation for the year ended June 30, 2018 amounted to $52.1 million, with earnings per common share of $0.39.

Further discussion of the performance of the Company can be found in Management's Discussion and Analysis of the financial condition and 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, 2018. This recommendation, if approved by the Annual General Meeting, will mean a total dividend of $13.5 million will be paid for the financial year 2018.

By Order of the Board of Directors

Stephen O. A. Hector

SECRETARY

THE VALUE BEYOND THE SHARES:
How ownership can change lives and drive success.

SENIOR EXECUTIVE TEAM

1.	**Donald Thompson**	Chief Executive Officer
2.	**Anthony Galloway**	Chief Financial Officer
3.	**Bernice Grant-Kelly**	Chief Electronic Services Officer
4.	**Ermelin Sebastian-Duggins**	Chief Legal Counsel
5.	**Jacqueline Hewlett**	Chief Risk and Compliance Officer
6.	**Pansyna Bailey**	Chief Human Resources Officer
7.	**Quincy Prentice**	Chief Information Officer
8.	**Paula Morton**	Officer in Charge, Credit Division
9.	**Bentley Bissette**	Officer in Charge, Internal Audit Unit


1


2


3


4


5


6


7


8


9

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides an overview of the economic conditions that existed globally and domestically during the financial year ended 30 June 2018, and an analysis of the results of operations and financial condition of St Kitts-Nevis-Anguilla National Bank Limited (the "Group") for the same period. This should be read in conjunction with the Consolidated Financial Statements and related notes found on pages 34 to 133.

Operating Environment

In 2017/18, global economic growth reached 3 per cent, the highest growth rate attained since 2011. The recent acceleration in world gross product growth stems predominantly from firmer growth in several developed economies. However, the growth remains unevenly distributed across countries and regions. Economic prospects for many commodity exporters remain particularly challenging and negligible growth in per capita GDP was experienced in several parts of Africa, Western Asia, Latin America and the Caribbean.

The United States economy was boosted by higher consumer spending, growth in exports and a surge in business investments partly due to tax cuts, which took effect in the first quarter of 2018. Other key economic indicators, such as unemployment and the core personal consumption expenditure price index were favorable during the financial year. Accordingly, monetary policy tightened as the Federal Reserve raised rates three times during the year under review.

The economies of the Eastern Caribbean Currency Union (ECCU) performed positively during 2017/18, as economic activity expanded at 1.8% during the period, though at a slower rate compared to 2016. The construction sector primarily fueled the economic performance in 2017/18, supported by the transport, storage and communications, and wholesale and retail sectors. The growth recorded in 2017 marked the seventh consecutive year the ECCU recorded a positive growth rate. A notable decline was recorded in the agricultural, tourism and restaurants sectors, partly due to the devastating impact of Hurricanes Irma and Maria in September 2017.

During the review period the economy of St Kitts and Nevis expanded, at an accelerated rate. The increase in economic activity was sustained by buoyancy in the hotels and restaurants; transport, storage and communications and real estate, renting and business activities sectors. Increases in value added were also recorded for the manufacturing and agricultural sectors. Developments in the banking system reflected an increase in the net foreign assets and lower domestic credit, while monetary liabilities remained largely unchanged. Commercial bank liquidity increased, and the weighted average interest rate spread between loans and deposits widened. Although faced with the challenges of de-risking and the implementation of the International Financial Reporting Standard 9, the banking sector was characterized as being stable with an overall improvement in asset quality and stronger reserve positions.

In light of the economic environment outlined above, the St. Kitts-Nevis-Anguilla National Bank Group have delivered another successful year of operations with a strong financial performance, resulting in 2017/18 being a landmark year for the Group with increased profits and return on capital.

Results of Operations

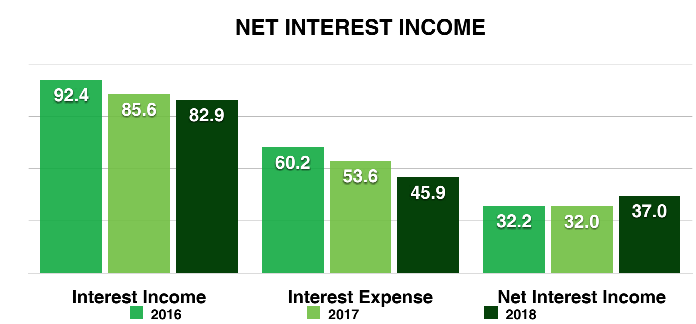
Net Interest Income

Net interest income for the year was $37.0 million, an increase of $5.0 million or 15.6% when compared with $32.0 million reported for 2017. The year-over-year increase in net interest income was primarily the result of lower interest expense for the period. (See Table 1)

Interest income on loans and advances increased whilst lower interest income was earned on investments during the year. The resultant shortfall was offset by lower interest expense primarily on fixed deposits of some large institutions. Consequently, the Bank's net interest margin (net interest income as a percentage of average assets) increased to 1.2% in 2018 (2017 – 1.1%).

Table 1

			Change	
	2018	2017	$	%
Interest Income	**$82.9**	**$85.6**	**(2.7)**	**(3.2)**
Loans & Advances	43.7	41.4	2.3	5.6
Investments	39.2	44.2	(5.0)	(11.3)
Interest Expense	**45.9**	**53.6**	**(7.7)**	**(14.4)**
Demand	0.9	0.9	0.0	0.0
Savings	8.5	8.6	(0.1)	(1.2)
Time	36.5	44.1	(7.6)	(17.2)
Net Interest Income	**37.0**	**32.0**	**5.0**	**15.6**



Non-Interest Income

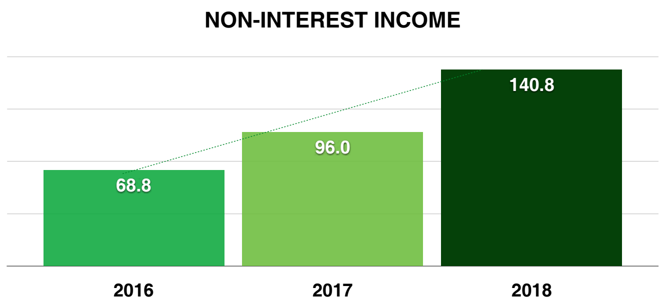
Non-interest income increased by $44.8 million or 46.7% from $96.0 million in 2017 to $140.8 million in 2018. Excluding the impact of fee and commission income, all categories of non-interest income showed year-over-year growth.

The largest contributor to this growth was higher net gains on Available-for-sale investments. The Bank took advantage of the turnaround in the United States financial markets during the year and this gave rise to a 106.9% increase in gains over the prior period. These results, together with increased dividend income on these and other investments, higher insurance premiums and foreign exchange gains, led to an increase in the non-interest income base.

Investments gains and dividends constituted 60.4% (2017 - $43.6%) of total non-interest income, Insurance premiums - 24.2% (2017 - 33.4%), Fees and commissions 10.6% (2017 - 17.3%) foreign exchange transactions 3.8% (2017 - 4.6%) and other 1.0% (2017 - 1.1%)

Table 2

(In Millions)	2018	2017	Change $	Change %
Fee and Commission Income	$ 14.9	$ 16.6	(1.7)	(10.2)
Dividend	10.3	5.8	4.5	77.6
Net Gain on AFS Investments	74.7	36.1	38.6	106.9
Net Insurance related income	34.1	32.1	2.0	6.2
Foreign Exchange gains	5.4	4.4	1.0	22.7
Other	1.4	1.0	0.4	40.0
Non-Interest Income	**140.8**	**96.0**	**44.8**	**46.7**



Non-Interest Expenses

Non-interest expenses totaled $95.3 million in 2018. This represents an increase of $3.1 million or 3.4% from 2017. Growth in non-interest expenses was the net result of the reduction in impairment charges and employee cost, and the increase in insurance claims incurred, as well as the increase and reallocation of management fees incurred on investment income.

The increase in total income and the increased non-interest expenses was evidenced by an improvement in the efficiency ratio from 72.0% in 2017 to 53.6% in 2018 after impairment, and the improvement from 63.3% in 2017 to 49.0% in 2018 before impairment. The lower efficiency ratio was mainly due to the increase in income.

Table 3

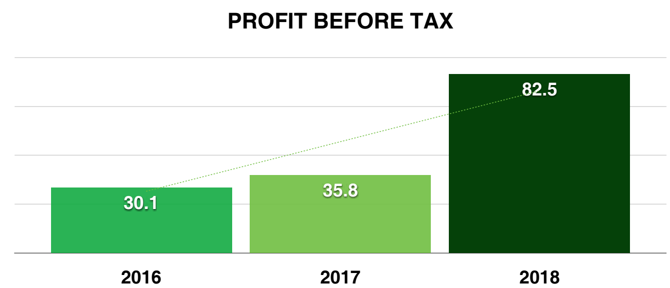
(In Millions)	2018	2017	Change $	Change %
Administrative and general expenses	42.9	44.9	(2.0)	(4.5)
Net Claims incurred	24.6	20.1	4.5	22.4
Fee expenses	15.0	11.3	3.7	32.7
Impairment charges	8.2	11.1	(2.9)	(26.1)
Depreciation and amortization	2.8	3.1	(0.3)	(9.7)
Directors Fees & Expenses	1.1	0.9	0.2	22.2
Professional fees and related expenses	0.7	0.8	(0.1)	(12.5)
Non-Interest Expenses	**95.3**	**92.2**	**3.1**	**3.4**

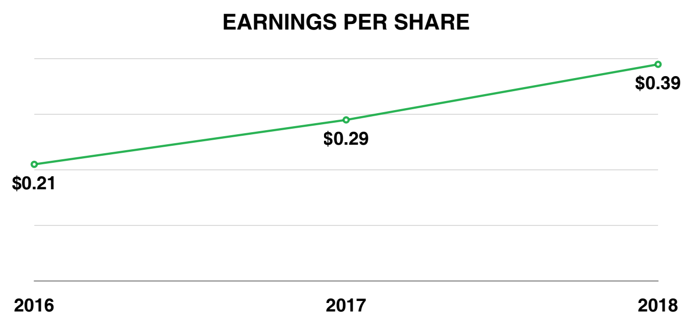
Net Income

The net effect of the change in net interest income, non-interest income and non-interest expenses was a $46.7 million or 130.4% increase in net income before tax for 2018 over 2017. Net income for the year was $52.1 million, after adjustment for income tax of $30.4 million. Earnings per share (basic and diluted) was $0.39 in 2018 compared with $0.29 in 2017. (See Table 4).

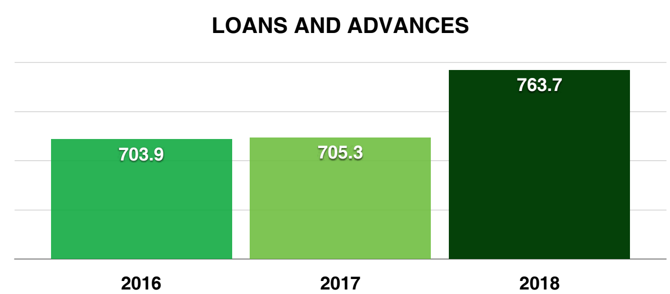
Table 4

(In Millions)	2018	2017	Change $	Change %
Net Interest Income	$ 37.0	$ 32.0	5.0	15.6
Non-Interest Income	140.8	96.0	44.8	46.7
Non-Interest Expenses	95.3	92.2	3.1	3.4
Net Income (Profit b/f Tax)	**82.5**	**35.8**	**46.7**	**130.4**





Financial Conditions



Loans and Advances

Total Loans and Advances to customers were $763.7 million in 2018, an 8.3% increase from the previous year's results. Increase in mortgages was the main contributing factor to the growth in loans and advances.

Mortgages rose by $7.5 million or 7.6% to $106.3 million in 2018 from $98.8 million in 2017. Consequently, at the end of the review period, mortgages accounted for 32.9% (2017 – 31.8%) of the total productive loans portfolio.

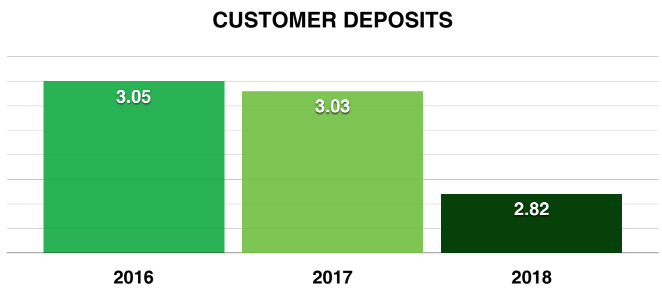
Moreover, SKNANB's market share of total loans and advances in the Federation of St Kitts and Nevis increased 150 basis points to 41.5% in 2018 from 40.0% in 2017 and when compared to the ECCU, moved up 50 basis points from 5.8% to 6.3% over the same period.

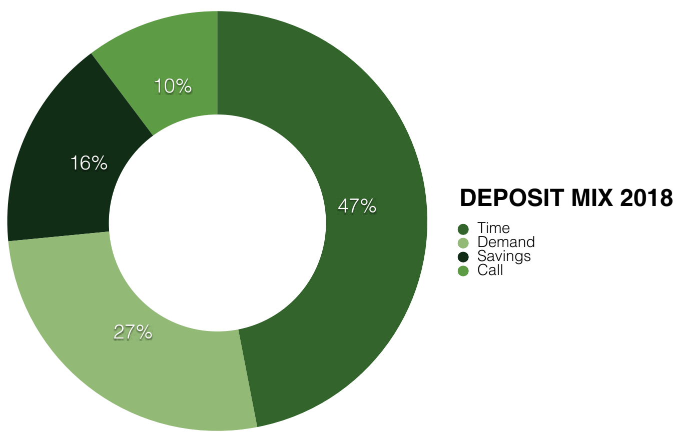
Deposits

Customer deposits fell by $197.8 million or 6.5% to $2.8 billion in 2018 when compared with 2017. The decrease is the result of the Group's strategy to reverse its growth expansion in deposits.

Consequently, both fixed deposits and demand deposits fell in 2018 when compared with the prior year. Fixed deposits fell by $65.0 million or 4.7% while direct demand deposits decreased by $161.2 million or 17.9%. All other deposit categories, that is, Savings and Call, grew by 4.3% and 4.9% respectively, over 2017.

Interest payments on deposits amounted to $50.5 million in 2018 compared to $55.0 million in 2017. The average effective rate of interest paid on customers' deposits was 1.57% in 2018, compared with 2.17% in 2017.





Capital and Liquidity

The Group continued to maintain a very strong capital position in the financial year 2018 as evidenced by the end of period Tier 1 capital ratio of 20.0% and Basel ratio of 24.0%. This strong capital position has enabled the Group to continually pay dividends (of $0.10 per share) to shareholders. Shareholders' equity has risen by $45.6 million or 8.3% in 2018, Return on equity moved higher to 9.1% in 2018 from 7.8% in 2017 and Return on assets rose to 1.4% in 2018 from 1.1% in 2017.

The Group also remained highly liquid and maintained a higher level of liquid assets in 2018. Total liquid assets maturing within one (1) year were $2.4 billion in 2018 (2017 - $3.3 billion), which represents 65.5% of total assets versus 87.2% the previous year. This position is an indication that the bank possesses the appropriate amount of liquidity in support of its assets, giving it the ability to meet its contractual obligations as they fall due.

Risk Management

In keeping with the Eastern Caribbean Central Bank's Risk-based Supervisory (RBS) Framework (2018), the St. Kitts-Nevis-Anguilla National Bank Limited Group of Companies continues to develop policies and procedures to contribute to its overall safety and soundness. The Enterprise Risk Management (ERM) programme focuses on efforts to evaluate and treat inherent and residual risks facing the institution through continuous assessment, measurement and monitoring. Such efforts incorporate risks associated with Anti-Money Laundering, Counter-Terrorism Financing and Regulatory Compliance, which are effectively managed to ensure that the Bank is in a position to identify and address areas of concern in a timely and effective manner. As a result of these efforts, the Group is to maintain financial stability in an era where financial institutions operate in an environment of increased regulatory supervision and oversight.

To enhance its overall risk management activities, the Group pays close attention to improve the management of financial risks. Such efforts include increased efforts to maintain a robust liquidity management in order to ensure that the Group can continue to provide uninterrupted service to all its customers. The investment portfolio is also closely monitored to identify movements that may be indicative of trends which could result in long-term losses.

The Group has made significant strides in improving it credit risk management by amending lending policies and improving the underwriting and service-management capacity of the Credit department. Other efforts have been made to develop a more customer-centric sales culture with a focus on customer needs while at the same time, ensuring that customer credit risk analysis is not sacrificed.

The period under review was used to focus on the management of the operational risks facing the Group. All functions and departments have been involved in the creation of a risk metre which lists all identified risks and mitigating controls by function. Through this exercise, the Group is better able to identify residual risks for which the controls need to be further strengthened to increase effectiveness and address significant gaps. To facilitate the monitoring mechanism for operational risk management, key risk indicators and tolerance levels were documented to complete the risk metres. This exercise would form part of the ongoing development of the risk reporting process so that significant events can be identified and treated to maintain an acceptable level of risk.

Outlook

In the 2018/19 financial year, we will continue to place strong emphasis on our strategic objectives of disciplined growth, risk reduction, improved asset quality, efficiently and effectively leveraging technology and augmenting our service-oriented culture, whilst still fostering an enabling environment for employees and improving the community we serve.

Risks to the outlook are largely associated with global trade related uncertainties between the USA and the rest of the world, predominantly China. The rhetoric between the USA and China which continues to escalate as retaliatory tariffs have been applied to the exports of both countries. In addition, the Group remains cognizant of the potential impact on the credit and investment portfolios resulting from the implementation of IFRS 9 provisioning standard.

However, we are confident that the National Group of Companies will continue to successfully face the risks and challenges confronting us and remain a profitable institution.

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

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 Auditor's Report

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

Opinion

We have audited the consolidated financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** (the "Bank") and its subsidiaries (the 'Group"), which comprise the consolidated statement of financial position as of June 30, 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Loans and receivables on the Group's consolidated statement of financial position includes certain long term notes issued by a third party, ABI Bank Limited (in receivership) ("ABIB"), amounting to $36,243,620 which have matured and remain outstanding. The loans were to be fully repaid by cash flows from loans ABIB made to the Government of Antigua and Barbuda. However, on November 27, 2015, ABIB was placed in receivership. No provision for potential losses has been made in the consolidated financial statements in respect of these notes.

We were unable to obtain sufficient appropriate audit evidence or satisfy ourselves by alternative methods, as to the recoverability of the $36,243,620 due to the Group. Consequently, we were unable to determine whether any adjustment to this amount was necessary in the consolidated financial statements.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants ("IESBA Code")*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Grant Thornton

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statement as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Allowance for loan losses

Description of matter

This is a key audit matter as it requires the application of judgment and use of subjective assumptions by management and the loans and advances to customers represent 21% (2017: 19%) of the Group's total assets. The assessment of impairment and calculation of the allowance for loan losses involves the use of assumptions including the financial condition of the borrower, the estimated timing and amount of expected future cash flows, valuation of collateral security and the time and costs of collection on realization of such collateral. Further, using different models in calculating the specific and collective allowance provision could result in significantly different estimates. Accordingly, management regularly assesses the assumptions and models used considering current economic and market conditions. Additionally, the related risk management disclosures are also complex and dependent upon the quality of underlying data.

Related disclosures in the consolidated financial statements are included in notes 2.5 and 2.7, significant accounting policies, note 8, Loans and advances to customers and note 3, Management of financial and insurance risks.

How the Matter was addressed in the Audit

Our audit procedures performed to address the risk of material misstatement relating to the allowance for loan losses included the following:

- We evaluated and assessed the Group's credit policy, loan impairment process and the related methodologies, including the relevant systems used to generate information;
- We compared and evaluated the methodology, inputs and assumptions used by management and determined whether these were in accordance with the individual and collective impairment assessments prescribed under International Accounting Standard 39;
- We evaluated management's forecast of expected future cash flows and valuation of the underlying collateral, as well as the classification of the loans as part of the impairment assessment. We also considered the internal credit grades/ratings and whether these classifications were consistently and appropriately applied for a sample of loans;
- We evaluated the adequacy of the allowance for loan losses recorded for a sample of loans by recalculating the net present value of expected future cash flows using the original effective interest rates applicable and comparing the result against the carrying value as of June 30, 2018;
- We assessed the reasonableness of credit loss rates through recalculation using historical and current data of the Group for those loans assessed collectively; and
- We assessed the adequacy of the disclosures in the consolidated financial statements including credit risk disclosures in note 3.

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *...continued*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jefferson E. Hunte.

Grant Thornton

Chartered Accountants
November 22, 2018
Basseterre, St. Kitts

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2018

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2018 $	2017 $
Assets			
Cash and balances with Central Bank	5	**223,552**	207,707
Treasury bills	6	**102,928**	120,756
Deposits with other financial institutions	7	**434,132**	755,345
Loans and receivables – Loans and advances to customers	8	**763,692**	705,312
– Originated debt	9	**257,050**	113,209
Investment securities – available-for-sale	10	**993,716**	916,845
Financial asset	31	**783,036**	823,124
Property inventory	11	**8,751**	7,902
Investment property	12	**4,040**	4,040
Income tax recoverable	18	**17,791**	30,134
Property, plant and equipment	13	**34,685**	36,543
Intangible assets	14	**350**	299
Other assets	15	**60,078**	57,113
Total assets		**3,683,801**	3,778,329
Liabilities			
Customers' deposits	16	**2,834,300**	3,032,091
Liability under acceptances, guarantees and letters of credit		**7,552**	7,456
Accumulated provisions, creditors and accruals	17	**219,347**	178,987
Income tax liability	18	**17,557**	3,624
Deferred tax liability	18	**9,997**	6,732
Total liabilities		**3,088,753**	3,228,890
Shareholders' equity			
Issued share capital	19	**135,000**	135,000
Share premium		**3,877**	3,877
Retained earnings		**76,508**	49,509
Reserves	20	**379,663**	361,053
Total shareholders' equity		**595,048**	549,439
Total liabilities and shareholders' equity		**3,683,801**	3,778,329

The notes on pages 40 to 133 are an integral part of these consolidated financial statements.

Approved for issue by the Board of Directors on November 22, 2018.

Chairman

Director

CONSOLIDATED STATEMENT OF INCOME

For the year ended June 30, 2018

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2018 $	2017 $
Interest income		**82,899**	85,643
Interest expense		**(45,874)**	(53,614)
Net interest income	21	**37,025**	32,029
Fees and commission income		**14,859**	16,652
Fees expense		**(15,028)**	(11,351)
Net fees and commission income	22	**(169)**	5,301
Other income	23	**125,904**	79,381
Operating income		**162,760**	116,711
Non-interest expenses			
Administrative and general expenses	24	**42,902**	44,845
Other expenses	26	**29,113**	24,920
Impairment expense	25	**8,218**	11,091
Total operating expenses		**80,233**	80,856
Net income before tax		**82,527**	35,855
Income tax (expense)/credit	18	**(30,440)**	3,595
Net income for the year		**52,087**	39,450
Earnings per share (basic and diluted)	27	**0.39**	0.29

The notes on pages 40 to 133 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2018

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2018 $	2017 $
Net income for the year		**52,087**	39,450
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale financial assets:			
Unrealised fair value gains on investment securities, net of tax		**42,670**	53,586
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year		**(35,003)**	(238)
	20	**7,667**	53,348
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement (loss)/gain on defined benefit asset, net of tax	20	**(645)**	2,569
Net other comprehensive income		**7,022**	55,917
Total comprehensive income for the year		**59,109**	95,367

The notes on pages 40 to 133 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended June 30, 2018

(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 1, 2016		**135,000**	**3,877**	**116,449**	**214,580**	**(34,700)**	**32,366**	**467,572**
Net income for the year		–	–	–	–	–	39,450	39,450
Other comprehensive income		–	–	–	2,569	53,348	–	55,917
Total comprehensive income for the year		–	–	–	2,569	53,348	39,450	95,367
Transfer to reserves	20	–	–	7,317	1,490	–	(8,807)	–
Transaction with owners:								
Dividends	28	–	–	–	–	–	(13,500)	(13,500)
Balance at June 30, 2017		**135,000**	**3,877**	**123,766**	**218,639**	**18,648**	**49,509**	**549,439**
Net income for the year		–	–	–	–	–	52,087	52,087
Other comprehensive income		–	–	–	(645)	7,667	–	7,022
Total comprehensive income for the year		–	–	–	**(645)**	**7,667**	**52,087**	**59,109**
Transfer to reserves	20	–	–	10,026	1,562	–	(11,588)	–
Transaction with owners:								
Dividends	28	–	–	–	–	–	(13,500)	(13,500)
Balance at June 30, 2018		**135,000**	**3,877**	**133,792**	**219,556**	**26,315**	**76,508**	**595,048**

The notes on pages 40 to 133 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2018

(expressed in thousands of Eastern Caribbean dollars)

	2018 $	2017 $
Cash flows from operating activities		
Net income before tax	**82,527**	35,855
Adjustments for:		
Interest expense	**45,874**	53,614
Impairment expense	**8,218**	11,091
Depreciation and amortisation	**2,767**	3,079
Pension expense	**565**	518
Loss on disposal of equipment and intangible assets	**–**	160
Write-off of projects ongoing to expense	**–**	202
Dividend income	**(10,349)**	(5,822)
Interest income	**(82,899)**	(85,643)
Operating income/(loss) before changes in operating assets and liabilities	**46,703**	13,054
(Increase)/decrease in operating assets:		
Loans and advances to customers	**(61,531)**	(9,066)
Mandatory deposits with Central Bank	**2,750**	2,301
Financial asset	**34,404**	1,750
Other assets	**(8,933)**	5,901
Increase/(decrease) in operating liabilities:		
Customers' deposits	**(193,118)**	(15,783)
Accumulated provisions, creditors and accruals	**40,360**	6,740
Cash (used in)/generated from operations	**(139,365)**	4,897
Interest received	**78,673**	44,892
Pension contributions paid	**(1,667)**	(486)
Income tax paid	**(4,358)**	(1,517)
Interest paid	**(50,547)**	(55,012)
Net cash used in operating activities	**(117,264)**	(7,226)
Cash flows from investing activities		
Proceeds from sale of investment securities and originated debts	**1,163,705**	973,568
Decrease in special term deposits	**20,269**	–
Decrease in restricted term deposits and treasury bills	**18,177**	40,197
Interest received	**13,136**	14,336
Dividends received	**10,349**	5,822
Proceeds from disposal of equipment and intangible assets	**–**	7
Acquisition of intangible assets	**(235)**	(115)
Acquisition of property, plant and equipment	**(725)**	(2,519)
Acquisition of property inventory	**(938)**	–
Purchase of investment securities and originated debt	**(1,305,471)**	(1,198,833)
Net cash used in investing activities	**(81,733)**	(167,537)
Subtotal carried forward	**(198,997)**	(174,763)

CONSOLIDATED STATEMENT OF CASH FLOWS ...continued

For the year ended June 30, 2018

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2018 $	2017 $
Subtotal brought forward		**(198,997)**	(174,763)
Cash flows from financing activities			
Increase/(decrease) in liability under acceptances, guarantees and letters of credit		**96**	(512)
Dividends paid	28	**(13,500)**	(13,500)
Net cash used in financing activities		**(13,404)**	(14,012)
Net decrease in cash and cash equivalents		**(212,401)**	(188,775)
Cash and cash equivalents, beginning of year		**764,096**	952,871
Cash and cash equivalents, end of year	32	**551,695**	764,096

The notes on pages 40 to 133 are an integral part of these consolidated financial statements.

1 Incorporation and principal activity

St. Kitts-Nevis-Anguilla National Bank Limited (the "Bank") was incorporated as a public limited company on February 15, 1971 under the Companies Act Chapter 335, and was re-registered 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 2015. 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, and 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, and was re-registered under the new Companies Act No. 22 of 1996 on the 14th day of April 1999.

  The Insurance Company provides life insurance coverage, non-life insurance coverage 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.

2.1 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 consolidated 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.

2.2 Changes in accounting policies

New and revised standards that are effective for annual periods beginning on or after July 1, 2017

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year.

- International Accounting Standard (IAS) 12 (Amendments), *Income Taxes*. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. Deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type. The amendment also clarifies that tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

- IAS 7 (Amendments), *Statement of Cash flows*. The amendment introduces an additional disclosure that will enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how separate financial statement disclosure can be improved. An entity is required to disclose information that will allow users to understand changes in liabilities arising from financing activities. This includes changes arising from cash flows, such as drawdowns and repayments of borrowings; and non-cash changes, such as acquisitions, disposals and unrealised exchange differences.

These new and revised to standards do not have a significant impact on these consolidated financial statements and therefore disclosures have not been made.

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early 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 15, *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, *Revenue*, IAS 11, *Construction Contracts,* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition.

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

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

IFRS 15, *Revenue from Contracts with Customers* *...continued*

The directors have not yet fully assessed the impact of IFRS 15 in these consolidated financial statements, and are not yet in a position to provide quantified information. It is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

IFRS 9, *Financial Instruments* (2014)

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

IFRS 9 replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset.

Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (“SPPI”). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVTOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVTPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Management is in the process of assessing how the Group’s business model will impact the classification and measurement of financial assets in scope of IFRS 9. An Implementation Committee for the Group was created to oversee the implementation project. The project involves three phases:

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

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

IFRS 9, *Financial Instruments* (2014) *...continued*

- Phase 1: Key decisions; this includes identification of key decisions, deciding on the measurement and classification for all products, determining stage migration and cure rate thresholds;
- Phase 2: Assessing availability of data, defining and determining detailed modelling methodology across different businesses based on available data, resources and infrastructure, defining and developing methodology to estimate unadjusted ECL and defining methodology to incorporate forward looking information; and
- Phase 3: Implementation; this includes finalising the forward-looking scenarios and determining the weight for each scenario and estimating ECL with forward looking information.

Currently, management has completed Phase 1 and key decisions around classification and measurement of financial assets are currently being reviewed by management. Phase 2 has also been started and data gaps are being addressed and management is working on the ECL methodology.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The new standard is not expected to impact the Group's financial liabilities as there are no financial liabilities which are currently designated at fair value through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The new standard relating to hedge accounting is not expected to impact the Group's consolidated financial statements, as the Group does not use hedge accounting.

The impairment requirements apply to financial assets measured at amortised cost and FVTOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'Stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'Stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'Stage 3'. The assessment of whether credit risk has increased significantly since initial recognition is performed on an ongoing basis by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL. The assessment of credit risk and the estimation of ECL

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

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

IFRS 9, *Financial Instruments* (2014) *...continued*

are required to be unbiased and probability-weighted and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forward-looking information specific to the counterparty as well as forecasts of economic conditions at the reporting date.

In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. The Group is in the process of assessing the full impact of the impairment requirements of IFRS 9. The Implementation Committee which has been established is currently working to determine stage migration and cure rate for financial assets.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Amendments to IFRS 4 – Applying IFRS 9, *Financial Instruments,* with IFRS 4, *Insurance Contracts*

In September 2016, the IASB published Applying IFRS 9, *Financial Instruments,* with IFRS 4, *Insurance Contracts,* which makes narrow scope amendments to IFRS 4, *Insurance Contracts*. The IASB issued the amendments to address the temporary accounting consequences of the different effective dates of IFRS 9, Financial *Instruments,* and the new insurance contracts Standard, IFRS 17. The new insurance contracts Standard is yet to be finalised and will have an effective date January 1, 2021. Therefore, its mandatory effective date will be after the 2018 effective date of IFRS 9. Considerable concerns were raised over the practical challenges of insurance companies implementing both new standards on different dates as a result of the significant accounting changes. Further concerns were raised over the potential for increased volatility in profit or loss if IFRS 9's new requirements for financial instruments come into force before the new insurance accounting rules. To address these concerns while still fulfilling the needs of users of financial statements, the IASB has responded by amending IFRS 4 and introducing the following alternatives:

- an overlay approach – an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of IFRS 9; and
- a temporary exemption – an optional temporary exemption from applying IFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of IAS 39 until the application of IFRS 17 on January 1, 2021.

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

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

Amendments to IFRS 4 – Applying IFRS 9, *Financial Instruments,* with IFRS 4, *Insurance Contracts* *...continued*

The amendments are effective as follows:

- the overlay approach is applied when entities first apply IFRS 9 from its effective date of January 1, 2018; and
- a temporary exemption from IFRS 9 is applied for accounting periods on or after January 1, 2018.

The Group does not plan to elect the use of temporary exemption from IFRS 9 on its effective date, as the Group's activities overall are not predominantly connected with insurance.

IFRS 17, *Insurance Contracts*

The IASB has published IFRS 17, *Insurance Contracts*. The new Standard replaces IFRS 4 which was published in 2004. IFRS 17 requires all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

The Standard introduces insurance contract measurement principles requiring:

- current, explicit and unbiased estimates of future cash flows;
- discount rates that reflect the characteristics of the contracts' cash flows; and
- explicit adjustment for non-financial risk.

Day one profits should be deferred as a contractual service margin and allocated systematically to profit or loss as entities provide coverage and are released from risk. Revenue is no longer equal to written premiums but to the change in the contract liability covered by consideration. A separate measurement model applies to reinsurance contracts held. Modifications are allowed for qualifying short-term contracts and participating contracts. Increased disclosure requirements also apply.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021 but may be applied earlier. The directors anticipate that the application of IFRS 17 in the future may have a material impact on the amounts reported and the disclosures made in the consolidated financial statements. However, management has not yet fully assessed the impact of IFRS 17 on these consolidated financial statements.

IFRS 16, *Leases*

IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-statement of financial position finance leases and off-statement of financial position operating leases. Instead, there is a single, on-statement of financial position accounting model that is similar to current finance lease accounting.

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

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

IFRS 16, *Leases* *...continued*

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. For lessees, the lease becomes an on-statement of financial position liability that attracts interest, together with a right-of-use assets also being recognized on the statement of financial position. In other words, lessees will appear to become more asset-rich but also more heavily indebted.

The impacts are not limited to the consolidated statement of financial position. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019. The impact of IFRS 16 is being assessed by the directors of the Group.

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, 2018. 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 on hand and demand and call deposits with banks. Cash equivalents are short-term, highly liquid investments with original maturities of ninety (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 Significant accounting policies *...continued*

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.

(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; and (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, deposits with other financial institutions, loans and advances to customers, originated debt, financial asset and other receivables within "other assets".

(ii) Available-for-sale financial assets

Available-for-sale financial assets 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 available-for-sale financial assets are recognised on settlement date – the date that an asset is delivered to or received by the Group.

Available-for-sale financial assets are initially recognised at fair value being the transaction price less transaction costs. Available-for-sale financial assets are subsequently measured at fair value based on the current bid prices of quoted investments in active 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 less any impairment loss. 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 transferred and recognised in the profit or loss.

2 Significant accounting policies *…continued*

2.5 Financial assets and liabilities *…continued*

Financial assets *…continued*

(ii) Available-for-sale financial assets …continued

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 consolidated statement of income. Dividends on available-for-sale equity instruments are recognised in the consolidated 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 Group has transferred substantially all risks and rewards of ownership.

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

Financial liabilities

Financial liabilities are classified as 'financial liabilities at amortised cost' and are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities include customers' deposits, liability under acceptances, guarantees and letters of credit and accumulated provisions, creditors and accruals.

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

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="4">Financial assets</td><td rowspan="3">Loans and receivables</td><td colspan="2">Cash and cash equivalents and deposits with other financial institutions</td><td>Bank accounts</td></tr>
<tr><td colspan="2">Treasury bills and originated loans</td><td>Government fixed rated bonds and long term note</td></tr>
<tr><td colspan="2">Loans and advances to customers</td><td>Primary lenders</td></tr>
<tr><td>Available-for-sale financial assets</td><td>Investment securities – Available-for-sale investments</td><td colspan="2">Equity and debt securities</td></tr>
<tr><td rowspan="2">Financial liabilities</td><td rowspan="2">Financial liabilities at amortised cost</td><td colspan="3">Customers’ deposits and liability under acceptances, guarantees and letters of credit</td></tr>
<tr><td colspan="3">Other accumulated provisions, creditors and accruals</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*

(a) *Assets carried at amortised cost …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 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 and receivable 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 costs 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 consolidated 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 consolidated statement of income.

(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 consolidated statement of income. Impairment

2 Significant accounting policies *...continued*

2.7 Impairment of financial assets *...continued*

(b) Assets classified as held for sale ...continued

losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated 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 consolidated 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 consolidated 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) Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in accumulated provisions, creditors and accruals, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

(b) Gratuity

The Group provides a gratuity to its employees after fifteen (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 consolidated statement of financial position.

(c) 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, years of service and final salary. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuation being carried out at the end of each reporting period.

2 Significant accounting policies *…continued*

2.9 Employee benefits *…continued*

(c) Pension plan …continued

The asset figure recognised in the consolidated statement of financial position in respect of net defined benefit asset 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 consolidated statement of financial position represents the actuarial 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 consolidated 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 rendering of services, or for administrative purposes, are stated in the consolidated 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 (5) 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.

Projects ongoing represents structures under construction and project development not yet completed and is stated at cost. This includes the costs of construction and other direct costs. Projects ongoing is not depreciated until such time that the relevant assets are ready for use.

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:

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

2 Significant accounting policies *...continued*

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

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 consolidated statement of 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 the consolidated 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 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.

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.

2 Significant accounting policies *...continued*

2.13 Insurance contracts *...continued*

ii) Recognition and measurement *...continued*

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 Group. The Group 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 Group; 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).

  - 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.

2 Significant accounting policies *...continued*

2.13 Insurance contracts *...continued*

ii) Recognition and measurement *...continued*

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 policies 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 consolidated statement of income. The obligations of the Group under reinsurance contracts held are included under insurance contract liabilities.

iv) Liability adequacy test

At the end of the reporting period, 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 consolidated statement of income under claims and benefits.

2 Significant accounting policies…*continued*

2.13 Insurance contracts…*continued*

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 consolidated statement of 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 Guarantees and letters of credit

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

2.15 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 Significant accounting policies *...continued*

2.16 Leases – Group as a Lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The leases entered into by the Group are primarily operating leases. The total payments made under the operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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

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

When calculating the effective interest rate, estimates of cash flows that consider all contractual terms of the financial instrument are included (for example, repayment options), except future credit losses. The calculation includes all fees 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.

2 Significant accounting policies *...continued*

2.17 Revenue recognition *...continued*

b) Fees 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 Group 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 consolidated statement of income when the right to receive payment is established.

d) Premiums

Written premiums for non-life insurance relate to contracts beginning 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.

2.18 Operating expenses and fees expenses

Operating expenses and fees expenses are recognised in the consolidated statement of income upon utilisation of the services or as incurred.

2.19 Foreign currency translation

(i) Functional and presentation currency
Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates (the "functional currency"). The consolidated 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 consolidated statement of income.

2 Significant accounting policies *...continued*

2.19 Foreign currency translation *...continued*

(ii) Transactions and balances ...continued

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

2.20 Equity, reserves and dividend payments

(a) Issued share capital and share premium

Issued share capital represents the nominal (par) value of shares that have been issued. Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

(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 Bank's shareholders.

(c) Other components of equity

Other components of equity include the following:

- Statutory reserve – reserve fund as per the regulatory requirement;
- Revaluation reserve – represent:
  - unrealised gains and losses from the fair value of available-for-sale investment securities, and
  - gains and losses from the revaluation of land and buildings.
- Other reserves – comprises the defined benefit pension plan reserve, regulatory reserve for loan impairment, regulatory reserve for interest accrued on non-performing loans, insurance and claims equalisation reserves and general reserve.

(d) Retained earnings

Retained earnings include cumulative balance of net income or loss, dividend distributions, effect of changes in accounting policy and other capital adjustments.

2.21 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.

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 consolidated 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.

2 Significant accounting policies *...continued*

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

The principal temporary differences arise from depreciation of property, 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.

A 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 charge or credit 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.

The Group is subjected to the following tax rates:

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

(ii) 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.

2.22 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; and

- 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*

2.23 Investment property

Investment property is property held to earn rental and/or for capital appreciation, including property under construction for such purposes. Investment property is 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.

2.24 Property inventory

Property inventory is measured at the lower of cost and net realizable value (NRV). The cost of property inventory comprises all costs incurred in bringing the properties to their present condition. NRV represents the estimated selling price less all estimated costs necessary to make the sale.

2.25 Business segments

Business segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2.26 Events after the financial reporting date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting (non-adjusting events) are disclosed in the notes to the financial statements when material.

2.27 Earnings per share

Basic earnings per share are determined by dividing profit by the weighted average number of ordinary shares outstanding during the period after giving retroactive effect to stock dividends declared, stock splits and reverse stock splits during the period, if any.

Diluted earnings per share are computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Group does not have dilutive potential shares outstanding, hence, the diluted earnings per share is equal to the basic earnings per share.

2.28 Comparatives

The classification of certain items in the financial statements has been changed from the prior period to achieve a cleared or more appropriate presentation. The comparative figures have been similarly formatted and reclassified in order to achieve comparability with the current period.

3 Management of financial and insurance risks

The Group's activities expose it to a variety of financial and insurance 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.

The most important types of risk are credit risk, liquidity risk, market risk, insurance risk (property, casual and life 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').

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

3.1 Credit risk *...continued*

(a) Loans and advances ...continued

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.

3.1.1 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:

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

3.1 Credit risk *...continued*

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

(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.

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.

(expressed in thousands of Eastern Caribbean dollars)

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

3.1 Credit risk *...continued*

3.1.2 Impairment and provisioning

The impairment provision shown in the consolidated 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:

		2018		2017	
		Loans and advances (%)	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
	Group's rating				
1	Pass	**31.90**	**2.96**	39.95	1.08
2	Special mention	**12.54**	**0.64**	0.96	0.14
3	Sub-standard	**48.51**	**33.03**	51.87	42.71
4	Doubtful	**5.25**	**42.63**	6.21	48.93
5	Loss	**1.80**	**20.74**	1.01	7.14
		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:

(a) 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.

(b) Advances (overdrafts)

- Approval limit has been exceeded for three months;
- Interest charges for three (3) 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.

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.

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.3 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	
	2018	**2017**
	$	**$**
Cash and balances with Central Bank*	**35,829**	15,742
Treasury bills	**102,928**	120,756
Deposits with other financial institutions	**434,132**	755,345
Loans and receivable:		
Loans and advances to customers	**763,692**	705,312
Originated debt	**257,050**	113,209
Customers' liability under acceptances, guarantees and letters of credit	**7,552**	7,456
Available-for-sale debt investment securities	**125,128**	352,559
Financial asset	**783,036**	823,124
Other assets	**25,502**	32,078
Credit risk exposures relating to off-balance sheet assets are as follows:		
Credit commitments	**80,163**	24,045
Total	**2,615,012**	2,949,626

**Excluding cash on hand and mandatory deposits with Central Bank.*

The above table represents a worst case scenario of credit risk exposure at end of reporting period, 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 29% (2017: 24%) 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:

- 42% (2017: 41%) of the loans and advances portfolio are categorized in the top two grades of the internal rating system;
- 23% (2017: 34%) 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 94% (2017: 93%) of these investments are not rated (Government securities – treasury bills, etc.).

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.4 Loans and advances

Loans and advances to customers are summarized as follows:

	2018 $	2017 $
Loans and advances to customers		
Neither past due nor impaired	**194,190**	264,639
Past due not impaired	**128,811**	46,622
Impaired	**505,884**	456,116
	828,885	767,377
Interest receivable	**345**	1,474
Less allowance for impairment loss	**(65,538)**	(63,539)
Net	**763,692**	705,312

The total allowance for impairment losses on loans and advances is $65,538 (2017: $63,539). 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, 2018	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total $
Classifications:					
1. Pass	14,478	60,383	108,245	7,299	190,405
2. Special mention	692	366	1,310	–	2,368
3. Sub-standard	112	134	1,171	–	1,417
Gross	**15,282**	**60,883**	**110,726**	**7,299**	**194,190**
As of June 30, 2017					
Classifications:					
1. Pass	16,635	22,936	102,778	114,693	257,042
2. Special mention	757	496	1,717	2,543	5,513
3. Sub-standard	150	320	407	1,207	2,084
Gross	**17,542**	**23,752**	**104,902**	**118,443**	**264,639**

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.4 Loans and advances*...continued*

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

Loans and advances less than ninety (90) days past due are not considered impaired, unless other information is available to indicate the contrary. Loans and advances ninety (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, 2018				
Past due up to 30 days	1,990	15,225	38,737	55,952
Past due 31 – 60 days	380	1,043	–	1,423
Past due 61 – 90 days	156	2,075	67,240	69,471
Over 90 days	239	1,699	27	1,965
Gross	**2,765**	**20,042**	**106,004**	**128,811**
Fair value of collateral	**13,878**	**36,652**	**109,021**	**159,551**

	Term loans $	Mortgages $	Corporate customers $	Total $
As of June 30, 2017				
Past due up to 30 days	1,581	11,556	15,270	28,407
Past due 31 – 60 days	420	3,683	–	4,103
Past due 61 – 90 days	776	429	–	1,205
Over 90 days	15	131	12,761	12,907
Gross	**2,792**	**15,799**	**28,031**	**46,622**
Fair value of collateral	**10,983**	**30,161**	**74,438**	**115,582**

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.

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.4 Loans and advances *...continued*

(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 $505,884 (2017: $456,116).

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, 2018					
Individually impaired	179,267	76,702	23,502	145,362	424,833
Interest receivable	13,417	4,044	17,459	46,131	81,051
Gross	**192,684**	**80,746**	**40,961**	**191,493**	**505,884**
Fair value of collateral	**212,140**	**38,079**	**39,695**	**376,864**	**666,778**
As of June 30, 2017					
Individually impaired	166,765	76,052	23,477	118,173	384,467
Interest receivable	12,099	4,250	16,177	39,123	71,649
Gross	**178,864**	**80,302**	**39,654**	**157,296**	**456,116**
Fair value of collateral	**65,415**	**39,705**	**39,237**	**270,115**	**414,472**

(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 $4,932 (2017: $4,813).

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.5 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, 2018	**Treasury bills $**	**Available-for-sale debt investments $**	**Loans and Receivables – originated debt $**	**Total $**
AAA	–	285	–	285
AA- to AA+	–	3,689	–	3,689
A- to A+	–	7,141	–	7,141
Lower than A-	–	18,902	–	18,902
Unrated/internally rated	102,928	95,111	257,050	455,089
	102,928	**125,128**	**257,050**	**485,106**

As of June 30, 2017	**Treasury bills $**	**Available-for-sale debt investments $**	**Loans and Receivables – originated debts $**	**Total $**
AA- to AA+	–	3,122	–	3,122
A- to A+	–	9,771	–	9,771
Lower than A-	–	28,665	–	28,665
Unrated/internally rated	120,756	311,001	113,209	544,966
	120,756	**352,559**	**113,209**	**586,524**

As of June 30, 2018, the loans and receivables – originated debt includes certificates of participation in Government of Antigua and Barbuda long term notes, which were past due amounting to $36,243. Refer to note 9.

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

The Group operates three (3) business segments as follows:

- commercial and retail banking;
- insurance coverage; and
- Real estate and trust services.

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.6 Geographical concentrations of on balance sheet and off balance sheet assets with credit risk exposure *...continued*

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, 2018					
Cash and balances with Central Bank	35,829	–	–	–	35,829
Treasury bills	102,928	–	–	–	102,928
Deposits with other financial institutions	40,449	349,487	39,461	4,735	434,132
Loans and advances to customers	662,113	94,161	2,030	5,388	763,692
Originated debt	20,364	135,435	–	101,251	257,050
Customers' liability under acceptances, guarantees and letters of credit	7,552	–	–	–	7,552
Available-for-sale debt investment securities	–	125,128	–	–	125,128
Financial asset	783,036	–	–	–	783,036
Other assets	25,037	465	–	–	25,502
	1,677,308	**704,676**	**41,491**	**111,374**	**2,534,849**
As of June 30, 2017					
Cash and balances with the Central Bank	15,742	–	–	–	15,742
Treasury bills	102,334	–	–	18,422	120,756
Deposits with other financial institutions	21,488	681,838	24,879	27,140	755,345
Loans and advances to customers	600,600	96,522	4,519	3,671	705,312
Originated debt	19,712	11,183	–	82,314	113,209
Customers' liability under acceptances, guarantees and letters of credit	7,456	–	–	–	7,456
Available-for-sale debt investment securities	–	352,559	–	–	352,559
Financial asset	823,124	–	–	–	823,124
Other assets	25,401	6,677	–	–	32,078
	1,615,857	**1,148,779**	**29,398**	**131,547**	**2,925,581**

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.7 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, 2018							
Cash and balances with Central Bank	–	–	–	35,829	–	–	35,829
Treasury Bills	102,928	–	–	–	–	–	102,928
Deposits with other financial institutions	30,469	–	–	403,580	83	–	434,132
Loans and receivables:							
Loans and advances	204,195	107,649	170,922	5,154	179,672	96,100	763,692
Originated debt	120,296	–	–	136,754	–	–	257,050
Customers' liability under acceptances, guarantees and letters of credit	2,299	–	–	–	–	5,253	7,552
Available-for-sale debt investment securities	2,906	77	812	70,500	–	50,833	125,128
Financial asset	783,036	–	–	–	–	–	783,036
Other assets	–	–	–	18,108	680	6,714	25,502
	1,246,129	**107,726**	**171,734**	**669,925**	**180,435**	**158,900**	**2,534,849**

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.7 Concentration of risks of financial assets with credit exposure *...continued*

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2017							
Cash and balances with Central Bank	–	–	–	15,742	–	–	15,742
Treasury bills	120,756	–	–	–	–	–	120,756
Deposit with financial institutions	15,221	–	–	740,091	33	–	755,345
Loans and receivables:							
Loans and advances	156,117	114,108	171,850	6,758	171,207	85,272	705,312
Originated debts	102,026	–	–	11,183	–	–	113,209
Customers' liability under acceptances, guarantees and letters of credit	2,299	–	–	–	–	5,157	7,456
Available-for-sale debt investment securities	2,348	–	686	301,174	–	48,351	352,559
Financial asset	823,124	–	–	–	–	–	823,124
Other assets	3,380	–	–	16,300	1,139	11,259	32,078
	1,225,271	**114,108**	**172,536**	**1,091,248**	**172,379**	**150,039**	**2,925,581**

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

3.1.7 Concentration of risks of financial assets with credit exposure *…continued*

The Government of St. Kitts and Nevis accounts for $1,246,129 (2017: $1,225,271) or 49% (2017: 42%) of $2,534,849 (2017: $2,925,581) the total credit exposure, which represents a significant concentration of credit risk. The amounts due from the Government are included in the Public Sector category.

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 consolidated 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 risks *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk

As of June 30, 2018	ECD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	218,472	4,933	53	56	19	19	–	223,552
Treasury bills	102,928	–	–	–	–	–	–	102,928
Deposits with other financial institutions	43,690	384,642	1,502	2,114	1,445	710	29	434,132
Loans and receivables:								
Loans and advances to customers	495,783	267,909	–	–	–	–	–	763,692
Originated debt	81,378	175,672	–	–	–	–	–	257,050
Customers' liability under acceptances, guarantees and letters of credit	7,552	–	–	–	–	–	–	7,552
Available-for-sale investment securities	9,394	984,322	–	–	–	–	–	993,716
Financial asset	783,036	–	–	–	–	–	–	783,036
Other assets	19,147	6,355	–	–	–	–	–	25,502
Total financial assets	**1,761,380**	**1,823,833**	**1,555**	**2,170**	**1,464**	**729**	**29**	**3,591,160**
Liabilities								
Customers' deposits	2,292,417	541,363	136	81	303	–	–	2,834,300
Liability under acceptances, guarantees and letters of credit	7,552	–	–	–	–	–	–	7,552
Other liabilities	174,490	27,440	43	3,011	49	136	–	205,169
Total financial liabilities	**2,474,459**	**568,803**	**179**	**3,092**	**352**	**136**	–	**3,047,021**
Net on-consolidated statement of financial position	**(713,079)**	**1,255,030**	**1,376**	**(922)**	**1,112**	**593**	**29**	**544,139**
Credit commitments	**80,163**	–	–	–	–	–	–	**80,163**

(expressed in thousands of Eastern Caribbean dollars)

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

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk *...continued*

As of June 30, 2017	ECD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	202,432	5,156	36	58	10	15	–	207,707
Treasury bills	120,756	–	–	–	–	–	–	120,756
Deposits with other financial institutions	24,382	724,217	3,152	1,830	833	923	8	755,345
Loans and receivables:								
Loans and advances to customers	476,928	228,384	–	–	–	–	–	705,312
Originated debt	60,970	52,239	–	–	–	–	–	113,209
Customers' liability under acceptances, guarantees and letters of credit	7,456	–	–	–	–	–	–	7,456
Available-for-sale investment securities	9,490	907,355	–	–	–	–	–	916,845
Financial asset	823,124	–	–	–	–	–	–	823,124
Other assets	25,401	6,677	–	–	–	–	–	32,078
Total financial assets	**1,750,939**	**1,924,028**	**3,188**	**1,888**	**843**	**938**	**8**	**3,681,832**
Liabilities								
Customers' deposits	2,321,030	709,002	133	89	1,837	–	–	3,032,091
Liability under acceptances, guarantees and letters of credit	7,456	–	–	–	–	–	–	7,456
Other liabilities	157,550	11,017	43	480	40	128	–	169,258
Total financial liabilities	**2,486,036**	**720,019**	**176**	**569**	**1,877**	**128**	**–**	**3,208,805**
Net on-consolidated statement of financial position	**(735,097)**	**1,204,009**	**3,012**	**1,319**	**(1,034)**	**810**	**8**	**473,027**
Credit commitments	**24,045**	–	–	–	–	–	–	**24,045**

3 Management of financial and insurance risks *...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 risks *...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, 2018	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	–	–	–	–	–	223,552	223,552
Treasury bills	–	13,909	88,417	–	–	602	102,928
Deposit with other financial institutions	234,414	–	27,198	–	–	172,520	434,132
Loans and receivables:							
Loans and advances to customers	430,706	990	5,993	71,672	253,986	345	763,692
Originated debt	128,398	25,404	7,038	37,067	21,682	37,461	257,050
Available-for-sale investments	124,792	–	–	–	–	868,924	993,716
Customers' liability under acceptances, guarantees and letters of credit	–	–	–	–	–	7,552	7,552
Financial asset	–	–	–	759,867	–	23,169	783,036
Other assets	280	–	–	–	–	25,222	25,502
Total assets	**918,590**	**40,303**	**128,646**	**868,606**	**275,668**	**1,359,347**	**3,591,160**
Liabilities							
Customers' deposits	1,089,089	208,254	794,120	–	–	742,837	2,834,300
Liability under acceptances, guarantees and letters of credit	–	–	–	–	–	7,552	7,552
Other liabilities	155	–	–	–	48,699	156,315	205,169
Total liabilities	**1,089,244**	**208,254**	**794,120**	**–**	**48,699**	**906,704**	**3,047,021**
Total interest repricing gap	**(170,654)**	**(167,951)**	**(665,474)**	**868,606**	**226,969**	**452,643**	**544,139**

(expressed in thousands of Eastern Caribbean dollars)

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

3.2.3 Interest rate risk ...*continued*

As of June 30, 2017	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	–	–	–	–	–	207,707	207,707
Treasury bills	10,255	3,069	106,722	–	–	710	120,756
Deposits with other financial institutions	364,965	67,565	17,170	20,270	–	285,375	755,345
Loans and receivables:							
Loans and advances to customers	393,366	995	49,072	64,381	197,498	–	705,312
Originated debt	13,524	–	4,093	74,084	20,601	907	113,209
Available-for-sale investments	351,778	–	–	–	–	565,067	916,845
Customers' liability under acceptances, guarantees and letters of credit	–	–	–	–	–	7,456	7,456
Financial asset	–	–	794,270	–	–	28,854	823,124
Other asset	4,197	–	3,680	7,221	–	16,980	32,078
Total assets	**1,138,085**	**71,629**	**975,007**	**165,956**	**218,099**	**1,113,056**	**3,681,832**
Liabilities							
Customers' deposits	1,045,921	201,706	878,107	–	–	906,357	3,032,091
Liability under acceptances, guarantees and letters of credit	–	–	–	–	–	7,456	7,456
Other liabilities	1	–	–	–	42,622	126,635	169,258
Total liabilities	**1,045,922**	**201,706**	**878,107**	**–**	**42,622**	**1,040,448**	**3,208,805**
Total interest repricing gap	**92,163**	**(130,077)**	**96,900**	**165,956**	**175,477**	**72,608**	**473,027**

3 Management of financial and insurance risks *...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 Central Bank;
- Deposits with 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 risks *...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.

	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
As of June 30, 2018						
Financial liabilities						
Customers' deposits	1,820,992	211,486	823,153	–	–	2,855,631
Liability under acceptances, guarantees and letters of credit	–	–	7,552	–	–	7,552
Other liabilities	56,275	5,780	576	2,898	139,640	205,169
Total financial liabilities	**1,877,267**	**217,266**	**831,281**	**2,898**	**139,640**	**3,068,352**
Assets held to manage liquidity risk	**2,214,645**	**50,152**	**147,136**	**881,216**	**275,998**	**3,569,147**
As of June 30, 2017						
Financial liabilities						
Customers' deposits	1,939,176	205,391	912,116	–	–	3,056,683
Liability under acceptances, guarantees and letters of credit	–	–	7,456	–	–	7,456
Other liabilities	160,457	8,788	13	–	–	169,258
Total financial assets	**2,099,633**	**214,179**	**919,585**	–	–	**3,233,397**
Assets held to manage liquidity risk	**2,238,498**	**71,629**	**983,853**	**165,348**	**218,099**	**3,677,427**

(expressed in thousands of Eastern Caribbean dollars)

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

3.3.4 Off-balance sheet items

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 31), are summarised in the table below.

As of June 30, 2018	Up to 1 year $	1 to 3 years $	Over 3 years $	Total $
Loan commitments	8,234	372	62,549	71,155
Credit card commitments	9,008	–	–	9,008
	17,242	**372**	**62,549**	**80,163**
As of June 30, 2017				
Loan commitments	8,806	461	6,191	15,458
Credit card commitments	8,587	–	–	8,587
	17,393	**461**	**6,191**	**24,045**

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 risks *...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	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**	**$**	**$**
St. Kitts	**6,874**	5,007	**–**	–	**6,874**	5,007
Nevis	**317**	136	**–**	–	**317**	136
Anguilla	**549**	91	**–**	–	**549**	91
	7,740	5,234	**–**	–	**7,740**	5,234
Health & Life	**3,417**	2,326	**–**	–	**3,417**	2,326
Motor	**2,962**	2,528	**–**	–	**2,962**	2,528
Property	**1,330**	332	**–**	–	**1,330**	332
Liability	**31**	48	**–**	–	**31**	48
	7,740	5,234	**–**	–	**7,740**	5,234

3 Management of financial and insurance risks *...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 $500 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 risks *...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 $750 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 risks *...continued*

3.4 Insurance risk *...continued*

iv) Claims development *...continued*

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

EC$ **Date**	**Accident year 2009** **$**	**2010** **$**	**2011** **$**	**2012** **$**	**2013** **$**	**2014** **$**	**2015** **$**	**2016** **$**	**2017** **$**	**2018**	**Total** **$**
30/6/2009	18,635	–	–	–	–	–	–	–	–	–	**18,635**
30/6/2010	16,609	1,646	–	–	–	–	–	–	–	–	**18,255**
30/6/2011	15,809	267	2,699	–	–	–	–	–	–	–	**18,775**
30/6/2012	14,124	198	542	2,526	–	–	–	–	–	–	**17,390**
30/6/2013	2,026	195	521	747	4,422	–	–	–	–	–	**7,911**
30/6/2014	998	195	505	693	1,571	2,707	–	–	–	–	**6,669**
30/6/2015	305	175	461	523	1,307	358	3,384	–	–	–	**6,513**
30/6/2016	93	–	355	432	758	561	358	3,455	–	–	**6,012**
30/6/2017	93	–	–	374	675	380	212	256	3,244	–	**5,234**
30/6/2018	93	–	–	259	619	343	114	205	474	5,633	**7,740**

Claims reserves are made up as follows:

	$
Outstanding claims – life	**939**
Non-life	**4,242**
Claims IBNR – non-life	**2,559**
	7,740

3 Management of financial and insurance risks *...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; and
- 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 fixed deposits. These deposits are estimated to approximate their carrying values due to their short-term nature.

(c) Loans and advances to customers
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. Initial loan 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 risks *...continued*

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

(g) Customers' liability under acceptances, guarantees and letters of credit

Customers' liability under acceptances, guarantees and letters of credit are short-term in nature therefore 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 consolidated statement of financial position at their fair value.

	Carrying value		Fair value	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with Central Bank	**223,552**	207,707	**223,552**	207,707
Treasury bills	**102,928**	120,756	**102,928**	120,756
Deposits with other financial institutions	**434,132**	755,345	**434,132**	755,345
Financial asset	**783,036**	823,124	**783,036**	823,124
Loans and advances:				
Loans and advances to customers	**763,692**	705,312	**764,121**	701,967
Originated debt	**257,050**	113,209	**257,050**	113,209
Customers' liability under acceptances, guarantees and letters of credit	**7,552**	7,456	**7,552**	7,456
Other assets	**25,502**	32,078	**25,502**	32,078
	2,597,444	2,764,987	**2,597,873**	2,761,642
Financial liabilities				
Customers' deposits	**2,834,300**	3,032,091	**2,834,300**	3,032,091
Liability under acceptances, guarantees and letters of credit	**7,552**	7,456	**7,552**	7,456
Other liabilities	**205,169**	169,258	**205,169**	169,258
	3,047,021	3,208,805	**3,047,021**	3,208,805

3.5.1 Fair value measurements recognised in the consolidated 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).
- 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).

(expressed in thousands of Eastern Caribbean dollars)

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

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

Available-for-sale financial assets

As of June 30, 2018	Level 1 $	Level 2 $	Level 3 $	Total $
Debt securities	112,733	1,178	10,880	124,791
Equities	858,572	590	2,052	861,214
	971,305	**1,768**	**12,932**	**968,005**
As of June 30, 2017				
Debt securities	341,680	4,555	5,543	351,778
Equities	555,820	544	–	556,364
	897,500	**5,099**	**5,543**	**908,142**

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, 2018				
Land and property	–	**28,927**	–	**28,927**
As of June 30, 2017				
Land and property	–	29,891	–	29,891

The fair value of the Group's land and buildings included in property, plant and equipment is estimated based on appraisals performed by an independent property valuer. The significant inputs and assumptions are developed in close consultation with management. The valuation processes and fair value changes are reviewed by the Board of Directors. The appraisal was carried out primarily using a market based approach that reflects the selling prices for similar properties and incorporates adjustments for factors specific to the properties in question, including square footage, location and current condition/use.

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 (the "Central Bank" or "ECCB");
- 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.

(expressed in thousands of Eastern Caribbean dollars)

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

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 (2017: $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 $20,000 and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the international agreed minimum of 8%.

The 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.

	2018 $	2017 $
Tier 1 capital		
Issued share capital	**135,000**	135,000
Issued bonus shares from capitalisation of unrealised assets revaluation gain reserve	**(4,500)**	(4,500)
Share premium	**3,877**	3,877
Reserves	**379,663**	361,053
Less reserve for interest accrued on non-performing loans (note 20)	**(56,055)**	(57,157)
Less revaluation reserve – available-for-sale investment securities	**(6,654)**	1,013
Less revaluation reserve – property, plant and equipment	**(19,661)**	(19,661)
Retained earnings	**76,508**	49,509
Total qualifying Tier 1 capital	**508,178**	469,134
Tier 2 capital		
Revaluation reserve – available-for-sale investment securities	**6,654**	(1,013)
Revaluation reserve – property, plant and equipment	**19,661**	19,661
Bonus shares capitalisation	**4,500**	4,500
Accumulated impairment allowance	**65,538**	63,539
Total qualifying Tier 2 capital	**96,353**	86,687
Total regulatory capital	**604,531**	555,821

(expressed in thousands of Eastern Caribbean dollars)

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

3.7 Capital management *...continued*

	2018 $	2017 $
Risk-weighted assets:		
On-balance sheet	**2,502,945**	1,625,035
Off-balance sheet	**40,626**	29,938
Total risk-weighted assets	**2,543,571**	1,654,973
Tier 1 capital ratio	**20%**	28%
Basel ratio	**24%**	34%

4 Critical accounting estimates and judgements

The Group's consolidated 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 consolidated 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 of 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 of loans and advances

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 consolidated 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 $3,992 lower or $4,208 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.

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 by approximately $5,374 or decrease by approximately $4,479.

Discount rate – Estimates are also made as to the discount rate used in the valuation of the insurance plans to determine the actuarial liabilities. A net rate of 2.95% (2017 – 2.9%) 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 3.7% (2017 – 3.65%) 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 $10,748 or increase by approximately $15,228.

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.

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 income would be to decrease or increase reported profits by approximately -/+$255.

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.

(e) Fair value measurement of land and buildings

Management uses valuation techniques to determine the fair value of its non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the asset. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see note 13). Additional information is disclosed in note 3.6.

(f) Current and deferred income taxes

Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The extent to which deferred tax assets and tax credits can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. The estimated deferred tax asset and tax credit may vary from the actual amounts recovered in the future.

(expressed in thousands of Eastern Caribbean dollars)

5 Cash and balances with Central Bank

	2018 $	2017 $
Cash on hand	**15,891**	17,383
Balances with Central Bank other than mandatory deposits	**35,829**	15,742
Included in cash and cash equivalents (note 32)	**51,720**	33,125
Mandatory deposits with Central Bank	**171,832**	174,582
	223,552	207,707

The Bank is required to maintain an Automated Clearing Housing (ACH) collateral amount with the Central Bank. This amount can be in the form of cash and/or ECCU member Government securities issued on the Regional Government Securities Market. The Bank's collateral amount held with the Central Bank at June 30, 2018 amounted to $5,939 (2017: $5,482).

Commercial banks are also required under Section 57 of the Banking Act, 2015 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 are not interest bearing.

(expressed in thousands of Eastern Caribbean dollars)

6 Treasury bills

	2018 $	2017 $
Government of St. Kitts and Nevis		
Term of one year, maturing on May 15, 2019 (2017: matured on May 15, 2018) at 4% (2017: 4%) interest	**88,417**	88,417
Term of one year, maturing on August 14, 2018 (2017: matured on August 14, 2017) at 4% (2017: 4%) interest	**2,872**	2,871
Term of 90 days, maturing on August 8, 2018 at 3.75% (2017: 4%) interest	**198**	198
Nevis Island Administration		
Term of 90 days, maturing on July 10, 2018 at 5.5% (2017: 5.5%) interest	**10,839**	10,255
Government of St. Lucia		
Term of one year, matured on May 21, 2018 at 4.5% interest	**–**	4,750
Term of one year, matured on May 2, 2018 at 4.5% interest	**–**	11,530
Term of one year, matured on June 5, 2018 at 4.5% interest	**–**	2,025
	102,326	120,046
Interest receivable	**602**	710
	102,928	120,756

	2018 $	2017 $
Treasury bills with original maturities of 3 months or less	**11,037**	10,453
Interest receivable	**137**	128
Treasury bills included in cash and cash equivalents (note 32)	**11,174**	10,581
Treasury bills with original maturities of more than 3 months	**91,289**	109,593
Interest receivable	**465**	582
	102,928	120,756

(expressed in thousands of Eastern Caribbean dollars)

7 Deposits with other financial institutions

	2018 $	2017 $
Operating cash balances	**303,332**	362,264
Interest bearing term deposits	**107,706**	354,995
Items in the course of collection	**10,128**	3,131
Included in cash and cash equivalents (note 32)	**421,166**	720,390
Restricted term deposits	**12,265**	12,129
Special term deposits	**–**	21,065
	433,431	753,584
Provision for impairment	**–**	(796)
	433,431	752,788
Interest receivable	**701**	2,557
	434,132	755,345

The operating balances earn interest at rates of 0.05% to 4% (2017: 0.05% to 4%). The amounts held in these accounts are to facilitate the short-term commitments and day-to-day operations of the Group.

Interest bearing term deposits are interest bearing fixed which earn interest at a rate of 0.8% to 3.25% per annum (2017: 0.8% to 4.0%) and have original terms of maturity of one year ending with the period July 2018 to June 2019 (2017: July 2017 to June 2018).

The movement in provision for impairment is as follows:

	2018 $	2017 $
Balance, beginning of year	**796**	796
Current year impairment recovery	**(796)**	–
Balance, end of year	**–**	796

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 interest bearing deposits is credited to income. The effective interest rate on 'Deposits with other financial institutions' at June 30, 2018 was 0.6248% (2017: 0.1836%).

(expressed in thousands of Eastern Caribbean dollars)

8 Loans and advances to customers

	2018 $	2017 $
Demand	**172,532**	166,088
Mortgages	**106,339**	98,848
Other secured	**23,973**	22,957
Overdrafts	**7,890**	10,723
Credit cards	**7,392**	6,817
Consumer	**4,875**	5,828
Performing loans and advances	**323,001**	311,261
Impaired loans and advances	**505,884**	456,116
Less: allowance for impairment	**(65,538)**	(63,539)
	763,347	703,838
Interest receivable	**345**	1,474
	763,692	705,312
Current	**438,034**	443,433
Non-current	**325,658**	261,879
	763,692	705,312

The weighted average effective interest rate on performing loans and advances excluding overdrafts at June 30, 2018 was 6.6% (2017: 7.03%) and overdrafts were 11.3% (2017: 10.04%).

Allowance for loan impairment

The movement in allowance for loan impairment is as follows:

	2018 $	2017 $
Beginning balance	**63,539**	55,816
Current year impairment losses, net (note 25)	**2,022**	7,753
Write-offs during the year	**(23)**	(30)
Ending balance	**65,538**	63,539

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $69,861 (2017: $68,665). The loan loss provision calculated under IAS 39 for the loans held by the Bank amounted to $64,609 (2017: $62,587). When the ECCB loan loss provision is greater than the loan loss provision calculated under IAS 39, the difference is set aside as a non-distributable reserve through equity. As of June 30, 2018, the loan loss provision calculated under IAS 39 was less than the ECCB provision for the loans held by the Bank. Therefore, a non-distributable reserve through equity was required at the reporting date and is included in other reserves in equity (note 20). The gross carrying value of impaired loans at the year-end was $505,884 (2017: $456,116).

Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $56,055 (2017: $57,157) and is included in other reserves in equity (note 20).

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debt

	2018 $	2017 $
Wells Fargo corporate 2 to 10-year bonds maturing between July 25, 2018 and April 23, 2019 (2017: January 1,2018 and August 2019) at rates ranging from 0.85% to 6.3% interest	**67,800**	11,094
Certificates of participation in Government of Antigua and Barbuda 7-year long-term notes at 6.7% interest	**36,243**	36,243
Government of St. Lucia USD 2-year fixed rate note maturing on September 5, 2018 at 5.0% interest (2017: September 5, 2017 at 5.0% interest)	**25,404**	25,404
Government of St. Kitts and Nevis bonds maturing on April 18, 2057 at 1.5% interest	**20,363**	19,680
Government of St. Lucia USD 2-year fixed rate note maturing on July 18, 2019 at 5.0% interest (2017: 5.0%)	**13,513**	13,513
Government of St. Lucia ECD 2-year note maturing on May 2, 2020 at 4.50% interest	**11,530**	–
Government of St. Lucia ECD 2-year note maturing on May 22, 2020 at 4.75% interest	**5,000**	–
Government of St. Vincent & the Grenadines 10-year bond maturing on December 17, 2019 at 7.5% interest	**5,000**	5,000
Government of St. Lucia ECD 2-year note maturing on June 5, 2020 at 4.50% interest	**2,025**	–
Antigua Commercial Bank 9% interest rate series A 15-year bond maturing on September 30, 2025	**1,319**	1,368
	188,197	112,302
Included in cash and cash equivalents (note 32): Wells Fargo 30-day commercial paper maturing July 18, 2018 at 1.35%	**67,635**	–
	255,832	112,302
Interest receivable	**1,218**	907
	257,050	113,209
Current	**198,300**	50,663
Non-current	**58,750**	62,546
	257,050	113,209

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debt *...continued*

The movement in originated debt during the year is as follows:

	2018 $	2017 $
Balance, beginning of year	**113,209**	114,164
Additions	**215,200**	26,033
Disposals (sales/redemptions)	**(71,670)**	(27,011)
Movement in interest receivable	**311**	23
Balance, end of year	**257,050**	113,209

Certificates of participation in Government of Antigua and Barbuda 7-Year Long Term Note

The Bank placed funds on deposit with ABI Bank Limited (ABIB). These deposits were placed with ABIB, which at the time was facing serious liquidity challenges, at the request of the ECCB, having regard to the contagion effect on the ECCU and the Bank that would result if ABIB were unable to mitigate its liquidity risks.

By April 28, 2010, the Bank had placed total deposits of $32,000 with ABIB. On May 7, 2010, these deposits, along with an additional $6,710 were used to purchase from ABIB a series of certificates of participation (COPs) in the cash flows from a Long-Term Note issued by the Government of Antigua and Barbuda (GoAB), which had been securitized by ABIB.

On July 22, 2011, ECCB was directed by the Monetary Council to exercise the special emergency powers conferred on it by Part IIA, Article 5B of the ECCB Agreement Act 1983 to assume control of the ABIB. During the years of ECCB's control of ABIB, the Bank received an annual confirmation from ECCB of the total outstanding amounts of the COPs, with the stated objective of stabilizing the operations of ABIB so that all obligations would be settled in the normal course of business. ABIB was placed in receivership on November 27, 2015 by ECCB.

On March 2, 2017, the Monetary Council of the ECCU decided that ECCB would work in conjunction with the GoAB towards finding a resolution of the matter in the best interest and mutual benefit of all parties involved, including the Bank and that all efforts would be made to ensure that the Bank would not incur any impairment loss on the amount of the COPs it holds. The ECCB advised that the Monetary Council deemed the resolution of this matter as a priority for all stakeholders and indicated its intention to ensure that the matter was resolved expeditiously.

As mandated by the Monetary Council, ECCB engaged with the GoAB and, on July 25, 2017, advised the Bank that the GoAB offered the Bank a settlement of $11,900 to be serviced with a 2%, 20-year bond with semi-annual payments, with the remaining balance of $25,700 to be resolved by ABIB (in receivership). The Bank responded to the offer presented by the ECCB on July 28, 2017 indicating that, while it appreciated their efforts to obtain a resolution to this matter, the Bank was dissatisfied with the GoAB offer.

Discussions are ongoing between the Bank and the ECCB to find a resolution which, as mandated by the Monetary Council, is in the best interest and mutual benefit of all parties, including the Bank. The Bank is continuing to pursue its entitlement under the COPs, and is of the view that it would not be appropriate for the COPs to be written down at the reporting date.

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debt *...continued*

As of June 30, 2018, the Bank's interest under the COP's amounted to $36,243 (2017: $36,243). All of the COP's have now matured and are past due. As at the date of approval of these separate financial statements, the Bank has not been advised of any time frame for payment of the outstanding balance.

10 Investment securities – available-for-sale

(A) Available-for-sale investment securities

	2018 $	2017 $
Securities at fair value		
Listed	**971,305**	897,999
Unlisted	**27,080**	23,071
Total available-for-sale securities, gross	**998,385**	921,070
Less provision for impairment	**(5,006)**	(5,006)
	993,379	916,064
Interest receivable	**337**	781
Total available-for-sale securities, net	**993,716**	916,845

(B) The movement in available-for-sale investment securities during the year is as follows:

	2018 $	2017 $
Balance, beginning of year	**916,845**	614,422
Additions	**1,157,906**	1,172,800
Disposals (sales/redemption)	**(1,092,035)**	(946,508)
Fair value gains – net	**11,444**	79,625
Impairment losses	**–**	(2,286)
Interest receivable	**(444)**	(1,208)
Balance, end of year	**993,716**	916,845

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

	2018 $	2017 $
Beginning balance	**5,006**	5,006
Addition for the year (note 25)	**–**	2,286
Write-offs during the year	**–**	(2,286)
Ending balance	**5,006**	5,006

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities – available-for-sale *...continued*

(D) Available-for-sale investment securities are as follows**:**

	2018 $	2017 $
Listed securities:		
- Equity securities – US	**857,102**	554,752
- Debt securities – US	**112,733**	341,680
- Equity securities – Caribbean	**1,470**	1,567
Total listed securities	**971,305**	897,999
Unlisted securities:		
- Equity securities – Caribbean	**12,931**	12,929
- Debt securities – US	**12,058**	10,098
- Equity securities – US	**2,091**	44
Total unlisted securities	**27,080**	23,071
Total available-for-sale investment securities, gross	**998,385**	921,070
Less provision for impairment	**(5,006)**	(5,006)
	993,379	916,064
Interest receivable	**337**	781
Total available-for-sale investment securities, net	**993,716**	916,845

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities – available-for-sale *...continued*

(E) Available-for-sale investment securities are denominated in the following currencies:

	2018 $	2017 $
Listed:		
US dollars	**969,835**	896,432
EC dollars	**1,470**	1,567
Total listed securities	**971,305**	897,999
Unlisted:		
US dollars	**14,149**	10,142
EC dollars	**12,931**	12,929
Total unlisted securities	**27,080**	23,071
Total available-for-sale investment securities, gross	**998,385**	921,070
Less: Provision for impairment loss	**(5,006)**	(5,006)
	993,379	916,064
Interest receivable	**337**	781
Total available-for-sale investment securities, net	**993,716**	916,845

11 Property inventory

	2018 $	2017 $
Balance at beginning of year	**7,902**	7,954
Additions	**938**	–
Provision for impairment (note 25)	**(89)**	(52)
Balance at end of year	**8,751**	7,902

Property inventory 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.

	2018 $	2017 $
Cost	**9,131**	8,193
Net realisable value	**8,751**	7,902

(expressed in thousands of Eastern Caribbean dollars)

12 Investment property

	2018 $	2017 $
Land at Camps	**2,021**	2,021
Land at Brighton	**2,019**	2,019
	4,040	4,040

All of the Group's investment property is held under freehold interests. The estimated fair market value of the investment property is $4,574 based on an independent valuation that was performed in 2015.

(expressed in thousands of Eastern Caribbean dollars)

13 Property, plant and equipment

	Land and Buildings $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
At June 30, 2016						
Cost or valuation	32,779	25,736	1,328	161	739	60,743
Accumulated depreciation	(2,056)	(20,460)	(890)	(160)	–	(23,566)
Net book value	**30,723**	**5,276**	**438**	**1**	**739**	**37,177**
Year ended June 30, 2017						
Opening net book value	**30,723**	**5,276**	**438**	**1**	**739**	**37,177**
Additions	277	1,234	137	–	871	2,519
Transfers	–	–	–	–	(202)	(202)
Write-off of projects ongoing to expense						
Disposals	–	(6,009)	(442)	–	–	(6,451)
Depreciation charge	(1,109)	(1,549)	(126)	–	–	(2,784)
Write-back on disposals	–	5,991	293	–	–	6,284
Closing net book value	**29,891**	**4,943**	**300**	**1**	**1,408**	**36,543**
At June 30, 2017						
Cost or valuation	33,056	20,961	1,023	161	1,408	56,609
Accumulated depreciation	(3,165)	(16,018)	(723)	(160)	–	(20,066)
Net book value	**29,891**	**4,943**	**300**	**1**	**1,408**	**36,543**

(expressed in thousands of Eastern Caribbean dollars)

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

	Land and Buildings $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2018						
Opening net book value	**29,891**	**4,943**	**300**	**1**	**1,408**	**36,543**
Additions	–	487	105	–	133	725
Disposals	–	(77)	(97)	–	–	(174)
Depreciation charge	(964)	(1,497)	(122)	–	–	(2,583)
Write-back on disposals	–	77	97	–	–	174
Closing net book value	**28,927**	**3,933**	**283**	**1**	**1,541**	**34,685**
At June 30, 2018						
Cost or valuation	33,056	21,371	1,031	161	1,541	57,160
Accumulated depreciation	(4,129)	(17,438)	(748)	(160)	–	(22,475)
Net book value	**28,927**	**3,933**	**283**	**1**	**1,541**	**34,685**

(expressed in thousands of Eastern Caribbean dollars)

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

In 2015, 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 shareholders' equity.

The following is the historical cost carrying amount of land and buildings carried at revalued amounts.

	Land $	**Buildings $**	**Total $**
Cost	3,792	17,935	21,727
Accumulated depreciation	–	(5,555)	(5,555)
Net book value as of June 30, 2018	**3,792**	**12,380**	**16,172**
Net book value as of June 30, 2017	**3,792**	**12,527**	**16,319**

(expressed in thousands of Eastern Caribbean dollars)

14 Intangible assets

	Computer Software licenses $
At June 30, 2016	
Cost	7,365
Accumulated amortisation	(6,886)
Net book value	**479**
Year ended June 30, 2017	
Opening net book value	**479**
Additions	115
Amortisation charge	(295)
Closing net book value	**299**
At June 30, 2017	
Cost	7,480
Accumulated amortisation	(7,181)
Net book value	**299**
Year ended June 30, 2018	
Opening net book value	**299**
Additions	235
Amortisation charge	(184)
Closing net book value	**350**
At June 30, 2018	
Cost	7,715
Accumulated amortisation	(7,365)
Net book value	**350**

(expressed in thousands of Eastern Caribbean dollars)

15 Other assets

	2018 $	2017 $
Insurance and other receivables	**27,019**	19,427
Net defined benefit asset (note 33)	**20,971**	20,832
Customer's liability under acceptances, guarantees and letters of credit	**7,552**	7,456
Prepayments	**3,769**	2,601
Stationery and card stock	**767**	689
ePassporte receivable	**–**	7,108
	60,078	58,113
Less: provision for impairment	**–**	(1,000)
	60,078	57,113
Current	**33,372**	32,663
Non-current	**26,706**	24,450
	60,078	57,113

Provision for impairment

The movement in the provision for impairment during the year is as follows:

	2018 $	2017 $
Balance, beginning of year	**1,000**	1,000
Provision during the year (note 25)	**6,107**	1,000
Write-down	**(7,107)**	(1,000)
Balance, end of year	**–**	1,000

(expressed in thousands of Eastern Caribbean dollars)

16 Customers' deposits

	2018 $	2017 $
Fixed deposit accounts	**1,323,047**	1,388,013
Direct demand accounts	**738,443**	899,653
Savings accounts	**471,709**	452,295
Call accounts	**289,492**	275,848
	2,822,691	3,015,809
Interest payable	**11,609**	16,282
	2,834,300	3,032,091

Customers' deposits represent 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 customers' deposits were current for both years.

As of the reporting date, total interest paid on deposit accounts for the year amounted to $50,547 (2017: $55,012). The average effective rate of interest paid on customers' deposits was 1.57% (2017: 2.17%).

17 Accumulated provisions, creditors and accruals

	2018 $	2017 $
Actuarial liabilities	**89,574**	85,608
Deposit pension funds	**48,699**	42,622
Insurance contract liabilities	**24,379**	18,508
Other payables	**52,468**	28,687
Unpaid drafts on other banks	**2,361**	1,939
Managers' cheques and bankers' payments	**1,866**	1,623
	219,347	178,987

	2018 $	2017 $
Current	**170,648**	136,365
Non-current	**48,699**	42,622
	219,347	178,987

(expressed in thousands of Eastern Caribbean dollars)

17 Accumulated provisions, creditors and accruals *…continued*

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.

	2018 $	2017 $
Whole life plans	**77,289**	73,715
Endowment plans	**7,448**	7,456
Limited payment life plans	**3,517**	3,132
Other plans	**1,320**	1,305
Total actuarial liabilities	**89,574**	85,608

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 3.7% (2017: 3.65%). A spread of 0.75% is deducted for the plans with reversionary bonuses in support of bonus payments for a net rate of 2.95% (2017: 2.9%).

Insurance contract liabilities

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

	2018 $	2017 $
Life		
Outstanding claims	**939**	168
Non-life		
Unexpired risks	**10,683**	8,783
Reinsurance premiums payable	**4,676**	3,545
Outstanding claims	**4,242**	2,754
IBNR	**2,559**	2,312
Premiums received in advance	**1,280**	946
	23,440	18,340
	24,379	18,508

(expressed in thousands of Eastern Caribbean dollars)

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

Deposit pension funds

	2018 $	2017 $
Contributions	**4,921**	235
Interest	**1,844**	1,688
	6,765	1,923
Less expenses		
Management expenses	**105**	69
Group pension benefits	**582**	1,273
	687	1,342
Fund at beginning of the year	**42,621**	42,041
Surplus for the year	**6,078**	581
Fund at end of the year	**48,699**	42,622

The deposit pension funds represent pension funds which the Group manages for its employees and certain other entities. The fund provides a guaranteed minimum rate of 5% (2017: 5%). 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.

(expressed in thousands of Eastern Caribbean dollars)

18 Taxation

	2018 $	2017 $
Net income before tax	**82,527**	35,855
Income tax expense at rate of 33%	**27,234**	11,832
Non-deductible expenses and other permanent differences	**10,978**	12,829
Adjustment to income tax expense from prior years	**10,430**	–
Deferred tax movement not recorded	**184**	25
Effect of losses utilised	**51**	43
Prior year's deferred income tax	**2**	(11)
Income not subject to tax	**(6,367)**	(6,330)
Tax credit from discounted interest on government loans	**(12,072)**	(15,704)
Adjustment to deferred tax asset from prior years	**–**	17,183
Prior year's current income tax	**–**	87
Adjustment to income tax recoverable from prior years	**–**	(23,549)
Income tax expense/(credit)	**30,440**	(3,595)
Represented as follows:		
Current income tax expense/(credit)		
Current year's income tax expense	**32,276**	18,750
Adjustment to income tax expense from prior years	**10,430**	–
Tax credit from discounted interest on government loans	**(12,072)**	(15,704)
Adjustment to income tax recoverable from prior years	**–**	(23,549)
	30,634	(20,503)
Deferred tax (credit)/expense	**(194)**	16,908
	30,440	(3,595)

(expressed in thousands of Eastern Caribbean dollars)

18 Taxation *...continued*

Deferred tax (liability)/ asset

The net deferred tax (liability)/asset is comprised as follows:

	2018 $	2017 $
Items recognized in profit or loss:		
Decelerated/(accelerated) depreciation	**1,165**	985
Net defined benefit asset	**(2,190)**	(2,204)
	(1,025)	(1,219)
Items recognized directly in other comprehensive income:		
Unrealised (gain)/loss on AFS securities	**(3,289)**	488
Revaluation of land and building	**(1,330)**	(1,330)
Net defined benefit asset	**(4,353)**	(4,671)
	(8,972)	(5,513)
	(9,997)	(6,732)

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

	2018 $	2017 $
Balance, beginning of year	**(6,732)**	37,716
Adjustments related to prior years	**–**	(17,060)
Movement is net unrealised gains/(losses) on investment securities	**(3,777)**	(26,276)
Deferred tax movement for pension asset in profit and loss	**14**	59
Deferred taxes on depreciation of property and equipment	**180**	93
Re-measurement (gain)/loss of defined benefit asset	**318**	(1,264)
Balance, ending of year	**(9,997)**	(6,732)

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

	2018 $	2017 $
Balance at beginning of year	**3,624**	–
Tax expense for the year (not offset against the income tax recoverable)	**6,275**	3,618
Taxes paid during the year	**(2,772)**	(45)
Adjustments to income tax from prior years	**10,430**	51
Balance at end of year	**17,557**	3,624

(expressed in thousands of Eastern Caribbean dollars)

18 Taxation *...continued*

Tax losses

The Group has incurred income tax losses amounting to $3,845 (2017: $4,170) 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.

During the prior year, the Bank refiled its tax returns for the years 2012 to 2016 as a result of a change in the treatment of the tax free Government loans. The refiled tax returns were agreed and accepted by the IRD during the year on April 27, 2018. The change in treatment of the tax free loans resulted in the elimination of the brought forward tax losses from the prior years. The calculation of the estimate of the current income tax expense of the subsidiaries has not changed during the year.

The losses expire as follows:

	$
2019	902
2020	890
2021	826
2022	648
2023	579
	3,845

Deferred tax asset

At the year end, the Group had a deferred tax asset of $1,273 (2017: $1,382) which was not recognized in the consolidated financial statements due to the uncertainty of its recovery. The deferred tax asset is comprised as follows:

	2018 $	**2017 $**
Unutilised tax losses	**1,269**	1,376
Unclaimed capital allowances	**2**	2
Depreciation on furniture and equipment	**2**	4
Total deferred tax asset	**1,273**	1,382

Income tax recoverable

Included in the consolidated statement of financial position is an amount of $17,791 (2017: $30,134) that relates to income tax credits/advance tax payments due from the IRD in respect of tax assessments that were finalised up to the year ended June 30, 2016 and the change in the Bank's estimate of the current income tax expense based on a settlement agreement with the IRD. The amount may be applied against any future taxes payable by the Group, with certain agreed restrictions.

(expressed in thousands of Eastern Caribbean dollars)

18 Taxation *...continued*

Income tax recoverable *...continued*

The movement in the income tax recoverable is as follows:

	2018 $	2017 $
Balance, beginning of year	**30,134**	4,541
Current year's income tax credit	**12,072**	15,704
Tax paid during the year	**1,586**	1,472
Tax credit under accrued in prior years	**–**	23,549
Current year's income tax expense offset (limited to 80%)	**(26,001)**	(15,132)
Balance, end of year	**17,791**	30,134

19 Issued share capital

	2018 $	2017 $
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

20 Reserves

The reserves are comprised as follows:

	2018 $	2017 $
Statutory reserve	**133,792**	123,766
Revaluation reserve	**26,315**	18,648
Other reserves	**219,556**	218,639
	379,663	361,053

(expressed in thousands of Eastern Caribbean dollars)

20 Reserves *...continued*

a) Statutory reserve

	2018 $	2017 $
Balance at beginning of year	**123,766**	116,449
Addition	**10,026**	7,317
Balance at end of year	**133,792**	123,766

In accordance with Section 45 (1) of Saint Christopher and Nevis Banking Act, 2015, the Bank 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

	2018 $	2017 $
Balance at beginning of year	**18,648**	(34,700)
Movement in market value of investment securities available-for-sale, net	**7,667**	53,348
Balance at end of year	**26,315**	18,648
Revaluation reserve is represented by:		
Properties (note 13)	**19,661**	19,661
Investment securities – available-for-sale (note 10)	**6,654**	(1,013)
	26,315	18,648

c) Other reserves

	2018 $	2017 $
Balance at beginning of year	**218,639**	214,580
Transfers from retained earnings	**1,562**	1,490
Other comprehensive (loss)/income	**(645)**	2,569
Balance at end of year	**219,556**	218,639
Other reserves is represented by:		
General reserve	**114,199**	112,269
Insurance and claims equalisation reserves	**35,212**	33,652
Regulatory reserve for loan impairment (note 8)	**5,252**	6,078
Regulatory reserve for interest accrued on non-performing loans (note 8)	**56,055**	57,157
Defined benefit pension plan reserve	**8,838**	9,483
	219,556	218,639

20 Reserves *...continued*

c) Other reserves *...continued*

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

Insurance and claims equalisation reserves
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 subsidiary's risk management strategies to mitigate against catastrophic events. Annually the claims equalisation reserves are assessed and transfers made as considered necessary by the Board of Directors. These reserves are in addition to the catastrophe reinsurance cover.

Regulatory reserve for loan impairment
Regulatory reserve represents cumulative amounts appropriated from retained earnings based on the prudential guidelines of the ECCB. When the ECCB loan for provision is greater than the loan provision calculated under IAS 39, the difference is set aside in equity

Reserve for interest accrued 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 IAS 39. The prudential guidelines of the ECCB 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 pension plan reserve
This reserve is used to record the actuarial re-measurement of the defined benefit pension asset in other comprehensive income.

(expressed in thousands of Eastern Caribbean dollars)

21 Net interest income

	2018 $	2017 $
Interest income		
Loans and advances	**43,732**	41,412
Financial asset (note 31)	**21,550**	27,493
Deposits with other financial institutions	**4,722**	4,921
Others	**4,542**	4,701
Available-for-sale investments	**4,258**	3,038
Originated debt	**4,095**	4,078
Interest income for the year	**82,899**	85,643
Interest expense		
Fixed deposits	**36,485**	44,131
Savings accounts	**8,484**	8,623
Current and other deposit accounts	**534**	491
Call accounts	**371**	369
Interest expense for the year	**45,874**	53,614
Net interest income	**37,025**	32,029

22 Net fees and commission income

	2018 $	2017 $
Fees and commission income		
International business and foreign exchange	**8,321**	10,515
Brokerage and other fees and commission	**4,117**	3,799
Credit related fees and commission	**2,421**	2,338
Fees and commission income for the year	**14,859**	16,652
Fee expenses		
International business and foreign exchange	**8,236**	7,607
Other fee expenses	**5,323**	2,271
Brokerage and other related fee expenses	**1,469**	1,473
Fee expenses for the year	**15,028**	11,351
Net fees and commission (expense)/income	**(169)**	5,301

(expressed in thousands of Eastern Caribbean dollars)

23 Other income

	2018 $	2017 $
Net gain on AFS investments at fair value	**74,653**	36,062
Net insurance premium income (note 35)	**34,051**	32,068
Dividend income	**10,349**	5,822
Foreign exchange gain	**5,447**	4,418
Other operating income	**1,404**	1,011
	125,904	79,381

24 Administrative and general expenses

	2018 $	2017 $
Employee cost	**28,871**	31,507
Repairs and maintenance	**5,261**	5,713
Sundry losses	**1,545**	1,597
Other general	**1,278**	748
Communication	**957**	899
Stationery and supplies	**820**	753
Utilities	**753**	778
Advertisement and marketing	**727**	526
Legal fees and expenses	**594**	357
Rent and occupancy	**585**	692
Insurance	**514**	545
Shareholders' expenses	**422**	189
Security services	**330**	334
Taxes and licences	**197**	156
Premises upkeep	**43**	44
Property management	**5**	7
	42,902	44,845

(expressed in thousands of Eastern Caribbean dollars)

24 Administrative and general expenses *...continued*

Employee cost

	2018 $	2017 $
Salaries and wages	**18,644**	19,131
Other staff cost	**7,808**	4,286
Insurance and other benefits	**1,854**	7,572
Pension expense (note 33)	**565**	518
	28,871	31,507

25 Impairment expense

	2018 $	2017 $
Other assets (note 15)	**6,107**	1,000
Loans and advances to customers, net (note 8)	**2,022**	7,753
Property inventory (note 11)	**89**	52
Investment securities – available-for-sale (note 10)	**–**	2,286
	8,218	11,091

26 Other expenses

	2018 $	2017 $
Net claims incurred (note 35)	**24,600**	20,115
Depreciation and amortisation	**2,767**	3,079
Directors fees and expenses	**1,057**	902
Professional fees and related expenses	**689**	824
	29,113	24,920

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.

	2018 $	2017 $
Net income attributable to shareholders	**52,087**	39,450
Weighted average number of ordinary shares in issue (in thousands)	**135,000**	135,000
Basic and diluted earnings per share	**0.39**	0.29

28 Dividends

The consolidated financial statements reflect dividends of $13,500 or $0.10 per share for the financial year ended June 30, 2018 (2017: $13,500 or $0.10 per share). Approval of the payment was given at the Forty-seventh Annual General Meeting held on May 31, 2018 and was subsequently paid.

29 Related parties balances and transactions

A related party relationship exists when one party has the ability to control directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between or among entities under common control, with the reporting enterprise and its key management personnel, directors and shareholders.

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.

(expressed in thousands of Eastern Caribbean dollars)

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

	2018 $	2017 $
Public sector		
Loans and advances	**346,602**	282,580
Financial asset	**783,036**	823,124
Deposits	**1,727,554**	1,663,594
Interest on deposits	**39,610**	37,717
Interest on loans, advances and other	**12,240**	11,736
Interest on special financial asset	**21,550**	27,493
Insurance contract liabilities	**1,783**	1,125
Gross premium written	**19,064**	16,076
Gross claims incurred	**9,362**	8,101
Associated companies		
Deposits	**70,006**	70,008
Loans and advances	**11,473**	11,847
Interest on deposits	**109**	139
Interest from loans and advances	**1**	11
Directors and associates		
Loans and advances	**990**	1,045
Deposits	**475**	332
Interest on deposits	**6**	6
Interest from loans and advances	**70**	72
Directors' fees and expenses	**1,057**	902
Insurance premium written	**5**	1
Key management		
Loans and advances	**3,906**	4,016
Deposits	**825**	561
Interest on deposits	**14**	8
Interest from loans and advances	**255**	275
Salaries and short-term benefits	**3,988**	5,030
Insurance premium written	**82**	73
Outstanding insurance balances	**12**	8

As at June 30, 2018, directors held total shares in the Bank of 133,134 (2017: 160,700) and key management held total shares in the Bank of 30,765 (2017: 30,765).

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.0% (2017: 6.0%). Secured loans are collaterised by cash and mortgages over properties.

(expressed in thousands of Eastern Caribbean dollars)

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

A provision of $13,046 (2017: $13,046) has been recognised in respect to advances made to related parties (associated company).

30 Contingent liabilities and commitments

Contingent tax liability

On January 29, 2016, the IRD assessed the Group with additional corporate income taxes for the financial years 2012 to 2014. The Group disputed the assessment and filed an objection with the IRD.

During the current financial year, on April 27, 2018, a settlement agreement was reached with the IRD to resolve the dispute. Subsequent to the reporting period, in July 2018, the Group paid the IRD an additional $9,328 to settle the dispute. This has been accrued for in the current year's financial statements. Based on the settlement agreement and the payment made in July 2018, there are no further outstanding corporate tax liabilities to the IRD in respect of the financial years 2012 to 2014.

Commitments

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

	2018 $	**2017 $**
Loan commitments	**71,155**	15,458
Credit card commitments	**9,008**	8,587
	80,163	24,045

31 Financial asset

The financial asset of $783,036 (2017: $823,124) represents the Bank's right to that amount of cash flows from the sale of certain lands pursuant to a Shareholder's Agreement (Agreement) dated April 18, 2012 and September 4, 2014 between the Bank and its majority shareholder, the Government of St. Kitts & Nevis ("GOSKN"), and the Nevis Island Administration ("NIA") respectively. Under the terms of the Agreement, the secured debt obligations owed to the Bank by the GOSKN, NIA 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. Further, the unsecured debt obligations owed to the Bank by GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer 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

31 Financial asset *...continued*

selling land assets in order to fulfill the terms of the Agreement of the contracting parties. Other lands would be transferred to the SLSC for sale, if necessary, in order to satisfy the agreement of the contracting parties.

By way of supplemental agreements, the effective date of the 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 1,200 acres of land in the first tranche based on an independent valuation. The second and third tranches were completed during 2015 and the amounts swapped amounted to $230,951 which is the value of 735 acres of land.

Based on the terms of the 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 Bank land assets 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, 2018, the Group's consolidated statement of income includes interest income amounting to $21,550 (2017: $27,493). The interest receivable amounted to $23,170 (2017: $28,854) and is due from the GOSKN. During the year, $27,234 (2017: $1,099) of the interest receivable was received from the GOSKN.

Based on the terms of the 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 and NIA is obligated to transfer additional lands to make up for the shortfall. The Bank's interest in the land assets is 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 Bank has not classified the amounts received in exchange for the loans as inventory, but as a financial asset based on its rights to the cash flows from the sales of the land assets under the Agreement.

During the year ended June 30, 2018, the Bank received payments totaling $34,403 for the portions of land assets, that were sold by the SLSC during the year on behalf of the Bank.

(expressed in thousands of Eastern Caribbean dollars)

31 Financial asset *…continued*

The Bank has not included in these consolidated financial statements any investment in SLSC. Further, the Bank has not invested any funds in SLSC.

32 Cash and cash equivalents

	2018 $	2017 $
Deposits with other financial institutions (note 7)	**421,166**	720,390
Originated debt (note 9)	**67,635**	–
Cash and balances with Central Bank (note 5)	**51,720**	33,125
Treasury bills (note 6)	**11,174**	10,581
	551,695	764,096

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, 2018 by independent actuaries. The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2018 Per annum %	2017 Per annum %
Actuarial assumptions		
Discount rate	**4.0**	4.0
Return on plan assets	**5.0**	5.0
Future salary increases	**3.5**	3.5

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

(expressed in thousands of Eastern Caribbean dollars)

33 Defined benefit asset *...continued*

	2018 $	2017 $
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	**38,158**	40,644
Current service cost	**1,846**	1,669
Interest cost	**1,526**	1,625
Actuarial losses/(gains)	**393**	(4,345)
Benefits paid	**(712)**	(1,435)
Closing defined benefit obligation	**41,211**	38,158
Changes in the fair value of the plan assets		
Opening fair value of plan assets	**58,990**	58,308
Interest income	**2,950**	2,915
Return on plan assets (other than net interest)	**(570)**	(511)
Employer's contribution	**1,667**	486
Benefit paid	**(712)**	(1,435)
Management fees	**(143)**	(139)
Remeasurement	**–**	(634)
Closing defined benefit assets	**62,182**	58,990
Benefit cost		
Current service cost	**1,846**	1,669
Interest cost	**1,526**	1,539
Expense	**143**	137
Interest on plan assets	**(2,950)**	(2,827)
Increase in employee benefit expense (note 24)	**565**	518
Amount recognised in other comprehensive income		
Actuarial losses/(gains)	**393**	(4,345)
Interest income on plan assets	**2,948**	2,915
Actual return on plan assets	**(2,378)**	(2,404)
Loss/(gain) on re-measurement of net defined benefit asset	**963**	(3,834)
Net defined benefit asset recognised in the consolidated statement of financial position		
Fair value of plan assets	**62,182**	58,990
Present value of defined benefit obligation	**(41,211)**	(38,158)
Net defined benefit asset	**20,971**	20,832

(expressed in thousands of Eastern Caribbean dollars)

33 Defined benefit asset *...continued*

	2018 $	2017 $
Reconciliation: Net defined benefit asset		
Opening balance	**20,832**	17,664
Employer's contribution	**1,667**	486
Remeasurement	**–**	(634)
Period cost	**(565)**	(518)
Effect of other comprehensive income	**(963)**	3,834
Closing balance (note 15)	**20,971**	20,832

Plan assets allocation is as follows:

	2018 %	2017 %
Certificates of deposits	**99.20**	99.64
Shares and treasury bills	**0.80**	0.36

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 $
Increase/(decrease) in obligation	**(2,050)**	(1,900)

	Mortality plus 10% $	Mortality minus 10% $
Increase/(decrease) in obligation	**(864)**	(877)

34 Subsidiaries

	Percentage of direct and indirect equity interest held	
	2018	**2017**
	%	**%**
National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited	**100**	100
National Caribbean Insurance Company Limited	**100**	100
St. Kitts and Nevis Mortgage and Investment Company Limited	**100**	100

(EXPRESSED IN THOUSANDS OF EASTERN CARIBBEAN DOLLARS)

35 Segmental statement of insurance related income – product line

Year ended of June 30, 2018	Medical $	Fire $	Motor $	Marine $	Public liability $	Sundry $	Other $	Total non-life $	Life assurance $	Total $
Gross premiums written	17,195	13,582	5,716	218	1,605	62	1,180	39,558	8,562	48,120
Reinsurance share of gross premiums	–	(10,599)	(260)	(169)	(1,482)	(21)	(1,180)	(13,711)	–	(13,711)
	17,195	2,983	5,456	49	123	41	–	25,847	8,562	34,409
Change in unearned premiums	–	(167)	(136)	2	(11)	–	–	(312)	(46)	(358)
Net insurance premium income	**17,195**	**2,816**	**5,320**	**51**	**112**	**41**	**–**	**25,535**	**8,516**	**34,051**
Claims and benefits	11,836	1,083	2,137	–	7	–	–	15,063	3,066	18,129
Change in insurance liabilities	320	963	468	–	(17)	–	–	1,734	771	2,505
Change in actuarial liabilities	–	–	–	–	–	–	–	–	3,966	3,966
Net claims incurred	**12,156**	**2,046**	**2,605**	**–**	**(10)**	**–**	**–**	**16,797**	**7,803**	**24,600**

(expressed in thousands of Eastern Caribbean dollars)

35 Segmental statement of insurance related income – product line *...continued*

Year ended of June 30, 2017	Medical $	Fire $	Motor $	Marine $	Public liability $	Sundry $	Other $	Total non-life $	Life assurance $	Total $
Gross premiums written	15,735	9,275	5,482	206	1,771	63	1,266	33,798	8,280	42,078
Reinsurance share of gross premiums	–	(6,617)	(259)	(169)	(1,673)	(21)	(1,266)	(10,005)	–	(10,005)
	15,735	2,658	5,223	37	98	42	–	23,793	8,280	32,073
Change in unearned premiums	–	253	(214)	(3)	(3)	–	–	33	(38)	(5)
Net insurance premium income	**15,735**	**2,911**	**5,009**	**34**	**95**	**42**	**–**	**23,826**	**8,242**	**32,068**
Claims and benefits	11,033	30	2,926	–	3	–	–	13,992	2,259	16,251
Change in insurance liabilities	(168)	1	(506)	–	17	–	–	(656)	(123)	(779)
Change in actuarial liabilities	–	–	–	–	–	–	–	–	4,643	4,643
Net claims incurred	**10,865**	**31**	**2,420**	**–**	**20**	**–**	**–**	**13,336**	**6,779**	**20,115**

36 Business segments

As of June 30, 2018, 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. Insurance including coverage of life assurance, non-life assurance and pension schemes; and
3. Real estate, 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)

36 Business segments *...continued*

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

	Commercial and retail banking $	Insurance $	Real estate and trust services $	Consolidation and other adjustments $	Total $
June 30, 2018					
Total segment revenues	187,556	41,907	678	–	**230,141**
Intersegment revenues	(576)	(5,637)	(266)	–	**(6,479)**
Revenue for the year from external customers	186,980	36,270	412	–	**223,662**
Cost of revenue generation	(102,232)	(38,183)	(720)	–	**(141,135)**
Income tax (expense)	(29,299)	(1,112)	(29)	–	**(30,440)**
Net income for the year	**55,449**	**(3,025)**	**(337)**	**–**	**52,087**
Property, plant and equipment and intangible assets	27,217	7,798	20	–	**35,035**
Depreciation and amortisation	2,240	525	2	–	**2,767**
Segment assets	3,652,251	264,580	8,418	(241,448)	**3,683,801**
Segment liabilities	3,118,160	182,284	2,005	(213,696)	**3,088,753**
June 30, 2017					
Total segment revenues	147,841	39,290	821	–	**187,952**
Intersegment revenues	(636)	(5,407)	(233)	–	**(6,276)**
Revenue for the year from external customers	147,205	33,883	588	–	**181,676**
Cost of revenue generation	(110,304)	(34,738)	(779)	–	**(145,821)**
Income tax credit/(expense)	4,680	(970)	(115)	–	**3,595**
Net income for the year	**41,581**	**(1,825)**	**(306)**	**–**	**39,450**
Property, plant, equipment and intangible assets	28,705	8,133	4	–	**36,842**
Depreciation and amortisation	2,345	734	–	–	**3,079**
Segment assets	3,753,425	246,300	7,101	(228,497)	**3,778,329**
Segment liabilities	3,263,259	165,763	615	(200,747)	**3,228,890**

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.

SUMMARY SEPARATE FINANCIAL STATEMENTS

June 30, 2018

Grant Thornton

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 Auditor's Report

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

Opinion

The summary separate financial statements, which comprise the summary separate statement of financial position as of June 30, 2018, the summary separate statement of comprehensive income, summary separate statement of changes in shareholders' equity and summary separate statement of cash flows for the year then ended, and the related note, are derived from the audited separate financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** (the "Bank") for the year ended June 30, 2018. We expressed a qualified opinion in our report dated November 22, 2018.

In our opinion, the accompanying summary separate financial statements are consistent, in all material respects, with the audited separate financial statements, on the basis described in Note 1. However, the summary separate financial statements are misstated to the equivalent extent as the audited separate financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** for the year ended June 30, 2018.

Summary Separate Financial Statements

The summary separate financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary separate financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited separate financial statements and the auditor's report thereon.

The Audited Separate Financial Statements and Our Report Thereon

We expressed a qualified audit opinion on the audited separate financial statements in our report dated November 22, 2018. The basis for our qualified audit opinion was that loans and receivables on the Bank's separate statement of financial position includes certain long term notes issued by a third party, ABI Bank Limited (in receivership) ("ABIB), amounting to $36,242,620, which have matured and remain outstanding. The loans were to be fully repaid by cash flows from loans ABIB made to the Government of Antigua and Barbuda. However, on November 27, 2015, ABIB was placed in receivership. No provision for potential losses has been made in the separate financial statements in respect of these notes.

We were unable to obtain sufficient appropriate audit evidence or satisfy ourselves by alternative methods, as to the recoverability of the $36,242,620 due to the Bank. Consequently, we were unable to determine whether any adjustment to this amount was necessary in the separate financial statements.

Grant Thornton

Our report also includes the communication of key audit matters. Key audit matters are those matters that in our professional judgement, were of most significance in our audit of the separate financial statements of the current period.

Management's Responsibility for the Summary Separate Financial Statements

Management is responsible for the preparation of the summary separate financial statements on the basis described in Note 1.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary separate financial statements are consistent, in all material respects, with the audited separate financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements.*

Grant Thornton

Chartered Accountants
November 22, 2018
Basseterre, St. Kitts

SUMMARY SEPARATE STATEMENT OF FINANCIAL POSITION

As at June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Assets		
Cash and balances with Central Bank	**222,110,317**	206,125,685
Treasury bills	**88,881,733**	107,303,739
Deposits with other financial institutions	**432,946,064**	755,731,009
Financial asset	**783,036,376**	823,124,144
Loans and receivables – Loans and advances to customers	**774,871,530**	715,909,826
– Originated debts	**257,049,535**	113,209,189
Investment securities – available-for-sale	**993,165,765**	916,345,753
Investment in subsidiaries	**26,750,000**	26,750,000
Customers' liability under acceptances, guarantees and letters of credit	**7,551,552**	7,455,745
Income tax recoverable	**16,748,669**	29,660,703
Property and equipment	**26,937,490**	28,414,662
Intangible assets	**279,145**	290,694
Other assets	**21,941,501**	23,104,790
Total assets	**3,652,269,677**	3,753,425,939
Liabilities		
Customers' deposits	**3,036,917,374**	3,222,706,720
Accumulated provisions, creditors and accruals	**49,853,301**	26,618,915
Acceptances, guarantees and letters of credit	**7,551,552**	7,455,745
Income taxes payable	**17,576,399**	3,502,363
Deferred tax liability	**6,280,708**	2,976,387
Total liabilities	**3,118,179,334**	3,263,260,130
Shareholders' equity		
Issued share capital	**135,000,000**	135,000,000
Share premium	**3,877,424**	3,877,424
Retained earnings	**56,346,335**	29,743,157
Reserves	**338,866,584**	321,545,228
Total shareholders' equity	**534,090,343**	490,165,809
Total liabilities and shareholders' equity	**3,652,269,677**	3,753,425,939

Approved for issue by the Board of Directors on November 22, 2018.

Chairman

Director

SUMMARY SEPARATE STATEMENT OF INCOME

For the year ended June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Interest income	**82,412,535**	85,065,152
Interest expense	**(51,852,682)**	(59,337,717)
Net interest income	**30,559,853**	25,727,435
Fees and commission income	**13,740,802**	15,661,573
Fees expense	**(13,673,498)**	(10,007,619)
Net fees and commission income	**67,304**	5,653,954
Net realised gains and losses from investments	**74,652,648**	36,061,668
Dividend income	**10,348,983**	5,822,167
Gain on foreign exchange	**5,447,318**	4,418,282
Other operating income	**953,761**	811,730
Other income	**91,402,710**	47,113,847
Total operating income	**122,029,867**	78,495,236
Operating expenses		
Administrative and general expenses	**30,966,612**	31,995,975
Impairment charges	**8,129,411**	11,035,555
Depreciation and amortisation	**2,239,325**	2,345,249
Directors fees and expenses	**789,714**	625,479
Professional fees and related expenses	**477,068**	589,661
Total operating expenses	**42,602,130**	46,591,919
Operating profit before tax	**79,427,737**	31,903,317
Income tax (expense)/credit	**(29,298,765)**	4,680,247
Net income for the year	**50,128,972**	36,583,564
Basic earnings per share (basic and diluted)	**0.37**	0.27

SUMMARY SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Net income for the year	**50,128,972**	36,583,564
Other comprehensive income, net of income tax:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale financial assets:		
Unrealised gain on investment securities, net of tax	**42,635,734**	53,552,896
Reclassification adjustments for gains/losses included in income	**(35,001,961)**	(226,664)
	7,633,773	53,326,232
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Re-measurement (loss)/gain on defined benefit asset	**(504,793)**	3,379,917
Income tax relating to item that will be reclassified subsequently to profit or loss	**166,582**	(1,115,373)
	(338,211)	2,264,544
Other comprehensive income for the year, net of tax	**7,295,562**	55,590,776
Total comprehensive income for the year	**57,424,534**	92,174,340

Summary Separate Statement of Changes in Shareholders' Equity

For the year ended June 30, 2018

(expressed in Eastern Caribbean dollars)

	Issued share capital $	Share premium $	Statutory reserve $	Other reserves $	Available-for-sale investment revaluation reserves $	Property revaluation reserve $	Retained earnings $	Total $
Balance as of June 30, 2016	**135,000,000**	**3,877,424**	**116,449,012**	**180,819,188**	**(54,543,274)**	**15,912,813**	**13,976,306**	**411,491,469**
Net income for the year	–	–	–	–	–	–	36,583,564	36,583,564
Other comprehensive income	–	–	–	2,264,544	53,326,232	–	–	55,590,776
Total comprehensive income for the year	–	–	–	2,264,544	53,326,232	–	36,583,564	92,174,340
Transfer to reserve	–	–	7,316,713	–	–	–	(7,316,713)	–
Transaction with owners								
Dividends	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2017	**135,000,000**	**3,877,424**	**123,765,725**	**183,083,732**	**(1,217,042)**	**15,912,813**	**29,743,157**	**490,165,809**
Net income for the year	–	–	–	–	–	–	50,128,972	50,128,972
Other comprehensive income	–	–	–	(338,211)	7,633,773	–	–	7,295,562
Total comprehensive income for the year	**–**	**–**	**–**	**(338,211)**	**7,633,773**	**–**	**50,128,972**	**57,424,534**
Transfer to reserve	–	–	10,025,794	–	–	–	(10,025,794)	–
Transaction with owners								
Dividends	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2018	**135,000,000**	**3,877,424**	**133,791,519**	**182,745,521**	**6,416,731**	**15,912,813**	**56,346,335**	**534,090,343**

Summary Separate Statement of Cash Flows

For the year ended June 30, 2018

(expressed in Eastern Caribbean dollars)

	2018 $	2017 $
Cash flows from operating activities		
Operating profit before tax	**79,427,737**	31,903,317
Adjustments for:		
Interest expense	**51,852,682**	59,337,717
Impairment charges	**8,129,411**	11,035,555
Depreciation and amortisation	**2,239,325**	2,345,249
Retirement benefit expense	**539,460**	483,532
Reclassification of projects ongoing to expense	**–**	201,594
(Gain)/loss on disposal of equipment	**(14,999)**	134,933
Dividend income	**(10,348,983)**	(5,822,167)
Interest income	**(82,412,535)**	(85,065,152)
Operating income before changes in operating assets and liabilities	**49,412,098**	14,554,578
(Increase)/decrease in operating assets:		
Loans and advances to customers	**(62,112,702)**	(8,447,291)
Mandatory deposits with Central Bank	**2,749,420**	2,301,592
Other assets	**(4,843,756)**	1,233,084
Increase/(decrease) in operating liabilities:		
Customers' deposits	**(183,259,977)**	(6,357,984)
Due to other financial institutions	**–**	(224,753)
Accumulated provisions, creditors and accruals	**23,234,386**	4,740,118
Cash (used in)/generated from operations	**(174,820,531)**	7,799,344
Interest received	**78,199,998**	44,327,677
Pension contribution paid	**(1,145,008)**	–
Income taxes paid, including creditable withholding taxes	**(2,601,710)**	–
Interest paid	**(54,382,051)**	(62,844,351)
Net cash used in operating activities	**(154,749,302)**	(10,717,330)
Cash flows from investing activities		
Proceeds from sale of investment securities and originated debt	**1,163,705,272**	930,779,894
Payments received from the financial asset	**34,403,322**	1,750,000
Decrease in special term deposit	**20,269,500**	–
Decrease in restricted term deposits and treasury bills	**18,168,519**	40,179,080
Interest received from investment	**13,131,861**	14,345,023
Dividends received	**10,348,983**	5,822,167
Proceeds from sale of equipment	**15,000**	–
Purchase of equipment and intangible assets	**(750,605)**	(2,005,857)
Increase in investment securities and originated debt	**(1,305,469,483)**	(1,156,095,198)
Net cash used in investing activities	**(46,177,631)**	(165,224,891)
Cash flows from financing activities		
Dividends paid	**(13,500,000)**	(13,500,000)
Net decrease in cash and cash equivalents	**(214,426,933)**	(189,442,221)
Cash and cash equivalents, beginning of year	**752,319,529**	941,761,750
Cash and cash equivalents, end of year	**537,892,596**	752,319,529

NOTE TO SUMMARY SEPARATE FINANCIAL STATEMENTS

June 30, 2018

(expressed in Eastern Caribbean dollars)

1 Basis of preparation

These summary separate financial statements are derived from the audited separate financial statements of St. Kitts-Nevis-Anguilla National Bank for the year ended June 30, 2018.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
BASSETERRE, ST. KITTS & NEVIS
WEST INDIES
PHONE: +1 869-465-2204

ST. KITTS-NEVIS-ANGUILLA
NATIONAL BANK LIMITED