WORKING HARDER TODAY FOR A BRIGHTER TOMORROW

ST. KITTS-NEVIS-ANGUILLA
NATIONAL BANK LIMITED

ANNUAL REPORT 2021

Re-Imagining The Future...

POWERED BY A PROUD PAST

CONTENTS

~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 mobilize 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.

Re-Imagining The Future...
POWERED BY A PROUD PAST

National Bank has been a trailblazer in innovation and “first in class” financial services. Our local knowledge coupled with our international processes and standards have made us the bank of choice for the people of the Federation. **In keeping with this innovation it has given us great pride and pleasure to introduce our Platinum Card to our valued** customers and, the best is yet to come.

NOTICE OF MEETING

Notice is hereby given that the FIFTY-FIRST ANNUAL GENERAL MEETING OF ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED will be held at the St. Kitts Marriott Beach Resort, Frigate Bay on Thursday 16th December at 5:00 p.m. for the following purposes: -

1. To read and confirm the Minutes of the Meeting held on 24th August 2021.
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 2021.
6. To declare a Dividend.
7. To elect Directors.
8. To reconfirm the appointment of Auditors for year ending 30th June 2022 and to authorize the Directors to fix the remuneration of the Auditors.
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
Corporate Secretary

SHAREHOLDERS OF RECORD

All shareholders of record as at 31st October 2021 will be entitled to receive a dividend in respect of the financial year ended 30th June 2021.

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/her 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 not less than 24 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 of 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 elected 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 election is to take place.

Financial Highlights

	2021	2020	2019	2018	2017
	EC $'000	EC $'000	EC $'000	EC $'000	EC $'000
BALANCE SHEET INFORMATION					
Total assets	3,737,031	3,359,921	3,690,301	3,683,801	3,778,329
Total customer's deposits	2,595,318	2,525,825	2,840,108	2,834,300	3,032,091
Loans & advances (gross)	938,210	904,321	900,563	828,885	767,377
Investment securities	1,461,564	1,119,200	1,158,413	1,250,766	1,030,054
Cash and Money at call	451,452	455,188	709,816	551,695	764,096
OPERATING RESULTS					
Gross operating income	421,091	218,636	210,760	223,662	181,676
Interest income	62,023	67,162	89,281	82,899	85,643
Interest expense	48,466	44,494	43,601	45,874	53,614
Net Income	188,368	28,382	52,268	52,087	39,450
Operating expenses/provisions	129,759	139,062	101,276	95,261	92,207
Number of employees*	269	263	267	266	258
Gross revenue per employee	1,565	831	789	841	704
Average total assets per employee	13,191	13,403	13,809	14,027	14,645
SHARE CAPITAL & DIVIDEND INFORMATION					
Common shares issued and outstanding (in thousands)	135,000	135,000	135,000	135,000	135,000
Total shareholder's equity	812,769	612,989	606,858	595,048	549,439
Dividends paid	-	20,250	13,500	13,500	13,500
Number of shareholders*	5,642	5,893	5,596	5,470	5,568
Earnings per share ($)*	1.40	0.21	0.39	0.39	0.29
Dividends per share ($)*	-	0.15	0.10	0.10	0.10
Book value per common share*	6.02	4.54	4.50	4.41	4.07
BALANCE SHEET AND OPERATING RESULTS RATIOS (%)	%	%	%	%	%
Loans and advances to deposits	36.2	35.8	31.7	29.2	25.3
Staff Cost/Total Cost	21.4	16.0	23.0	20.5	21.6
Staff Cost/Total Revenue	9.1	13.4	15.8	12.9	17.3
Cost/Income (Efficiency) before impairment	27.6	53.2	54.3	49.0	63.3
Cost/Income (Efficiency) after impairment	34.8	79.9	60.6	53.6	72.0
Return on Equity	26.4	4.7	8.7	9.1	7.8
Return on Assets	5.3	0.8	1.4	1.4	1.1
Asset Utilization	11.9	6.2	5.7	6.0	4.9
Yield on Earning Assets	2.0	2.2	2.9	2.7	2.8
Cost to fund Earning Assets	1.6	1.5	1.4	1.5	1.8
Net Interest Margin	0.4	0.8	1.5	1.2	1.1

*These are absolute figures.

Re-Imagining The Future...
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ENABLING BUSINESS CONTINUITY

Regular on-screen meetings have supported a tight team focus during the most challenging times and decisions. Strict agendas with specific topics for discussion and action items worked hand in hand with the occasional photo-bombing by children and pets to remind us all of the need to adapt and consider how our customers are coping with similar challenges of school-aged children and the need to protect elder relatives all while concentrating on the core tasks at hand.

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 Liburd	Director

CORPORATE 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

Head Office
Central Street,
Basseterre

Nevis Branch
Charlestown, Nevis

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

Pelican Mall Branch
Bay Road, Basseterre, St. Kitts

Agency Office
RLB International Airport

ATMS

Basseterre Branch
Buckley's
Cayon
CAP Southwell Industrial Park
Frigate Bay
Lodge
Mapau - Port Zante
Molineux
Nevis Branch
Old Road
Pelican Mall
RLB International Airport
Sandy Point
Saddlers
St. Kitts Marriott 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

BOARD RESPONSIBILITIES

The Board's key responsibilities are to provide strategic guidance for the Group and effective monitoring and oversight of the management's performance and implementation of the Group's strategic objectives. The Board has the ultimate responsibility and accountability regarding risk management, governance and internal controls within the Group. 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.

The Board has in place several Committees that consider key matters of the Group, under the guidance of clearly documented Charters. These committees are the Audit Committee, Budget Committee, Risk and Compliance Committee, Corporate Governance Committee, Credit Committee, Human Resource Committee, Information Technology Committee, Investment Committee and Property Management/Space Committee. The Charters for each Committee have been approved by the Board of Directors and are reviewed and revised, as prescribed, by the respective Committee and ratified by the Board of Directors.

BOARD SIZE AND COMPOSITION

The Articles of Association mandates a Board size for effective decision-making of 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 is comprised of ten (10) members who were elected and appointed by the holders of ordinary shares.

The Board of NCIC is comprised of seven (7) members. Mr. Ian Ferguson and Mrs. A.J. Patricia Wilkinson joined in February 2021, however, Mr. Ian Ferguson resigned in May 2021.

The Board of National Bank Trust Company is comprised of five (5) members; of which one member, Ms. Shirley Julius resigned effective 31 July 2020 and she has not been replaced.

The table below outlines the relevant qualifications of each Director.

DIRECTOR	QUALIFICATION
Alexis Nisbett	Bachelor of Commerce (Accounting) Master of Science (Accounting) Audit Committee Certificate (ACC)
Dr. Analdo Bailey	Master of Business Administration Audit Committee Certification (ACC) Doctor of Divinity Accredited Director (Acc. Dir)
Franklin Maitland	Fellow Chartered Certified Accountant (FCCA) Master of Science – Finance Graduate Certificate International Business (GCIB) Chartered Director (C. Dir)
Dr. Cardell Rawlins	Bachelor of Medicine Bachelor of Surgery Bachelor of Science in Biology
Elreter Simpson-Browne	Bachelor of Science – Management (HRM) Master of Business Administration Accredited Director (Acc. Dir)
Talibah Byron	Bachelor of Laws Master of Laws Accredited Director (Acc. Dir) Risk Committee Certification (RCC)
Lionel Benjamin	Certificate in Business Management Accredited Director (Acc. Dir)

DIRECTOR	QUALIFICATION
Lorna Hunkins	Bachelor of Science – Economics/ Accounts Diploma – Graduate School of Banking Risk Committee Certification (RCC)
Wallis Wilkin	Associate of Science – Architectural Engineering Bachelor of Science – Management Studies Professional Certificate in Communications Accredited Director (Acc. Dir)
William Liburd	Bachelor of Economics and History
Stephen O.A. Hector – Corporate Secretary	Bachelor of Laws Bachelor of History Accredited Director (Acc. Dir)

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 individual or group of individuals dominates the decision-making process.

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 conflicting 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.

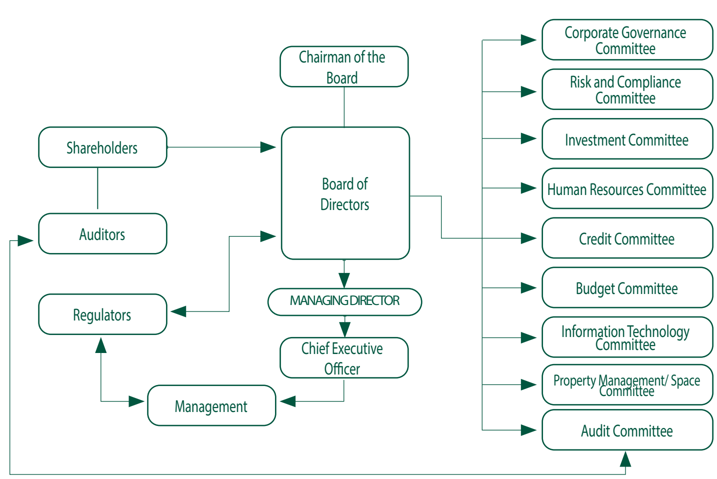
THE DEVELOPMENT OF DIRECTORS' KNOWLEDGE, EXPERIENCE AND SKILLS

During the financial period, Directors participated in few local seminars aimed at maintaining and developing the knowledge, experience and skills needed in the performance of their duties and responsibilities. The Board attended seminars that explored the emerging risks within the industries' that affects the Group.

- Anti-Money Laundering/Counter Financing of Terrorism and Proliferation Financing Compliance Training
- Information Security Awareness Training – Cybersecurity Governance

COMMUNICATION

Management provides reporting to the Board of Directors allowing them to carry out their roles and responsibilities effectively. Additionally, information may be requested by the Directors and the diagram below provides an overview of how the Board interacts with the various stakeholder groups.



ATTENDANCE AT BOARD MEETINGS

SKNANB Board Meeting Attendance Report

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

Director	No. of Meetings Attended	Meeting Attendance	
		Number	Rate (%)
Mr. Alexis Nisbett	21 of 22	21	95
Dr. Analdo Bailey	21 of 22	21	95
Mr. Franklin Maitland	17 of 22	17	77
Dr. Cardell Rawlins	20 of 22	20	91
Mrs. Elreter Simpson-Browne	20 of 22	20	91
Ms. Talibah Byron	18 of 22	18	82
Mr. Lionel Benjamin	22 of 22	22	100
Ms. Lorna Hunkins	21 of 22	21	95
Mr. Wallis Wilkin	21 of 22	21	95
Mr. William Liburd	20 of 22	20	91
Mr. Stephen Hector	22 of 22	22	100
No. of Meetings	**22**		

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 Attended	Meeting Attendance	
		Number	Rate (%)
Mr. Howard Richardson	10 of 10	10	100
Mrs. Jenifer Howell	10 of 10	10	100
Ms. Jacynth Francis	9 of 10	9	90
Mrs. Sonia Henry	10 of 10	10	100
Ms. Joycelyn Mitcham	9 of 10	9	90
Mrs. Arlene J. P Wilkinson*	2 of 3	2	67
Ms. Tracy Herbert (Secretary)	10 of 10	10	100
No. of Meetings	**10**		

Mr. Ian Ferguson joined the Board to replace Mr. Reginald James, deceased since January 2018 and was never replaced. Mr. Ian Ferguson resigned from the Board in May 2021.

* Mrs. Arlene JP Wilkinson replaced Mrs. Marcella Lanns-Monish who resigned from the Board in August 2018.

National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited Board Meeting Attendance Report

Director	No. of Meetings Attended	Meeting Attendance	
		Number	Rate (%)
Mr. O'Grenville Browne	7 of 7	7	100
Mrs. Cyndie Demming - Vice Chairman	6 of 7	6	86
Mr. Crace Lewis	7 of 7	7	100
Dr. Patricia Bartlette (Secretary)	3 of 7	3	43
No. of Meetings	**7**		

Director Shirley Julius resigned effective 31 July 2020 and has not been replaced to date.

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 National Bank Trust Company (St. Kitts-Nevis-Anguilla) Ltd assumed responsibility for those operations previously conducted by the company effective March 1, 2017.

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 the Note 27 "Other Expenses".

Director	No. of Shares Owned	Type of Director
Mr. Alexis Nisbett	635	Non-Executive
Dr. Analdo Bailey	32,500	Executive
Mr. Franklin Maitland	8,250	Non-Executive
Dr. Cardell Rawlins	5,333	Non-Executive
Mrs. Elreter Simpson-Browne	8,475	Non-Executive
Ms. Talibah Byron	4,520	Non-Executive
Mr. Lionel Benjamin	50,000	Non-Executive
Ms. Lorna Hunkins	800	Non-Executive
Mr. Wallis Wilkin	4,700	Non-Executive
Mr. William Liburd	25,416	Non-Executive

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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. The Committee provides structured and systematic oversight on the internal controls over financial reporting as well as monitoring compliance with legal and regulatory requirements. The Audit Committee is responsible for 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 other providers of assurance. The Audit Committee 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:

Mr. Franklin Maitland – CHAIRMAN

Ms. Talibah Byron

Dr. Analdo Bailey

Ms. Lorna Hunkins

Ms. Derry-Anne Reid – RECORDER

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:

Mr. Alexis Nisbett – CHAIRMAN

Mr. Franklin Maitland

Mrs. Elreter Simpson-Browne

Dr. Cardell Rawlins

Mr. Anthony Galloway – RECORDER

Mr. Donald Thompson – EX OFFICIO

Risk and Compliance Committee

The Risk and Compliance Committee ensures that the Group has an appropriate program in place to identify and effectively mitigate compliance risk, considers and approves the scope of the compliance function having regard to each regulatory framework and the Group's compliance standards, reviews and monitors the Group's compliance activities and the effectiveness of the compliance program for the Group, ensures 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:

Ms. Talibah Byron – CHAIRMAN

Mr. Lionel Benjamin

Mr. Alexis Nisbett

Mrs. Elreter Simpson-Browne

Ms. Lorna Hunkins

Mrs. 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 establish an annual performance assessment of Directors.

The members of the committee are as follows:

Mr. Franklin Maitland – CHAIRMAN

Dr. Cardell Rawlins

Mr. William Liburd

Dr. Analdo Bailey

Mr. Anthony Galloway – RECORDER

Mr. Donald Thompson – EX OFFICIO

Credit Committee/Nonperforming Facilities

The Credit Committee/Nonperforming Facilities is charged with oversight of Credit Risk Management. The Committee 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 makes 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:

Mr. Alexis Nisbett – CHAIRMAN

Dr. Analdo Bailey

Mr. Franklin Maitland

Mr. Lionel Benjamin

Ms. Talibah Byron

Mrs. Elreter Simpson-Browne

Dr. Cardell Rawlins

Mr. William Liburd

Mr. Wallis Wilkin

Ms. Lorna Hunkins

Mr. Stephen Hector – SECRETARY

Mr. 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, review of the Code of Conduct, 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:

Mrs. Elreter Simpson-Browne – CHAIRMAN

Mr. Lionel Benjamin

Mr. Alexis Nisbett

Ms. Talibah Byron

Mrs. Pansyna Bailey – RECORDER

Mr. Donald Thompson – EX OFFICIO

Information Technology Committee

The Information Technology Committee is responsible for improving the effectiveness of the information technology governance of the Board of Directors. The Committee provides governance and supervisory oversight with the Investment, Risk and Security of the National Bank Group regarding change initiatives, information technology and security effectiveness. The Committee ensures 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

Mr. Wallis Wilkin

Mrs. Elreter Simpson-Browne

Ms. Lorna Hunkins

Mr. Quincy Prentice – RECORDER

Mr. Donald Thompson – EX OFFICIO

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

Mr. Wallis Wilkin

Ms. Talibah Byron

Dr. Cardell Rawlins

Mrs. Elreter Simpson-Browne

Mr. Anthony Galloway – RECORDER

Mr. 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:

Mr. Wallis Wilkin – CHAIRMAN

Mr. William Liburd

Mr. Lionel Benjamin

Ms. Lorna Hunkins

Mrs. June O'Brien – RECORDER

Mr. 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 the Audit Committee of the Bank as outlined earlier.

The members of the Committee are as follows:

Mrs. Jenifer Howell – CHAIRMAN (Ag.)

Ms. Jacynth Francis

Mrs. A.J. Patricia Wilkinson

Mr. Ian Ferguson was appointed February 01, 2021 as Chairman of the Audit Committee, and then resigned May 31, 2021. Mrs. Arlene J P Wilkinson was also appointed February 01, 2021. Subsequent to Mr. Ferguson's resignation. Mrs. Howell assumed the role of the Acting Chairman of the Audit Committee.

Compliance Committee

The Compliance Committee of NCIC has the same responsibility as the Risk and Compliance Committee of the Bank as outlined earlier.

The members of the committee are as follows:

Mr. Howard Richardson – CHAIRMAN

Mrs. Jenifer Howell

Ms. Sonia Henry

Ms. Joycelyn Mitcham

Mrs. Patricia Herbert – RECORDER

Mrs. Jacqueline Hewlett – EX OFFICIO

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:

Mr. Howard Richardson – CHAIRMAN

Mrs. Jenifer Howell

Mr. Cedric L. K. Jeffers

Mr. Clive Collins

Ms. Sherlene Johnson – RECORDER

Internal Audit Function Oversight

The third line of defense is the Internal Audit Function, which is charged with the objective of ensuring that group companies have implemented controls, policies and procedures geared to the achievement of their strategic objectives while mitigating risks. The mission of the Internal Audit Function is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Internal Audit Function helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

The Internal Audit Function reports directly to the Audit Committees within the group. On a quarterly basis, the Internal Audit Function will report to the Audit Committee on matters relating to staffing, training, engagements and investigations.

Organization Placement

The Chief Internal Auditor 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

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.

Independence and Objectivity

The Chief Internal Auditor will ensure that the Internal Audit Function remains free from all conditions that threaten or interfere with the ability of the Internal Auditors to carry out their duties and responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing and report content. To emphasize the Internal Audit Unit's 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.

The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organizational independence of the Internal Audit Function. The Chief Internal Auditor will disclose to the Audit Committee any interference and related implications in determining the scope of the Internal Audit Function performing work and/or communicating results.

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. The Audit Committee will make an assessment whether it is appropriate, risk based and addresses critical 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.

Resources and Competencies

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

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.

Periodic Review

The Audit Committee is responsible for reviewing the effectiveness of the Internal Audit Function and receive 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.

Chairman's Report to Shareholders

Alexis Nisbett
Chairman of The Board of Directors

This year has seen the initial reaction to the external impacts of the pandemic, transition to proactive and tailor-made solutions that have brought positive change for all stakeholders.

INTRODUCTION

The St. Kitts-Nevis-Anguilla National Bank Limited has once again completed another successful financial year. It is my duty, as the Chairman of the Board of Directors, to present to you the shareholders of the Bank, the Annual Report and Audited Financial Statements for the Financial Year ended June 30, 2021.

This financial year has historical significance for several reasons, not the least of which is the fact that it was conducted in the throes of a global crisis – the COVID-19 pandemic. The pandemic brought unprecedented challenges to the financial system as the Bank's stakeholders, locally and in the wider diaspora, struggled to cope with the resultant shocks to the domestic and global economies. The Bank also faced the impact of a cyber-attack from a faceless enemy that threatened not only the institution but by extension the entire financial landscape in our region.

These challenges only served to strengthen the dedication, resolve and commitment of your Board of Directors, which continued to work to ensure that the depositors' money, and the shareholders' investments remained safe and profitable. The Board could not accomplish this without a stable partnership with the management of the Bank, and the support of the Bank's subsidiaries.

The 2021 Annual Report and the Audited Financial Statements reflect the performance of your Board of Directors, the staff of the National Bank Group, and the resiliency of the people of the Federation of Saint Christopher and Nevis. The Financial Year called for a "National" response, and National delivered.

THE BOARD OF DIRECTORS

This Board acknowledges the value of regular meetings. I am sure that some of the shareholders can remember a time when the Board convened meetings on a "once per month" basis. However, this Board, in its attempt to meet the demands of the modern competitive banking scene, has committed to not only meeting at least twice monthly, but to sitting and deliberating for several hours when required, to grapple with matters of great complexity, always with a view to the furtherance of the Bank's strategic plan.

The Credit Committee, which is comprised of all ten (10) Directors that make up the Board of Directors, also met at least twice monthly to deliberate on credit matters, whose elements of difficulty, as can be imagined, were magnified by the impact of the pandemic on the global economy. The Committee had to make strategic decisions regarding, inter alia, loan moratoria and re-structuring of loans, all while paying attention to new loan customers with the uncertainty of job security for as long as the pandemic lasts.

The work of the Board committees was extremely impactful over the course of the financial year. Along with the afore-mentioned Credit Committee, the Investment Committee, the Human Resources Committee, and the IT Committee all were required to dedicate significant hours to address the issues of staffing, protection of data, and strengthening profitability.

It is noteworthy that despite the aforementioned challenges, the Board continued to make strides in its strategic approach to the reduction of the non-performing loan portfolio. The Board utilized a combination of an aggressive enforcement of security via the court and consideration of settlement proposals by some of the larger borrowers.

Additionally, the Board utilized aggressive provisioning and write-offs to improve the quality of the portfolio and strengthen the overall capital position of the Bank.

THE SENIOR EXECUTIVE TEAM

On behalf of the Board of Directors, I must, once again salute the Managing Director, Dr. Analdo Bailey, the Chief Executive Officer, Mr. Donald Thompson, and the entire Senior Executive Team (SET) for their performance over the course of the financial year. The SET and their respective departments met the challenge of keeping the doors of the Bank open to customers amidst incredible disruptions caused by COVID-19 cases and contact tracing, and by the cyber-security incident that required round-the-clock measures. The safety of your investment was always assured in the hands of this capable group, and the Board remains extremely appreciative of the efforts put forward.

Discharge of the internal audit function was buttressed with two key additions over the course of the financial year, namely the hiring of Ms. Derry-Anne Reid as the Chief Internal Auditor, and Mrs. Rosebud Lander-Abraham as the Senior Manager.

The leadership of the Retail Banking Division was enhanced by the promotion of Mrs. Jenenne Skerritt to the post of Chief Retail Banking Officer. Mrs. Skerritt stepped into this role after several years as the Branch Manager of the Pelican Mall Branch.

The Board continues to seek to fill key positions in the Credit, Risk and Compliance, and Information Technology Divisions. However, after some progress in the recruitment process, these efforts have been hampered by the ongoing disruptions caused by the pandemic and a general lack of suitable candidates in these key areas.

THE ECONOMY

The local economy was projected to decline by 1% in 2021 according to the IMF Concluding Statement of the 2021 Article IV Mission. By contrast the IMF projects growth of 10% in 2022. The tourism sector is expected to experience a robust recovery towards the end of 2021 and continuing in 2022. Based on the projected strong recovery in the tourism sector, performance in the local economy is expected to improve year-over-year, while the banking industry, and SKNANB, will continue to show positive results.

FINANCIAL RESULTS

The Group of Companies enjoyed a tremendous year in terms of asset quality, business developments and diversification, and investment returns. Relationships with our correspondent banks, which continue to be strong in these challenging times, and reinsurance providers, continued to grow to the benefit of the Bank and its stakeholders.

Net Income for the year ended June 2021 was $188.4 million compared to $28.38 million for the year ended June 30, 2020.

Total assets were at $3.73 billion for the financial year ended June 30, 2021 compared to $3.36 billion at the end of the year ended June 30, 2020.

In 2021, the cash and cash equivalents stood at $0.5 billion, unchanged from the $0.5 billion reported in 2020.

THE BANKING LANDSCAPE

COVID-19: PAST PRESENT AND FUTURE IMPACT

The COVID-19 pandemic has had a tremendous impact on the operations of the Bank. With the onset of the pandemic, the Bank had to incur increased operational costs and implement social distancing protocols to ensure the safety of staff and customers. The Bank also offered financial relief to customers. The Bank continues to incur additional costs to curb the spread of the virus and has extended the relief measures initially offered at the start of the pandemic. We are optimistic that the projected improvement in the local economy and the containment of the virus will result in a return to an acceptable state of normalcy and a reduction in operational costs associated with the pandemic.

THE CYBER SECURITY INCIDENT – LESSONS LEARNT

This year was marked by several other disruptions, the most notable being the cyber-attack on February 11 2021 that caused major disturbance to operations for several weeks. However, through the efforts of the hard-working staff and our third-party vendors we were able to successfully weather this event.

The Bank has used this experience as a teachable moment and has collaborated with several partners to strengthen its cyber-security posture. In this regard, the Bank has accelerated its efforts towards compliance with several industry standard cyber-security frameworks, deployed artificial intelligence software to support the monitoring of its network infrastructure and engaged a managed security service provider to support its ongoing monitoring and incident response capabilities.

Additionally, the Bank is strengthening its human capital to ensure that we maximise the use of the enhanced tools at our disposal, while also ensuring that our users are better equipped to identify social engineering and other types of attacks. This event has also highlighted the critical importance of business continuity, and the Bank is continuing to strengthen its capabilities in this area.

SADDLERS BRANCH – RE-POSITIONING

The Bank has taken the decision to re-establish a physical presence in the Saddlers community. To this end, a new site has been identified and plans are afoot to construct a state-of-the art business center in the area. It is anticipated that this center will include a new version of the Saddlers Branch of the Bank, other back-office functions, and room for future expansion.

QUALIFICATION TO ACCOUNTS

The issue of the ABI Bank loan of 2009 and the impact that it presents for the asset quality of the Bank continues. The position of our auditor is stated in the Financial Statements exhibited in the Annual Report.

The Board remains confident in the potential for recoverability with regards to this matter.

Over the course of the financial year the Bank, through its external solicitors, filed an application for leave to be granted by the court to proceed against ABI Bank, its receiver and Eastern Caribbean Asset Management Corporation. The Court matter has begun and is at the case management stage.

Despite the qualification, the Board considers that these advancements in the legal process continue to bring the Bank and you the shareholders closer to a definitive resolution of the matter.

The Board continues to rely on the expert legal advice received by the Bank thus far and remains resolute in its commitment to its fiduciary duties and to the defense of the rights of its shareholders and depositors.

CONCLUSION

As we celebrate 50 years of being the Bank of the people of the Federation of St. Kitts and Nevis, the Board is satisfied that the Bank and the Group are performing well in these un-precedented times. The Bank has progressed and evolved over the 50 years, and the Board is of the view that this progression and evolution continues almost daily.

The maintenance of the Bank's position atop the regional financial industry and the protection of the interests of the shareholders and depositors remains the key objectives of your Board of Directors.

On behalf of my fellow Directors on the SKNANB Board and the Chairmen and Directors of the Boards of the subsidiary companies that make up the Group, I would like to offer special thanks to you the shareholders, and all other stakeholders, for the unfailing support and encouragement that you have given the Board and the Bank this year. The journey into the next 50 years is on track to trump the first 50 years with the help of the Almighty and with the vision and determination that has always been embodied in the National Bank.

Alexis Nisbett
CHAIRMAN

"The year under review reflects one of change, both in the operating environment and in the responsive actions of the bank that have demonstrated the capability of the institution to evolve and improve."

Board of Directors

Alexis Nisbett

CHAIRMAN

Dr. Analdo Bailey

1ST VICE CHAIRMAN

Franklin Maitland

2ND VICE CHAIRMAN

Dr. Cardell Rawlins

Director

Talibah Byron

Director

Elreter Simpson-Browne

Director

Wallis Wilkin

Director

Lionel Benjamin

Director

Lorna Hunkins

Director

William 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, 2021.

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:

Mrs. Elreter Simpson-Browne
Dr. Cardell Rawlins
Mr. William George Liburd

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

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

The Bank focuses its strategic activities on increasing shareholders value by providing them with a reasonable return on their investments. During the period June 2017 to June 2021, cash dividend payments were \$13.5m (for the financial year ended June 30, 2017), \$13.5m (for the financial year ended June 30, 2018), \$13.5m (for the financial year ended June 30, 2019) and \$20.3m (for the financial year ended June 30, 2020). This represents a total dividend payout over the four-year period of \$60.8m.

The Directors report that Profit-after-taxation for the year ended June 30, 2021, amounted to \$188.4 million, with earnings per common share of \$1.40.

An in-depth discussion of the financial performance for the year can be found in the Management's Discussion and Analysis, which is presented in a separate section of this Annual Report.

The Directors have decided to recommend a dividend payment of 20% for the financial year ended June 30, 2021. This recommendation, if approved by the Annual General Meeting, will mean a total dividend of \$28.3 million for the financial ended June 30, 2021.

By Order of the Board of Directors

Stephen O. A. Hector
CORPORATE SECRETARY

Re-Imagining The Future...
POWERED BY A PROUD PAST

WE GO EVERYWHERE WITH YOU.

Virtual banking and the rapid adoption by many business and private customers may be the highlight of a dark time. The bank's virtual solutions and out-of-hall banking convenience options all saw a huge uptake in subscription and activity. The robust solutions such as mobile banking and our easily accessed ATM chain was a welcome option for even our most committed face to face banking clients.

Senior Executive Team

"The collective commitment to the decisive actions needed to respond to the pandemic have defined the year. Positive and robust consideration of each tactical action has drawn the team closer and our customers have experienced in a very real way, our collective passion for their safety and financial security and ease of business in this difficult time."

Donald Thompson
Chief Executive Officer

Anthony Galloway
Chief Financial Officer

Pansyna Bailey
Chief Human Resources Officer

Bernice Grant-Kelly
Chief Electronic Services Officer

Jacqueline Hewlett
Chief Risk and Compliance Officer

Anthony Morton
Executive Manager, Marketing

Paula Morton
Officer in Charge, Credit Division

Quincy Prentice
Chief Information Officer

Derry-Anne Reid
Chief Internal Auditor

Ermelin Sebastian-Duggins
Chief Legal Counsel

Jenenne Skerritt
Chief Retail Banking Officer

Senior Management

"Leadership is important when you are the leading financial institution in the country and subregion. Our team of Senior Managers are intimately involved with the day to day operations of the business. They remain a key interface with our valued customers and vital conduit for sharing feedback with the rest of the leadership team."

Kimmoye Byron
Executive Manager, Risk and Compliance Department

David Edwards
Executive Manager, Systems

Elroy Halliday
Executive Manager, Network Administration

June O'Brien
Executive Manager, Administration Department

Nicole Gumbs
Manager, Pelican Mall Branch

Keesha Jones
Manager, Nevis Branch

Jacqueline Wyatt
Manager, Sandy Point Branch

Management's Discussion and Analysis

Pivoting in a time of challenge can strain any organization's capability. Our entire team has demonstrated a robustness and agility that deserves recognition as unequalled in the local industry.

Donald Thompson
Chief Executive Officer

OPERATING ENVIRONMENT

The global revival continued in 2021, however, the momentum slowed as a result of new waves of the COVID-19 pandemic. Growth projections for 2021 have been reduced marginally to 5.9% from 6.0%, however, the growth projections for 2022 remains untouched at 4.9%.

The revision for 2021 reflects a downgrade for advanced economies—in part due to supply chain disruptions—and for low-income developing countries, largely due to worsening pandemic dynamics. This is partially offset by stronger near-term prospects among some commodity-exporting emerging market and developing economies. Vaccination programs have proven effective at mitigating the adverse health impacts of COVID-19. However, unequal access to vaccines, vaccine hesitancy, and higher infectiousness have left many people still susceptible, providing fuel to the pandemic.

In its most recent World Economic Outlook, the International Monetary Fund (IMF) suggests that it may take a number of years for countries in the Caribbean to return to pre-pandemic levels of GDP per capita. The IMF commented that countries in the region cannot be expected to recover to pre-crisis levels until at least 2022. In its 2021 Article IV mission report for St Kitts published July 2021, the IMF projected a small further decline in GDP of 1% in 2021, followed by 10% growth in 2022.

Domestically, the Tourism industry, which is a key economic driver on which the island is heavily reliant, is closely hinged on the performance of the global economy. The tourism industry experienced months of dormancy following the closure of our borders since the onset of the pandemic in early 2020. A follow-up to this was the closure of hotels and tourism related businesses, with a spike in unemployment rates. The prevailing circumstances has affected many of our valued customers, with the Bank extending the financial relief measures that were offered in early 2020 in the form of loan moratoria and loan restructuring.

Despite the challenges posed by COVID-19, the Tourism sector is currently showing significant signs of recovery with the addition of several cruise calls and extra American Airlines flights to its winter roster. This increase in cruise arrivals and flights is scheduled to continue throughout 2021. The federation has also witnessed a steady improvement in stay-over arrivals when compared to last year. The improvement in tourism activity is expected to boost economic activity which opens new opportunities for the Bank to boost earnings.

Notwithstanding the setbacks imposed by the pandemic, the Bank is well poised to progress and achieve its strategic priorities aimed at improving our banking footprint. The Bank continues in its efforts to implement strategies to boost the Bank's earnings in addition to growing the loan portfolio to bolster our earnings and relieve the heavy reliance on investment income. The Bank has also looked for other avenues to increase its fee income, for example by segmentation of the Debit Card Portfolio with the issuance of the Platinum Debit card, pricing revisions following in-depth analysis of the Acquiring portfolio and renegotiation of Contractual Agreements with Third Party providers. Marketing campaigns such as CASHLESS SKN and Referral campaigns were run to increase interchange commissions by increased card usage and also increase the credit card portfolio.

In this environment, St. Kitts-Nevis-Anguilla National Bank Group reports another successful year of operations.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for the year was $13.5 million, a decrease of $9.2 million or 40.5% when compared with $22.7 million reported for 2020. This year-over-year decrease in net interest income stemmed from lower interest income and higher interest expenses for the period. (See Table 1)

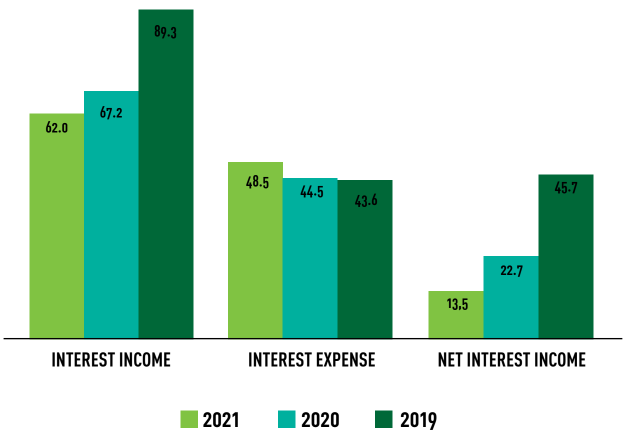
Lower interest income was earned on investments following the reduction of yields on overseas debt securities and term deposits, whilst interest expenses increased primarily on fixed deposits during the year. Consequently, the Bank's net interest margin (net interest income as a percentage of average assets) decreased to 0.4% in 2021 from 0.8% in 2020.

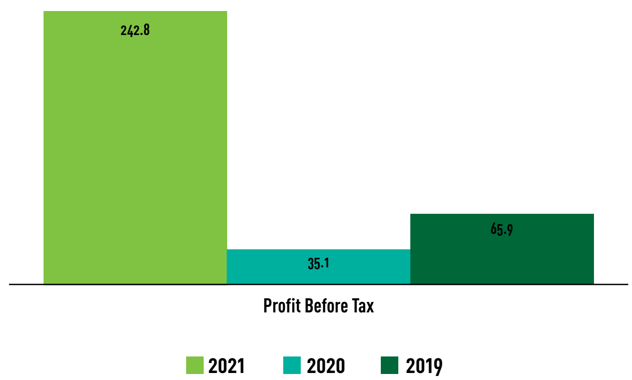
Table 1

(In Millions)	2021	2020	Change $	Change %
Interest Income	**62.0**	**67.2**	**(5.2)**	**(7.7)**
Loans & Advances	38.4	36.3	2.1	5.8
Investments	23.6	30.9	(7.3)	(23.6)
Interest Expense	**48.5**	**44.5**	**4.0**	**9.0**
Demand	1.0	1.0	0.0	0.0
Savings	10.9	10.0	0.9	9.0
Time	36.1	33.5	2.6	7.8
Other	0.5	0.0	0.5	100.0
Net Interest Income	**13.5**	**22.7**	**(9.2)**	**(40.5)**

Table 2

(In Millions)	2021	2020	Change $	Change %
Fee and Commission Income	17.1	18.7	(1.6)	(8.6)
Dividend	7.6	9.1	(1.5)	(16.5)
Net Gain on Investments	287.1	78.8	208.3	264.3
Net Insurance related income	40.6	38.7	1.9	4.9
Foreign Exchange gains	5.7	5.7	0.0	0.0
Other	1.0	0.5	0.5	100.0
Non-Interest Income	**359.1**	**151.5**	**207.6**	**137.0**





Non-Interest Income

Non-interest income increased by $207.6 million or 137% when compared with 2020. During the review period, the stock market in the United States posted solid gains from strong investor enthusiasm amidst the COVID-19 pandemic. Resultantly, the Bank was strategically positioned to realize substantial gains from its investment portfolio. These gains were the main driver of the rise in total non-interest income for 2021 when compared to the same period in 2020.

Excluding the lower dividend income and fee income, all other categories of non-interest income showed year-over-year growth. Insurance related income rose by $1.9 million or 4.9%, miscellaneous income increased by $1.0 million or 100.0%, while fees and commission from card income decreased by $1.6 million or 8.7% in 2021 over 2020, and dividends declined by $1.5 million or 16.5% in 2021 when compared to the $9.1 million recorded for 2020. (see table 2)

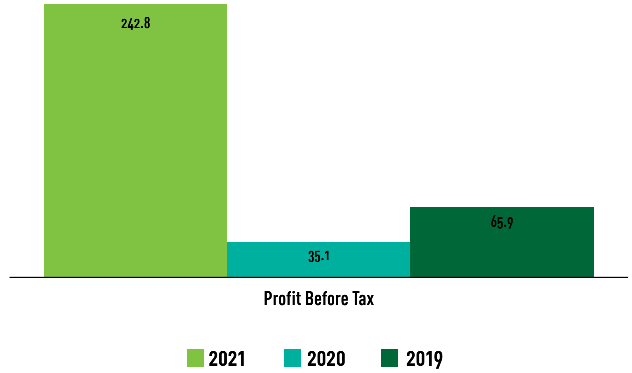
Non-Interest Expenses

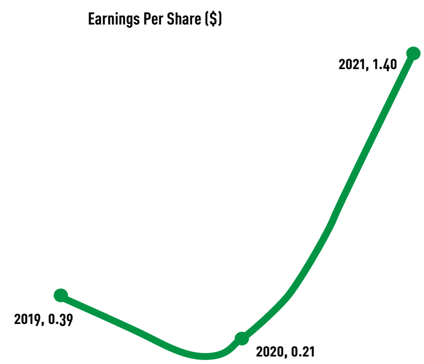
In 2021, non-interest expenses decreased by $9.4 million or 6.8% from $139.1 million in 2020 to $129.7 million in 2021. The fall in non-interest expenses was mainly the net result of the reduction in card related fee expenses and impairment charges, and an increase in employment costs and management fees incurred on investments following the growth in the investment portfolio.

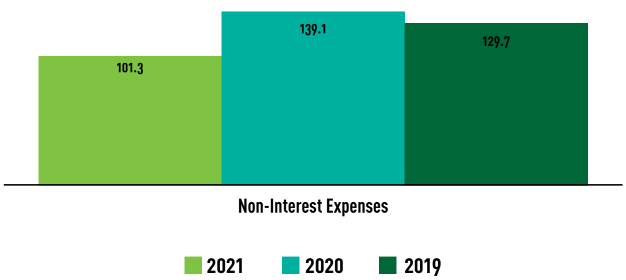
Consequently, before adjustments for impairment, the efficiency ratio fell 2,560 basis points from 53.2% in 2020 to 27.6% in 2021. Similarly, after adjusting for impairment, the efficiency ratio moved downwards from 79.9% in 2020 to 34.8% in 2021. In both instances, the lower efficiency ratio is an indication that operating costs have decreased over the review period.

Table 3

			Change	
(In Millions)	2021	2020	$	%
Administrative and general expenses	61.9	50.3	11.6	23.1
Net Claims incurred	23.0	21.1	1.9	9.0
Fee expenses	12.7	15.8	(3.1)	(19.6)
Impairment charges	26.8	46.5	(19.7)	(42.4)
Depreciation and amortization	3.3	3.5	(0.2)	(5.7)
Directors Fees & Expenses	1.2	1.1	0.1	9.1
Professional fees and related expenses	0.8	0.8	0.0	0.0
Non-Interest Expenses	**129.7**	**139.1**	**(9.4)**	**(6.8)**







Net Income

The net effect of the change in net interest income, non-interest income and non-interest expenses was a $207.7 million or 591.7% increase in net income before tax for 2021 over 2020. Consequently, earnings per share (basic and diluted) increased to $1.40 in 2021 when compared to 2020. (See table 4)

Table 4

			Change	
(In Millions)	2021	2020	$	%
Net Interest Income	$ 13.5	$ 22.7	(9.2)	(40.5)
Non-Interest Income	359.0	151.5	207.5	137.0
Non-Interest Expenses	(129.7)	(139.1)	(9.4)	(6.8)
Net Income (Profit b/f Tax)	**242.8**	**35.1**	**207.7**	**591.7**

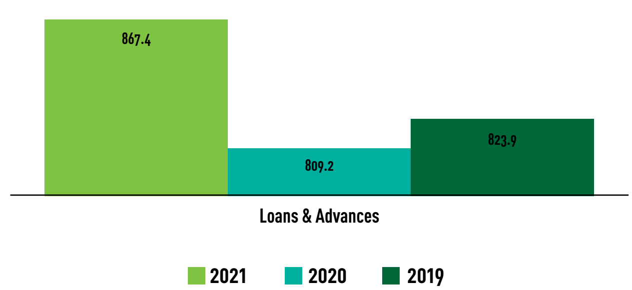
FINANCIAL CONDITIONS

Loans and Advances

Total Loans and Advances to customers increased by $58.2 million or 7.2% to $867.4 million in 2021 over 2020, driven by strong demand for Demand Loans and Mortgages loans.

Demand loans, which were recorded at 324.2 million in 2021, accounted for 63.9% of the total productive loans and advances portfolio. Mortgages, on the other hand, account for 26.0% of the portfolio. All other loan categories accounted for the remaining 10.1%.

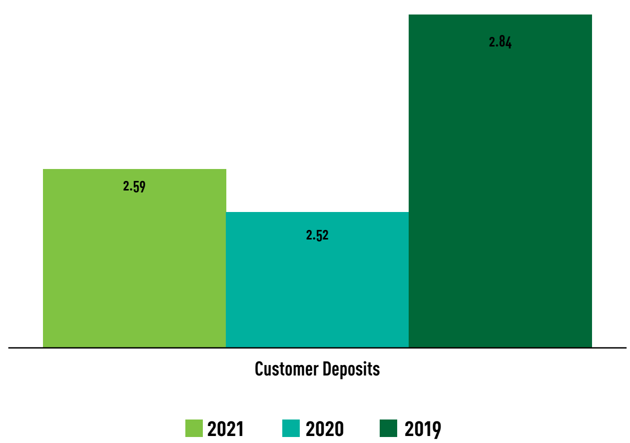
SKNANB's market share of total loans and advances in the Federation of St Kitts and Nevis increased 140 basis points from 42.2% in 2020 to 43.6% in 2021 and when compared to the ECCU, moved up 50 basis points from 6.2% to 6.7% over the same period.

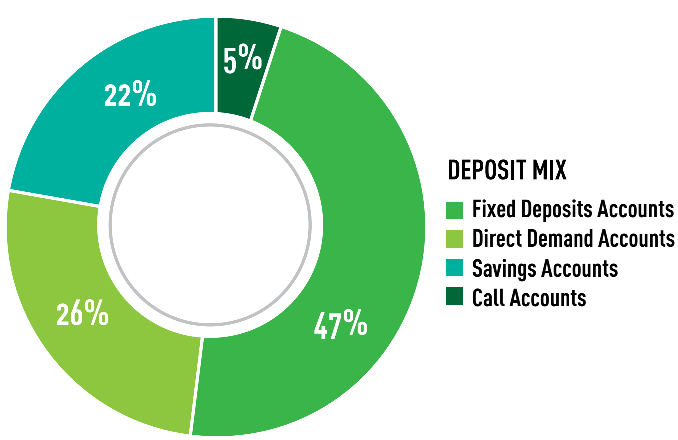


Deposits

Customer deposits grew by $69.5 million or 2.8% to $2.6 billion in 2021 when compared with 2020. Direct demand deposits and savings were the main contributing factors to the rise in customer deposits. Direct demand deposits increased by $84.0 million or 14.2% while savings deposits rose by $18.8 million or 3.3%. All other deposit categories, that is, fixed deposits and call, fell by 0.2% and 20.4% respectively, over 2020.

Interest payments on deposits amounted to $48.5 million in 2021 compared to $44.5 million in 2020. The average effective rate of interest paid on customers' deposits was 1.94% in 2021, compared with 1.75% in 2020.





CAPITAL AND LIQUIDITY

Capital plays an important role against potential risk and acts as a buffer against potential losses. The heightened risk environment in which we operate has prompted the Bank to place an even closer focus by stress testing its capital and monitoring its internal capital adequacy to boost its resilience and ensure that it remains adequately capitalized.

The Group continued to maintain a very strong capital position in financial year 2021, which far exceeds the regulatory minimum requirements. This is evidenced by the robust end of year Tier 1 capital ratio of 38.0% and Basel ratio of 39.0%. This strong capital position has enabled the Group to continually pay dividends to its shareholders. Based on the results for the financial year ended June 2021, the Directors have declared a dividend payment of $0.20 per share. Shareholders' equity has risen by $199.8 million or 32.6% in 2021, return on assets increased significantly to 5.3% in 2021 when compared to 0.8% in 2020, while return on equity also moved upwards to 26.4% in 2021 from 4.7% in 2020.

It is the aim of the Group to maintain a prudent level of provisions for loan losses (PLL) based on the NPLs, and in keeping with ECCB's stipulation for Banks to maintain a minimum PLL to NPL ratio of 60.0% effective January 1, 2022. The bank has set aside $75.6 million in a non-distributable loan loss reserve and will appropriate an additional $66.5 million to that account to bring the total provision on non-performing loans to 60% of the total non-performing loan balance.

The Group also remained highly liquid and maintained a higher level of liquid assets in 2021 over 2020. Total liquid assets maturing within one (1) year were 2.4 billion in 2021 (2020 - $2.0 billion), equal to 65.8% of total assets held to manage liquidity risk, versus 63.1% the previous year. This 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

Risk Management continues to be a key area of focus for St. Kitts-Nevis-Anguilla National Bank Limited. Risk mitigation procedures has heightened during the ongoing COVID-19 pandemic, especially in the areas of liquidity, credit, capital, and earnings risk following increased exposure. During the financial year, the impacts of the pandemic resurfaced following surges in the virus, which led to further rounds of lock downs and curfews. With a number of our valued customers facing continued unemployment, especially those in the tourism sector, the Bank extended the loan moratorium period previously granted to financially affected customers up to March 2022. This has increased the Bank's credit risk exposure, which is closely monitored and mitigated by our credit team in terms of customer outreach, risk assessment and data collection.

The Bank monitors its liquidity daily with liquidity reporting to Management and the Board of Directors, and, in addition to regulatory limits, has internal limits and early warning indicators associated with the availability of high-quality liquid assets and the existence of enough stable funding. We also continue to engage in proactive strategies to monitor liquidity needs in order to mitigate any liquidity risk with regular cash flow forecasting and stress testing.

On a regular basis, the Bank also performs stress testing of its significant assets to determine what impact any factors that may adversely affect the values would have on its capital base and capital ratios. The Bank also maintains an appropriate and diversified mix of securities in its investment portfolio that reflects the Bank's comfort with market volatility to mitigate against potential market risks.

While the Bank has been paying close attention to emerging credit and other financial risks, there is continued focus on managing its Operational risk. All risk events are assessed to determine the effectiveness of existing controls and to identify whether or not additional resources or mitigating measures are to be deployed. All functional areas continuously maintain risk logs so that any area of risk showing increasing trends or impact can be easily identified and addressed in an appropriate manner.

The Board of Directors receives regular reports on the Bank's risk, both at a granular and aggregate level, which facilitates decision-making with respect to resource allocation. The Bank's regulators are also included in the reporting process to ensure that any emerging issue with the potential to adversely impact the ECCU's financial system can be identified and managed in a timely and effective way.

National Caribbean Insurance Company (NCIC)

NCIC achieved a net Income before tax of $15.7 million; a $5.7 million or 57.1% increase over the profit of $10.0 million which was reported for 2020. The rise in profits was mainly attributable to improved performance of the investment portfolio during the year and a reduction in operating expenses.

Net investment income increased by 37.8% from EC$7.4 million to EC$10.2 million. The major contributing factor to this significant increase was net gains from fair value increases in equity investments. The performance of these investments was related to a strong U.S. stock market. Additionally, focus was placed on the diversification of the investment portfolio to manage risks and the return on investments.

Operating expenses fell during the year when compared to the amount incurred for June 2020 due to a reduction of expected credit losses assessed on deposits held with Financial Institutions and investments of $2.0 million.

National Bank Trust Company (St. Kitts Nevis Anguilla)

At the end of June 2021, National Bank Trust Company (St. Kitts Nevis Anguilla) reported a loss of $36.8K when compared to the previous year. This represents a $0.3 million or 112.2% decrease over the previous year's profit before tax.

The loss for financial year 2021 was due mainly to a $0.3 million decrease in total income. This decrease in income was due mainly to a decrease in fees and service charges.

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

The St. Kitts-Nevis Mortgage and Investment Company reported a loss of $0.5 million for the financial year ended June 2021, which remain unchanged from the loss of $0.5 million reported for June 2020.

OUTLOOK

Economists have cited that the economic forecast depends on the COVID-19 pandemic forecast. Globally, the number of new cases identified have leveled off and many economies have rebounded partially, however the prospects of a stronger, more permanent recovery is dependent on the future course of the pandemic.

In the 2021/22 financial year, St. Kitts-Nevis-Anguilla National Bank Group will continue to implement measures to improve profitability, curtail expenses and strengthen its position globally. The recent definitive agreement entered into on October 12, 2021 to acquire the banking operations of the CIBC First Caribbean International Bank in St Kitts and Nevis, which will add to our asset base, is one such strategic move to improve future profitability and strengthen our global position. The acquisition presents an opportunity to increase the customer base and market share, thus the potential to boost earnings.

Furthermore, the Group will continue to adhere to international prudential policies and practices and regulatory standards with regards to capital adequacy and supervision that have tightened over the years. The Eastern Caribbean Central Bank (ECCB) is currently in the process of implementing a Basel II/III hybrid standard with the aim of strengthening the overall framework for assessing the adequacy of Bank's capital, which is predicated on three mutually reinforcing pillars – minimum capital requirements (Pillar 1), supervisory review (Pillar 2) and market discipline (Pillar 3).

Pillar 2, which is the current focus of ECCB, requires Financial Institutions to have adequate capital to support all present material risks and to maintain capital levels over time. One of the principles underlying Pillar 2 is the development of an Internal Capital Adequacy Assessment Process (ICAAP) to assess the overall capital adequacy in relation to risk profile, which the Bank is expected to complete in January 2022. With the increased potential risks faced by the Bank, it calls for the need to hold even greater levels of capital to ensure that adequate capital levels are maintained to support the operations and all types of risks.

In the upcoming months, the Bank will focus on the development and implementation of a sound capital assessment and planning process that is sufficiently comprehensive, appropriately forward-looking, and adequately formalized that would enable the Board and Senior management to make informed decisions on the appropriate amount and composition of capital needed to support the Bank's business strategies.

In the new financial year, we will continue to face our challenges with courage and resilience. The threat of narrowing net interest margins brought about by the increasing competitiveness in the marketplace for high quality assets will require new initiatives to stay ahead of the market. We will continue to deepen the relationships with our customers and other stakeholders with the aim of improving service delivery.

Donald Thompson
CHIEF EXECUTIVE OFFICER

Re-Imagining The Future...
POWERED BY A PROUD PAST

WE MISS YOU TOO!

Even though we see many of you less and less as you transition to online and convenient banking options, we always welcome the brief in-person interactions and the chance to see a familiar face – albeit behind a mask! We know how important it is to protect our team and all our loyal customers from the virus but there is no feeling that equals seeing a customer you have been with from their first savings account to seeing them move into their home and start a family – behind all the technology...and masks, we are all just people helping people to achieve their dreams.

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

(expressed in thousands of Eastern Caribbean Dollars)

Grant Thornton
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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, 2021, 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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

Originated debts on the Group's consolidated statement of financial position include 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 notes 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 $36,242,620 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 ("ISA"). 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 judgement, 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 statements 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 matters described below to be the key audit matters to be communicated in our report.

Expected credit losses ("ECL") of financial assets

Description of the Matter

The ECL of financial assets is a key audit matter, as it requires the application of critical management judgement and use of subjective estimates in determining the amount of ECL that are required to be recognised in the consolidated financial statements. As of June 30, 2021, the Group's financial assets with credit risk that are subject to ECL assessment amounted to $1,776,703,000 which represents 48% of total assets.

Accordingly, the Group used the ECL model in determining the credit loss allowance for its financial assets. Under IFRS 9, the assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of default occurring, the associated loss ratio and of default correlation between counterparties. Furthermore, the Group incorporates forward-looking information into the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition to the measurement date of ECL. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

The disclosures relating to the credit loss allowances for the financial assets, and the related credit risk are included in notes 3 to 10, 16 and 32 to the consolidated financial statements.

How the Matter was addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the adequacy of the ECL allowance on the financial assets, which was considered to be a significant risk, included the following:

- Obtained an understanding of and critically assessed the Group's updated accounting policies relating to the classification, measurement and ECL assessment of financial assets;

- Assessed and evaluated the effectiveness of controls over the approval, recording and monitoring of financial assets, classification into credit risk stages, and calculation of ECL allowance;

- Evaluated the inputs and assumptions, as well as the formulae used in the development of the ECL models for the various financial assets. This includes assessing the appropriateness of design of the ECL impairment model and formulae used in determining the ECL;

- Evaluated the classification of credit-impaired loans and advances to customers to stage 3 for completeness of the population of loans and advances to customers included in the stage 3 ECL calculation. Independently tested the accuracy of management's stage 3 ECL calculation on a sample basis;

Key Audit Matters *...continued*

Expected credit losses ("ECL") of financial assets *...continued*

How the Matter was addressed in the Audit ...continued

- Examined the collateral values recorded by management by comparing them to independent valuation reports of independent professional valuators;
- Assessed the estimated costs and time to sell pledged collaterals used in the ECL calculation for reasonableness; and
- Assessed the key credit risk factors such as default history, macro-economic factors and financial capability of counterparties.

Fair value measurement of investment securities

Description of the Matter

The Group has investment securities measured at fair value amounting to $1,351,252,000. A significant portion of these investment securities amounting to $89,197,000 do not trade in active markets with quoted prices. The valuation of these financial instruments have a higher estimation uncertainty due to the use of observable and unobservable data and various assumptions, using complex valuation models. The use of different valuation techniques and assumptions could result in significantly different estimates of fair value. Accordingly, we have assessed the valuation of the investment securities as a key audit matter.

How the Matter was addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the fair value of investment securities that do not trade in active markets, included the following:

- We used an independent valuation expert to develop an independent estimated fair value for a sample of investment securities that do not trade in an active market on a test basis, including level 2 and level 3 investment securities. The estimate was based on an independently developed discounted cash flow model, an option adjusted model, or a fundamental analysis to determine the price. The valuation specialist used data available for the equity, fixed income and other types of financial instruments collected independently.
- We recomputed the fair values for local and regional equity securities based on the inputs and compared to the fair values used by management in the consolidated financial statements; and
- We obtained and assessed the Service Organization Control (SOC1) Type II report on the description of the Group's Investment Custodians' operations systems and the suitability of the design and operating effectiveness of their controls.

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 IFRS, 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 ISA 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 ISA, we exercise professional judgement 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.

- 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.

Grant Thornton

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

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 Lisa M. Roberts.

Grant Thornton

Chartered Accountants
November 19, 2021
Basseterre, St. Kitts

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Consolidated Statement of Financial Position
As of June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2021 $	2020 $
Assets			
Cash and balances with Central Bank	5	**214,066**	185,395
Treasury bills	6	**70,708**	69,898
Deposits with other financial institutions	7	**441,191**	458,554
Loans and advances to customers	8	**867,445**	809,249
Originated debts	9	**110,312**	136,597
Financial asset	32	**566,505**	568,409
Investment securities	10	**1,351,252**	982,603
Property inventory	11	**8,565**	8,565
Investment property	12	**4,040**	4,040
Income tax recoverable	19	**1,030**	28,587
Property and equipment	13	**38,153**	38,424
Intangible assets	14	**421**	458
Right of use assets	15	**1,882**	1,137
Other assets	16	**57,283**	51,414
Deferred tax asset	19	**4,178**	16,591
Total assets		**3,737,031**	3,359,921
Liabilities			
Customers' deposits	17	**2,595,318**	2,525,825
Borrowings	10	**42,942**	–
Accumulated provisions, creditors and accruals	18	**260,478**	208,254
Acceptances, guarantees and letters of credit		**6,375**	6,375
Income tax liability	19	**13,460**	1,992
Lease liabilities	15	**1,909**	1,127
Deferred tax liability	19	**3,780**	3,359
Total liabilities		**2,924,262**	2,746,932
Shareholders' equity			
Issued share capital	20	**135,000**	135,000
Share premium		**3,877**	3,877
Reserves	21	**383,115**	354,755
Retained earnings		**290,777**	119,357
Total shareholders' equity		**812,769**	612,989
Total liabilities and shareholders' equity		**3,737,031**	3,359,921

The accompanying notes are an integral part of these consolidated financial statements.

Approved for issue by the Board of Directors on November 19, 2021.

Chairman **Director**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Consolidated Statement of Income
For the year ended June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2021 $	2020 $
Interest income	22	**62,023**	67,162
Interest expense	22	**(48,466)**	(44,494)
Net interest income		**13,557**	22,668
Fees and commission income	23	**17,118**	18,749
Fees expenses	23	**(12,736)**	(15,750)
Net fees and commission income		**4,382**	2,999
Other income, net	24	**341,950**	132,725
Operating income		**359,889**	158,392
Operating expenses			
Credit impairment charges	26	**26,768**	46,501
Administrative and general expenses	25	**61,970**	50,312
Other expenses	27	**28,285**	26,499
Total operating expenses		**117,023**	123,312
Net income before tax		**242,866**	35,080
Income tax expense	19	**(54,498)**	(6,698)
Net income for the year		**188,368**	28,382
Earnings per share (basic and diluted)	28	**1.40**	0.21

The accompanying notes are an integral part of these consolidated financial statements.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Consolidated Statement of Comprehensive Income
For the year ended June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2021 $	2020 $
Net income for the year		**188,368**	28,382
Other comprehensive income/(loss), net of tax:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Financial assets measured at FVOCI – debt instruments:			
Net unrealised gains on investment securities, net of tax	21	**3,302**	737
Expected credit losses recognised on FVOCI – debt securities	21	**48**	–
Reclassification adjustments for net losses included in income, net of tax	21	**(1,968)**	(9)
		1,382	728
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation surplus	21	**–**	6,263
Financial assets measured at FVOCI – equity instruments:			
Net unrealised gains due to changes in fair value, net of tax	21	**24,035**	3,632
Realised losses, net of tax	21	**(14,886)**	(10,261)
Re-measurement gain/(loss) on defined benefit asset, net of tax	21	**881**	(2,350)
		10,030	(8,979)
Total other comprehensive income/(loss) for the year		**11,412**	(1,988)
Total comprehensive income for the year		**199,780**	26,394

The accompanying notes are an integral part of these consolidated financial statements.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Consolidated Statement of Changes in Shareholders' Equity
For the year ended June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

	Notes	Issued share capital $	Share premium $	Reserves $	Retained earnings $	Total $
Balance at July 1, 2019		**135,000**	**3,877**	**339,773**	**128,195**	**606,845**
Net income for the year		–	–	–	28,382	28,382
Other comprehensive loss		–	–	8,273	(10,261)	(1,988)
Total comprehensive income for the year		**–**	**–**	**8,273**	**18,121**	**26,394**
Transfer to reserves	21	–	–	6,709	(6,709)	–
Transaction with owners						
Dividends	29	–	–	–	(20,250)	(20,250)
Balance at June 30, 2020		**135,000**	**3,877**	**354,755**	**119,357**	**612,989**
Net income for the year		–	–	–	188,368	188,368
Other comprehensive income		–	–	26,298	(14,886)	11,412
Total comprehensive income for the year		**–**	**–**	**26,298**	**173,482**	**199,780**
Transfer to reserves	21	–	–	2,062	(2,062)	–
Balance at June 30, 2021		**135,000**	**3,877**	**383,115**	**290,777**	**812,769**

The accompanying notes are an integral part of these consolidated financial statements.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Consolidated Statement of Cash Flows
For the year ended June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2021 $	2020 $
Cash flows from operating activities			
Net income before tax		**242,866**	35,080
Adjustments for items not affecting cash:			
Interest expense	22	**48,466**	44,494
Credit and other impairment charges	26	**26,768**	46,501
Depreciation and amortisation	13, 14, 15	**3,335**	3,529
Pension expense	34	**844**	818
Revaluation loss on land and buildings	13	**–**	223
Gain on disposal of property and equipment		**–**	(9)
Dividend income	24	**(7,557)**	(9,114)
Interest income	22	**(62,023)**	(67,162)
Fair value (gains)/losses on FVTPL investment securities		**(84,933)**	115,614
Operating income before changes in operating assets and liabilities		**167,766**	169,974
(Increase)/decrease in operating assets:			
Loans and advances to customers		**(80,781)**	(27,147)
Mandatory deposits with Central Bank		**(13,653)**	14,264
Other assets		**(8,495)**	8,224
Financial asset		**–**	101,500
Increase/(decrease) in operating liabilities:			
Customers' deposits		**69,984**	(315,600)
Accumulated provisions, creditors and accruals		**52,224**	(17,732)
Due to other financial institutions		**–**	(124)
Cash generated from/(used in) operations		**187,045**	(66,641)
Interest received		**51,507**	57,901
Pension contributions paid	34	**(2,095)**	(1,810)
Income tax paid	19	**(10,839)**	(17,775)
Interest paid		**(48,902)**	(43,177)
Net cash generated from/(used in) operating activities		**176,716**	(71,502)
Cash flows from investing activities			
Disposal of investment securities and originated debts		**749,633**	1,759,557
Decrease/(increase) in term deposits and treasury bills		**66,892**	(184)
Interest received		**12,848**	18,466
Dividends received		**7,557**	9,114
Proceeds from disposal of property and equipment		**169**	81
Acquisition of property inventory	11	**–**	(12)
Acquisition of intangible assets	14	**(210)**	(56)
Purchase of equipment	13	**(2,248)**	(1,109)
Purchase of investment securities and originated debts		**(1,043,801)**	(1,947,913)
Net cash used in investing activities		**(209,160)**	(162,056)
Subtotal carried forward		**(32,444)**	(233,558)

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Consolidated Statement of Cash Flows
For the year ended June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2021 $	2020 $
Subtotal brought forward		**(32,444)**	(233,558)
Cash flows from financing activities			
Repayments of lease liabilities	15	**(701)**	(776)
Interest paid on lease liabilities	15	**(55)**	(43)
Dividends paid	29	**–**	(20,250)
Net cash used in financing activities		**(756)**	(21,069)
Net decrease in cash and cash equivalents		**(33,200)**	(254,627)
Cash and cash equivalents, beginning of year		**409,415**	664,042
Cash and cash equivalents, end of year	33	**376,215**	409,415

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in thousands of Eastern Caribbean dollars)

1 Incorporation and principal activity

St. Kitts-Nevis-Anguilla National Bank Limited (the "Bank") was incorporated as a 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 a public company 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 being primarily commercial banking and investment activities. The Bank is regulated by the Eastern Caribbean Central Bank ("the Central Bank" or "ECCB").

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 January 26, 1972 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 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 June 20, 1973 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 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 May 25, 2001 under the Companies Act No. 22 of 1996 and commenced operations on May 13, 2002.

  MICO acts as the real estate arm of the Group 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, and in accordance with the going concern assumption.

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 standards and amendments effective for the financial year beginning July 1, 2020

- Amendment to IFRS 16, *Covid-19 Related Rent Concessions*;
- Amendments to references to the Conceptual Framework in IFRS Standards;
- *Definition of a Business* (Amendments to IFRS 3);
- *Definition of Material* (Amendments to IAS 1 and IAS 8); and,
- *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7).

These amendments do not have a material impact on these consolidated financial statements and therefore the disclosures have not been made.

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. These standards are not expected to have a material impact on the Group's consolidated financial statements in future reporting periods and on foreseeable future transactions.

(expressed in thousands of Eastern Caribbean dollars)

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 17, Insurance Contracts (effective from January 1, 2023)

IFRS 17 was issued in May 2017 as replacement for IFRS 4, Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Group has commenced the review of this standard.

Other standards and amendments that are not yet effective and have not been adopted early by the Group include:

- COVID-19 related rent concessions – Amendments to IFRS 16;
- Classification of liabilities as current – Amendments to IAS 1;
- Property, Plant and Equipment – Proceeds before intended use – Amendments to IAS 16;
- Reference to the Conceptual Framework – Amendments to IFRS 3;
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37;
- Annual Improvements to IFRS Standards 2018 – 2020;
- Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28;
- Disclosure of accounting policies – Amendments to IAS 1;
- Definition of accounting estimates – Amendments to IAS 8; and
- Deferred tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12.

These amendments are not expected to have a significant impact on the consolidated financial statements in the period of initial application and therefore the disclosures have not been made.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.3 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of June 30, 2021. 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 Groups. 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.

2.5 Financial assets and liabilities

Classification and measurement

The Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

i) Debt instruments

Debt instruments are those instruments that contain contractual obligations to pay the instrument holder certain cash flows, such as government and corporate bonds, and loans and receivables.

Classification and subsequent measurement of debt instruments depend on:

- the Group’s business model for managing the asset; and
- the cash flow characteristics of the asset.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Classification and measurement *...continued*

i) Debt instruments ...continued

Business model test:

Business model reflects the objective of the Group holding different assets. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are held for trading purposes and are measured at FVTPL.

Solely payments of principal and interest (SPPI) test:

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognized in profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be infrequent and none occurred during the period.

2 Significant accounting policies *…continued*

2.5 Financial assets and liabilities *…continued*

Classification and measurement *…continued*

ii) Equity instruments

Equity instruments are instruments that do not contain contractual obligations to pay the instrument holder and that evidence residual interests in the issuer's net assets. The Group subsequently measures all equity investments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI.

The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Credit risk measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'stage 1'. Financial instruments in stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet deemed to be credit-impaired. Instruments in stage 2 have their ECL measured based on expected credit losses on a lifetime basis.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'stage 3'. Instruments in stage 3 have their ECL measured based on expected credit losses on a lifetime basis.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis.

For debt securities, the Group examines the issuer's capital adequacy, financial performance, liquidity position, and credit rating to assess whether the issuer has experience significant increase in credit risk since the origination of the assets. When no external credit rating is available, the Group assigns internal credit rating based on internal risk criteria. The Group also considers if there is any negative press or adverse market information that may indicate changes in credit risk.

For loans and advances and other receivables, delinquency status is utilized as the main indicator for changes in credit risk. Credit management actions are triggered by movement in days past due. Other qualitative factors are considered, which include but are not limited to:

- Early signs of cash flow/liquidity problems;
- In short-term forbearance;
- Known adverse change in financial conditions; and,
- Known adverse changes in business or economic conditions in which the borrower operates.

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Credit risk measurement *...continued*

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a SICR if:

- An obligor's external or internal credit rating is downgraded to below investment grade (BB+/Ba1, its internal equivalent or lower) compared to the rating at initial recognition;
- A below investment grade instrument is lowered by 2 or multiple notches; or
- Payment of principal and/or interest is more than 30 days past due.

If one or more of the above conditions are satisfied, the financial asset is transferred to stage 2 from stage 1. The assignment of a financial instrument to stage 3 will be based on the status of the obligor being in default. Assets in stage 2 or 3 will be transferred back to stage 1 or 2 once the criteria for significant increase in credit risk or impairment are no longer met.

The staging assessment requires the Group to monitor credit risk through regular credit reviews or other monitoring at a counterparty level. All loans and investment securities held by the Group are allocated to a credit quality rating or risk grade (internal or external) based on the most recent review, using forward-looking and other available information on an annual basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by Management.

Backstop

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

If an asset is in investment grade at reporting date, it will be in stage 1 irrespective of its origination rating. With respect to loans and advances to customers however, the Group has not used the low credit risk exemption for any of those financial instruments for the years ended June 30, 2021 and June 30, 2020.

Default

For debt securities, default is defined as having missed the contractual payments of principal or interest. For loans and advances, and other receivables, the Group defines default based on the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

2.5 Financial assets and liabilities *...continued*

Credit risk measurement *...continued*

Default ...continued

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. Examples of these instances are:

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent;
- The borrower is in breach of financial covenants.

The criteria above are consistent with the definition of default used for internal credit risk management purposes.

Impairment measurement

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instruments carried at amortised cost and FVOCI and with the exposure arising from loan commitments. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. PD is generated based on historical default data of each portfolio.

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). EAD is assessed based on contractual terms of the debt instrument.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, availability of collateral or other credit support, and historical recovery information.

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Impairment measurement*...continued*

ECL is determined by projecting the PD, LGD and EAD for future periods and for each individual exposure or collective segment. These three components are multiplied together and discounted back to the reporting date using the effective interest rate. For expected credit loss provisions modelled on a collective basis, a group of exposures is assessed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Forward looking information

When incorporating forward looking information, such as macroeconomic forecasts, into the determination of expected credit losses, the Group considers the relevance of the information for each specific group of financial instruments. The macroeconomic indicators utilised include, but are not limited to, GDP growth and unemployment rate. These variables and their associated impact on the ECL varies by financial instrument.

In addition to the base economic scenario, the Group also incorporates upside and downside scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each product type to ensure non-linearities are captured. The attributes of scenarios are reassessed at each reporting date. The scenario weightings take account of the range of possible outcomes of which each chosen scenario is representative.

Derecognition of financial assets

Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the consolidated statement of financial position as ‘Pledged assets’, if the transferee has the right to sell or repledge them. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the consolidated statement of financial position as ‘Pledged assets’, if the transferee has the right to sell or repledge them.

Financial liabilities

Financial liabilities 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, borrowings, acceptances, guarantees and letters of credit and accumulated provisions, creditors and accruals and other liabilities.

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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.

2.6 Employee benefits

i) 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.

ii) 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.

iii) Pension plan

The Group operates a defined benefit plan. The administration of the plan is conducted by the Insurance Company, 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.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *...continued*

2.6 Employee benefits *...continued*

iii) 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.

2.7 Property 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 the consolidated statement of 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 bases:

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
Right-of-use assets:	3 – 10 years

2 Significant accounting policies *...continued*

2.7 Property 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 the 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 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.

2.8 Intangible assets

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

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.

2.9 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.

2.10 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*

2.10 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 recognised 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*

2.10 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 recognised 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*

2.10 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.

2.11 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.

2.12 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*

2.13 Leased assets

For any new contracts entered, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets, if any, using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

2 Significant accounting policies *...continued*

2.13 Leased assets*...continued*

Measurement and recognition of leases as a lessee ...continued

The right-of-use assets and lease liabilities have been disclosed separately on the consolidated statement of financial position.

2.14 Revenue recognition

The Group determines whether to recognize revenue based on a 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognising revenue when/as performance obligation(s) are satisfied.

The Group's revenue generating activities are described below.

i) 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.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.14 Revenue recognition*…continued*

ii) 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.

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

iv) 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.

v) Property sales
Revenue from property sales is recognised when title of the properties has passed to the buyer.

2.15 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.

2.16 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. The values presented in the consolidated financial statements have been rounded to the nearest thousands unless otherwise stated.

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

2 Significant accounting policies *...continued*

2.17 Equity, reserves and dividend payments

i) Issued share capital and share premium
Issued share capital represents the proceeds 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.

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

iii) Other components of equity

Other components of equity include the following:
- *Statutory reserve* – reserve fund as per the regulatory requirement;
- *Revaluation reserve* – represents gains and losses from the revaluation of land and buildings;
- *Fair value reserves – FVOCI* – represent unrealised gains and losses from changes in the fair value of the FVOCI investment securities; and
- *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 reserve and general reserve.

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

2.18 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 realised, or deferred tax liability is settled.

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.

2 Significant accounting policies *...continued*

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

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%. Refer to note 19 for details of the temporary COVID-19 stimulus package tax relief that was granted effective April 1, 2020 up to June 30, 2021.

(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.

2.19 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.

2.20 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.

(expressed in thousands of Eastern Caribbean dollars)

2 Significant accounting policies *…continued*

2.21 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.

2.22 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.

2.23 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.

2.24 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.

2.25 Comparatives

The classification of certain items in the consolidated financial statements has been changed from the prior period to achieve a clearer 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 financial and insurance risks are credit risk, liquidity risk, market risk, insurance risk (property, casual and life insurance risk) and other operational risk. Market risk includes foreign exchange 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.

i) Loans and advances to customers

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 IFRS 9, which are based on an expected credit loss model approach.

3 Management of financial and insurance risks *…continued*

3.1 Credit risk *…continued*

i) 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 Group'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

ii) 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 Groups 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.

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

3.1 Credit risk *...continued*

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

Other specific controls and mitigation measures are outlined below:

i) 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; and
- 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.

ii) 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 debt securities and other financial assets at amortised cost are summarised as follows in the consolidated financial statements:

	Deposits with other financial institutions (term deposits) $	Treasury bills $	Originated debts $	Financial asset $	Debt securities – FVOCI $	Other assets $	Total $
Credit grade:							
Investment grade	44,865	–	–	–	41,929	11,434	98,228
Non–investment grade	47,537	70,749	74,350	569,617	1,742	14,941	778,936
Default	–	–	36,243	–	–	5,158	41,401
Gross carrying amount	92,402	70,749	110,593	569,617	43,671	31,533	918,565
Loss allowance	(141)	(41)	(281)	(3,112)	(48)	(5,684)	(9,307)
Carrying amount as at June 30, 2021	**92,261**	**70,708**	**110,312**	**566,505**	**43,623**	**25,849**	**909,258**
Credit grade:							
Investment grade	42,969	–	27,164	–	44,932	10,858	125,923
Non–investment grade	61,272	70,252	74,205	569,982	3,019	12,773	791,503
Default	–	–	36,243	–	–	–	36,243
Gross carrying amount	104,241	70,252	137,612	569,982	47,951	23,631	953,669
Loss allowance	(316)	(354)	(1,015)	(1,573)	(477)	(525)	(4,260)
Carrying amount as at June 30, 2020	**103,925**	**69,898**	**136,597**	**568,409**	**47,474**	**23,106**	**949,409**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(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 *...continued*

The loans and advances to customers are summarised as follows in the consolidated financial statements:

	Loans $	Overdrafts $	Credit cards $	Total $
Credit grade:				
Performing	476,110	13,116	8,954	498,180
Under-performing	10,799	–	373	11,172
Non–performing	355,338	74,462	886	430,686
Gross carrying amount	842,247	87,578	10,213	940,038
Loss allowance	(49,225)	(21,783)	(1,585)	(72,593)
Carrying amount as at June 30, 2021	**793,022**	**65,795**	**8,628**	**867,445**
Credit grade:				
Performing	404,018	14,517	7,611	426,146
Under-performing	9,468	–	712	10,180
Non–performing	385,556	84,342	788	470,686
Gross carrying amount	799,042	98,859	9,111	907,012
Loss allowance	(65,061)	(30,964)	(1,738)	(97,763)
Carrying amount as at June 30, 2020	**733,981**	**67,895**	**7,373**	**809,249**

(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 *...continued*

The following tables contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

Debt securities and other financial assets at amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Total $**
Credit grade:				
Investment grade	98,228	–	–	98,228
Non–investment grade	740,349	30,590	7,997	778,936
Default	–	–	41,401	41,401
Gross carrying amount	838,577	30,590	49,398	918,565
Loss allowance	(937)	(2,687)	(5,683)	(9,307)
Carrying amount as at June 30, 2021	**837,640**	**27,903**	**43,715**	**909,258**
Credit grade:				
Investment grade	120,085	–	5,838	125,923
Non–investment grade	760,158	31,051	294	791,503
Default	–	–	36,243	36,243
Gross carrying amount	880,243	31,051	42,375	953,669
Loss allowance	(2,004)	(1,731)	(525)	(4,260)
Carrying amount as at June 30, 2020	**878,239**	**29,320**	**41,850**	**949,409**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(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 *...continued*

Loans and advances to customers	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Total $**
Credit grade:				
Performing	498,180	–	–	498,180
Under-performing	–	11,172	–	11,172
Non–performing	–	–	430,686	430,686
Gross carrying amount	498,180	11,172	430,686	940,038
Loss allowance	(4,627)	(876)	(67,090)	(72,593)
Carrying amount as at June 30, 2021	**493,553**	**10,296**	**363,596**	**867,445**
Credit grade:				
Performing	426,146	–	–	426,146
Under-performing	–	10,180	–	10,180
Non–performing	–	–	470,686	470,686
Gross carrying amount	426,146	10,180	470,686	907,012
Loss allowance	(4,740)	(1,075)	(91,948)	(97,763)
Carrying amount as at June 30, 2020	**421,406**	**9,105**	**378,738**	**809,249**

Loss allowances

The allowance for ECL is recognised in each reporting period and is impacted by a variety of factors, as described below:

- Transfers between stages due to financial assets experiencing significant movement in credit risk or becoming credit-impaired during the period;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to inputs used in the calculation including the movement between 12-month and lifetime ECL;
- Impacts on the measurement of ECL due to changes made to models and model assumptions; and
- Foreign exchange retranslations for assets denominated in foreign currencies.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(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 *...continued*

Loss allowances *...continued*

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Debt securities and other financial assets at amortised cost	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 Lifetime ECL $**	**Total $**
Loss allowance as at June 30, 2020	2,004	1,731	525	4,260
New financial assets originated or purchased	254	–	–	254
Financial assets fully derecognised during the year	(1,415)	–	–	(1,415)
Changes to inputs used in ECL calculation	94	956	5,158	6,208
Loss allowance as at June 30, 2021	**937**	**2,687**	**5,683**	**9,307**
Loss allowance as at June 30, 2019	742	147	525	1,414
Transfers:				
Transfer from stage 2 to stage 1	7	(7)	–	–
New financial assets originated or purchased	1,241	–	–	1,241
Financial assets fully derecognised during the year	(491)	–	–	(491)
Changes to inputs used in ECL calculation	505	1,591	–	2,096
Loss allowance as at June 30, 2020	**2,004**	**1,731**	**525**	**4,260**

(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 *...continued*

Loss allowances *...continued*

Loans and advances to customers	Stage 1 12–month ECL $	Stage 2 lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Loss allowance as at June 30, 2020	4,740	1,075	91,948	97,763
Transfers:				
Transfer from stage 1 to stage 2	(68)	68	–	–
Transfer from stage 1 to stage 3	(12)	–	12	–
Transfer from stage 2 to stage 1	305	(305)	–	–
Transfer from stage 2 to stage 3	–	(106)	106	–
Transfer from stage 3 to stage 1	75	–	(75)	–
Transfer from stage 3 to stage 2	–	9	(9)	–
New financial assets originated or purchased	785	45	19	849
Financial assets fully derecognised during the year	(152)	(36)	(46,704)	(46,892)
Changes to inputs used in ECL calculation	(1,046)	126	21,793	20,873
Loss allowance as at June 30, 2021	**4,627**	**876**	**67,090**	**72,593**
Loss allowance as at June 30, 2019	1,872	607	75,372	77,851
Transfers:				
Transfer from stage 1 to stage 2	(35)	35	–	–
Transfer from stage 1 to stage 3	(424)	–	424	–
Transfer from stage 2 to stage 1	343	(343)	–	–
Transfer from stage 2 to stage 3	–	(124)	124	–
Transfer from stage 3 to stage 1	88	–	(88)	–
Transfer from stage 3 to stage 2	–	41	(41)	–
New financial assets originated or purchased	426	42	91	559
Financial assets fully derecognised during the year	(138)	(37)	(23,568)	(23,743)
Changes to inputs used in ECL calculation	2,608	854	39,634	43,096
Loss allowance as at June 30, 2020	**4,740**	**1,075**	**91,948**	**97,763**

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $148,198 (2020: $151,571). The loan loss provision calculated under IFRS 9 for the loans held by the Group amounted to $72,593 (2020: $97,763). When the ECCB loan loss provision is greater than the loan loss provision calculated under IFRS 9, the difference is set aside as a non-distributable reserve through equity. As of June 30, 2021, the loan loss provision calculated under IFRS 9 was less than the ECCB provision for the loans held by the Group. Therefore, a non-distributable reserve through equity was required at the reporting date and is included in other reserves in equity (note 21). The gross carrying value of impaired loans at the year-end was $419,174 (2020: $470,686).

(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 *…continued*

Loss allowances *…continued*

Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $59,675 (2020: $78,247) and is included in other reserves in equity (note 21).

IFRS 9 carrying values

The following tables explain the changes in the carrying value between the beginning and the end of the year. The gross carrying amounts of financial assets below represent the Group's maximum exposure to credit risk on these assets.

Debt securities and other financial assets at amortised cost	Stage 1 12-month ECL $	Stage 2 lifetime ECL $	Stage 3 Lifetime ECL $	Total $
Gross carrying amount as at June 30, 2020	880,243	31,051	42,375	953,669
New financial assets originated or purchased	201,239	–	5,158	206,397
Financial assets fully derecognised during the year	(203,327)	–	–	(203,327)
Changes in principal and interest	(39,578)	(461)	1,865	(38,174)
Gross carrying amount at June 30, 2021	**838,577**	**30,590**	**49,398**	**918,565**
Gross carrying amount as at June 30, 2019	1,271,314	769	42,627	1,314,710
Transfers:				
Transfer from stage 1 to stage 2	(30,589)	30,589	–	–
Transfer from stage 2 to stage 1	325	(325)	–	–
New financial assets originated or purchased	327,850	–	–	327,850
Financial assets fully derecognised during the year	(688,104)	–	–	(688,104)
Changes in principal and interest	(553)	18	(252)	(787)
Gross carrying amount as at June 30, 2020	**880,243**	**31,051**	**42,375**	**953,669**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(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 *...continued*

IFRS 9 carrying values *...continued*

Loans and advances to customers	**Stage 1 12-month ECL $**	**Stage 2 lifetime ECL $**	**Stage 3 lifetime ECL $**	**Total $**
Gross carrying amount as at June 30, 2020	426,146	10,180	470,686	907,012
Transfers:				
Transfer from stage 1 to stage 2	(7,897)	7,897	–	–
Transfer from stage 1 to stage 3	(1,401)	–	1,401	–
Transfer from stage 2 to stage 1	3,888	(3,888)	–	–
Transfer from stage 2 to stage 3	–	(1,357)	1,357	–
Transfer from stage 3 to stage 1	488	–	(488)	–
Transfer from stage 3 to stage 2	–	62	(62)	–
New financial assets originated or purchased	92,730	575	121	93,426
Financial assets fully derecognised during the year	(17,653)	(458)	(9,057)	(27,168)
Changes in principal and interest	1,879	(1,839)	(33,272)	(33,232)
Gross carrying amount as at June 30, 2021	**498,180**	**11,172**	**430,686**	**940,038**
Gross carrying amount as at June 30, 2019	410,502	4,731	486,501	901,734
Transfers:				
Transfer from stage 1 to stage 2	(6,863)	6,863	–	–
Transfer from stage 1 to stage 3	(14,592)	–	14,592	–
Transfer from stage 2 to stage 1	1,024	(1,024)	–	–
Transfer from stage 2 to stage 3	–	(1,460)	1,460	–
Transfer from stage 3 to stage 1	535	–	(535)	–
Transfer from stage 3 to stage 2	–	380	(380)	–
New financial assets originated or purchased	36,752	235	540	37,527
Financial assets fully derecognised during the year	(14,104)	(491)	(36,840)	(51,435)
Changes in principal and interest	12,892	946	5,348	19,186
Gross carrying amount as at June 30, 2020	**426,146**	**10,180**	**470,686**	**907,012**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(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 *...continued*

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at June 30, are set out below.

As at June 30, 2020

		2021	2022
World GDP growth rate	Base	1.4%	5.8%
	Upside	2.6%	7.0%
	Downside	0.2%	4.6%
US GDP growth rate	Base	(0.8%)	4.0%
	Upside	0.8%	5.6%
	Downside	(2.4%)	2.4%
US inflation rate	Base	1.3%	1.7%
	Upside	2.2%	2.6%
	Downside	0.4%	0.8%
St. Kitts and Nevis GDP growth rate	Base	(16.1%)	
	Upside	0.0%	
	Downside	(16.1%)	
St. Lucia GDP growth rate	Base	(15.4%)	
	Upside	0.0%	
	Downside	(15.4%)	

As at June 30, 2021

		2022	2023
World GDP growth rate	Base	4.40%	4.40%
	Upside	6.22%	6.22%
	Downside	2.58%	2.58%
US GDP growth rate	Base	4.95%	4.95%
	Upside	6.87%	6.87%
	Downside	3.03%	3.03%
St. Kitts and Nevis GDP growth rate	Base	6.90%	6.90%
	Upside	12.39%	12.39%
	Downside	1.41%	1.41%
St. Lucia GDP growth rate	Base	6.90%	6.90%
	Upside	12.39%	12.39%
	Downside	1.41%	1.41%

(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 *...continued*

Economic variable assumptions *...continued*

The scenario weightings assigned to each economic scenario were as follows:

Year	Base	Upside	Downside
June 30, 2021	85%	5%	10%
June 30, 2020	50%	30%	20%

Set out below are the changes to the ECL as at June 30, 2021 that would result from reasonably possible variations in the most significant assumptions affecting the ECL allowance for the financial assets in stages 1 to 2 with respect to the credit risk:

	ECL impact of:		
Loss Given Default	**Change in threshold**	**Increase in value $**	**Decrease in value $**
Debt securities – amortised cost	+/- 5%	16	(16)
Debt securities – FVOCI	+/- 5%	21	(21)
	ECL impact of:		
Collateral haircut	**Change in threshold**	**Increase in value $**	**Decrease in value $**
Loans	+/- 5%	792	(792)
Advances	+/- 5%	467	(467)

Purchased or originated credit-impaired (POCI) financial assets

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL is less than the amount of ECL included in the estimated cash flows on initial recognition.

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 $126 (2020: $244).

(expressed in thousands of Eastern Caribbean dollars)

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

3.1 Credit risk *...continued*

3.1.3 Geographical concentrations of on-balance sheet and off-balance sheet 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.

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 Territories $	Total $
As of June 30, 2021					
Cash and balances with Central Bank	28,741	–	–	–	28,741
Treasury bills	70,708	–	–	–	70,708
Deposits with other financial institutions	39,516	360,859	36,616	4,200	441,191
Financial asset	566,505	–	–	–	566,505
Loans and advances to customers	792,510	67,493	2,232	5,210	867,445
Originated debts	23,759	–	–	86,553	110,312
Debt investment securities	–	70,448	1,872	–	72,320
Acceptances, guarantees and letters of credit	6,375	–	–	–	6,375
Other assets	17,241	2,233	–	–	19,474
	1,545,355	**501,033**	**40,720**	**95,963**	**2,183,071**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

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

3.1 Credit risk *...continued*

3.1.3 Geographical concentrations of on-balance sheet and off-balance sheet with credit risk exposure *...continued*

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean Territories $	Total $
As of June 30, 2020					
Cash and balances with Central Bank	11,937	–	–	–	11,937
Treasury bills	69,898	–	–	–	69,898
Deposits with other financial institutions	41,379	371,411	41,332	4,432	458,554
Financial asset	568,409	–	–	–	568,409
Loans and advances to customers	727,537	74,891	1,735	5,086	809,249
Originated debts	22,933	27,124	–	86,540	136,597
Debt investment securities	–	91,511	1,895	–	93,406
Acceptances, guarantees and letters of credit	6,375	–	–	–	6,375
Other assets	14,225	2,506	–	–	16,731
	1,462,693	**567,443**	**44,962**	**96,058**	**2,171,156**

(expressed in thousands of Eastern Caribbean dollars)

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

3.1 Credit risk *...continued*

3.1.4 Concentration of risks of financial assets with credit exposure

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

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2021							
Cash and balances with Central Bank	–	–	–	28,741	–	–	28,741
Treasury bills	70,708	–	–	–	–	–	70,708
Deposits with other financial institutions	30,349	–	–	410,842	–	–	441,191
Financial asset	566,505	–	–	–	–	–	566,505
Loans and advances to customers	252,725	91,230	174,125	9,651	235,188	104,526	867,445
Originated debts	109,318	–	–	994	–	–	110,312
Debt investment securities	5,026	72	–	45,406	–	21,816	72,320
Acceptances, guarantees and letters of credit	2,299	–	–	–	–	4,076	6,375
Other assets	64	–	–	16,263	744	2,403	19,474
	1,036,994	**91,302**	**174,125**	**511,897**	**235,932**	**132,821**	**2,183,071**

(expressed in thousands of Eastern Caribbean dollars)

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

3.1 Credit risk *...continued*

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

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2020							
Cash and balances with Central Bank	–	–	–	11,937	–	–	11,937
Treasury bills	69,898	–	–	–	–	–	69,898
Deposits with other financial institutions	30,315	–	–	428,239	–	–	458,554
Financial asset	568,409	–	–	–	–	–	568,409
Loans and advances to customers	249,748	91,868	166,887	8,491	197,282	94,973	809,249
Originated debts	108,481	–	–	28,116	–	–	136,597
Debt investment securities	4,787	116	79	66,305	–	22,119	93,406
Acceptances, guarantees and letters of credit	2,299	–	–	–	–	4,076	6,375
Other assets	–	–	–	13,223	505	3,003	16,731
	1,033,937	**91,984**	**166,966**	**556,311**	**197,787**	**124,171**	**2,171,156**

TABLE OF CONTENTS

(expressed in thousands of Eastern Caribbean dollars)

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

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

The Government of St. Kitts and Nevis accounts for $769,599 (2020: $796,860) or 35% (2020: 37%) of 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 FVOCI 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 FVTPL and FVOCI. 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 consolidated 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 Market risk *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk

As of June 30, 2021	XCD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	208,267	5,681	20	40	31	27	–	214,066
Treasury bills	70,708	–	–	–	–	–	–	70,708
Deposits with other financial institutions	42,328	393,288	1,279	1,636	1,890	749	21	441,191
Loans and advances to customers	540,400	327,045	–	–	–	–	–	867,445
Originated debts	70,982	39,330	–	–	–	–	–	110,312
Acceptances, guarantees and letters of credit	6,375	–	–	–	–	–	–	6,375
Investment securities – FVOCI	9,585	70,941	–	–	–	–	–	80,526
Investment securities – FVTPL	919	1,269,807	–	–	–	–	–	1,270,726
Financial asset	566,505	–	–	–	–	–	–	566,505
Other assets	16,924	2,548	–	–	2	–	–	19,474
Total financial assets	**1,532,993**	**2,108,640**	**1,299**	**1,676**	**1,923**	**776**	**21**	**3,647,328**
Liabilities								
Customers' deposits	2,198,827	395,970	215	44	262	–	–	2,595,318
Borrowings	–	42,942	–	–	–	–	–	42,942
Lease liabilities	1,909	–	–	–	–	–	–	1,909
Acceptances, guarantees and letters of credit	6,375	–	–	–	–	–	–	6,375
Other liabilities	209,067	35,637	44	509	58	156	2	245,473
Total financial liabilities	**2,416,178**	**474,549**	**259**	**553**	**320**	**156**	**2**	**2,892,017**
Net on–balance sheet	**(883,185)**	**1,634,091**	**1,040**	**1,123**	**1,603**	**620**	**19**	**755,311**
Credit commitments	**38,372**	**24,294**	**–**	**–**	**–**	**–**	**–**	**62,666**

TABLE OF CONTENTS

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

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

3.2 Market risk *...continued*

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk *...continued*

As of June 30, 2020	XCD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	179,153	6,187	11	13	24	7	–	185,395
Treasury bills	69,898	–	–	–	–	–	–	69,898
Deposits with other financial institutions	44,739	407,651	951	2,305	2,448	440	20	458,554
Loans and advances to customers	501,037	308,212	–	–	–	–	–	809,249
Originated debts	70,665	65,932	–	–	–	–	–	136,597
Acceptances, guarantees and letters of credit	6,375	–	–	–	–	–	–	6,375
Investment securities – FVOCI	10,013	96,007	–	–	–	–	–	106,020
Investment securities – FVTPL	1,033	875,550	–	–	–	–	–	876,583
Financial asset	568,409	–	–	–	–	–	–	568,409
Other assets	13,694	3,037	–	–	–	–	–	16,731
Total financial assets	**1,465,016**	**1,762,576**	**962**	**2,318**	**2,472**	**447**	**20**	**3,233,811**
Liabilities								
Customers' deposits	2,140,639	384,794	30	70	292	–	–	2,525,825
Lease liabilities	1,127	–	–	–	–	–	–	1,127
Acceptances, guarantees and letters of credit	6,375	–	–	–	–	–	–	6,375
Other liabilities	193,007	1,888	44	503	57	146	2	195,647
Total financial liabilities	**2,341,148**	**386,682**	**74**	**573**	**349**	**146**	**2**	**2,728,974**
Net on-balance sheet	**(876,132)**	**1,375,894**	**888**	**1,745**	**2,123**	**301**	**18**	**504,837**
Credit commitments	**27,131**	**9,638**	**–**	**–**	**–**	**–**	**–**	**36,769**

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

3.2 Market risk *...continued*

3.2.3 Interest rate risk

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

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:

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

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

3.2 Market risk *...continued*

3.2.3 Interest rate risk *...continued*

As of June 30, 2021	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	–	–	–	–	–	214,066	214,066
Treasury bills	11,427	3,070	55,797	–	–	414	70,708
Deposit with other financial institutions	133,501	–	27,182	44,865	–	235,643	441,191
Loans and advances to customers	340,255	275	3,829	60,011	462,808	267	867,445
Originated debts	13,504	–	7,999	25,204	62,907	698	110,312
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,375	6,375
Investment securities – FVOCI	1	880	1,420	12,346	19,559	46,320	80,526
Investment securities – FVTPL	15,472	–	9,012	4,213	–	1,242,029	1,270,726
Financial asset	–	–	–	556,487	–	10,018	566,505
Other assets	339	–	–	–	–	19,135	19,474
Total financial assets	**514,499**	**4,225**	**105,239**	**703,126**	**545,274**	**1,774,965**	**3,647,328**
Liabilities							
Customers' deposits	767,377	179,506	930,314	–	–	718,121	2,595,318
Borrowings	42,942	–	–	–	–	–	42,942
Lease liabilities	68	135	606	1,044	56	–	1,909
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,375	6,375
Other liabilities	–	–	–	–	–	245,473	245,473
Total financial liabilities	**810,387**	**179,641**	**930,920**	**1,044**	**56**	**969,969**	**2,892,017**
Total interest repricing gap	**(295,888)**	**(175,416)**	**(825,681)**	**702,082**	**545,218**	**804,996**	**755,311**

(expressed in thousands of Eastern Caribbean dollars)

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

3.2 Market risk *...continued*

3.2.3 Interest rate risk *...continued*

As of June 30, 2020	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	–	–	–	–	–	185,395	185,395
Treasury bills	11,427	3,070	54,993	–	–	408	69,898
Deposit with other financial institutions	299,264	13,414	27,122	–	–	118,754	458,554
Loans and advances to customers	350,836	323	6,812	29,809	418,778	2,691	809,249
Originated debts	–	25,405	988	47,132	62,223	849	136,597
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,375	6,375
Investment securities – FVOCI	6,085	781	4,479	18,184	16,540	59,951	106,020
Investment securities – FVTPL	–	378	2,772	42,782	–	830,651	876,583
Financial asset	–	–	–	558,025	–	10,384	568,409
Other assets	303	–	–	–	–	16,428	16,731
Total financial assets	**667,915**	**43,371**	**97,166**	**695,932**	**497,541**	**1,231,886**	**3,233,811**
Liabilities							
Customers' deposits	826,941	166,553	912,356	1,001	–	618,974	2,525,825
Lease liabilities	36	72	318	635	66	–	1,127
Acceptances, guarantees and letters of credit	–	–	–	–	–	6,375	6,375
Other liabilities	2,523	–	–	–	53,937	139,187	195,647
Total financial liabilities	**829,500**	**166,625**	**912,674**	**1,636**	**54,003**	**764,536**	**2,728,974**
Total interest repricing gap	**(161,585)**	**(123,254)**	**(815,508)**	**694,296**	**443,538**	**467,350**	**504,837**

TABLE OF CONTENTS

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

3.2 Market risk *...continued*

3.2.3 Interest rate risk *...continued*

The Group's fair value market rate risk arises from debt securities classified as fair value through other comprehensive income and fair value through profit or loss. Had market interest rates at the reporting date been 100 basis points higher/lower with all variables held constant, equity for the year would have been $411 (2020: $423) lower/higher as a result of the decrease/increase in revaluation reserve for fair value through other comprehensive income debt securities and profit or loss for the year would have been $4,012 (2020: $2,453) lower/higher due to a decrease/increase in fair value of debt securities measured at fair value through profit or loss.

Cash flow interest rate risk arises from loans and advances to customers at available rates. Had variable rates at the reporting date been 100 basis points higher/lower with all other variables held constant, profits for the year would have been $3,814 (2020: $2,940) higher/lower, mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

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.

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

3.3 Liquidity risk *...continued*

3.3.1 Liquidity risk management *...continued*

- Managing the concentration and profile of debt maturities.

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

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;
- Originated debts;
- Investment securities;
- Financial asset;
- Acceptances, guarantees and letters of credit; and
- Other assets.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

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

3.3 Liquidity risk *...continued*

3.3.3 Cash flows

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

As of June 30, 2021	Up to 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
Financial liabilities						
Customers' deposits	1,474,655	183,611	963,858	–	–	2,622,124
Borrowings	42,942	–	–	–	–	42,942
Lease liabilities	71	143	642	1,090	58	2,004
Acceptances, guarantees and letters of credit	–	–	6,375	–	–	6,375
Other liabilities	225,103	20,370	–	–	–	245,473
Total financial liabilities	**1,742,771**	**204,124**	**970,875**	**1,090**	**58**	**2,918,918**
Assets held to manage liquidity risk	**2,289,464**	**4,225**	**105,239**	**703,126**	**545,274**	**3,647,328**
Net liquidity gap	**546,693**	**(199,899)**	**(865,636)**	**702,036**	**545,216**	**728,410**
As of June 30, 2020						
Financial liabilities						
Customers' deposits	1,433,977	169,600	943,166	1,002	–	2,547,745
Lease liabilities	37	74	334	664	74	1,183
Acceptances, guarantees and letters of credit	–	–	6,375	–	–	6,375
Other liabilities	129,006	10,608	–	–	56,033	195,647
Total financial liabilities	**1,563,020**	**180,282**	**949,875**	**1,666**	**56,107**	**2,750,950**
Assets held to manage liquidity risk	**1,899,801**	**43,371**	**97,166**	**695,932**	**497,541**	**3,233,811**
Net liquidity gap	**336,781**	**(136,911)**	**(852,709)**	**694,266**	**441,434**	**482,861**

(expressed in thousands of Eastern Caribbean dollars)

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

3.3 Liquidity risk *...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, 2021	Up to 1 year $	1 to 3 years $	Over 3 years $	Total $
Loan commitments	8,242	1,622	40,435	50,299
Credit card commitments	12,367	–	–	12,367
	20,609	**1,622**	**40,435**	**62,666**
As of June 30, 2020				
Loan commitments	6,331	134	17,632	24,097
Credit card commitments	12,672	–	–	12,672
	19,003	**134**	**17,632**	**36,769**

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 claims 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	
	2021 $	2020 $	2021 $	2020 $	2021 $	2020 $
St. Kitts	**5,970**	4,597	–	–	**5,970**	4,597
Nevis	**463**	639	–	–	**463**	639
Anguilla	**664**	93	–	–	**664**	93
	7,097	5,329	–	–	**7,097**	5,329
Health & Life	**3,521**	2,694	–	–	**3,521**	2,694
Motor	**3,255**	2,329	–	–	**3,255**	2,329
Property	**321**	306	–	–	**321**	306
	7,097	5,329	–	–	**7,097**	5,329

i) Property insurance

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

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

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from fire, hurricane, and earthquake damage. The Group has reinsurance cover for such damage to limit losses to $0.50 million (2020: $0.50 million) in any one occurrence, per individual property risk.

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

3.4 Insurance risk *...continued*

i) Property insurance ...continued

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.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Furthermore, the Group's strategy limits the total exposure to the Group only by the use of reinsurance treaty arrangements. The reinsurance arrangements include excess of loss cover. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance loss of more than $0.30 million (2020: $0.30 million) per risk for casualty insurance.

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

(expressed in thousands of Eastern Caribbean dollars)

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

3.4 Insurance risk *...continued*

ii) Casualty insurance ...continued

Sources of uncertainty in the estimation of future claim payments*...continued*
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 event years at the respective reporting dates (gross)

EC$					Event year						
Date	**2012 $**	**2013 $**	**2014 $**	**2015 $**	**2016 $**	**2017 $**	**2018 $**	**2019 $**	**2020 $**	**2021 $**	**Total $**
30/6/2012	17,390	–	–	–	–	–	–	–	–	–	**17,390**
30/6/2013	3,489	4,422	–	–	–	–	–	–	–	–	**7,911**
30/6/2014	2,392	1,571	2,707	–	–	–	–	–	–	–	**6,670**
30/6/2015	1,463	1,307	358	3,385	–	–	–	–	–	–	**6,513**
30/6/2016	880	758	561	358	3,455	–	–	–	–	–	**6,012**
30/6/2017	468	674	380	212	256	3,244	–	–	–	–	**5,234**
30/6/2018	352	619	343	114	205	474	5,632	–	–	–	**7,739**
30/6/2019	115	–	331	61	145	417	1,102	4,146	–	–	**6,317**
30/6/2020	83	–	40	61	145	417	972	437	3,174	–	**5,329**
30/6/2021	83	–	40	19	145	342	816	719	680	4,253	**7,097**

Claims reserves are made up as follows (see note 18):

	$
Outstanding claims – Life	**897**
Outstanding claims – Non-life	**4,290**
Claims IBNR – Non-life	**1,910**
	7,097

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 31. 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.

i) Treasury bills

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

ii) 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.

iii) Loans and advances to customers and originated debts

The estimated fair values of loans and advances to customers and originated debts 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.

iv) 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.

v) Borrowings

The estimated fair value of 'borrowings' is the amount payable on demand.

vi) Acceptances, guarantees and letters of credit

Acceptances, guarantees and letters of credit are short-term in nature therefore fair value in this category is estimated to approximate carrying value.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(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*

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	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with Central Bank	**214,066**	185,395	**214,066**	185,395
Treasury bills	**70,708**	69,898	**70,708**	69,898
Deposits with other financial institutions	**441,191**	458,554	**441,191**	458,554
Financial asset	**566,505**	568,409	**566,505**	568,409
Loans and advances to customers	**867,445**	809,249	**818,266**	805,000
Originated debts	**110,312**	136,597	**110,312**	136,597
Acceptances, guarantees and letters of credit	**6,375**	6,375	**6,375**	6,375
Other assets	**19,474**	16,731	**19,474**	16,731
	2,296,076	2,251,208	**2,246,897**	2,246,959
Financial liabilities				
Customers' deposits	**2,595,318**	2,525,825	**2,595,318**	2,525,825
Borrowings	**42,942**	–	**42,942**	–
Lease liabilities	**1,909**	1,127	**1,909**	1,127
Acceptances, guarantees and letters of credit	**6,375**	6,375	**6,375**	6,375
Other liabilities	**245,473**	195,647	**245,473**	195,647
	2,892,017	2,728,974	**2,892,017**	2,728,974

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

The following table provides an analysis of financial and non-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. No transfers occurred between the levels of the securities during the year.

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

3.5.2 Fair value measurements of FVTPL and FVOCI investment securities

	Level 1	Level 2	Level 3	Total
As of June 30, 2021	**$**	**$**	**$**	**$**
Debt securities	36,673	–	35,647	72,320
Equities	1,225,382	17,976	35,574	1,278,932
	1,262,055	**17,976**	**71,221**	**1,351,252**
As of June 30, 2020				
Debt securities	40,462	–	53,421	93,883
Equities	850,349	23,030	15,818	889,197
	890,811	**23,030**	**69,239**	**983,080**

3.5.3 Fair value measurements 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, 2021				
Land and buildings	**–**	**32,990**	**–**	**32,990**
As of June 30, 2020				
Land and buildings	–	33,710	–	33,710

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.

3.6 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 Central Bank;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Central Bank for supervisory purposes.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

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

3.6 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 (2019: $2,000). The Group has met this capital requirement for its insurance business.

The Central Bank requires each Group 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 Group'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 FVOCI.

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

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

	2021 $	2020 $
Tier 1 capital		
Issued share capital	**135,000**	135,000
Share premium	**3,877**	3,877
Issued bonus shares from capitalisation of unrealised assets revaluation gain reserve	**(4,500)**	(4,500)
Reserves	**383,115**	354,755
Add fair value reserves – FVOCI	**9,666**	35,083
Less revaluation reserve	**(25,924)**	(25,924)
Retained earnings	**290,777**	119,357
Total qualifying tier 1 capital	**792,011**	617,648
Tier 2 capital		
Fair value reserves – FVOCI	**(9,666)**	(35,083)
Revaluation reserve	**25,924**	25,924
Bonus shares capitalisation	**4,500**	4,500
Total qualifying tier 2 capital	**20,758**	(4,659)
Total regulatory capital	**812,769**	612,989

(expressed in thousands of Eastern Caribbean dollars)

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

3.6 Capital management *...continued*

	2021 $	2020 $
Risk-weighted assets:		
On-balance sheet	**2,022,399**	1,573,096
Off-balance sheet	**52,543**	34,580
Total risk-weighted assets	**2,074,942**	1,607,676
Tier 1 capital ratio	**38%**	38%
Basel ratio	**39%**	38%

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:

i) Fair value of financial instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Group's financial assets at FVOCI and FVTPL and the amounts of fair value changes recognised on those assets are disclosed in Note 10.

4 Critical accounting estimates and judgements *…continued*

ii) Testing of cash flow characteristics of financial assets and continuing evaluation of the business model

In determining the classification of financial assets, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortised cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, IFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortised cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

iii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g., the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is earlier detailed, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out before in note 3.1.2 "Impairment and provisioning".

4 Critical accounting estimates and judgements *…continued*

iii) Measurement of the expected credit loss allowance …continued

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 for loans and advances to customers would be estimated as $8,505 lower or $8,737 higher (2020: $8,854 lower or $9,495 higher).

iv) Estimate of insurance actuarial liabilities

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

i. Mortality – Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to the risk. The Group bases these estimates on the UK A67/70 for assured lives. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments. An increase in the rate of mortality will lead to a larger number of claims, resulting in lower income. Were the mortality rate to differ by +/-10% from management's estimate, the actuarial liabilities would decrease by approximately $6,235 or increase by approximately $5,195.

ii. Discount rate – Estimates are also made as to the discount rate use in the valuation of the insurance plans to determine the actuarial liabilities. A net rate of 2.9% (2020: 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 3.65% (2020: 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 $12,114 or increase by approximately $13,182.

v) Estimate of outstanding claims

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*

v) Estimate of outstanding claims ...continued

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.

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

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

If the IBNR rates were adjusted by +/-1%, the change in the statement of comprehensive income would be to decrease or increase reported profits by approximately -/+$106.

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.

vi) Pension benefits

The present value of the defined benefit pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. 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 outflows 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 obligation. Additional information is disclosed in note 34.

(expressed in thousands of Eastern Caribbean dollars)

4 Critical accounting estimates and judgements *…continued*

vii) Estimation of 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.

5 Cash and balances with Central Bank

	2021 **$**	**2020** **$**
Cash on hand	**13,970**	15,756
Balances with Central Bank other than mandatory deposits	**28,741**	11,937
Included in cash and cash equivalents (note 33)	**42,711**	27,693
Mandatory deposits with Central Bank	**171,355**	157,702
	214,066	185,395

The Group 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 Group's collateral amount held with the Central Bank at June 30, 2021 amounted to $10,022 (2020: $7,783).

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 Group'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

	2021 $	2020 $
Treasury bills	**70,335**	69,844
Interest receivable	**414**	408
Treasury bills, gross	**70,749**	70,252
Less: provision for expected credit losses	**(41)**	(354)
Total treasury bills, net	**70,708**	69,898

Treasury bills are held with the Government of Saint Kitts and Nevis with maturities of 30 days to one year. The treasury bills included in cash and cash equivalents as at June 30, 2021 amounted to $12,765 (2020: $12,269) (see note 33). Interest on treasury bills is accrued at an interest rate of 4.0% (2020: 4.0%).

The movement in the treasury bills during the year is as follows:

	2021 $	2020 $
Balance at beginning of year	**69,898**	69,615
Additions	**55,309**	530
Disposals (sales/redemptions)	**(54,818)**	–
Impairment recovery/(charge) during the year, net	**313**	(248)
Movement of interest receivable	**6**	1
Balance at end of year	**70,708**	69,898

The movement in the provision for expected credit losses is as follows:

	2021 $	2020 $
Balance at beginning of year	**354**	106
Expected credit (recoveries)/losses during the year, net	**(313)**	248
Balance at end of year	**41**	354

(expressed in thousands of Eastern Caribbean dollars)

7 Deposits with other financial institutions

	2021 $	2020 $
Operating cash balances	**346,985**	350,145
Interest bearing term deposits	**14,751**	14,824
Items in the course of collection	**1,945**	4,484
Included in cash and cash equivalents (note 33)	**363,681**	369,453
Interest bearing term deposits	**32,295**	45,774
Restricted term deposits	**44,865**	42,969
	440,841	458,196
Interest receivable	**491**	674
Total deposits with other financial institutions, gross	**441,332**	458,870
Less: provision for expected credit losses	**(141)**	(316)
Total deposits with other financial institutions, net	**441,191**	458,554

The operating balances earn interest at rates of 0% to 3.25% (2020: 0% to 4%). The amounts held in these accounts are to facilitate the short-term commitments and day-to-day operations of the Group.

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 restricted term deposits is credited to the consolidated statement of income. The effective interest rate on 'Deposits with other financial institutions' at June 30, 2021 was 1.76% (2020: 2.10%).

Interest bearing term deposits are interest bearing which earn interest at a rate of 1.5% to 3.25% per annum (2020: 1.5% to 3.25%) and have original terms of maturity of one year ending within the period July 30, 2021 to June 30, 2022 (2020: July 2020 to June 2021).

The movement in expected credit losses is as follows:

	2021 $	2020 $
Balance at beginning of year	**316**	177
Expected credit (recoveries)/losses during the year, net	**(175)**	139
Balance at end of year	**141**	316

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

8 Loans and advances to customers

	2021 $	2021 $
Performing		
Demand	**320,541**	255,747
Mortgages	**125,279**	118,284
Other secured	**24,470**	22,440
Overdrafts	**13,116**	14,517
Credit cards	**8,954**	7,611
Consumer	**3,992**	4,856
Under-performing		
Demand	**3,615**	3,897
Mortgages	**6,672**	4,828
Other secured	**346**	675
Overdrafts	**–**	–
Credit cards	**373**	712
Consumer	**166**	68
Non-performing	**430,686**	470,686
Interest receivable	**1,828**	2,691
Total loans and advances to customers, gross	**940,038**	907,012
Less: provision for expected credit losses	**(72,593)**	(97,763)
Total loans and advances to customers, net	**867,445**	809,249
Current	**344,626**	360,662
Non-current	**522,819**	448,587
	867,445	809,249

The weighted average effective interest rate on performing loans and advances excluding overdrafts at June 30, 2021 was 6.19% (2020: 6.4%) and overdrafts were 6.52% (2020: 6.7%).

The movement in provision for expected credit losses is as follows:

	2021 $	2020 $
Balance at beginning of year	**97,763**	77,851
Expected credit losses, net of recoveries (note 26)	**21,722**	43,655
Write offs	**(46,892)**	(23,743)
Balance end of year	**72,593**	97,763

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debts

	2021 $	2020 $
Local sovereign bonds	**22,783**	21,909
Regional sovereign bonds	**49,870**	50,585
Certificates of participation	**36,243**	36,243
Regional corporate bond	**1,000**	1,000
International corporate bond	**–**	27,026
	109,896	136,763
Interest receivable	**697**	849
Total originated debts, gross	**110,593**	137,612
Less: provision for expected credit losses	**(281)**	(1,015)
Total originated debts, net	**110,312**	136,597
Current	**14,202**	27,242
Non-current	**96,110**	109,355
	110,312	136,597

Originated debts are bonds held with sovereigns in the Eastern Caribbean Currency Union (ECCU), certificates of participation in the Government of Antigua and Barbuda, bonds in a regional financial institution and international financial institutions as well as short term commercial paper in an international financial institution.

i) Local and regional sovereign bonds

The Group has certain investment securities which comprise of fixed rate bonds held with sovereigns in the ECCU. Bonds yield interest at rates of 1.5% – 6.75% (2020: 1.5% – 7.5%). Bonds have terms ranging from 2 – 45 years (2020: 2 – 45 years) and will mature between July 18, 2021 and April 18, 2057 (2020: July 17, 2020 and April 18, 2057) and pay semi-annual coupon interest payments until maturity.

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

The Group placed funds on deposit with ABI Group 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 Group that would result if ABIB were unable to mitigate its liquidity risks.

By April 28, 2010, the Group 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 securitised by ABIB.

9 Originated debts *…continued*

ii) Certificates of participation in the Government of Antigua and Barbuda 7-Year Long Term Note …continued

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 ABIB. During the years of ECCB's control of ABIB, the Group received an annual confirmation from ECCB of the total outstanding amounts of the COPs, with the stated objective of stabilising 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 July 11, 2019 the Group wrote to Caribbean Financial Services Corporation informing them that the Group intends to exercise its rights under clause 9.2 of the Trust Deed to bring proceedings against the Government of Antigua and Barbuda and/or any holder of the proceeds of the Long-Term Note.

As at June 30, 2021, the Group's interest under the COP's amounted to $36,243 (2020: $36,243). All of the COP's have now matured and are past due. As at the date of approval of these consolidated financial statements, the Group has not been advised of any time frame for payment of the outstanding balance.

The Group is continuing to pursue its entitlement under the COPs and has commenced legal action to recover its interest. The Group's external legal counsel team has been buttressed by the retention of Legal Counsel out of the United Kingdom, who the Group is advised is an expert in this particular area of the law.

The Group continues to rely on the expert legal advice received thus far as pertains to the prospects of enforcing recovery. Therefore, the Group is of the view that it would not be appropriate for the COPs to be written down as at the reporting date.

iii) Local corporate bond

The Group holds a bond with Eastern Caribbean Home Mortgage Bank which is denominated in Eastern Caribbean Dollars and which yielded an interest rate of 2.7% (2020: 2.7%). The bond will mature on May 4, 2022.

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debts*...continued*

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

	2021 $	2020 $
Balance at beginning of year	**136,597**	224,215
Additions	**40,793**	614,748
Disposals (sales/redemptions)	**(67,660)**	(701,375)
Expected credit recoveries/(losses) during the year, net	**734**	(620)
Movement in interest receivable	**(152)**	(371)
Balance at end of year	**110,312**	136,597

The movement in the provision for expected credit losses is as follows:

	2021 $	2020 $
Balance at beginning of year	**1,015**	395
Expected credit (recoveries)/losses, net	**(734)**	620
Balance at end of year	**281**	1,015

10 Investment securities

	2021 $	2020 $
FVTPL		
Equity investments	**1,242,029**	830,651
Debt investments	**28,697**	45,932
	1,270,726	876,583
FVOCI – equity securities		
Quoted equity investments	**27,782**	48,987
Unquoted equity investments	**9,121**	9,559
	36,903	58,546

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *...continued*

	2021 $	2020 $
FVOCI – debt securities		
Quoted corporate bonds	**37,779**	42,598
Quoted sovereign bonds	**5,005**	3,948
Preference shares	**209**	–
Interest receivable	**630**	1,405
Total debt securities – FVOCI (gross)	**43,623**	47,951
Less: provision for expected credit losses	**–**	(477)
Total debt securities – FVOCI (net)	**43,623**	47,474
Total investment securities	**1,351,252**	982,603
Current	**1,303,821**	846,551
Non-current	**47,431**	136,052
Total investment securities	**1,351,252**	982,603

The movement in investment securities during the year is as follows:

	FVTPL $	Equity securities – FVOCI $	Debt securities – FVOCI $	Total $
Balance as at June 30, 2020	876,583	58,546	47,474	982,603
Additions	925,257	14,058	8,389	947,704
Disposals (sales/redemptions)	(716,275)	(71,838)	(13,913)	(802,026)
Fair value gains/(losses) on disposal of investment securities	100,228	(19,847)	(1,968)	78,413
Fair value gains on existing securities	84,933	55,984	3,939	144,856
Expected credit recoveries, net	–	–	477	477
Movement of interest receivable	–	–	(775)	(775)
Balance as at June 30, 2021	**1,270,726**	**36,903**	**43,623**	**1,351,252**

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *...continued*

	FVTPL $	Equity securities – FVOCI $	Debt securities – FVOCI $	Total $
Balance as at June 30, 2019	736,831	108,752	88,615	934,198
Additions	1,157,393	16,301	159,471	1,333,165
Disposals (sales/redemptions)	(1,002,208)	(71,423)	(201,558)	(1,275,189)
Fair value gains/(losses) on disposal of investment securities	100,181	(15,628)	–	84,553
Fair value gains on existing securities	(115,614)	20,544	1,079	(93,991)
Expected credit losses, net	–	–	(267)	(267)
Movement of interest receivable	–	–	134	134
Balance as at June 30, 2020	**876,583**	**58,546**	**47,474**	**982,603**

i) FVTPL – quoted debt and equity instruments

The Group maintains certain debt and equity instruments trading in regional and international markets denominated in USD and XCD currency.

ii) FVOCI – equity instruments

The Group maintains certain equity instruments which are quoted and unquoted. The instruments are denominated in USD and XCD currency. The Group has made the irrevocable election to classify these securities as FVOCI – equity instruments as management has not obtained these instruments for the purposes of speculation or active trading.

For unquoted securities, the Group undertakes a fair value assessment at each reporting date to assess the gains or losses attributable to such assets. During the financial year, net fair value losses related to financial assets in equity securities which are not trading in an active market amounted to $438 (2020: gains $1,025).

iii) FVOCI – debt securities – quoted corporate and sovereign bonds

The Group has certain investment securities which comprise of quoted corporate and sovereign fixed rate bonds trading. Bonds have coupon rates of 0.88% to 9.00% (2020: 0.88% to 9.00%); whilst, the effective interest rate for these bonds ranges from 2.00% to 13.00% (2020: 2.00% to 13.00%). Bonds have a maximum term of ten (10) years and will mature between July 2021 and April 2031 and pay semi-annual coupon interest payments until maturity. As at June 30, 2021, the fair values of these amounted to $43,623 (2020: $47,474).

The movement in the provision for expected credit losses is as follows:

	2021 $	2020 $
Balance at beginning of year	**477**	210
Expected credit (recoveries)/losses, net	**(477)**	267
Balance at end of year	–	477

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *…continued*

iv) Borrowings – line of credit

The Group has an operating line of credit with its investment custodian, Raymond James, to facilitate investment transactions. At the reporting date, the amount used amounted to $42,942 (2020: $nil) (see note 33). The line of credit bears interest at a rate of 1.50%. The line of credit has a limit of US$50 million or EC$135 million.

11 Property inventory

	2021 $	2020 $
Balance at beginning of year	**8,565**	8,553
Additions during the year	–	12
Balance at end of year	**8,565**	8,565

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.

	2021 $	2020 $
Cost	**8,783**	8,783
Net realisable value	**8,565**	8,565

12 Investment property

	2021 $	2020 $
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 $4,355 based on an independent valuation that was performed in 2020.

(expressed in thousands of Eastern Caribbean dollars)

13 Property and equipment

	Land and Buildings $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
At June 30, 2019						
Cost or valuation	33,056	22,482	1,096	161	1,086	57,881
Accumulated depreciation	(5,094)	(18,577)	(702)	(160)	–	(24,533)
Net book value	**27,962**	**3,905**	**394**	**1**	**1,086**	**33,348**
Year ended June 30, 2020						
Opening net book value	27,962	3,905	394	1	1,086	33,348
Additions	158	851	100	–	–	1,109
Disposals	–	(465)	(126)	–	(41)	(632)
Depreciation charge	(969)	(1,424)	(127)	–	–	(2,520)
Write-back on disposals	–	463	97	–	–	560
Effect of elimination of accumulated depreciation against valuation:						
Valuation	(4,903)	–	–	–	–	(4,903)
Accumulated depreciation	4,903	–	–	–	–	4,903
Revaluation surplus	6,782	–	–	–	–	6,782
Revaluation loss	(223)	–	–	–	–	(223)
Closing net book value	**33,710**	**3,330**	**338**	**1**	**1,045**	**38,424**
At June 30, 2020						
Cost or valuation	34,870	22,868	1,070	161	1,045	60,014
Accumulated depreciation	(1,160)	(19,538)	(732)	(160)	–	(21,590)
Net book value	**33,710**	**3,330**	**338**	**1**	**1,045**	**38,424**

(expressed in thousands of Eastern Caribbean dollars)

13 Property and equipment *...continued*

	Land and Buildings $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2021						
Opening net book value	33,710	3,330	338	1	1,045	38,424
Additions	–	1,426	490	–	332	2,248
Disposals	–	(220)	–	–	–	(220)
Depreciation charge	(720)	(1,463)	(167)	–	–	(2,350)
Write-back on disposals	–	51	–	–	–	51
Closing net book value	**32,990**	**3,124**	**661**	**1**	**1,377**	**38,153**
At June 30, 2021						
Cost or valuation	34,870	24,074	1,560	161	1,377	62,042
Accumulated depreciation	(1,880)	(20,950)	(899)	(160)	–	(23,889)
Net book value	**32,990**	**3,124**	**661**	**1**	**1,377**	**38,153**

(expressed in thousands of Eastern Caribbean dollars)

13 Property and equipment *…continued*

In 2020, 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 $
At June 30, 2021			
Cost	3,792	17,935	21,727
Accumulated depreciation	–	(7,164)	(7,164)
Net book value	**3,792**	**10,771**	**14,563**
At June 30, 2020			
Cost	3,792	17,935	21,727
Accumulated depreciation	–	(6,506)	(6,506)
Net book value	**3,792**	**11,429**	**15,221**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

14 Intangible assets

	Computer software licenses $
At June 30, 2019	
Cost	8,182
Accumulated amortisation	(7,524)
Net book value	**658**
Year ended June 30, 2020	
Opening net book value	658
Additions	56
Amortisation charge	(256)
Closing net book value	**458**
At June 30, 2020	
Cost	8,238
Accumulated amortisation	(7,780)
Net book value	**458**
Year ended June 30, 2021	
Opening net book value	458
Additions	210
Amortisation charge	(247)
Closing net book value	**421**
At June 30, 2021	
Cost	8,448
Accumulated amortisation	(8,027)
Net book value	**421**

(expressed in thousands of Eastern Caribbean dollars)

15 Leases

The Group leases properties and equipment for its operations with lease terms ranging from 3 to 10 years. The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets.

Information about leases for which the Group is a lessee is presented below.

i) Amounts recognised in the consolidated statement of financial position:

Right of use assets	**$**
Cost	1,810
Accumulated depreciation	(1,278)
Balance as at July 1, 2019	**532**
Year ended June 30, 2020	
Opening net book value	532
Additions	1,358
Disposals	(1,232)
Write-back on disposals	1,232
Depreciation charge	(753)
Closing net book value	**1,137**
Cost	1,936
Accumulated depreciation	(799)
Balance as at June 30, 2020	**1,137**
Year ended June 30, 2021	
Opening net book value	1,137
Additions	1,483
Disposals	(446)
Write-back on disposals	446
Depreciation charge	(738)
Closing net book value	**1,882**
Cost	2,973
Accumulated depreciation	(1,091)
Balance as at June 30, 2021	**1,882**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

15 Leases *...continued*

i) Amounts recognised in the consolidated statement of financial position:

Lease liabilities	**2021** **$**	**2020** **$**
Opening balance	**1,127**	545
Additions	**1,483**	1,358
Interest expense (note 22)	**55**	43
Lease payments	**(756)**	(819)
Balance at end of year	**1,909**	1,127
Current	**809**	426
Non-current	**1,100**	701
	1,909	1,127

ii) Amounts recognised in the consolidated statement of financial position:

	2021 **$**	**2020** **$**
Depreciation charge on right-of-use assets	**738**	753
Interest expense on lease liabilities	**55**	43
	793	796

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublease the asset to another party, the right-of-use asset can only be used by the Group. Each lease is either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Group is prohibited from selling or pledging the underlying leased asset as security. Further, the Group must keep the leased properties in a good state of repair and return the leased properties in its original condition at the end of the lease. Also, the Group must insure items of property and equipment and incur maintenance fees on such items in accordance with the lease contracts.

(expressed in thousands of Eastern Caribbean dollars)

15 Leases *...continued*

The table below describes the nature of the Group's leasing activity by type of right-of-use assets recognised on the consolidated statement of financial position.

Right-of-use asset	No. of right-of-use assets leased	Range of remaining term	Average remaining lease term	No. of leases with extension option	No. of leases with termination options
Office buildings	8	Up to 8 years	7 years	5	5
Storage facilities	2	Up to 2 years	1.5 years	2	2
IT Equipment	8	Up to 2.5 years	3 years	8	–

The lease liabilities are unsecured and future minimum lease payments are as follows:

	Within 1 year $	1 – 2 years $	2 – 3 years $	3 – 4 years $	4 – 5 years $	After 5 years $	Total $
June 30, 2021							
Lease payments	856	549	245	175	121	58	2,004
Finance charges	(47)	(22)	(13)	(8)	(3)	(2)	(95)
Net present values	**809**	**527**	**232**	**167**	**118**	**56**	**1,909**
June 30, 2020							
Lease payments	445	435	128	82	19	74	1,183
Finance charges	(19)	(17)	(6)	(4)	(2)	(8)	(56)
Net present values	**426**	**418**	**122**	**78**	**17**	**66**	**1,127**

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

16 Other assets

	2021 $	2020 $
Insurance and other receivables, gross	**32,764**	24,422
Provision for expected credit losses	**(5,683)**	(525)
Insurance and other receivables, net	**27,081**	23,897
Net defined benefit asset (note 34)	**18,813**	16,281
Acceptances, guarantees and letters of credit	**6,375**	6,375
Prepayments	**4,216**	3,807
Stationery and card stock	**798**	1,054
	57,283	51,414
Current	**32,727**	29,531
Non-current	**24,556**	21,883
	57,283	51,414

The movement in the provision for expected credit losses is as follows:

	2021 $	2020 $
Opening provision for expected credit losses	**525**	525
Impairment charges	**5,158**	–
Ending provision for expected credit losses	**5,683**	525

17 Customers' deposits

	2021 $	2020 $
Fixed deposit accounts	**1,205,808**	1,207,630
Direct demand accounts	**673,977**	589,942
Savings accounts	**581,894**	563,101
Call accounts	**121,283**	152,360
	2,582,962	2,513,033
Interest payable	**12,356**	12,792
	2,595,318	2,525,825
Current	**2,595,318**	2,524,824
Non-current	**–**	1,001
	2,595,318	2,525,825

(expressed in thousands of Eastern Caribbean dollars)

17 Customers' deposits *…continued*

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.

The Group pays interest on all categories of customers' deposits except demand deposits. At the reporting date, total interest expense on customers' deposit accounts for the year amounted to $48,466 (2020: $44,494). The average effective rate of interest paid on customers' deposits was 1.94% (2020: 1.75%).

18 Accumulated provisions, creditors and accruals

	2021 $	2020 $
Actuarial liabilities	**104,438**	98,386
Deposit pension funds	**57,296**	53,937
Suspense liabilities	**34,559**	5,008
Other payables	**33,104**	20,629
Insurance contract liabilities	**25,363**	21,333
Unpaid drafts on other banks	**3,132**	2,999
Managers' cheques and banker's payments	**2,586**	5,962
	260,478	208,254
Current	**203,182**	154,317
Non-current	**57,296**	53,937
	260,478	208,254

Actuarial liabilities

Actuarial liabilities comprise the reserves maintained for 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.

	2021 $	2020 $
Whole life plans	**89,573**	84,676
Endowment plans	**8,627**	8,100
Limited payment life plans	**4,627**	4,275
Other plans	**1,611**	1,335
Total actuarial liabilities	**104,438**	98,386

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 3.65% (2020: 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 2.9% (2020: 2.9%).

(expressed in thousands of Eastern Caribbean dollars)

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

Deposit pension funds

	2021 $	2020 $
Contributions	**2,498**	2,139
Interest	**2,136**	2,060
	4,634	4,199
Less expenses		
Group pension benefits	**1,113**	1,630
Management expenses	**162**	199
	1,275	1,829
Surplus for the year	**3,359**	2,370
Funds at beginning of year	**53,937**	51,567
Funds at end of year	**57,296**	53,937

The deposit pension funds represent pension funds which the Group manages for its employees and certain other entities. The funds provide a guaranteed minimum rate of 4% (2020: 4%). 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.

Insurance contract liabilities

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

	2021 $	2020 $
Life		
Outstanding claims	**897**	819
Non-life		
Unexpired risks	**13,503**	11,335
Reinsurance premiums payable	**3,261**	3,397
Outstanding claims	**4,290**	2,623
IBNR	**1,910**	1,887
Premiums received in advance	**1,502**	1,272
	24,466	20,514
	25,363	21,333

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation

In 2020, as part of the COVID-19 stimulus package, the Government of St. Kitts and Nevis granted a reduction in the corporate income tax rate from 33% to 25% on the assessable income for businesses that retain at least 75% of their employees. This temporary reduction resulted in an effective tax rate of 25% (2020: 31%) for the year.

	2021 $	2020 $
Net income before tax	**242,866**	35,080
Income tax expense at effective tax rate of 25% (2020: 31%)	**60,717**	10,875
Non-deductible expenses and other permanent differences	**8,316**	9,654
Tax effect of change in income tax rate	**(414)**	404
Deferred tax movement not recorded	**119**	382
Income not subject to tax	**(4,560)**	(5,959)
Prior year's deferred income tax	**(199)**	82
Deferred tax not recognised on tax losses carried forward	**8**	–
Tax credit from discounted interest on government loans	**(9,489)**	(8,740)
Income tax expense	**54,498**	6,698
Represented as follows:		
Current income tax expense		
Current year's income tax expense	**64,314**	15,507
Tax credit from discounted interest on government loans	**(9,489)**	(8,740)
	54,825	6,767
Deferred tax credit	**(327)**	(69)
Income tax expense	**54,498**	6,698

During the year, the Group incurred realised losses of $19,847 (2020: $15,628) on FVOCI equity securities that were transferred directly to retained earnings. The tax benefit of $4,961 (2020: $5,367) associated with these losses was also recognised directly in retained earnings. Accordingly, the current year's income tax liability for the year was $49,864 (2020: $1,400), being the current year's income tax expense of $54,825 (2020: $6,767) less the tax benefit in retained earnings of $4,962 (2020: $5,367).

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *…continued*

Deferred tax asset/(liability)

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

	2021 $	2020 $
Items recognised in profit or loss:		
Decelerated depreciation	**1,406**	1,340
Net defined benefit asset	**(2,792)**	(3,053)
	(1,386)	(1,713)
Items recognised directly in other comprehensive income:		
Unrealised losses on FVOCI securities	**6,151**	18,912
Revaluation of buildings	**(1,849)**	(1,849)
Net defined benefit asset	**(2,518)**	(2,118)
	1,784	14,945
	398	13,232
Comprised as follows on the consolidated statement of financial position:		
Deferred tax asset	**4,178**	16,591
Deferred tax liability	**(3,780)**	(3,359)
	398	13,232

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

	2021 $	2020 $
Balance at beginning of year	**13,232**	14,987
Movement in net unrealised losses on investment securities	**(12,761)**	(2,414)
Deferred tax movement for pension asset in profit and loss	**261**	(86)
Movement in decelerated depreciation	**66**	155
Movement in revaluation of buildings	**–**	(519)
Movement in re-measurement of defined benefit asset	**(400)**	1,109
Balance at end of year	**398**	13,232

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

Income tax liability

The movement in the income tax liability is as follows:

	2021 $	2020 $
Balance at beginning of year	**1,992**	6,797
Current tax expense for the year	**14,456**	4,420
Transfer to income tax recoverable	**–**	(450)
Taxes paid during the year	**(2,988)**	(8,775)
Balance at end of year	**13,460**	1,992

Tax losses

The Group has incurred income tax losses amounting to $475 (2020: $470) which may be carried forward and applied to reduce taxable income by an amount not exceeding one half of taxable income in any one year of assessment within 5 years following the year in which the losses were incurred. The losses are based on income tax returns, which have not yet been assessed by the Inland Revenue Department.

The losses expire as follows:

Year of loss	Year loss expire	Balance at June 30, 2020 $	Expired or utilised $	Incurred loss $	Balance at June 30, 2021 $
2016	2021	772	(772)	–	–
2017	2022	648	–	–	648
2018	2023	579	–	–	579
2019	2024	513	–	–	513
2020	2025	470	–	–	470
2021	2026	–	–	475	475
		2,982	**(772)**	**475**	**2,685**

Deferred tax asset

At the year end, the Group had a deferred tax asset of $886 (2020: $924) which was not recognised in the consolidated financial statements due to the uncertainty of its recovery.

Income tax recoverable

Included in the consolidated statement of financial position is an amount of $nil (2020: $28,587) 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, 2014 and the change in the Group'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.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

Income tax recoverable *...continued*

The movement in the income tax recoverable is as follows:

	2021 $	2020 $
Balance, beginning of year	**28,587**	17,017
Current year's income tax credit	**9,489**	8,740
Taxes paid during the year	**7,851**	9,000
Transfer from income tax payable	**–**	(450)
Current year's income tax expense offset	**(44,897)**	(5,720)
Balance, end of year	**1,030**	28,587

20 Issued share capital

	2021 $	2020 $
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

21 Reserves

The reserves are comprised as follows:

	2021 $	2020 $
Statutory reserve	**144,457**	144,457
Revaluation reserve	**25,924**	25,924
Fair value reserves – FVOCI	**(9,666)**	(35,083)
Other reserves	**222,400**	219,457
	383,115	354,755

i) Statutory reserve

	2021 $	2020 $
Balance at beginning of year	**144,457**	140,646
Addition	**–**	3,811
Balance at end of year	**144,457**	144,457

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves *...continued*

i) Statutory reserve ...continued

In accordance with Section 45 (1) of Saint Christopher and Nevis Banking Act, 2015, the Group 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 Group's paid-up capital.

The reserve requirement was met in the year ended June 30, 2020. Accordingly, no additional transfers were made during the year.

ii) Revaluation reserve

	2021 $	2020 $
Balance at beginning of year	**25,924**	19,661
Increase in fair value of land and buildings	**–**	6,263
Balance at end of year	**25,924**	25,924

iii) Fair value reserves – FVOCI

	2021 $	2020 $
Balance at beginning of year	**(35,083)**	(39,443)
Realised losses transferred to retained earnings, net of tax	**14,886**	10,261
Movement in market value of securities, net	**10,483**	(5,901)
Expected credit losses recognised on investment securities	**48**	–
Balance at end of year	**(9,666)**	(35,083)

The details of movement in market value of securities, net are as follows:

	2021 $	2020 $
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		
Net unrealised gains on investment securities, net of tax	**3,302**	737
Net realised losses on investment securities, net of tax	**(1,968)**	(9)
	1,334	728
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		
Net unrealised gains on investment securities, net of tax	**24,035**	3,632
Net realised losses on investment securities, net of tax	**(14,886)**	(10,261)
	9,149	(6,629)
	10,483	(5,901)

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves *...continued*

iv) Other reserves

	2021 $	2020 $
Balance at beginning of year	**219,457**	218,909
Transfer to regulatory reserve for loan impairment	**21,797**	47,435
Transfer to regulatory reserve for interest accrued on non-performing loans	**(18,572)**	9,398
Transfer to insurance and claims equalisation reserves	**2,062**	2,898
Remeasurement loss on defined benefit asset, net of tax	**881**	(2,350)
Transfer from general reserve to regulatory reserves	**(3,225)**	(56,833)
Balance at end of year	**222,400**	219,457
Other reserves is represented by:		
Regulatory reserve for interest accrued on non-performing loans (note 3.1.2)	**59,675**	78,247
Regulatory reserve for loan impairment (note 3.1.2)	**75,605**	53,808
General reserve	**40,226**	43,451
Insurance and claims equalisation reserves	**41,829**	39,767
Defined benefit pension plan reserve	**5,065**	4,184
	222,400	219,457

Included in other reserves are the following individual reserves:

General reserve
General reserve is used from time to time to transfer profits from retained earnings at the discretion of the Board of Directors. 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'.

Claims equalisation reserve represents cumulative amounts appropriated from retained earnings based on the discretion of the Board of Directors as part of the Insurance Company's risk management strategies to mitigate against catastrophic events. Annually, the claims equalisation reserve is assessed, and transfers made as considered necessary by the Board of Directors. This reserve is 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 provision is greater than the loan provision calculated under IFRS 9, the difference is set aside in a reserve in equity.

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves *…continued*

iv) Other reserves …continued

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 IFRS 9. 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.

22 Net interest income

	2021 $	2020 $
Interest income		
Loans and advances to customers	**38,356**	36,346
Financial asset (note 32)	**10,071**	8,820
Investment securities at FVTPL and FVOCI	**4,656**	9,580
Originated debts	**4,288**	5,811
Deposits with other financial institutions	**1,669**	3,766
Others	**2,983**	2,839
Interest income for the year	**62,023**	67,162
Interest expense		
Fixed deposit accounts	**36,137**	33,546
Savings accounts	**10,856**	9,926
Direct demand accounts	**688**	672
Line of credit	**434**	–
Call accounts	**296**	307
Finance lease liabilities (note 15)	**55**	43
Interest expense for the year	**48,466**	44,494
Net interest income	**13,557**	22,668

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

23 Net fees and commission income

	2021 $	2020 $
Fees and commission income		
International business and foreign exchange	**10,376**	10,255
Brokerage and other fees and commission	**3,742**	4,717
Credit related fees and commission	**3,000**	3,777
Fees and commission income for the year	**17,118**	18,749
Fee expenses		
International business and foreign exchange	**9,959**	13,173
Other fee expenses	**920**	898
Brokerage and other related fee expenses	**1,857**	1,679
Fee expenses for the year	**12,736**	15,750
Net fees and commission income	**4,382**	2,999

24 Other income

	2021 $	2020 $
Net gains on FVTPL investment securities	**289,034**	78,876
Net insurance premium income (note 36)	**40,590**	38,717
Dividend income	**7,557**	9,114
Foreign exchange gain	**5,766**	5,731
Other operating income	**971**	287
Net losses on financial assets measured at FVOCI reclassified to profit or loss	**(1,968)**	–
	341,950	132,725

(expressed in thousands of Eastern Caribbean dollars)

25 Administrative and general expenses

	2021 $	2020 $
Employee cost	**38,134**	29,307
Management fees on investment	**10,198**	7,050
Repairs and maintenance	**6,410**	6,519
Other general	**1,713**	1,432
Communication	**902**	967
Insurance	**894**	417
Utilities	**740**	781
Stationery and supplies	**681**	705
Security services	**626**	602
Legal fees and expenses	**557**	708
Advertisement and marketing	**457**	563
Taxes and licences	**350**	267
Shareholders' expenses	**115**	150
Sundry losses	**109**	726
Premises upkeep	**59**	63
Rent and occupancy	**25**	55
	61,970	50,312

Employee cost

	2021 $	2020 $
Salaries and wages	**20,994**	20,049
Other staff cost	**14,868**	6,952
Insurance and other benefits	**1,428**	1,488
Pension expense (note 34)	**844**	818
	38,134	29,307

26 Credit and other impairment charges

	2021 $	2020 $
Loans and advances to customers (note 8)	**21,722**	43,655
Investment securities and other financial assets at amortised cost	**5,046**	2,846
	26,768	46,501

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

27 Other expenses

	2021 $	2020 $
Net claims incurred (note 36)	**22,970**	21,103
Depreciation and amortisation (notes 13, 14 and 15)	**3,335**	3,529
Directors' fees and expenses	**1,173**	1,089
Professional fees and related expenses	**807**	778
	28,285	26,499

28 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.

	2021 $	2020 $
Net income attributable to shareholders	**188,368**	28,382
Weighted average number of ordinary shares in issue (in thousands)	**135,000**	135,000
Basic and diluted earnings per share	**1.40**	0.21

29 Dividends

The consolidated financial statements does not reflect dividends as no dividends were paid during the financial year ended June 30, 2021 (2020: $20,250).

30 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's issued share capital. The remaining 49% of the issued share capital is held by individuals and other institutions (over 5,500 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.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

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

	2021 $	2020 $
Public sector		
Customers' deposits	**1,359,658**	1,380,666
Financial asset	**566,505**	568,409
Loans and advances to customers	**368,770**	360,099
Interest on deposits	**32,019**	29,701
Gross premiums written	**24,747**	20,859
Interest on loans and advances to customers	**11,558**	11,432
Interest on financial asset	**10,071**	8,820
Gross claims incurred	**8,984**	8,859
Insurance contract liabilities	**2,358**	1,607
Associated companies		
Loans and advances to customers	**69,882**	69,882
Customers' deposits	**6,206**	11,740
Interest on customers' deposits	**105**	111
Directors and associates		
Loans and advances to customers	**1,102**	1,226
Directors' fees and expenses	**1,173**	1,089
Customers' deposits	**1,126**	849
Interest from loans and advances to customers	**64**	59
Gross premiums written	**8**	5
Interest on customers' deposits	**3**	8
Key management		
Salaries and short-term benefits	**5,426**	6,277
Loans and advances to customers	**2,827**	2,367
Customers' deposits	**1,393**	1,195
Interest from loans and advances to customers	**175**	133
Gross written premiums	**65**	92
Interest on customers' deposits	**30**	15
Insurance contract liabilities	**5**	12

As at June 30, 2021, directors held total shares in the Group of 140 (2020: 140) and key management held total shares in the Group of 31 (2020: 31).

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.2% (2020: 6.6%). Secured loans are collateralised by cash and mortgages over properties.

A provision of $18,630 (2020: $18,630) has been recognised in respect to advances made to related parties (associated company).

(expressed in thousands of Eastern Caribbean dollars)

31 Contingent liabilities and commitments

Insurance claims

The Group, like all other insurers, is subject to litigation in the normal course of its business. The Group does not believe that such litigation will have a material effect on its consolidated financial statements.

Commitments

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

	2021 $	2020 $
Loan commitments	**50,299**	24,097
Credit card commitments	**12,367**	12,672
	62,666	36,769

32 Financial asset

	2021 $	2020 $
Financial asset	**558,027**	558,027
Interest receivable	**11,590**	11,955
Financial asset, gross	**569,617**	569,982
Less provision for expected credit losses	**(3,112)**	(1,573)
Financial asset, net	**566,505**	568,409

The movement in the provision for expected credit losses is as follows:

	2021 $	2020 $
Beginning provision	**1,573**	1
Provision for the year	**1,539**	1,572
Ending provision	**3,112**	1,573

32 Financial asset *…continued*

The financial asset of $566,505 (2020: $568,409) along with the provision for expected credit losses of $3,112 (2020: $1,573) represents the Group'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 Group 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 Group by the GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Group in exchange for the transfer of certain land assets to the Group. Further, the unsecured debt obligations owed to the Group by GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Group 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 Group. SLSC was incorporated for the purpose of 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 Group 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 Group 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. Subsequently, the interest rate was reduced to 2.75% for the period July 1, 2017 to June 30, 2019 and 1.75% for the period July 1, 2019 to July 30, 2020. At year end the interest remained at 1.75%.

3. Distribution of sale proceeds of the Group land assets shall be applied as follows:

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

   b. Secondly to the Group until the Group 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 Group;

   c. Thirdly to the Group 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 Group prior to the effective date; and

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

(expressed in thousands of Eastern Caribbean dollars)

32 Financial asset *...continued*

For the year ended June 30, 2021, the Group's consolidated statement of income includes interest income amounting to $10,071 (2020: $8,820) (see note 22). Further, as of June 30, 2021, interest receivable of $11,590 (2020: $11,955) was pending from the GOSKN. During the year $10,436 (2020: $19,415) of cumulative interest payments were received from the GOSKN. The increase in the provision for expected credit losses amounted to $1,539 (2020: $1,572) during the year.

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

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

33 Cash and cash equivalents

	2021 **$**	**2020** **$**
Deposits with other financial institutions (note 7)	**363,681**	369,453
Cash and balances with Central Bank (note 5)	**42,711**	27,693
Treasury bills (note 6)	**12,765**	12,269
	419,157	409,415
Operating line of credit (note 10)	**(42,942)**	–
	376,215	409,415

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

34 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, 2021 by independent actuaries. The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2021 Per annum %	2020 Per annum %
Actuarial assumptions		
Discount rate	**3.50**	3.50
Return on plan assets	**5.00**	5.00
Future salary increases	**3.00**	3.00

Mortality table (UP94 table projected to 2021 using Scale AA) in both years.

	2021 $	2020 $
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	**51,234**	46,119
Current service cost	**2,186**	2,132
Interest cost	**1,792**	1,614
Actuarial (gains)/losses	**(2,039)**	2,790
Benefits paid	**(1,357)**	(1,421)
Closing defined benefit obligation	**51,816**	51,234
Changes in the fair value of the plan assets		
Opening fair value of plan assets	**67,515**	64,859
Interest income	**3,376**	3,243
Return on plan assets (other than net interest)	**(758)**	(661)
Employer’s contribution	**2,095**	1,810
Benefit paid	**(1,357)**	(1,421)
Management fees	**(242)**	(315)
Closing fair value of plan assets	**70,629**	67,515
Benefit cost		
Current service cost	**2,186**	2,132
Interest cost	**1,792**	1,614
Management fees	**242**	315
Interest on plan assets	**(3,376)**	(3,243)
Pension expense (note 25)	**844**	818

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset *...continued*

	2021 $	2020 $
Amount recognised in other comprehensive income		
Actuarial (gains)/losses	**(2,039)**	2,790
Interest income on plan assets	**3,376**	3,243
Actual return on plan assets	**(2,618)**	(2,582)
(Gain)/loss on re-measurement of net defined benefit asset	**(1,281)**	3,451

	2021 $	2020 $
Net defined benefit asset recognised in the consolidated statement of financial position		
Fair value of plan assets	**70,629**	67,515
Present value of defined benefit obligation	**(51,816)**	(51,234)
Net defined benefit asset	**18,813**	16,281

	2021 $	2020 $
Reconciliation: Net defined benefit asset		
Opening balance	**16,281**	18,740
Employer's contribution	**2,095**	1,810
Period cost	**(844)**	(818)
Other effects recognised in other comprehensive income	**1,281**	(3,451)
Closing balance (note 16)	**18,813**	16,281

Plan assets allocation is as follows:

	2021 %	2020 %
Certificates of deposit	**99.5**	99.5
Shares and treasury bills	**0.5**	0.5
	100	100

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset *...continued*

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

	Discount rate plus 50 basis points $	**Discount rate minus 50 basis points $**
(Decrease)/increase in obligation	**(2,838)**	**3,128**

	Mortality plus 10% $	**Mortality minus 10% $**
(Decrease)/increase in obligation	**(1,113)**	**1,218**

35 Subsidiaries

	Percentage of direct and indirect equity interest held	
	2021 %	**2020 %**
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)

36 Segmental statement of insurance related income – product line

Year ended of June 30, 2021	Medical $	Fire $	Motor $	Marine $	Public liability $	Sundry $	Other $	Total non-life $	Life assurance $	Total $
Gross premiums written	21,392	16,074	6,197	181	1,369	22	764	45,999	10,570	56,569
Reinsurers' share of gross premiums	–	(11,915)	(291)	(143)	(1,264)	–	(764)	(14,377)	–	(14,377)
	21,392	4,159	5,906	38	105	22	–	31,622	10,570	42,192
Net change in provision for unearned premiums	–	(589)	105	(3)	43	1	–	(443)	(1,159)	(1,602)
Net insurance premium income (note 24)	**21,392**	**3,570**	**6,011**	**35**	**148**	**23**	**–**	**31,179**	**9,411**	**40,590**
Claims and benefits	9,755	61	2,730	1	–	–	–	12,547	2,603	15,150
Change in insurance contract liabilities	749	(401)	981	–	360	–	–	1,689	79	1,768
Change in actuarial liabilities	–	–	–	–	–	–	–	–	6,052	6,052
Net claims incurred (note 27)	**10,504**	**(340)**	**3,711**	**1**	**360**	**–**	**–**	**14,236**	**8,734**	**22,970**

TABLE OF CONTENTS

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Notes to Consolidated Financial Statements
June 30, 2021

(expressed in thousands of Eastern Caribbean dollars)

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

Year ended of June 30, 2020	Medical $	Fire $	Motor $	Marine $	Public liability $	Sundry $	Other $	Total non-life $	Life assurance $	Total $
Gross premiums written	20,526	14,080	6,243	192	1,146	40	706	42,933	9,202	52,135
Reinsurers' share of gross premiums	–	(11,243)	(284)	(163)	(984)	–	(706)	(13,380)	–	(13,380)
	20,526	2,837	5,959	29	162	40	–	29,553	9,202	38,755
Net change in provision for unearned premiums	–	(76)	(54)	7	74	(3)	–	(52)	14	(38)
Net insurance premium income (note 24)	**20,526**	**2,761**	**5,905**	**36**	**236**	**37**	**–**	**29,501**	**9,216**	**38,717**
Claims and benefits	12,389	19	2,535	(3)	32	–	–	14,972	2,816	17,788
Change in insurance contract liabilities	(542)	(15)	(295)	–	(32)	–	–	(884)	(104)	(988)
Change in actuarial liabilities	–	–	–	–	–	–	–	–	4,303	4,303
Net claims incurred (note 27)	**11,847**	**4**	**2,240**	**(3)**	**–**	**–**	**–**	**14,088**	**7,015**	**21,103**

37 Business segments

As at June 30, 2021, 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 and rating results.

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

(expressed in thousands of Eastern Caribbean dollars)

37 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, 2021					
Total segment revenues	374,545	46,082	464	–	**421,091**
Intersegment revenues	609	5,750	275	(6,634)	–
Revenue for the year from external customers	375,154	51,832	739	(6,634)	**421,091**
Cost of revenue generation	(147,360)	(36,172)	(1,138)	6,445	**(178,225)**
Income tax expense	(51,161)	(3,337)	–	–	**(54,498)**
Net income for the year	**176,633**	**12,323**	**(399)**	**(189)**	**188,368**
Property and equipment and intangible assets	30,323	8,228	23	–	**38,574**
Depreciation and amortisation	2,874	412	49	–	**3,335**
Segment assets	3,670,771	302,372	29,441	(265,553)	**3,737,031**
Segment liabilities	2,944,249	199,649	10,990	(230,626)	**2,924,262**
June 30, 2020					
Total segment revenues	176,675	41,256	705	–	**218,636**
Intersegment revenues	627	5,750	266	(6,643)	–
Revenue for the year from external customers	177,302	47,006	971	(6,643)	**218,636**
Cost of revenue generation	(154,596)	(37,038)	(1,269)	9,347	**(183,556)**
Income tax expense	(3,646)	(2,919)	(133)	–	**(6,698)**
Net income for the year	**19,060**	**7,049**	**(431)**	**2,704**	**28,382**
Property and equipment and intangible assets	30,361	8,504	17	–	**38,882**
Depreciation and amortisation	2,856	623	50	–	**3,529**
Segment assets	3,304,576	282,572	14,430	(241,657)	**3,359,921**
Segment liabilities	2,765,462	192,817	748	(212,095)	**2,746,932**

(expressed in thousands of Eastern Caribbean dollars)

38 Comparatives

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

The cash and cash equivalents at the beginning of the comparative period was adjusted by $45,774 to achieve an appropriate presentation of the interest bearing term deposits not readily convertible to a known amount of cash.

	As previously classified $	Reclassifications $	Reclassified $
Consolidated statement of income			
Fees expenses	22,800	(7,050)	15,750
Administrative and general expenses	43,262	7,050	50,312
Total	**66,062**	–	**66,062**
Consolidated statement of cash flows			
Cash and cash equivalents, beginning of year	709,816	(45,774)	664,042
Cash and cash equivalents (notes 7 and 33)			
Deposits with other financial institutions	60,598	(45,774)	14,824

39 Impact of Covid-19 pandemic

Since December 31, 2019, the spread of a novel strain of coronavirus, COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

The Government of St. Kitts and Nevis and the ECCB have responded with monetary and fiscal interventions to stabilise economic conditions in the Federation. This is including a loan repayment deferral programme (moratorium) in conjunction with the Eastern Caribbean Currency Union Bankers Association. Accordingly, as of June 30, 2021, the Group had a total of $169,657 of loans that were included in the moratorium programme. The moratoria were issued for a period of 3 months and then extended by 4 months with further extensions in light of changes in the economic outlook brought about by the pandemic.

The Group considered the impact of the COVID-19 pandemic in the forward looking information used to derive the expected credit losses on its financial assets. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of the government and ECCB responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the consolidated financial position and results of the Group for future periods.

40 Events after financial reporting date

Subsequent to the financial year ended June 30, 2021, St. Kitts-Nevis-Anguilla National Bank Limited, as part of a consortium of banks in the ECCU, entered into a definitive agreement on October 12, 2021 to acquire the banking operations of CIBC First Caribbean in St. Kitts and Nevis. The agreement to acquire the branches and operations of CIBC First Caribbean is subject to regulatory approval and customary closing conditions.

The Group has determined that this is a non-adjusting subsequent event. Accordingly, the consolidated financial position and results of operations as at and for the year ended June 30, 2021 have not been adjusted to reflect their impact. Due to the early stage of the agreement, it is not possible to reliably estimate the impact on the consolidated financial position and results of the Group for future periods.

SUMMARY SEPARATE FINANCIAL STATEMENTS

June 30, 2021

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An instinct for growth™

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Independent Auditor's Report

To the Shareholders of
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, 2021, 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, 2021. We expressed a qualified opinion in our report dated November 19, 2021.

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, 2021.

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 19, 2021. The basis for our qualified audit opinion was that originated debts 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 notes 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

The Audited Separate Financial Statements and Our Report Thereon ... *continued*

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 19, 2021
Basseterre, St. Kitts

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Summary Separate Statement of Financial Position
For the year ended June 30, 2021

	2021 $	2020 $
Assets		
Cash and balances with Central Bank	**213,742,078**	184,956,154
Treasury bills	**55,072,234**	54,833,484
Deposits with other financial institutions	**435,657,647**	453,482,357
Loans and advances to customers	**877,833,243**	819,276,788
Originated debts	**110,311,503**	136,596,805
Financial asset	**566,505,314**	568,409,151
Investment securities	**1,326,593,938**	962,865,352
Investment in subsidiaries	**24,725,158**	25,443,650
Acceptances, guarantees and letters of credit	**6,374,705**	6,374,705
Income tax recoverable	**1,030,303**	28,586,916
Property and equipment	**29,967,835**	29,968,173
Intangible assets	**355,426**	392,506
Right-of-use assets	**1,260,300**	1,032,859
Other assets	**17,149,702**	15,765,652
Deferred tax asset	**4,177,730**	16,591,346
Total assets	**3,670,757,116**	3,304,575,898
Liabilities		
Customers' deposits	**2,815,535,327**	2,727,846,471
Borrowings	**42,941,603**	–
Accumulated provisions, creditors and accruals	**66,497,256**	29,326,890
Acceptances, guarantees and letters of credit	**6,374,705**	6,374,705
Income tax payable	**11,612,337**	869,847
Lease liabilities	**1,286,277**	1,045,405
Total liabilities	**2,944,247,505**	2,765,463,318
Shareholders' equity		
Issued share capital	**135,000,000**	135,000,000
Share premium	**3,877,424**	3,877,424
Reserves	**336,173,026**	310,511,873
Retained earnings	**251,459,161**	89,723,283
Total shareholders' equity	**726,509,611**	539,112,580
Total liabilities and shareholders' equity	**3,670,757,116**	3,304,575,898

The accompanying note is an integral part of these summary separate financial statements.

Approved for issue by the Board of Directors on November 19, 2021

Chairman

Director

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Summary Separate Statement of Income
For the year ended June 30, 2021

	2021 $	2020 $
Interest income	**61,313,659**	67,026,510
Interest expense	**(54,571,100)**	(50,604,503)
Net interest income	**6,742,559**	16,422,007
Fees and commission income	**15,991,654**	17,397,711
Fees expense	**(10,985,687)**	(14,166,842)
Net fees and commission expense	**5,005,967**	3,230,869
Net gains on investments in debt and equity instruments	**283,922,414**	78,264,017
Dividend income	**7,478,884**	8,748,392
Gain on foreign exchange (net)	**5,766,462**	5,731,364
Other operating income	**681,603**	133,531
Other income	**297,849,363**	92,877,304
Total operating income	**309,597,889**	112,530,180
Operating expenses		
Credit and other impairment charges	**(27,541,851)**	(47,701,412)
Administrative and general expenses	**(49,877,054)**	(37,801,772)
Depreciation and amortisation	**(2,881,413)**	(2,857,027)
Directors' fees and expenses	**(938,290)**	(890,238)
Professional fees and related expenses	**(576,229)**	(577,897)
Total operating expenses	**(81,814,837)**	(89,828,346)
Operating profit before tax	**227,783,052**	22,701,834
Income tax expense	**(51,161,692)**	(3,645,962)
Net income for the year	**176,621,360**	19,055,872
Basic earnings per share (basic and diluted)	**1.31**	0.14

The accompanying note is an integral part of these summary separate financial statements.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Summary Separate Statement of Comprehensive Income
For the year ended June 30, 2021

	2021 $	2020 $
Net income for the year	**176,621,360**	19,055,872
Other comprehensive income/(loss), net of tax:		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Financial assets measured at FVOCI – debt instruments:		
Net unrealised gains on investment securities, net of tax	**3,333,097**	667,624
Expected credit losses reconised on FVOCI – debt securities	**47,814**	–
Reclassification adjustments for net losses included in income, net of tax	**(1,968,361)**	(9,104)
	1,412,550	658,520
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Revaluation surplus of properties	–	5,383,347
Financial assets measured at FVOCI – equity instruments:		
Unrealised gain on investment securities, net of tax	**24,034,736**	3,632,192
Realised losses transferred to retained earnings, net of tax	**(14,885,482)**	(10,259,533)
Re-measurement gain/(loss) on defined benefit asset, net of tax	**213,867**	(1,328,880)
	9,363,121	(7,956,221)
Total other comprehensive income/(loss) for the year, net of tax	**10,775,671**	(1,914,354)
Total comprehensive income for the year	**187,397,031**	17,141,518

The accompanying note is an integral part of these summary separate financial statements.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Summary Separate Statement of Changes in Shareholders' Equity
For the year ended June 30, 2021

	Issued share capital $	Share premium $	Reserves $	Retained earnings $	Total $
Balance as of July 1, 2019	**135,000,000**	**3,877,424**	**298,355,520**	**104,988,118**	**542,221,062**
Net income for the year	–	–	–	19,055,872	19,055,872
Other comprehensive loss	–	–	8,345,179	(10,259,533)	(1,914,354)
Total comprehensive income for the year	**–**	**–**	**8,345,179**	**8,796,339**	**17,141,518**
Transfer to reserve	–	–	3,811,174	(3,811,174)	–
Transaction with owners					
Dividends	–	–	–	(20,250,000)	(20,250,000)
Balance as of June 30, 2020	**135,000,000**	**3,877,424**	**310,511,873**	**89,723,283**	**539,112,580**
Net income for the year				176,621,360	176,621,360
Other comprehensive income	–	–	25,661,153	(14,885,482)	10,775,671
Total comprehensive income for the year	–	–	**25,661,153**	**161,735,878**	**187,397,031**
Transfer to reserve	–	–	_	–	–
Balance as of June 30, 2021	**135,000,000**	**3,877,424**	**336,173,026**	**251,459,161**	**726,509,611**

The accompanying note is an integral part of these summary separate financial statements.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Summary Separate Statement of Cash Flows
For the year ended June 30, 2021

	2021 $	2020 $
Cash flows from operating activities		
Operating profit before tax	**227,783,052**	22,701,834
Adjustments for:		
Interest expense	**54,571,100**	50,604,503
Credit and other impairment charges	**27,541,851**	47,701,412
Depreciation and amortisation	**2,881,413**	2,857,027
Retirement benefit expense	**688,198**	688,589
Property revaluation loss on land and property	**–**	165,144
Dividend income	**(7,478,884)**	(8,748,392)
Interest income	**(61,313,659)**	(67,026,510)
Fair value (gains)/losses on FVTPL investment securities	**(82,084,367)**	108,131,178
Operating income before changes in operating assets and liabilities	**162,588,704**	157,074,785
(Increase)/decrease in operating assets:		
Loans and advances to customers	**(81,516,370)**	(25,087,239)
Mandatory deposits with Central Bank	**(13,653,706)**	14,265,022
Other assets	**(5,440,329)**	10,240,757
Increase/(decrease) in operating liabilities:		
Customers' deposits	**87,932,754**	(312,093,702)
Due to other financial institutions	**–**	(124,223)
Accumulated provisions, creditors and accruals	**37,170,366**	(24,184,336)
Cash generated from/(used) in operations	**187,081,419**	(179,908,936)
Interest received	**51,903,962**	58,317,355
Pension contributions paid	**(1,504,425)**	(1,289,848)
Income taxes paid	**(8,332,906)**	(16,357,432)
Interest paid	**(54,768,489)**	(49,350,317)
Net cash from/(used) in operating activities	**174,379,561**	(188,589,178)
Cash flows from investing activities		
Proceeds from sale of investment securities and originated debts	**799,284,907**	1,757,945,599
Interest received from investment securities and originated debts	**12,153,740**	17,911,381
Decrease/(increase) in term deposits and treasury bills	**11,582,907**	(177,856)
Dividends received	**7,478,884**	8,748,392
Proceeds from sale of equipment	**169,630**	42,835
Payments received from the financial asset	**–**	101,499,049
Purchase of equipment and intangible assets	**(2,365,813)**	(984,386)
Increase in investment securities and originated debts	**(1,036,045,888)**	(1,927,591,427)
Net cash used in investing activities	**(207,741,633)**	(42,606,413)

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Summary Separate Statement of Cash Flows …continued
For the year ended June 30, 2021

	2021 $	2020 $
Cash flows from financing activities		
Dividends paid	–	(20,250,000)
Interest paid on lease liabilities	**(46,509)**	(35,035)
Repayments of lease liabilities	**(634,381)**	(611,381)
Net cash used in financing activities	**(680,890)**	(20,896,416)
Net decrease in cash and cash equivalents	**(34,042,962)**	(252,092,007)
Cash and cash equivalents, beginning of year	**391,636,797**	643,728,804
Cash and cash equivalents, end of year	**357,593,835**	391,636,797

The accompanying note is an integral part of these summary separate financial statement.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Note to Summary Separate Financial Statements
June 30, 2021

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, 2021.

WORKING HARDER TODAY FOR A BRIGHTER TOMORROW

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