ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

ANNUAL REPORT 2016

BALANCING...

Sound Policies and Sustained Growth

-VISION-

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

-MISSION-

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

CUSTOMER CHARTER

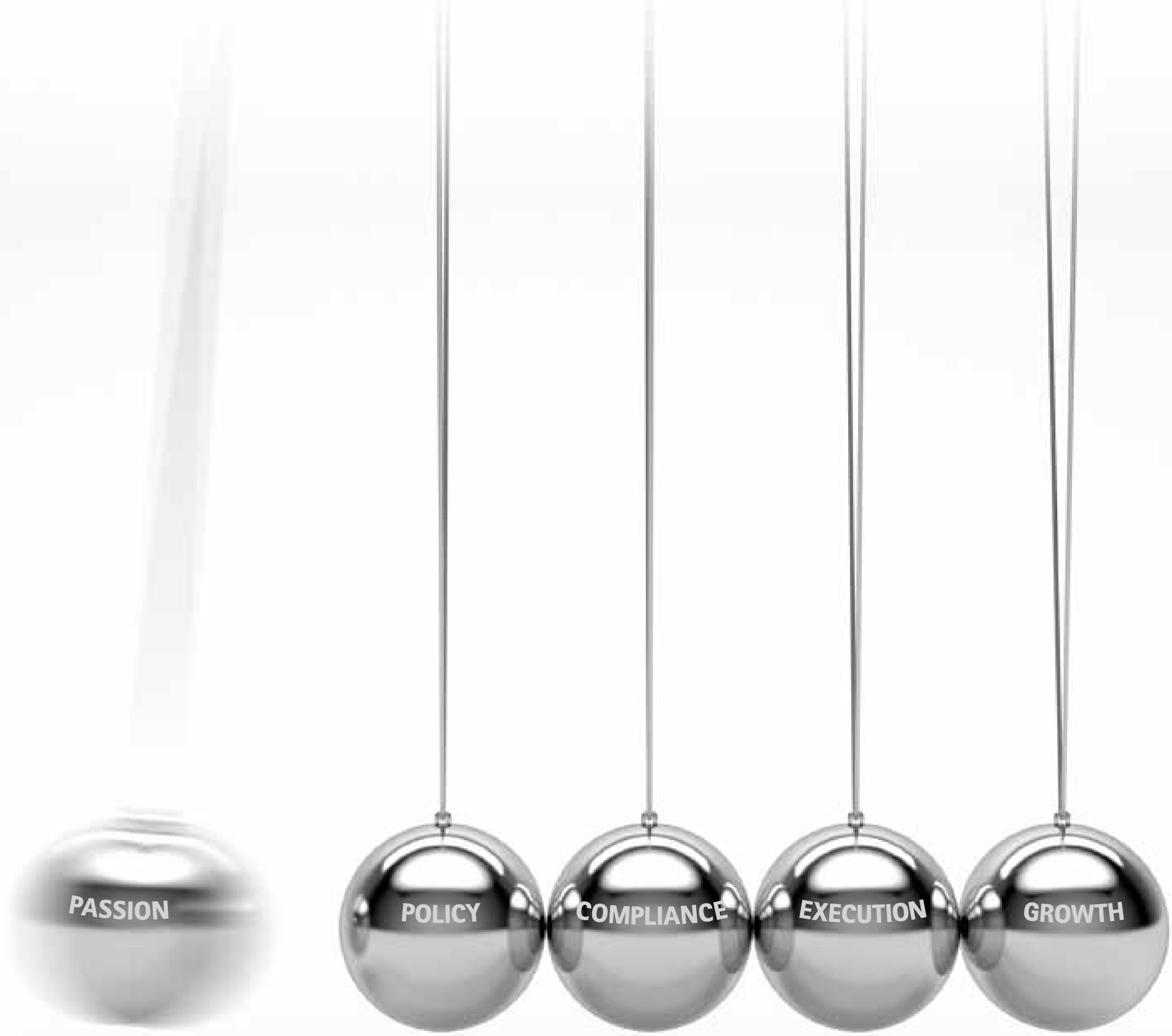
- To keep the Bank a customer friendly institution.
- To treat customers as an integral part of the Bank and serve them with the highest levels of integrity, fairness and goodwill.
- To provide customers with the products and services they need, in the form and variety they demand them, at the time they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

POLICY STATEMENT

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

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

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



BALANCING...
Sound Policies and Sustained Growth

THEME

The SKNANB annual report brings to the forefront the need for balance in all activities of compliance, risk and profitability. The Bank enters a period of renewed focus on the strategic imperative of balanced portfolio management and sound operational governance. Through the development of a critical mass of well managed processes we will sustain the momentum to bring change across and through the organization, like Newtons Cradle, positively effecting and impacting on the lives of all stakeholders.

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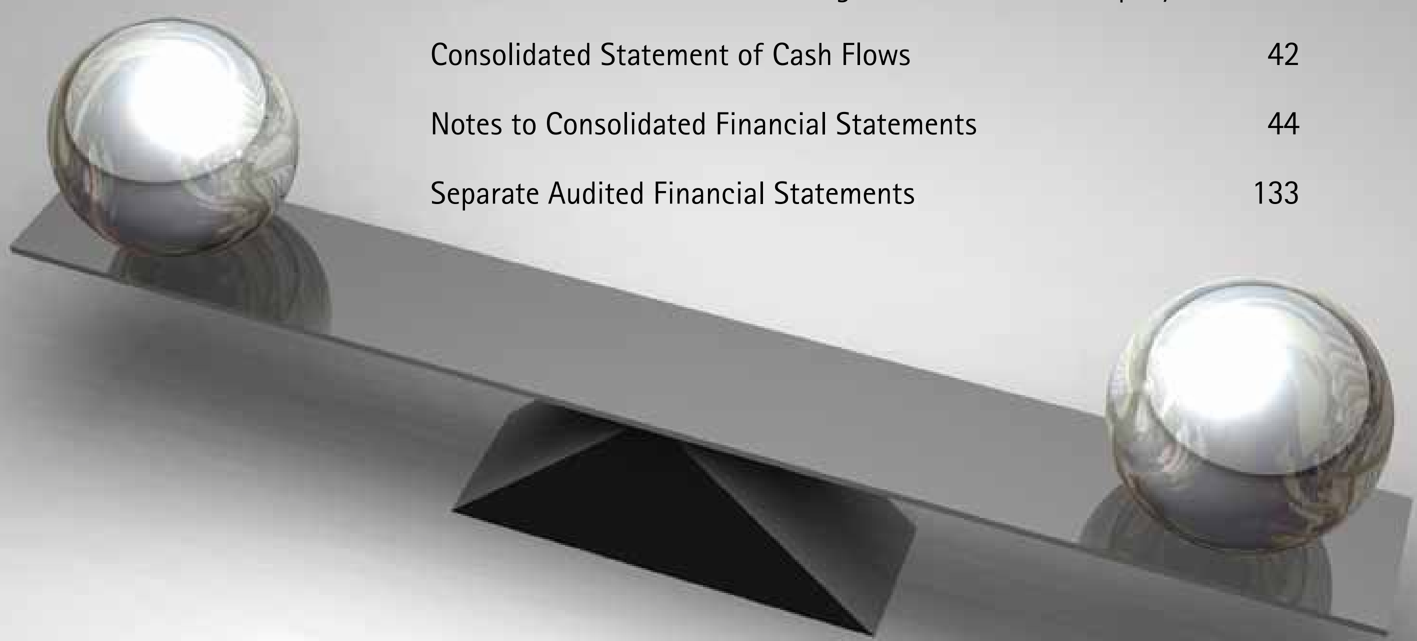


NOTICE OF MEETING

Notice is hereby given that the FORTY-SIXTH ANNUAL GENERAL MEETING of St. Kitts-Nevis-Anguilla National Bank Limited will be held at the St. Kitts Marriott Resort, Frigate Bay, on Thursday 27th April 2017 at 5.00 pm for the following purposes:-

1. To read and confirm the Minutes of the Meeting held on 21st January, 2016
2. To consider matters arising from the Minutes
3. To receive the Directors' Report
4. To receive the Auditors Report
5. To receive and consider the Financial Statements for the year ended 30th June, 2016
6. To declare a final dividend
7. To elect Directors
8. To reconfirm the appointment of the Auditor's for the year ending 30th June, 2017 and to authorize the Directors to fix their remuneration
9. To discuss any other business for which notice in writing is delivered to the Company's Secretary three (3) clear banking days prior to the meeting.

By Order of the Board

Stephen O. A. Hector
SECRETARY

SHAREHOLDERS OF RECORD

All shareholders of record as at February 28, 2017 will be entitled to receive a final dividend in respect of the financial year ended 30th June 2016.

PROXY

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

ARTICLES GOVERNING MEETINGS

ARTICLE 42

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

ARTICLE 43

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

ARTICLE 45

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

ARTICLE 56

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

ARTICLE 59

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

FINANCIAL HIGHLIGHTS

	2016 $'000	2015 $'000 Restated	2014 $'000 Restated	2013 $'000	2012 $'000
BALANCE SHEET INFORMATION					
Total assets	3,697,059	3,649,229	3,163,145	2,863,194	2,551,912
Total customer's deposits	3,049,273	2,996,093	2,507,885	2,066,969	1,692,865
Loans & advances (gross)	758,341	703,130	666,743	1,155,469	1,184,831
Investment securities	728,586	493,314	616,510	522,288	452,335
Cash and Money at call	940,976	1,186,313	818,748	630,050	406,082
OPERATING RESULTS					
Gross operating income	161,236	172,969	181,361	156,031	262,624
Interest income	92,372	94,240	112,226	96,859	106,322
Interest expense	60,188	67,114	77,018	81,915	87,248
Net Income	28,374	25,803	25,254	21,952	13,970
Operating expenses/provisions	70,976	82,475	84,593	62,222	157,597
Number of employees	257	255	245	241	245
Gross revenue per employee	627	678	740	647	1,072
Total assets per employee	14,385	14,311	12,911	11,880	10,387
SHARE CAPITAL & DIVIDEND INFORMATION					
Common shares issued and outstanding (in thousands)	135,000	135,000	135,000	135,000	135,000
Total shareholder's equity	467,572	475,817	476,284	460,786	457,658
Dividends paid	13,500	13,500	10,800	15,525	31,050
Number of shareholders	5,612	5,491	5,459	5,433	5,399
Earnings per share ($)	0.21	0.19	0.19	0.16	0.10
Dividends per share ($)	0.10	0.10	0.080	0.115	0.230
Book value per common share	3.46	3.52	3.53	3.41	3.39
BALANCE SHEET AND OPERATING RESULTS RATIOS (%)	%	%	%	%	%
Loans and advances to deposits	24.9	23.4	26.6	55.9	70.0
Staff Cost/Total Cost	19.2	16.4	15.0	16.6	10.3
Staff Cost/Total Revenue	15.7	14.2	13.3	15.4	9.6
Cost/Income (Efficiency) before impairment	69.9	75.0	58.6	83.9	32.4
Cost/Income (Efficiency) after impairment	70.2	77.9	81.1	83.9	89.9
Return on Equity	6.0	5.4	5.3	4.8	2.8
Return on Assets	0.8	0.8	0.8	0.8	0.6
Asset Utilization	4.4	5.1	6.0	5.8	10.4
Yield on Earning Assets	3.3	3.7	5.5	4.5	5.1
Cost to fund Earning Assets	2.1	2.6	3.8	3.8	4.2
Net Interest Margin	1.1	1.1	1.7	0.7	0.9

CORPORATE INFORMATION

BOARD OF DIRECTORS

Howard McEachrane	Chairman
Norton A. Bailey	1st Vice Chairman
Alexis Nisbett	2nd Vice Chairman
Talibah Byron	Director
Elreter Simpson-Browne	Director
Dr. Cardell Rawlins	Director
Lionel Benjamin	Director
Theodore Hobson	Director
Wallis Wilkin	Director
William George Liburd	Director

SECRETARY

Stephen O.A. Hector

SOLICITORS

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

AUDITORS

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

BRANCHES	Central Street, Basseterre (Head Office) Nevis Branch Charlestown, Nevis Sandy Point Branch Main Street, Sandy Point, St. Kitts Pelican Mall Branch Bay Road, Basseterre, St. Kitts Bureau de Change RLB International Airport
ATMS	Basseterre Branch Buckley's Cayon CAP Southwell Industrial Park St. Kitts Marriott Hotel Lodge Nevis Branch Old Road Pelican Mall Port Zante RLB International Airport Sandy Point Saddlers St. Paul St. Peter Tabernacle Palms Building, The Circus Vance W Amory International Airport
SUBSIDIARIES CONSOLIDATED	National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited Port Zante, BASSETERRE, St. Kitts National Caribbean Insurance Company Limited Church Street, BASSETERRE, St. Kitts St. Kitts and Nevis Mortgage and Investment Company Limited Port Zante, BASSETERRE, St. Kitts
REGISTERED OFFICE OF THE PARENT COMPANY	St. Kitts-Nevis-Anguilla National Bank Limited Central Street, BASSETERRE, St. Kitts

CORPORATE GOVERNANCE

Introduction

This report on Corporate Governance spans the financial year commencing July 1, 2015 and ending June 30, 2016.

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

The Board of Directors exercises leadership, enterprise, integrity and good judgment in guiding the Group to achieve continuing growth and prosperity. The Board will act in the best interests of the Group and its stakeholders guided by a philosophy that is based on transparency, accountability and responsibility. The Group's values and standards are set to ensure that obligations to its shareholders, employees, and customers are met. Our ethics and operating principles remind us that the National Bank Group functions with the highest standards of ethical conduct. The Governance framework seeks to put a structure in place to help guide Directors, Management and staff. We constantly seek to improve and strengthen the framework. To this end during the financial year the Board approved a whistle blowing policy to strengthen the corporate governance framework.

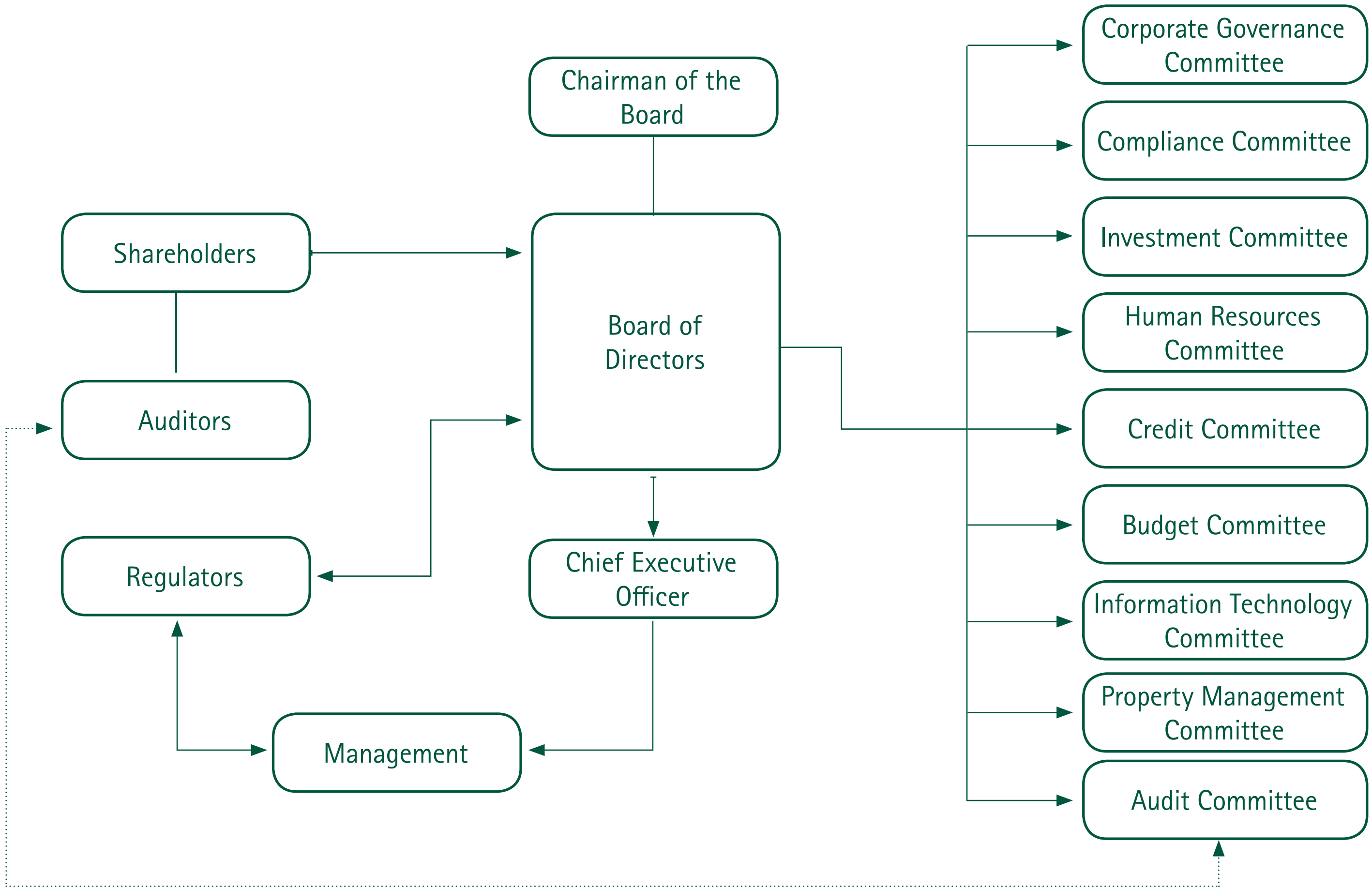
Major Shareholdings and Voting Rights

NAME	CLASS OF SECURITIES	NO. OF SECURITIES	VOTING RIGHTS
Government of St Kitts & Nevis	Ordinary Shares	68,850,000	51.00
National Commercial Bank of Anguilla Ltd	Ordinary Shares	8,843,681	6.55
Social Security Board (St Kitts & Nevis)	Ordinary Shares	8,598,506	6.37

Board Responsibilities

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

The diagram below provides a high-level view of how the Board interacts with the various stakeholder groups.



Directors' Independence

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

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

Board size and Composition

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

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

On January 21, 2016, the Annual General Meeting of Shareholders elected Mr. William Liburd as Board Director to replace retiring Director Mr. Hastings Daniel.

Attendance at Board meetings

The attendance at Board meetings is shown in the table below.
It should be noted that some of the absences from meetings of the Board, was as a result of the directors being away on bank business.

SKNANB BOARD MEETING ATTENDANCE REPORT

Director	Total	Numbers	%
Mr. Howard McEachrane	17	17 / 21	81%
Mr. Analdo Bailey	19	19 / 21	90%
Mr. Alexis Nisbett	17	17 / 21	81%
Dr. Cardell Rawlins	15	15 / 21	71%
Mrs. Elreter Simpson-Browne	19	19 / 21	90%
Ms. Talibah Byron	21	21 / 21	100%
Mr. Lionel Benjamin	21	21 / 21	100%
Mr. Theodore Hobson	14	14 / 21	67%
Mr. Wallis Wilkin	20	20 / 21	95%
Mr. Hastings Daniel *	11	11 / 11	100%
Mr. William Liburd *	10	10 / 10	100%
Mr. Stephen Hector (Secretary)	19	19 / 21	90%
No. of Meetings	**21**		

* As a result of elections at the Annual General Meeting held on Thursday 21st January, 2016, Mr. Hastings Daniel was replaced on the Board of Directors by Mr. William Liburd.

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	Total	Numbers	%
Mr. Howard Richardson	15	15 / 15	100%
Mrs. Jenifer Howell	15	15 / 15	100%
Mrs. Marcella Lanns-Monish	13	13 / 15	87%
Ms. Jacynthn Francis	13	13 / 15	87%
Mr. Reginald James	15	15 / 15	100%
Mrs. Sonia Henry	13	13 / 15	87%
Miss Joycelyn Mitcham	14	14 / 15	93%
Mrs. Judith Attong	9	9 / 15	60%
Mrs. Carmen Versailles (Secretary)	15	15 / 15	100%
No. of Meetings	**15**		

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

The Board of directors of the St. Kitts-Nevis-Anguilla National Bank Trust Company Ltd are as follows:

O'Grenville Browne - CHAIRMAN
Patricia Bartlette
Shirley Julius
Cyndie Demming
Crace Lewis

Mr. Vernon Harris, former chairman of the Board of Directors, retired as a director effective April 30, 2016. No replacement has been appointed

The Board of Directors of the National Bank Trust Company Ltd held eight (8) meetings during the year.

St. Kitts and Nevis Mortgage and Investment Company Limited Board of Directors

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 Limited.

Conflicts of interest

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

1) disclose that interest;
2) leave the meeting during Board or committee discussion; and
3) do not vote on the matter.

Directors' Training and Development

During the year under review five (5) of the ten (10) Directors have attained accreditation through the Director Education and Accreditation Programme (DEAP) offered by the Eastern Caribbean Securities Exchange in collaboration with the Chartered Secretaries of Canada.

Directors participated in various Seminars and Conferences held throughout the financial period covering topics such as;

- Anti-Money Laundering/ Anti-terrorist Financing Training
- Corporate Governance
- Correspondent banking relationships
- Internal Auditing
- Human Resources Management

Directors' Rotation

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

Directors' Remuneration

Directors' fees are included in Note 27.

Directors' Shareholdings

Director	No. of Shares Owned	Type of Director
Mr. Howard McEachrane	2,000	Non-Executive
Mr. Analdo Bailey	32,500	Non-Executive
Mr. Alexis Nisbett	635	Non-Executive
Dr. Cardell Rawlins	5,333	Non-Executive
Mrs. Elreter Simpson-Browne	500	Non-Executive
Ms. Talibah Byron	200	Non-Executive
Mr. Lionel Benjamin	50,000	Non-Executive
Mr. Theodore Hobson	34,416	Non-Executive
Mr. Wallis Wilkin	4,700	Non-Executive
Mr. William Liburd	25,416	Non-Executive

Directors' Qualification

Director	Qualification	Representation
Mr. Howard McEachrane	Fellow of the Institute of Chartered Accountants	Gov't of St. Kitts - Nevis
Mr. Analdo Bailey	Masters of Business Administration	Gov't of St. Kitts - Nevis
Mr. Alexis Nisbett	Master in Science (Accounting) Bachelor of Commerce (Accounting)	Gov't of St. Kitts - Nevis
Dr. Cardell Rawlins	Bachelor of Science - Medical Doctor	Gov't of St. Kitts - Nevis
Mrs. Elreter Simpson-Browne	Bachelor of Science Management	Gov't of St. Kitts - Nevis
Ms. Talibah Byron	Bachelor of Laws, Master of Laws	Gov't of St. Kitts - Nevis
Mr. Lionel Benjamin	Certificate Business Management	Gov't of St. Kitts - Nevis
Mr. Theodore Hobson	Bachelor of Laws	Gov't of St. Kitts - Nevis
Mr. Wallis Wilkin	Bachelor of Science-Management Studies Associate of Science-Architectural Engineering	Gov't of St. Kitts - Nevis
Mr. William Liburd	Bachelor Economics and History	Gov't of St. Kitts - Nevis

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 at which an election of a Director in place of a retiring Director ought to take place, no such election is made, 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 NCIC.

The Boards are supported by these 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.

Board Committees

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

Audit Committee

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

The members of the Committee are as follows:

Howard McEachrane - CHAIRMAN
Talibah Byron
Analdo Bailey
Alexis Nisbett
Anthony Galloway - 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:

Alexis Nisbett – CHAIRMAN
Howard McEachrane
Elreter Simpson-Browne
Dr. Cardell Rawlins
Wallis Wilkin
Winston Hutchinson – RECORDER
Dawne Williams - EX OFFICIO

Compliance Committee

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

The members of the Committee are as follows:

Alexis Nisbett - CHAIRMAN
Lionel Benjamin
Talibah Byron
Elreter Simpson-Browne
Wallis Wilkin
Jacqueline Hewlett - RECORDER

Corporate Governance Committee

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

The members of the Committee are as follows:

Analdo Bailey - CHAIRMAN
Theodore Hobson
Dr. Cardell Rawlins
Anthony Galloway - RECORDER
Dawne Williams - EX OFFICIO

Credit Committee

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

The members of the Committee are as follows:

Howard McEachrane - CHAIRMAN
Alexis Nisbett
Analdo Bailey
Lionel Benjamin
Theodore Hobson
Talibah Byron
Elreter Simpson-Browne
Donald Thompson
Dawne E. Williams
Dr. Cardell Rawlins
William Liburd
Wallis Wilkin
Stephen Hector - SECRETARY

Human Resources Committee

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

The members of the Committee are as follows:

Elreter Simpson-Browne - CHAIRPERSON
Lionel Benjamin
Alexis Nisbett
Talibah Byron
Theodore Hobson
Pansyna Bailey - RECORDER
Dawne Williams - EX OFFICIO

Information Technology Committee

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

The members of the Committee are as follows:

Analdo Bailey - CHAIRMAN
Wallis Wilkin
Elreter Simpson-Browne
Donald Thompson
Warren Nisbett - RECORDER
Dawne Williams – EX OFFICIO

Investment Committee – Asset/Liability 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:

Analdo Bailey - CHAIRMAN
Wallis Wilkin
Talibah Byron
Dr. Cardell Rawlins
Winston Hutchinson - RECORDER
Dawne Williams - EX OFFICIO

Property Management/Space Committee

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

The members of the Committee are as follows:

Wallis Wilkin - CHAIRMAN
William Liburd
Lionel Benjamin
June O'Brien - RECORDER
Dawne Williams - EX OFFICIO

National Caribbean Insurance Company Limited (NCIC) Board Committees

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

Audit Committee

The Audit Committee of NCIC has the same responsibility as outlined above. The members of the Committee are as follows:

Mrs. Marcella Lanns-Monish – CHAIRPERSON
Mr. Reginald James
Mrs. Jenifer Howell
Ms. Jacynthn Francis
Mr. Anthony Galloway – RECORDER

Compliance Committee

The Compliance Committee of NCIC has the same responsibility as outlined above. The members of the Committee are as follows:

Mr. Howard Richardson - CHAIRMAN
Mrs. Marcella Lanns-Monish
Mrs. Sonia Henry
Miss Joycelyn Mitcham
Mrs. Patricia Herbert – RECORDER

Investment / Budget Committee

The Investment / Budget Committee of NCIC has the same responsibility as outlined above for the Investment and Budget Committees. The members of the Committee are as follows:

Mrs. Marcella Lanns-Monish – CHAIRPERSON
Mr. Howard Richardson
Mrs. Jenifer Howell
Mrs. Judith Attong
Mrs. Carmen Versailles
Miss. Sherlene Johnson – RECORDER

There were two meetings of the Audit Committee during the year. There were no meetings of the Compliance Committee and the Investment/Budget Committee during the year.

Internal Audit Function Oversight

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

Organization Placement

The Internal Audit Unit reports to the Chief Internal Auditor, who in turn reports to the Audit Committee with a dotted line reporting to the Chief Executive Officer. The Chief Internal Auditor has unencumbered access to the Audit Committee and may freely discuss audit policies, audit findings, and recommendations, audit follow-up, guidance issues and other matters.

Professional Standards and Independence

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

i) Code of Ethics of the Institute of Internal Auditors and the International Standards for the Professional Practice of Internal Auditing.

Resources and skill set

The Committee recognizes that professional standards require that auditors have knowledge of operations and appropriate expertise in the subject matter that is being audited. The Chief Internal Auditor therefore provides the Audit Committee with a regular report on the Unit's personnel, including the sufficiency of resources, their qualifications, certifications, and training and development needs.

Independence

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

The Internal Audit Unit will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the Internal Auditor's judgment.

Periodic Review

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

Audit Plan

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

i) the results of audit activities, including any significant issues reported to management and management's response and/or corrective actions;
ii) the status of identified control weaknesses;
iii) the adequacy and degree of compliance with its systems of internal control.

NATIONAL BANK IN THE COMMUNITY

1. National Bank visits St. Thomas Primary School.
2. National Bank donates to Ultra Carnival.
3. Opening ceremony of SKNFA Premier League: National Bank officially recognized as the Title Sponsor of the league.
4. National Bank supports St. Christopher Children's Home.
5. National Bank partners with JNF Medical Students to raise funds for Hospital equipment.
6. National Bank partners with St Kitts Amateur Basketball Association for League.
7. St. Kitts Patriots visit National Bank.
8. National Bank staff shares food hampers.
9. Sandy Point Primary School students awarded for exceptional achievement.
10. SKNANB 45th Anniversary - Sandy Point Branch - Longest serving customer recognized.
11. National Bank Primary and Secondary School Football League.

Howard McEachrane
Chairman

CHAIRMAN'S REPORT

What we do IS who we are – every aspect of our operations, thoughtfully considered and passionately enacted.

THE BOARD OF DIRECTORS

Your Board continued its mandate to maintain sustainable profitability through its regular twice monthly meetings and its collaboration with Management through nine specially designated Board Committees and its oversight of corporate policy and performance.

CEO Dawn Williams completed three years of diligent service on 31/08/16 and opted to pursue other interests. The Board records its appreciation for the sterling contribution of Miss Williams during a very challenging period and offers its best wishes for continuing success in her future endeavors.

Mr. Donald Thompson CPA, a well experienced banker and Senior Officer of the Bank, was appointed acting CEO with effect from 01/09/16.
The Board also recognizes the contributions of several senior and experienced staff who have reached retirement age and who have made significant contributions to the Company's success.

THE ECONOMY

The local economy is always influenced by global developments especially those of our major Trading partners in North America, Europe and the Far East. The IMF states that "Growth is expected to moderate to 3.5 percent in 2016 and 3 percent, on average, over the medium term, reflecting a tapering of construction activities associated with a potential slowdown in the pace of new CBI applications, given the increased competition from new CBI programs. The ongoing recovery in tourism activity is expected to support growth, as new CBI-funded tourist facilities come on stream in 2017-19. Potential spillovers from weak growth prospects in key tourism source markets, de-risking trends, delays in regional financial sector resolution, and exposure to natural disasters pose additional downside risks to the outlook. Higher than expected CBI inflows or favorable oil price developments, however, could surprise on the upside".

FINANCIAL RESULTS

The group enjoyed another satisfactory year with focused attention to asset quality, business developments and diversification, investment returns, contracts with third parties in particular Correspondent Banks and reinsurance providers.
Net operating profit before taxation for the year was $30,072k compared to $23,380k of the prior year. Total assets remained firm at $3,697,059k compared to $3,649,229k at 30/06/15.

Liquidity remains very strong and available for new opportunities – to this end, the Bank has contracted with St. Kitts Nevis Development Bank to reactivate its Fresh Start programme for which demand has substantially exceeded initial expectations and which offers financial support to new local enterprises which can significantly impact the local economy.

CONCLUSION

We must always be aware that any Company's greatest resource is the calibre of its human capital – it success depends upon the joint enterprise, skills, loyalty and dedication of all employees. The Group has a strong team of capable employees who continue to contribute to ongoing successes and develop themselves professionally.

The Board also recognizes the support of its customers and shareholders and looks forward to close collaboration in the exciting years ahead.

Howard McEachrane
Chairman

BOARD OF DIRECTORS

Guiding principles – clear objectives, sound measurement, focused policies.

BOARD OF DIRECTORS

Guiding principles – clear objectives, sound measurement, focused policies.

Top Photo

1.	**Howard McEachrane**	Chairman

Row 1 (left to right):

2.	**Norton A Bailey**	1st Vice Chairman
3.	**Alexis Nisbett**	2nd Vice Chairman
4.	**Talibah Byron**	Director
5.	**William Liburd**	Director

Row 2 (left to right):

6.	**Lionel Benjamin**	Director
7.	**Dr. Cardell Rawlins**	Director
8.	**Elreter Simpson-Browne**	Director
9.	**Theodore L Hobson**	Director

Bottom Photo

10.	**Wallis Wilkin**	Director
11.	**Stephen O. A. Hector**	Corporate Secretary

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report for the financial year ended June 30, 2016.

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:

Mr. Theodore Hobson
Ms. Talibah Byron
Mr. Lionel Benjamin

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

BOARD COMMITTEES

In keeping with its management function and fiduciary duties, the Board of Directors operates through nine (9) committees namely Audit, Budget, Compliance, Corporate Governance, Credit, Human Resources, Information Technology, Investment/Asset/Liability and Property Management.

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

FINANCIAL RESULTS AND DIVIDENDS

Activities of the Bank are focused on increasing shareholders value by providing them with a reasonable return on their investments. During the period June 2013 to June 2016, dividend payments were $15.5m (2013), $10.8m (2014), $13.5m (2015) and $13.5m (2016), for a total of $53.3m over a four-year period.

The Directors report that profit after taxation for the year ended June 30, 2016 amounted to $28.4 million, with earnings per common share of $0.21.

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

The Directors have decided to recommend a dividend of 10% for the financial year ended June 30, 2016. This recommendation, if approved by the Annual General Meeting, will mean a total dividend of $13.5 million will be paid for the financial year 2016.

By Order of the Board of Directors

Stephen O. A. Hector
SECRETARY

SENIOR EXECUTIVE TEAM

Hands –on – deeply involved and passionately committed.

Donald Thompson	Chief Executive Officer (Acting)
Anthony Galloway	Chief Financial Officer
Bernice Grant-Kelly	Chief Electronic Services Officer
Ermelin Sebastian-Duggins	Chief Legal Counsel
Jacqueline Hewlett	Chief Risk and Compliance Officer
Junior Jules	Officer in Charge, MIS
David Walters	Officer in Charge, Internal Audit
Pansyna Bailey	Officer in Charge, Human Resources Unit

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis (MD&A) provides an overview of the economic conditions that existed globally and domestically during the financial year ended June 30, 2016, and an analysis of the results of operations and financial condition of St Kitts-Nevis-Anguilla National Bank Limited "the Group" for the same period. This should be read in conjunction with the Consolidated Financial Statements and related notes found on pages 37 to 132 .

OVERVIEW

Economic Review for financial year 2015/16

GLOBAL ECONOMIC CONDITIONS

Global economic growth was approximately 3.1 percent in the second half of 2015 and the economies showed noticeable improvement in the first half of 2016. Nonetheless, the growth figures were less than anticipated, reflecting higher international debt, falling global commodity prices, and stagnant international trade.

In the first half of 2016, the global economy had to combat the impacts of the crumple in oil costs, slower development in China, and rising strategy rates in the United States. Moreover, towards the end of June 2016, the world was shaken by the unexpected decision reached in UK's Brexit referendum over that nation's EU participation.
The Brexit process should fuel negative macroeconomic effects in the global economy over the medium term, and together with the uncertainties surrounding the United States political environment, will affect the outlook for global economies. Nonetheless, stronger growth is anticipated over the next two years as the economies adjust to the abovementioned shocks.

ST KITTS & NEVIS

The domestic economy grew at an estimated 5 percent in 2015, but mirrored the rest of the world economies by expanding at a much slower pace in the first half of 2016. The ongoing recovery in stay-over tourist arrivals, strong activity in wholesale and retail sectors and construction activity continued to support domestic growth.
Moving forward, growth is estimated as 3.5 percent by the end of 2016, supported by continued activity in almost all the major sectors including construction, tourism, wholesale and retail and transport, but partly constrained by lower manufacturing activity. Moreover, stronger growth is expected in 2017 and beyond, underpinned mainly by resort developments in the private sector, public sector developments, a second cruise ship berthing pier, a recreational park, and increased airlift.

Banks in the federation remained highly liquid and well capitalized during the review period. Their loan books showed rising non-performing loans, which dampened their appetite for lending. This reduction in lending coupled with a growing deposit base and the ensuing high cost of funds, have negatively impacted on the indigenous banks' profitability.

Sources: World Bank, IMF & ECCB

Against this backdrop, the Group reports another successful year of operations.

St. Kitts-Nevis-Anguilla National Bank (the Group)

Sources: World Bank, IMF & ECCB

RESULTS OF OPERATIONS

NET INTEREST INCOME

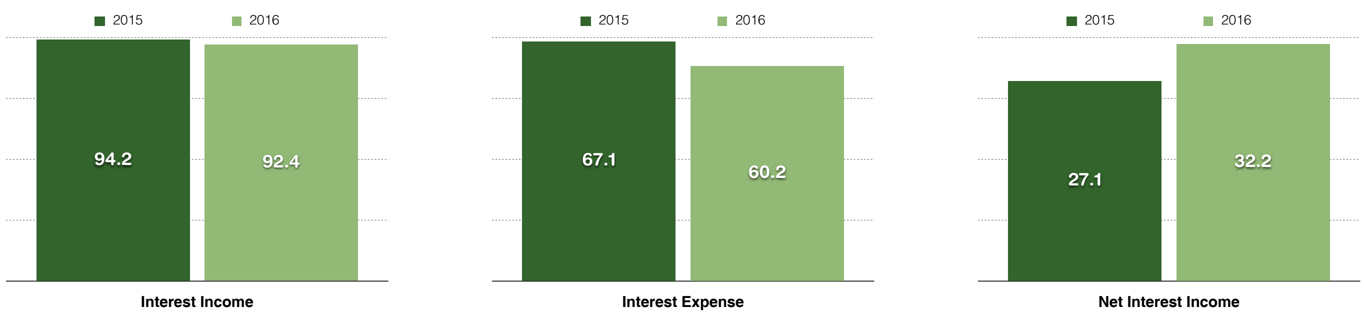
Net interest income was $32.2 million in 2016, up by $5.1 million or 18.8% from the previous year's net interest income of $27.1 million. The increase was predominantly the result of a $6.9 million fall in interest expense, partially offset by a $1.8 million reduction in interest income on loans and investments. (see table 1)

Interest expense fell from $67.1 million in 2015 to $60.2 million in 2016, due to lower interest rates on all deposit categories. Consequently, the net interest margin moved slightly upwards from 1.05% in 2015 to 1.13% in 2016.

Table 1

			Change	
(in millions)	2016	2015	$	%
Interest Income	**$92.4**	**$94.2**	**(1.8)**	**(1.9)**
Loans	43.4	45.6	(2.2)	(4.8)
Investments	49.0	48.6	0.4	0.8
Interest Expense	**60.2**	**67.1**	**(6.9)**	**(10.3)**
Demand	0.3	1.5	(1.2)	(80.0)
Savings	9.3	12.0	(2.7)	(22.5)
Time	50.6	53.6	(3.0)	(5.6)
Net Interest Income	**32.2**	**27.1**	**5.1**	**18.8**

NET INTEREST INCOME



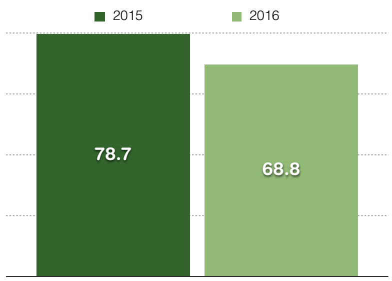
NON-INTEREST INCOME

Non-interest income decreased by $9.9 million or 12.6% in 2016 when compared with 2015. During the review period, strong volatility in the United States financial markets resulted in lower gains from investment securities, and coupled with a reduction in foreign exchange gains and miscellaneous income, resulted in a fall in the non-interest income base.
This reduction in non-interest income was partially offset by slight increases in insurance related income, dividends, fees and commission income. Insurance related Income rose by $3.8 million or 13.9%, fees and commission income increased by $0.4 million or 2.5% in 2016 over 2015, while dividend income grew by $1.5 million or 65.2% in 2016 when compared with $2.3 million recorded for 2015. (see table 2)

Table 2

(in millions)	2016	2015	Change $	Change %
Fee and Commission Income	$ 16.6	$ 16.2	0.4	2.5
Dividend	3.8	2.3	1.5	65.2
Net Gain on AFS Investments	11.9	24.7	(12.8)	(51.8)
Net Insurance related income	31.1	27.3	3.8	13.9
Foreign Exchange gains	4.9	5.9	(1.0)	(17.0)
Other	0.5	2.3	(1.8)	(78.3)
Non-Interest Income	**68.8**	**78.7**	**(9.9)**	**(12.6)**

NON INTEREST INCOME



NON-INTEREST EXPENSES

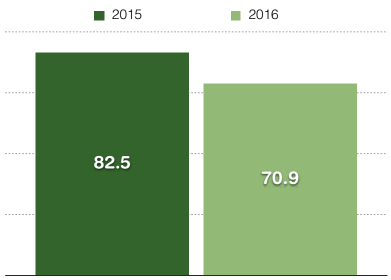
In 2016, non-interest expenses fell significantly by $11.6 million or 14.1% to $70.9 million when compared with the $82.5 million recorded for 2015. Lower sundry losses, staff costs, directors' expenses, audit fees and depreciation expenses were the main contributing factors to the fall in non-interest expenses.

Consequently, before adjustments for impairment, the efficiency ratio fell 503 basis points from 74.97% in 2015 to 69.94% in 2016. After adjusting for impairment, the efficiency ratio moved down 767 basis points from 77.91% in 2015 to 70.24% in 2016. In both instances, the efficiency ratios showed positive results, as the lower ratios indicate decreasing costs.

Table 3

(in millions)	2016	2015	Change $	Change %
Fee expenses	$ 9.9	$ 12.8	(2.9)	(22.7)
Administrative and general expenses	38.0	45.0	(7.0)	(15.6)
Net claims incurred	18.6	17.1	1.5	8.8
Directors fees and expenses	0.8	1.1	(0.3)	(27.3)
Professional fees and expenses	0.5	0.6	(0.1)	(16.7)
Depreciation and amortization	2.8	2.8	-	-
Impairment charges	0.3	3.1	(2.8)	(90.3)
Non-Interest Income	**70.9**	**82.5**	**(11.6)**	**(14.1)**

NON-INTEREST EXPENSES



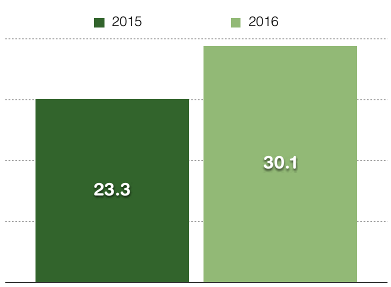
NET INCOME

The net effect of the change in net interest income, non-interest income and non-interest expenses was a $6.8 million or 29.2 % increase in net income before tax for 2016 over 2015. Net income for the year was $28.4 million after adjustment for income tax of $1.7 million and earnings per share (basic and diluted) was $0.21 in 2016 compared with $0.19 in 2015. (see table 4)

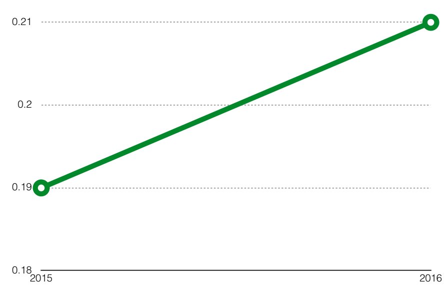
Table 4

(in millions)	2016	2015	Change $	Change %
Net Interest Income	$ 32.2	$ 27.1	5.1	18.8
Non-Interest Income	68.8	78.7	(9.9)	(12.6)
Non-Interest Expenses	70.9	82.5	(11.6)	(14.1)
Net Income (Profit b/f Tax)	**30.1**	**23.3**	**6.8**	**29.2**

PROFIT B/F TAX



EARNINGS PER SHARE



FINANCIAL CONDITIONS

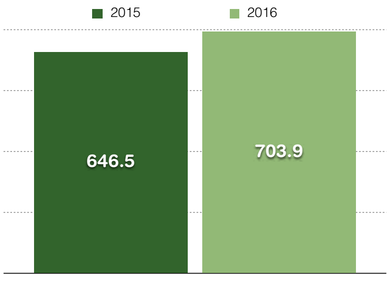
LOANS AND ADVANCES

Total Loans and advances to customers increased by $57.4 million or 8.9% to $703.9 million in 2016 over 2015, driven by strong demand for Commercial Demand Loans, Mortgages, and Overdrafts.

Commercial demand loans, which were recorded at $260.1 million in 2016, accounted for 46.6% of the total productive loans and advances portfolio. Mortgages and overdrafts, on the other hand, accounted for 17.0% and 16.2% of the portfolio, respectively. All other loan categories accounted for the remaining 20.2%.

The provision for credit losses fell by $2.2 million or 3.8% from $58.0 million in 2015 to $55.8 million in 2016. The Group will continue to work on improving the quality of the loans and advances portfolio whilst aggressively pursuing additional private sector loans and advances.

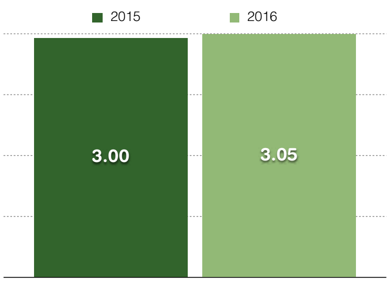
LOANS AND ADVANCES



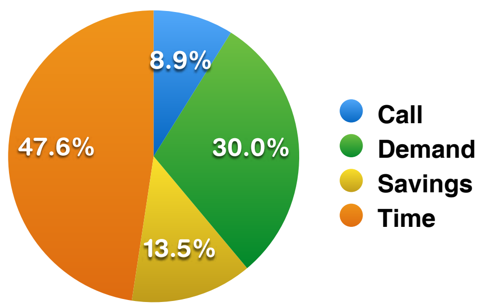
DEPOSITS

Customer deposits grew by $53.2 million or 1.8% to $3.0 billion in 2016 when compared with the amount recorded for 2015. There was a significant increase in all deposit categories except direct demand deposits, which fell by $213.5 million or 19.0%. Fixed deposits rose by $84.7 million or 6.2%, Call by $172.6 million or 174.6% and Savings deposits by $14.7 million or 3.7%. Interest payments on these deposit categories amounted to $60.2 million in 2016 compared to $67.1 million in 2015. In 2016, the average effective rate of interest paid on customers' deposits was 2.2% (2015: 2.5%).

CUSTOMER DEPOSITS



DEPOSIT MIX 2016



CAPITAL AND LIQUIDITY

The Group's capital position remained strong in 2016. This is reflected in the Tier 1 capital ratio of 29% and Total capital ratio of 31%. These ratios are well above regulatory minimums and strong by international standards.

Shareholders' equity decreased by $8.3 million or 1.7% in 2016 when compared with 2015. This decrease in shareholders' equity in 2016 was due mainly to higher unrealized losses on investments in 2016 over 2015. Nonetheless, the return on equity increased from 5.42% in 2015 to 6.02% in 2016, whilst the return on assets rose from 0.76% in 2015 to 0.77% in 2016.

Similarly, the Group continued to be highly liquid, achieving a positive net cash flow position at the end of June 2016. Special attention is given to liquidity positions daily. Moreover, the combined strengths of certain credit policy guidelines in the underwriting of loans and advances, treasury and investment management procedures ensure that the Group is always in a position to meet all obligation as they become due.

RISK MANAGEMENT

During the year, the Group developed an Enterprise Risk Management Framework (ERM) to formally document its overarching risk appetite, and the key risk areas that it must address. The ERM Programme enables the Bank to deal with uncertainty, risks, and opportunities, thereby enhancing value and profitability, and assisting with the identification and selection of alternative risk responses and risk treatment, to reduce adverse impact on the Group's reputation and financial success.

The ERM framework is based in part on the COSO ERM framework and its eight interrelated components, the ISO 31000 Risk Management Principles and Guidelines and the BASEL II definition of operational risk. It covers the implementation and development of operational risk management policies and procedures, to effectively identify and control areas of operational risk with significant potential impact, as prescribed by the Basel Committee.

The ERM Programme is an interactive and continual process to ensure that Management and the Board of Directors are kept up-to-date with actual events, and that there is a quick response to any changes in the internal or external business environment. The process of continually weighing both risk and return is embedded in the Group's corporate culture, to ensure that decisions and results enable the generation of expected profit and achievement of strategic objectives to ultimately maximize shareholder value.

The Group will continue to explore all options to augment its risk management processes, and ensure that its policies, standards, procedures, and guidelines are in line with international due diligence 'best practices'.

OUTLOOK

With the global economic recovery continuing, developments in the tourism, construction, wholesale and retail, and transport sectors are expected to lead to the continuation of strong economic growth in the Federation of St. Kitts and Nevis.

In this setting, St Kitts-Nevis Anguilla National Bank Limited will continue to implement measures to improve profitability and strengthen its position globally. Furthermore, the Group will continue to adhere to international prudential policies and practices with regards to capital adequacy and supervision that have tighten over the years.

Through these efforts, in the year ending June 2017, the Group is targeting increases in loans and advances, revenue and shareholders' equity, as well as lower costs of funds.

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

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West Indies

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited** which comprise the consolidated statement of financial position as of June 30, 2016, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the **St. Kitts-Nevis-Anguilla National Bank Limited** as of June 30 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton

Chartered Accountants
March 30, 2017
Basseterre, St. Kitts

St. Kitts-Nevis-Anguilla National Bank Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2016

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2016 $	June 30 2015 Restated $	July 1 2014 Restated $
Assets				
Cash and balances with Central Bank	5	**269,155**	239,699	293,229
Treasury bills	6	**147,197**	149,278	167,199
Deposits with other financial institutions	7	**897,625**	1,175,278	712,312
Loans and receivables – Loans and advances to customers	8	**703,897**	646,477	683,330
– Originated debt	9	**114,164**	108,556	90,518
Investment securities – available–for–sale	10	**614,422**	384,758	525,992
Financial asset	32	**798,480**	798,397	566,695
Property inventory	11	**7,954**	7,954	8,193
Investment property	12	**4,040**	4,040	4,040
Income tax recoverable	19	**4,541**	5,357	4,418
Property, plant and equipment	13	**37,177**	38,296	27,551
Intangible assets	14	**479**	579	403
Other assets	15	**60,212**	64,620	67,182
Deferred tax asset	19	**37,716**	25,940	12,083
Total assets		**3,697,059**	3,649,229	3,163,145
Liabilities				
Customers' deposits	16	**3,049,273**	2,996,093	2,507,885
Other borrowed funds	17	**7,968**	7,496	5,386
Accumulated provisions, creditors and accruals	18	**172,246**	169,823	173,448
Income tax liability	19	**–**	–	142
Total liabilities		**3,229,487**	3,173,412	2,686,861
Shareholders' equity				
Issued share capital	20	**135,000**	135,000	135,000
Share premium		**3,877**	3,877	3,877
Retained earnings		**32,366**	23,924	18,241
Reserves	21	**296,329**	313,016	319,166
Total shareholders' equity		**467,572**	475,817	476,284
Total liabilities and shareholders' equity		**3,697,059**	3,649,229	3,163,145

The notes on pages 44 to 132 are an integral part of these consolidated financial statements.

Approved for issue by the Board of Directors on March 30, 2017.

Chairman

Director

St. Kitts-Nevis-Anguilla National Bank Limited

CONSOLIDATED STATEMENT OF INCOME

For the year ended June 30, 2016

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2016 $	2015 Restated $
Interest income		**92,372**	94,240
Interest expense		**(60,188)**	(67,114)
Net interest income	22	**32,184**	27,126
Fees and commission income		**16,649**	16,208
Fees expenses		**(9,890)**	(12,781)
Net fees and commission income	23	**6,759**	3,427
Other income	24	**52,215**	62,521
Operating income		**91,158**	93,074
Non-interest expenses			
Administrative and general expenses	25	**(38,039)**	(45,025)
Other expenses	27	**(22,743)**	(21,551)
Impairment expense	26	**(304)**	(3,118)
Total operating expenses		**61,086**	69,694
Income before tax for the year		**30,072**	23,380
Income tax (expense)/credit	19	**(1,698)**	2,423
Net income for the year		**28,374**	25,803
Earnings per share (basic and diluted)	28	**0.21**	0.19

The notes on pages 44 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2016

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2016 $	2015 Restated $
Net income for the year		**28,374**	25,803
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale financial assets:			
Unrealised fair value losses on investment securities, net of tax		**(48,170)**	(24,698)
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year, net of tax		**25,876**	1,865
	21	**(22,294)**	(22,833)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation surplus of property, plant and equipment, net of tax	21	–	9,995
Re-measurement (loss)/gain on defined benefit plan, net of tax	21	**(825)**	68
		(825)	10,063
Net other comprehensive loss		**(23,119)**	(12,770)
Total comprehensive income for the year		**5,255**	13,033

The notes on pages 44 to 132 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, 2016

(expressed in thousands of Eastern Caribbean dollars)

	Notes	Issued share capital $	Share premium $	Statutory reserve $	Other reserves $	Revaluation reserves $	Retained earnings $	Total $
Balance at July 1, 2014, (as previously stated)		**135,000**	**3,877**	**106,849**	**211,885**	**432**	**27,335**	**485,378**
Effect of correction of prior period error	37	–	–	–	–	–	**(9,094)**	**(9,094)**
		135,000	**3,877**	**106,849**	**211,885**	**432**	**18,241**	**476,284**
Net income for the year (as restated)		–	–	–	–	–	25,803	25,803
Other comprehensive income		–	–	–	68	(12,838)	–	(12,770)
Total comprehensive income for the year (as restated)		–	–	–	68	(12,838)	25,803	13,033
Transfer to reserves	21	–	–	4,825	1,795	–	(6,620)	–
Transaction with owners: Dividends	29	–	–	–	–	–	(13,500)	(13,500)
Balance at June 30, 2015 (Restated)		**135,000**	**3,877**	**111,674**	**213,748**	**(12,406)**	**23,924**	**475,817**
Net income for the year		–	–	–	–	–	28,374	28,374
Other comprehensive income		–	–	–	(825)	(22,294)	–	(23,119)
Total comprehensive income for the year		–	–	–	(825)	(22,294)	28,374	5,255
Transfer to reserves	21	–	–	4,775	1,657	–	(6,432)	–
Transaction with owners: Dividends	29	–	–	–	–	–	(13,500)	(13,500)
Balance at June 30, 2016		**135,000**	**3,877**	**116,449**	**214,580**	**(34,700)**	**32,366**	**467,572**

The notes on pages 44 to 132 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, 2016

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2016 $	2015 Restated $
Cash flows from operating activities			
Net income before tax		**30,072**	23,380
Adjustments for items not affecting cash:			
Interest expense		**60,188**	67,114
Depreciation and amortisation		**2,801**	2,770
Reclassification of projects ongoing to expense		**389**	–
Provision for impairment		**404**	3,118
Gains on disposal of equipment and intangible assets		**(18)**	(1,061)
Retirement benefits		**(134)**	(198)
Dividend income		**(3,760)**	(2,291)
Interest income		**(92,372)**	(94,240)
Property revaluation loss		–	61
Operating income before changes in operating assets and liabilities		**(2,430)**	(1,347)
(Increase)/decrease in operating assets:			
Loans and advances to customers		**(56,246)**	31,651
Mandatory deposits with Central Bank		**(3,319)**	(25,944)
Financial asset		–	(230,952)
Other assets		**2,772**	3,289
Increase/(decrease) in operating liabilities:			
Customers' deposits		**58,526**	491,015
Due to other financial institutions		–	46
Accumulated provisions, creditors, and accruals		**2,423**	(3,625)
Cash generated from operations		**1,726**	264,133
Interest received		**72,444**	79,099
Pension contributions paid		**(461)**	(428)
Income tax paid		**(1,271)**	(1,965)
Interest paid		**(65,534)**	(69,921)
Net cash from operating activities		**6,904**	270,918
Cash flows from investing activities			
Interest received		**19,969**	23,161
Dividends received		**3,760**	2,291
Decrease in restricted term deposits and treasury bills		**7,879**	18,542
Proceeds from disposal of equipment and intangible assets		**18**	1,083
Purchase of equipment and intangible assets		**(1,971)**	(3,114)
Purchase of investment securities and originated debt		**(1,199,475)**	(691,422)
Increase in special term deposits		–	34,995
Proceeds from sale of investment securities and originated debt		**930,607**	779,245
Net (used in)/cash from investing activities		**(239,213)**	164,781

CONSOLIDATED STATEMENT OF CASH FLOWS ...CONTINUED

For the year ended June 30, 2016

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2016 $	2015 Restated $
Cash flows from financing activities			
Increase/(decrease) in other borrowed funds		**472**	(3)
Dividends paid	29	**(13,500)**	(13,500)
Net cash used in financing activities		**(13,028)**	(13,503)
Net (decrease)/increase in cash and cash equivalents		**(245,337)**	422,196
Cash and cash equivalents, beginning of year		**1,186,313**	764,117
Cash and cash equivalents, end of year	33	**940,976**	1,186,313

The notes on pages 44 to 132 are an integral part of these consolidated financial statements.

1 Incorporation and principal activity

St. Kitts-Nevis-Anguilla National Bank Limited (the "Bank") was incorporated as a public limited company on February 15, 1971 under the Companies Act Chapter 335, and was re-registered under the new Companies Act No. 22 of 1996 on April 14, 1999. The Bank operates in both St. Kitts and Nevis and is subject to the provisions of the Banking Act of 2015. The Bank is listed on the Eastern Caribbean Securities Exchange.

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

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

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

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

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

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

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

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

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

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

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

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

2 Significant accounting policies

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

2.1 Basis of preparation

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

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

2.2 Changes in accounting policies

New and revised standards that are effective for annual periods beginning on or after July 1, 2015

There were no new and revised IFRSs or IFRIC interpretations which are effective for annual periods beginning on or after July 1, 2015 that had a material impact to the Group.

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 financial statements is provided below. Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

Amendments to International Accounting Standard (IAS) 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for property and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. The presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

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

Amendments to International Accounting Standards (IAS) 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation* *...continued*

The Group uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively. The directors believe that the straight-line method is the most appropriate method to the consumption of economic benefits inherent in the respective assets and accordingly. The directors do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the consolidated financial statements. The amendment is required to be applied for annual reporting periods beginning on or after January 1, 2016.

Amendments to IAS 1 *Presentation of Financial Statements*

The amendments to IAS 1 address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- Clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;

- Clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to statement of income; and

- Additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The directors do not anticipate that the application of these amendments will have a material impact on the consolidated financial statements. The amendment is required to be applied for annual reporting periods beginning on or after January 1, 2016.

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

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

IFRS 15 *Revenue from Contracts with Customers*

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

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

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

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

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

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

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

The directors anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and the disclosures made in the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

IFRS 9 *Financial Instruments* (2014)

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

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

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

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

Key requirements of IFRS 9:

- All recognised financial assets that are in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be substantially at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are sole payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

  Under IAS 39, the entire amount of the change in the fair value in the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2 Significant accounting policies *...continued*

2.2 Changes in accounting policies *...continued*

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

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

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transaction eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the type of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the application of IFRS 9 in the future may have a material impact on the disclosures or on the amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group undertakes a detail review. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.3 Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of June 30, 2016. 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 Significant accounting policies *...continued*

2.4 Cash and cash equivalents

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

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

2.5 Financial assets and liabilities

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

Financial assets

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

(i) Loans and receivables

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

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

(ii) Available-for-sale financial assets

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

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

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

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

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

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

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

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

Financial liabilities

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

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

Derecognition

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

2 Significant accounting policies *...continued*

2.5 Financial assets and liabilities *...continued*

Reclassification of financial assets

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

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

2.6 Classes of financial instruments

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

<table>
<tr><td rowspan="6">Financial assets</td><td rowspan="5">Loans and receivables</td><td>Cash and cash equivalents and deposits with other financial institutions</td><td>Bank accounts</td></tr>
<tr><td>Treasury bills and originated debt</td><td>Government fixed rated bonds and long term note</td></tr>
<tr><td>Loans and advances to customers</td><td>Overdrafts, corporate customers, term loans and mortgages</td></tr>
<tr><td>Financial asset</td><td>Government related debt</td></tr>
<tr><td>Other assets</td><td>Other receivables</td></tr>
<tr><td>Available-for-sale financial assets</td><td>Investment securities – available-for-sale</td><td>Equity and debt securities</td></tr>
<tr><td rowspan="2">Financial liabilities</td><td rowspan="2">Financial liabilities at amortised cost</td><td colspan="2">Customers’ deposits and borrowings</td></tr>
<tr><td colspan="2">Accumulated provisions, creditors and accruals</td></tr>
</table>

2 Significant accounting policies *...continued*

2.7 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

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

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

2 Significant accounting policies *...continued*

2.7 Impairment of financial assets *...continued*

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

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

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

2.8 Offsetting financial instruments

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

2 **Significant accounting policies** *...continued*

2.9 Employee benefits

(a) Short-term employee benefits

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

(b) Gratuity

The Group provides a gratuity plan to its employees after 15 years of employment. The amount of the gratuity payment to eligible employees at retirement is computed with reference to final salary and calibrated percentage rates based on the number of years of service. Provisions for these amounts are included in the statement of financial position.

(c) Pension plan

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

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

2.10 Property, plant and equipment

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

2 Significant accounting policies *...continued*

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

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 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 on going 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 on going is not depreciated until such time that the relevant assets are ready for use.

Freehold land is not depreciated. Equipment, furniture and fittings, motor vehicles and reference books are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on the following basis:

Building:	25 – 45 years
Leasehold improvements:	the lesser of 25 years or the lease period
Equipment, furniture & fittings and motor vehicles:	3 – 10 years

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

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

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

2.11 Intangible assets

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

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

2 Significant accounting policies *...continued*

2.12 Impairment of non–financial assets

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

2.13 Insurance contracts

i) Classification

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

ii) Recognition and measurement

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

Short-term insurance contracts

Property and casualty insurance business

- Property and casualty insurance contracts are generally one year renewable contracts issued by the Group covering insurance risks over property, motor, accident and marine.

  Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of the property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

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

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

2 Significant accounting policies *...continued*

2.13 Insurance contracts *...continued*

ii) Recognition and measurement *...continued*

Short-term insurance contracts ...continued

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.

Long-term insurance contracts with fixed and guaranteed terms

- Life insurance business

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

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

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

2 Significant accounting policies *...continued*

2.13 Insurance contracts *...continued*

iii) Reinsurance contracts held

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

iv) Liability adequacy test

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

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

v) Receivables and payables related to insurance contracts

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

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of 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.

2 Significant accounting policies *...continued*

2.13 Insurance contracts *...continued*

vi) Salvage and subrogation reimbursements *...continued*

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

2.14 Borrowings

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

2.15 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.

2.16 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.

2.17 Leases – Group as a Lessee

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

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

2 Significant accounting policies *...continued*

2.18 Revenue recognition

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

a) Interest income and expense

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

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

b) Fee and commission income

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

c) Dividend income

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

2 Significant accounting policies *...continued*

2.18 Revenue recognition *...continued*

d) Premiums

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

e) Property sales

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

2.19 Operating expenses and fees expenses

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

2.20 Foreign currency translation

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

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

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

2.21 Equity, reserves and dividend payments

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

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

2 Significant accounting policies *…continued*

2.21 Equity, reserves and dividend payments *…continued*

(c) Other components of equity

Other components of equity include the following:

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

(d) Retained earnings

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

2.22 Current and deferred income tax

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

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

The principal temporary differences arise from operating loss carry over, 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.

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

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

2 Significant accounting policies *...continued*

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

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

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

2.23 Deposit funds

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

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

- amortised cost where the insurer is obligated to provide investment returns to the pension scheme in the form of interest;

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

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

2.24 Investment property

Investment properties are properties held to earn rental and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured at cost less any impairment in value, 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 the consolidated statement of income in the period in which the property is derecognised.

2.25 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 Significant accounting policies *...continued*

2.26 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.

2.27 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 events are disclosed in the notes to the financial statements when material.

3 Management of financial and insurance risks

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

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

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

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

3.1 Credit risk

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

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

3.1 Credit risk *...continued*

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

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

(a) Loans and advances

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

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

Group's rating	**Description of the classifications**
1	Pass
2	Special mention
3	Sub-standard
4	Doubtful
5	Loss

(b) Debt securities and other bills

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

3.1.1 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.

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

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

The exposure to any one borrower, including banks and other financial institutions, is further restricted by sub-limits covering on-balance sheet and off-balance sheet exposures. Actual exposures against limits are monitored. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Other specific controls and mitigation measures are outlined below:

(a) Collateral

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; 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.

(b) Credit-related commitments

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

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

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.2 Impairment and provisioning

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

	2016		2015	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
Group's rating				
1 Pass	**53.41**	–	56.88	–
2 Special mention	**16.10**	**0.01**	17.74	–
3 Sub-standard	**22.70**	**31.87**	22.52	41.64
4 Doubtful	**3.50**	**26.51**	2.76	53.15
5 Loss	**4.29**	**41.61**	0.10	5.21
	100.00	**100.00**	100.00	100.00

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

(i) Loans

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

(ii)Advances (overdrafts)

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

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

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis and are applied where necessary. Assessments take into account collateral held and anticipated cash receipts for individually assessed accounts.

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

	Maximum exposure 2016 $	2015 $
Cash and balances with the Central Bank*	**62,847**	40,796
Treasury bills	**147,197**	149,278
Deposits with other financial institutions	**897,625**	1,175,278
Loans and receivables:		
Overdrafts	**163,841**	153,705
Corporate customers	**289,387**	258,805
Term loans	**101,894**	98,936
Mortgages (personal)	**148,775**	135,031
Originated debt	**114,164**	108,556
Available-for-sale debt investments	**150,348**	163,076
Financial asset	**798,480**	798,397
Other assets	**42,049**	31,253
Credit risk exposures relating to off-balance sheet assets are as follows:		
Loan commitments	**54,073**	34,015
Total	**2,970,680**	3,147,126

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

The above table represents a worst case scenario of credit risk exposure at end of reporting period, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. As shown above 24% (2015: 21%) of the total maximum exposure is derived from loans and advances to customers. Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loans and advances portfolio and debt securities based on the following:

- 70% (2015: 75%) of the loans and advances portfolio are categorized in the top two grades of the internal rating system;
- Corporate Customers, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees;
- 63% (2015: 51%) of the loans and advances portfolio are considered to be neither past due nor impaired;
- The Group continues to grant loans and advances in accordance with its lending policies and guidelines; and
- A number of issuers and debt instruments in the region are not rated; consequently 63% (2015: 62%) of these investments are not rated (Government securities – treasury bills, etc.).

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.4 Loans and advances

Loans and advances to customers are summarized as follows:

	2016 $	2015 $
Loans and advances to customers		
Neither past nor impaired	**478,934**	360,758
Past due but not impaired	**78,770**	144,297
Impaired	**200,637**	198,075
	758,341	703,130
Interest receivable	**1,372**	1,326
Less allowance for impairment	**(55,816)**	(57,979)
Net	**703,897**	646,477

The total allowance for impairment losses on loans and advances is $55,816 (2015: $57,979). Further information of the allowance for impairment losses on loans and advances to customers is provided in note 8.

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

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

As of June 30, 2016

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total $
Classifications:					
1. Pass	15,499	21,952	99,898	186,445	**323,794**
2. Special mention	79,784	37,928	2,263	2,759	**122,734**
3. Substandard	160	31,363	883	–	**32,406**
Gross	95,443	91,243	103,044	189,204	**478,934**

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.4 Loans and advances *...continued*

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

As of June 30, 2015

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total $
Classifications:					
1. Pass	14,420	23,315	85,401	89,895	213,031
2. Special mention	71,843	67,225	2,130	2,956	144,154
3. Substandard	151	–	537	2,885	3,573
Gross	**86,414**	**90,540**	**88,068**	**95,736**	**360,758**

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

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Loans and advances 90 days past due but not impaired are those with special arrangements.

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term loans $	Mortgages $	Corporate customers $	Total $
As of June 30, 2016				
Past due up to 30 days	1,833	10,473	61,999	74,305
Past due 31 – 60 days	511	2,503	–	3,014
Past due 61 – 90 days	139	1,245	–	1,384
Over 90 days	67	–	–	67
Gross	**2,550**	**14,221**	**61,999**	**78,770**
Fair value of collateral	**11,161**	**27,958**	**119,836**	**158,955**

	Term loans $	Mortgages $	Corporate customers $	Total $
As of June 30, 2015				
Past due up to 30 days	1,578	11,484	56,508	69,570
Past due 31 – 60 days	882	1,519	–	2,401
Past due 61 – 90 days	212	1,408	67,899	69,519
Over 90 days	651	2,156	–	2,807
Gross	**3,323**	**16,567**	**124,407**	**144,297**
Fair value of collateral	**13,869**	**30,366**	**143,777**	**188,012**

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.4 Loans and advances *...continued*

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

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

(c) Loans and advances to customers individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $200,637 (2015: $198,075).

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

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total $
As of June 30, 2016					
Individually impaired	**78,271**	**4,795**	**26,718**	**20,684**	**130,468**
Interest receivable	**12,031**	**4,266**	**16,825**	**37,047**	**70,169**
Gross	**90,302**	**9,061**	**43,543**	**57,731**	**200,637**
Fair value of collateral	**66,095**	**12,574**	**42,302**	**59,648**	**180,619**
As of June 30, 2015					
Individually impaired	78,402	5,070	26,683	19,270	129,425
Interest receivable	12,176	3,493	16,461	36,520	68,650
Gross	**90,578**	**8,563**	**43,144**	**55,790**	**198,075**
Fair value of collateral	**98,317**	**25,213**	**65,030**	**90,885**	**279,445**

(d) Loans and advances to customers renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans at the reporting date stood at $6,830 (2015: $4,234).

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.5 Debt securities, treasury bills and other eligible bills

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

As of June 30, 2016	**Treasury bills $**	**Available-for- sale debt securities $**	**Loans and receivables-originated debt $**	**Total $**
AA- to AA+	–	10,768	–	10,768
A- to A+	–	12,576	–	12,576
Lower than A-	–	48,959	–	48,959
Unrated/internally rated	147,197	78,045	114,164	339,406
	147,197	**150,348**	**114,164**	**411,709**

As of June 30, 2015	**Treasury bills $**	**Investment securities $**	**Loans ad receivables-originated debt $**	**Total $**
AA- to AA+	–	17,901	–	17,901
A- to A+	–	23,959	–	23,959
Lower than A-	–	34,896	–	34,896
Unrated/internally rated	149,278	86,320	108,556	344,154
	149,278	**163,076**	**108,556**	**420,910**

As at June 30, 2016 the loans and receivables – originated debts includes long term notes, which were past due amounting to $30,638. Refer to note 9.

(expressed in thousands of Eastern Caribbean dollars)

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

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

The Group operates three business segments as follows:

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

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

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

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean States $	Total $
As of June 30, 2016					
Cash and balances with the Central Bank	62,847	–	–	–	62,847
Treasury bills	100,708	–	–	46,489	147,197
Deposits with financial institutions	15,448	808,094	48,526	25,557	897,625
Loans and advances to customers	603,526	88,937	2,223	9,211	703,897
Originated debt	19,386	11,183	–	83,595	114,164
Investment securities (AFS)	2,286	148,062	–	–	150,348
Financial asset	798,480	–	–	–	798,480
Other assets	34,032	7,422	–	595	42,049
	1,636,713	**1,063,698**	**50,749**	**165,447**	**2,916,607**
As of June 30, 2015					
Cash and balances with the Central Bank	40,796	–	–	–	40,796
Treasury bills	93,546	–	–	55,732	149,278
Deposits with financial institutions	6,349	1,095,823	44,624	28,482	1,175,278
Loans and advances to customers	550,793	82,583	2,722	10,379	646,477
Originated debt	21,454	–	–	87,102	108,556
Investment securities (AFS)	1,281	161,795	–	–	163,076
Financial asset	798,397	–	–	–	798,397
Other assets	27,764	3,363	–	126	31,253
	1,540,380	**1,343,564**	**47,346**	**181,821**	**3,113,111**

(expressed in thousands of Eastern Caribbean dollars)

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

3.1.7 Concentration of risks of financial assets with credit exposure

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

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2016							
Cash and balances with the Central Bank	–	–	–	62,847	–	–	62,847
Treasury bills	147,197	–	–	–	–	–	147,197
Deposits with financial institutions	–	–	–	897,459	166	–	897,625
Loans and receivables							
Loans and advances	147,781	124,114	159,939	16,560	168,329	87,174	703,897
Originated debt	102,678	–	–	11,486	–	–	114,164
Investment securities (AFS)	2,417	–	697	82,568	–	64,666	150,348
Financial asset	798,480	–	–	–	–	–	798,480
Other assets	–	–	–	12,899	226	28,924	42,049
	1,198,553	**124,114**	**160,636**	**1,083,819**	**168,721**	**180,764**	**2,916,607**

(expressed in thousands of Eastern Caribbean dollars)

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

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

	Public sector $	Construction $	Tourism $	Financial institutions $	Individuals $	Other industries $	Total $
As of June 30, 2015							
Cash and balances with the Central Bank	–	–	–	40,796	–	–	40,796
Treasury bills	149,278	–	–	–	–	–	149,278
Deposits with financial institutions	–	–	–	1,174,167	–	1,111	1,175,278
Loans and receivables							
Loans and advances	106,068	151,024	133,057	19,883	157,125	79,320	646,477
Originated debt	102,900	–	–	2,951	–	2,705	108,556
Investment securities (AFS)	2,094	–	693	44,053	–	116,236	163,076
Financial asset	798,397	–	–	–	–	–	798,397
Other assets	–	–	–	12,514	15,075	3,664	31,253
	1,158,737	**151,024**	**133,750**	**1,294,364**	**172,200**	**203,036**	**3,113,111**

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

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

The Government of St. Kitts and Nevis accounts for $1,198,553 (2015: $1,158,737) or 41% (2015: $37%) of the total credit exposure, which represents a significant concentration of credit risk. The amounts due from the Government are included in the Public Sector category.

3.2 Market risk

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

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

3.2.1 Price risk

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

3.2.2 Foreign exchange risk

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk

As of June 30, 2016	ECD $	USD $	EURO $	GBP $	CAN $	BDS $	GUY $	Total $
Assets								
Cash and balances with Central Bank	263,523	5,536	33	30	20	13	–	269,155
Treasury bills	147,197	–	–	–	–	–	–	147,197
Deposits with financial institutions	19,291	873,005	1,393	1,743	1,780	389	24	897,625
Loans and receivables:								
Loans and advances to customers	480,518	223,379	–	–	–	–	–	703,897
Originated debt	61,936	52,228	–	–	–	–	–	114,164
Investment securities (AFS)	10,851	603,571	–	–	–	–	–	614,422
Financial asset	798,480	–	–	–	–	–	–	798,480
Other assets	32,773	9,276	–	–	–	–	–	42,049
Total financial assets	**1,814,569**	**1,766,995**	**1,426**	**1,773**	**1,800**	**402**	**24**	**3,586,989**
Liabilities								
Customers' deposits	2,347,560	699,628	155	2	1,928	–	–	3,049,273
Other borrowed funds	–	7,968	–	–	–	–	–	7,968
Other liabilities	148,919	8,602	42	478	43	119		158,203
Total financial liabilities	**2,496,479**	**716,198**	**197**	**480**	**1,971**	**119**	–	**3,215,444**
Net on-balance sheet positions	**(681,910)**	**1,050,797**	**1,229**	**1,293**	**(171)**	**283**	**24**	**371,545**
Credit commitment	**54,073**	–	–	–	–	–	–	**54,073**

(expressed in thousands of Eastern Caribbean dollars)

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

3.2.2 Foreign exchange risk *...continued*

Concentration of currency risk *...continued*

As of June 30, 2015	**ECD** **$**	**USD** **$**	**EURO** **$**	**GBP** **$**	**CAN** **$**	**BDS** **$**	**GUY** **$**	**Total** **$**
Assets								
Cash and balances with Central Bank	234,439	5,059	47	100	32	22	–	239,699
Treasury bills	149,278	–	–	–	–	–	–	149,278
Deposits with financial institutions	9,436	1,160,896	1,356	2,155	743	663	29	1,175,278
Loans and receivables:								
Loans and advances to customers	465,415	181,062	–	–	–	–	–	646,477
Originated debt	67,173	41,383	–	–	–	–	–	108,556
Investment securities (AFS)	11,276	373,482	–	–	–	–	–	384,758
Financial asset	798,397	–	–	–	–	–	–	798,397
Other assets	27,890	3,363	–	–	–	–	–	31,253
Total financial assets	**1,763,304**	**1,765,245**	**1,403**	**2,255**	**775**	**685**	**29**	**3,533,696**
Liabilities								
Customers' deposits	2,362,778	631,095	315	3	1,902	–	–	2,996,093
Other borrowed funds	–	7,493	–	3	–	–	–	7,496
Other liabilities	146,143	7,196	42	476	29	119	–	154,005
Total financial liabilities	**2,508,921**	**645,784**	**357**	**482**	**1,931**	**119**	**–**	**3,157,594**
Net on-balance sheet positions	**(745,617)**	**1,119,461**	**1,046**	**1,773**	**(1,156)**	**566**	**29**	**376,102**
Credit commitment	**34,015**	–	–	–	–	–	–	**34,015**

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

3.2.3 Interest rate risk

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

(expressed in thousands of Eastern Caribbean dollars)

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

3.2.3 Interest rate risk *...continued*

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

As of June 30, 2016	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	–	–	–	–	–	269,155	269,155
Treasury bills	28,486	3,066	113,601	–	–	2,044	147,197
Deposits with other financial institutions	497,722	135,130	3,232	20,270	–	241,271	897,625
Loans and receivables:							
Loans and advances to customers	277,397	118,660	12,813	104,514	190,513	–	703,897
Originated debt	5	25,374	9	67,231	20,661	884	114,164
Investment securities (AFS)	146,074	–	–	–	2,010	466,338	614,422
Financial asset	–	–	–	796,020	–	2,460	798,480
Other asset	3,598	–	14,074	7,055	–	17,322	42,049
Total assets	**953,282**	**282,230**	**143,729**	**995,090**	**213,184**	**999,474**	**3,586,989**
Liabilities							
Customers' deposits	1,010,464	239,046	868,770	455	–	930,538	3,049,273
Other borrowed funds	7,968	–	–	–	–	–	7,968
Other liabilities	3	–	–	–	42,040	116,160	158,203
Total liabilities	**1,018,435**	**239,046**	**868,770**	**455**	**42,040**	**1,046,698**	**3,215,444**
Total interest repricing gap	**(65,153)**	**43,184**	**(725,041)**	**994,635**	**171,144**	**(47,224)**	**371,545**

(expressed in thousands of Eastern Caribbean dollars)

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

3.2.3 Interest rate risk*...continued*

As of June 30, 2015	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	–	–	–	–	–	239,699	239,699
Treasury bills	12,278	–	134,556	–	–	2,444	149,278
Deposits with other financial institutions	396,100	202,695	–	21,065	–	555,418	1,175,278
Loans and receivables:							
Loans and advances to customers	412,329	1,358	5,403	36,991	190,396	–	646,477
Originated debt	16,118	275	819	69,613	20,116	1,615	108,556
Investment securities (AFS)	160,289	–	–	–	1,005	223,464	384,758
Financial asset	–	–	–	798,397	–	–	798,397
Other asset	–	–	18,707	–	–	12,546	31,253
Total assets	**997,114**	**204,328**	**159,485**	**926,066**	**211,517**	**1,035,186**	**3,533,696**
Liabilities							
Customers' deposits	792,396	213,571	842,667	–	–	1,147,459	2,996,093
Other borrowed funds	7,496	–	–	–	–	–	7,496
Other liabilities	–	–	–	39,484	–	114,521	154,005
Total liabilities	**799,892**	**213,571**	**842,667**	**39,484**	**–**	**1,261,980**	**3,157,594**
Total interest repricing gap	**197,222**	**(9,243)**	**(683,182)**	**886,582**	**211,517**	**(226,794)**	**376,102**

The Group's fair value interest rate risk arises from debt securities classified as available-for-sale. Had market interest rates at the reporting date been 100 basis points higher/lower with all variables held constant, equity for the year would have been $1,024 lower/higher as a result of the decrease/increase in fair value of available-for-sale debt securities.

Cash flow interest rate risk arises from loans and advances to customers at available rates. Had variable rates at the reporting date been 100 basis points higher/lower with all other variables held constant, post-tax profits for the year would have been $4,492 higher/lower, mainly as a result of higher/lower interest income from loans and advances (all loans and advances carry variable interest rates).

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

3.3 Liquidity risk

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

3.3.1 Liquidity risk management

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

- Daily monitoring of the Group's liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers.
- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, industry and term.
- Daily monitoring of the statement of financial position liquidity ratios against internal and regulatory requirements.
- Managing the concentration and profile of debt maturities.
- Formalised arrangements with non-regional financial institutions to fund any liquidity needs that may arise.

3.3.2 Funding approach

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

3.3.3 Cash flows

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

As of June 30, 2016	**Up to 1 month $**	**1 to 3 months $**	**3 to 12 months $**	**1 to 5 years $**	**Over 5 years $**	**Total $**
Financial liabilities						
Customers' deposits	**1,757,829**	**243,389**	**1,076,470**	**455**	**–**	**3,078,143**
Other borrowed funds	**7,968**	**–**	**–**	**–**	**–**	**7,968**
Other liabilities	**116,162**	**–**	**–**	**–**	**42,041**	**158,203**
Total financial liabilities	**1,881,959**	**243,389**	**1,076,470**	**455**	**42,041**	**3,244,314**
Assets held to manage liquidity risk	**1,940,723**	**282,230**	**155,359**	**995,090**	**214,068**	**3,587,470**
As of June 30, 2015						
Financial liabilities						
Customers' deposits	1,913,610	218,751	896,928	–	–	3,029,289
Other borrowed funds	693	6,803	–	–	–	7,496
Other liabilities	103,146	2,892	4,035	43,932	–	154,005
Total financial liabilities	**2,017,449**	**228,446**	**900,963**	**43,932**	–	**3,190,790**
Assets held to manage liquidity risk	**1,975,079**	**207,023**	**162,683**	**995,920**	**210,295**	**3,551,000**

(expressed in thousands of Eastern Caribbean dollars)

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

3.3.4 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (note 31), are summarised in the table below.

As of June 30, 2016	Up to 1 year $	1 to 3 years $	Over 3 years $	Total $
Loan commitments	**46,855**	**512**	**6,706**	**54,073**
As of June 30, 2015				
Loan commitments	13,444	772	19,799	34,015

3.4 Insurance risk

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

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

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

3.4 Insurance risk*...continued*

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

	Gross liability		Reinsurers' share		Net liability	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**	**$**	**$**
St. Kitts	**5,402**	5,946	–	2	**5,402**	5,944
Nevis	**242**	210	–	–	**242**	210
Anguilla	**368**	357	–	–	**368**	357
	6,012	6,513	–	2	**6,012**	6,511
Motor	**3,032**	3,533	–	–	**3,032**	3,533
Health & Life	**2,616**	2,561	–	–	**2,616**	2,561
Property	**332**	387	–	2	**332**	385
Liability	**32**	32	–	–	**32**	32
	6,012	6,513	–	2	**6,012**	6,511

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

3.4 Insurance risk *…continued*

i) Property insurance

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

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

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from fire, hurricane and earthquake damage. The Group has reinsurance cover for such damage to limit losses to $0.50 million (2015: $0.50 million) in any one occurrence, per individual property risk.

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

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

ii) Casualty insurance

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

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

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

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

3.4 Insurance risk *...continued*

ii) Casualty insurance *...continued*

Frequency and severity of claims *...continued*

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Furthermore, the Group's strategy limits the total exposure to the Group only by the use of reinsurance treaty arrangements. The reinsurance arrangements include excess of loss cover. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance loss of more than $0.30 million (2014: $0.75 million) per risk for casualty insurance.

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

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

iii) Life insurance contracts

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

iv) Claims development

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

(expressed in thousands of Eastern Caribbean dollars)

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

3.4 Insurance risk *...continued*

iv) Claims development *...continued*

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

EC$	**Accident year**										
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Date	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
30/6/2007	4,815	–	–	–	–	–	–	–	–	–	4,815
30/6/2008	3,351	2,216	–	–	–	–	–	–	–	–	5,567
30/6/2009	2,976	862	14,797	–	–	–	–	–	–	–	18,635
30/6/2010	2,674	768	13,168	1,646	–	–	–	–	–	–	18,256
30/6/2011	2,117	1,120	12,573	267	2,698	–	–	–	–	–	18,775
30/6/2012	1,219	793	12,113	198	542	2,526	–	–	–	–	17,391
30/6/2013	322	508	1,196	195	521	747	4,422	–	–	–	7,911
30/6/2014	217	29	752	195	505	693	1,571	2,707	–	–	6,669
30/6/2015	110	–	195	175	461	523	1,307	358	3,385	–	6,514
30/6/2016	–	93	–	–	355	432	758	561	358	3,455	6,012

Claims reserves are made up as follows:

	$
Outstanding claims – life	**290**
Non-life	**3,587**
Claims IBNR – non-life	**2,135**
	6,012

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

3.5 Fair values of financial assets and liabilities

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

The fair values of cash resources, other assets and liabilities, items in transit are assumed to approximate their carrying values due to their short term nature. The fair values of off balance sheet commitments are also assumed to approximate the amount disclosed in note 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.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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

(b) Deposits with other financial institutions
Deposits with other financial institutions include cash on operating accounts and interest and non-interest bearing fixed deposits both with a maturity period under 90 days and over 90 days. These deposits are estimated to approximate their carrying values due to their short term nature.

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

(d) Originated debt
Originated debt securities include only interest bearing financial assets.

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

(g) *Other borrowed funds*

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

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

	Carrying value		Fair value	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Financial assets				
Cash and balances with Central Bank	**269,155**	239,699	**269,155**	239,699
Treasury bills	**147,197**	149,278	**147,197**	149,278
Deposits with financial institutions	**897,625**	1,175,278	**897,625**	1,175,278
Financial asset	**798,480**	798,397	**798,480**	798,397
Loans and advances:				
Overdraft	**163,841**	153,705	**192,146**	191,926
Corporate	**289,387**	258,805	**431,861**	370,697
Mortgage	**114,164**	135,031	**277,217**	273,712
Term	**101,894**	98,936	**154,314**	160,902
Originated debt	**114,164**	108,556	**114,164**	108,556
Other assets	**42,049**	31,253	**42,049**	31,253
	2,937,956	3,148,938	**3,324,208**	3,499,698
Financial liabilities				
Customers' deposits	**3,049,273**	2,996,093	**3,049,273**	2,996,245
Other borrowed funds	**7,968**	7,496	**7,968**	7,496
Other liabilities	**158,203**	154,005	**158,203**	154,005
	3,215,444	3,157,594	**3,215,444**	3,157,746

3.5.1 Fair value measurements recognised in the statement of financial position

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

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

(expressed in thousands of Eastern Caribbean dollars)

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

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

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

Available-for-sale financial assets

As of June 30, 2016	Level 1 $	Level 2 $	Level 3 $	Total $
Debt securities	**137,515**	**2,343**	**10,490**	**150,348**
Equities	**456,102**	**49**	**–**	**456,151**
	593,617	**2,392**	**10,490**	**606,499**
As of June 30, 2015				
Debt securities	132,722	536	28,813	162,071
Equities	213,279	119	–	213,398
	346,001	**655**	**28,813**	**375,469**

3.6 Fair value measurement of non-financial assets

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

	Level 1 $	Level 2 $	Level 3 $	Total $
As of June 30, 2016				
Land and buildings	**–**	**30,921**	**–**	**30,921**
As of June 30, 2015				
Land and buildings	–	31,723	–	31,723

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

3.7 Capital management

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

- To comply with the capital requirement set by the Eastern Caribbean Central Bank (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.

(expressed in thousands of Eastern Caribbean dollars)

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

3.7 Capital management *...continued*

In addition, there are also capital requirements for the insurance business based on the Insurance Act No. 8 of 2009. According to the Act, the required paid-up capital is $2,000 (2015: $2,000). The Group has met this capital requirement for its insurance business.

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

The commercial bank's regulatory capital as managed by management is divided into two tiers:

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

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

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

	2016	**2015**
	$	**$**
Tier 1 capital		
Share capital	**135,000**	135,000
Bonus shares from capitalisation of unrealised assets revaluation gain reserve	**(4,500)**	(4,500)
Share premium	**3,877**	3,877
Reserves	**296,329**	313,016
Less reserve for interest accrued on non-performing loans (note 21)	**(46,240)**	(45,075)
Retained earnings	**32,366**	35,715
Total qualifying Tier 1 capital	**416,832**	438,033
Tier 2 capital		
Revaluation reserve – available-for-sale investments	**(54,361)**	(32,067)
Revaluation reserve – property, plant and equipment	**19,661**	19,661
Bonus shares capitalisation	**4,500**	4,500
Accumulated impairment allowance	**55,816**	57,979
Total qualifying Tier 2 capital	**25,616**	50,073
Total regulatory capital	**442,448**	488,106

(expressed in thousands of Eastern Caribbean dollars)

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

3.7 Capital management *...continued*

	2016 $	2015 $
Risk-weighted assets:		
On-balance sheet	**1,365,867**	1,117,352
Off-balance sheet	**54,073**	39,927
Total risk-weighted assets	**1,419,940**	1,157,279
Tier 1 capital ratio	**29%**	38%
Total capital ratio	**31%**	42%

4 Critical accounting estimates and judgements

The Group's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates that have a significant risk of causing material adjustments to the carrying amounts of assets within the next financial year are discussed below:

(a) Impairment losses on investment securities

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

(b) Impairment losses on loans and advances

The Group reviews its loan portfolio of assets for impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences in estimates and actual loss experienced. To the extent that the net present value of estimated cash flows differs by +/-5%, the provision would be estimated as $4,129 lower or $4,466 higher.

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

(c) Pension benefits

The present value of the pension benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 34.

(d) Estimate of insurance actuarial liabilities

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

Mortality – Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to the risk. The Group bases these estimates on the UK A67/70 for assured lives. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments. An increase in the rate of mortality will lead to a larger number of claims, resulting in lower income. Were the mortality rate to differ by 10% from management's estimate, the actuarial liabilities would increase by approximately $1,866 or decrease by approximately $6,750.

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% (2015 – 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% (2015 – 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 $12,180 or increase by approximately $11,689.

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

(expressed in thousands of Eastern Caribbean dollars)

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

(d) Estimate of insurance actuarial liabilities ...continued

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

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

If the IBNR rates were adjusted by +/- 1%, the change in the statement of income would be to decrease or increase reported profits by approximately -/+$198.

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

(e) Fair value measurement of land and buildings

Management uses valuation techniques to determine the fair value of its non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the asset. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 13). Additional information is disclosed in note 3.7

(f) Recognition of deferred tax asset

The extent to which deferred tax asset can be utilised 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 utilized. The estimated deferred tax asset may vary from the actual amounts recovered in the future.

5 Cash and balances with Central Bank

	2016 $	2015 $
Cash on hand	**17,530**	13,444
Balances with Central Bank other than mandatory deposits	**62,847**	40,796
Included in cash and cash equivalents (note 33)	**80,377**	54,240
Mandatory deposits with Central Bank	**188,778**	185,459
	269,155	239,699

5 Cash and balances with Central Bank *...continued*

All banks in the Eastern Caribbean Currency Union are required to have a 3-day average daily gross Automated Clearing House (ACH) collateral amount with the Eastern Caribbean Central Bank. The Bank's cash collateral amount stands at $5,496 (2015: $5,443) and form part of the mandatory deposit with the Central Bank.

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. The remaining mandatory deposits are being held to satisfy the requirements of this section of the Banking Act. This reserve deposit is not available to finance the Bank's day-to-day operations.

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

(expressed in thousands of Eastern Caribbean dollars)

6 Treasury bills

	2016 $	2015 $
Government of Antigua and Barbuda		
maturing July 1, 2016 at 5% interest	**9,525**	–
maturing October 8, 2016 at 5.95% interest	**6,879**	–
matured October 9, 2015 at 6.5% interest	–	9,917
matured November 8, 2015 at 6% interest	–	6,310
Government of St. Lucia		
maturing November 3, 2016 at 4.5% interest	**11,530**	–
maturing May 21, 2017 at 5% interest	**4,750**	–
maturing June 5, 2017 at 5% interest	**2,025**	–
matured May 22, 2016 at 4% interest	–	4,800
matured June 5, 2016 at 5% interest	–	2,024
matured November 9, 2015 at 4% interest	–	11,530
Government of Grenada		
maturing July 16, 2017 at 5% interest	**10,307**	–
matured July 18, 2015 at 6% interest	–	12,278
matured October 10, 2015 at 6% interest	–	7,158
Government of St. Kitts and Nevis		
maturing May 15, 2017 at 4% interest	**88,418**	–
matured May 15, 2015 at 5% interest	–	87,496
maturing August 9, 2016 at 3.75% interest	**198**	–
maturing August 14, 2016 at 5% interest	**2,867**	–
matured August 8, 2015 at 4.75% interest	–	197
matured August 15, 2015 at 5% interest	–	2,691
Government of Nevis		
maturing July 12, 2016 at 5.5% interest	**1,380**	–
maturing July 12, 2016 at 5.5% interest	**7,274**	–
matured July 14, 2015 at 6.5% interest	–	2,433
	145,153	146,834
Interest receivable	**2,044**	2,444
	147,197	149,278

(expressed in thousands of Eastern Caribbean dollars)

6 Treasury bills *...continued*

	2016 $	2015 $
Treasury bills with original maturities of 3 months or less	**8,852**	2,630
Interest receivable	**107**	35
Treasury bills included in cash and cash equivalent (note 33)	**8,959**	2,665
Treasury bills with original maturities of more than 3 months	**136,301**	144,204
Interest receivable	**1,937**	2,409
	147,197	149,278

7 Deposits with other financial institutions

	2016 $	2015 $
Operating cash balances	**503,876**	916,426
Interest bearing term deposits	**7,848**	205,897
Items in the course of collection	**339,916**	7,085
Included in cash and cash equivalents (note 33)	**851,640**	1,129,408
Special term deposits	**21,065**	21,065
Restricted term deposits	**25,597**	25,573
Provision for impairment	**(796)**	(796)
Interest receivable	**119**	28
	897,625	1,175,278

Cash at bank earns interest at rates of 1% to 3% (2015: 1% to 3%). The amounts held in these accounts are to facilitate the short-term commitments and day-to-day operations of the Group.

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

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

Interest earned on both 'Special term deposits' and 'Restricted term deposits' is credited to income. The effective interest rate on 'Deposits with other financial institutions' at June 30, 2016 was 0.0256% (2015: 0.0468%).

(expressed in thousands of Eastern Caribbean dollars)

8 Loans and advances to customers

	2016 $	2015 $
Demand	**305,074**	274,327
Special term	**31,796**	29,891
Mortgages	**95,033**	81,462
Overdrafts	**90,183**	80,782
Other secured	**23,790**	26,126
Consumer	**6,568**	6,834
Credit cards	**5,260**	5,633
Performing loans	**557,704**	505,055
Impaired loans and advances	**200,637**	198,075
Less: allowance for impairment	**(55,816)**	(57,979)
	702,525	645,151
Interest receivable	**1,372**	1,326
	703,897	646,477
Current	**408,888**	452,755
Non-current	**295,009**	193,722
	703,897	646,477

The weighted average effective interest rate on productive loans and advances at amortized cost at June 30, 2016 was 8.1% (2015: 8.2%) and productive overdraft stated at amortized cost was 10.1% (2015: 17.6%).

	2016 $	2015 $
Neither past due nor impaired	**478,934**	360,758
Past due but not impaired	**78,770**	144,297
Impaired	**200,637**	198,075
	758,341	703,130
Interest receivable	**1,372**	1,326
Less allowance for loan impairment	**(55,816)**	(57,979)
Net	**703,897**	646,477

(expressed in thousands of Eastern Caribbean dollars)

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

Allowance for loan impairment

The movement in allowance for loan impairment is as follows:

	2016 $	2015 $
Beginning balance	**57,979**	56,430
Current year impairment (recoveries)/losses (net) (note 26)	**(1,228)**	2,083
Write-offs during the year	**(935)**	(534)
Ending balance	**55,816**	57,979

According to the ECCB loan provisioning guidelines, the calculated allowance for loan impairment amounts to $50,986 (2015: $54,052). Where the ECCB loan loss provision is greater than the loan loss provision calculated under IAS 39, the difference is set aside as a specific reserve through equity. As of June 30, 2016, the loan loss provision calculated under IAS 39 was greater than the ECCB provision. Therefore, a specific reserve through equity was not required at the reporting date. The gross carrying value of impaired loans at the year end was $130,467 (2015: $129,425).

Interest receivable on loans that would not be recognised under ECCB guidelines amounted to $46,240 (2015: $45,075) and is included in Other Reserves in equity (note 21).

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debt

	2016 $	2015 $
Government of Antigua and Barbuda 7-year long term notes at 6.7% interest	**37,535**	37,535
Government of St. Lucia USD Fixed Rate Note maturing September 1, 2016 at 4.5% interest	**25,369**	25,369
Government of St. Kitts and Nevis bonds maturing April 18, 2057 at 1.5% interest	**19,052**	18,472
Government of St. Lucia USD Fixed Rate Note maturing July 19, 2017 at 5.5% interest	**13,513**	13,513
Wells Fargo Corporate Bonds maturing between January 1, 2018 and April 2019 at rates ranging from 1.5% to 6.3% interest	**11,094**	–
Government of St. Vincent & The Grenadines 10-year bond maturing December 17, 2019 at 7.5% interest	**5,000**	5,000
Antigua Commercial Bank 9% interest rate Series A bond maturing September 30, 2025	**1,417**	1,451
Caribbean Credit Card Corporation unsecured loan at 10 % interest with no specific terms of repayment	**300**	300
Eastern Caribbean Home Mortgage Bank long-term bond matured July 02, 2015 at 6% interest	**–**	2,600
Grenada Electricity Services Limited 10-year 7% bond matured December 18, 2017	**–**	2,700
	113,280	106,940
Interest receivable	**884**	1,616
	114,164	108,556
Current	**34,568**	17,729
Non-current	**79,596**	90,827
	114,164	108,556

(expressed in thousands of Eastern Caribbean dollars)

9 Originated debt *...continued*

Government of Antigua and Barbuda 7-year long term notes

Commencing on May 7, 2010, the Bank purchased from ABI Bank Limited (ABIB) a series of certificates of participation in the cash flows from a long term note issued by the Government of Antigua and Barbuda which had been securitized by ABIB. ABIB was placed in receivership on November 27, 2015. As of June 30, 2016, the Bank's interest in the long term notes amounted to $37,535 (2015: $37,535) of which $30,638 has matured and is now past due, whilst the remaining $6,897 is current and maturing in May 2017. No scheduled payments have been received during the current financial year in respect of the long term notes from the Paying Agent, ABIB (now in Receivership). As at the date of approval of these financial statements, the Bank has not been advised by the Receiver of any time frame for payment of the amount due. However, the Bank has received correspondence from the Receiver indicating that $6,897 of the amount due will be serviced from scheduled monthly payments, as they are received from the Government of Antigua and Barbuda; whilst the remaining $30,638 is expected to be dealt with according to the priorities in payment of claims rules outlined in section 153 of the Banking Act 2015.

This matter was discussed at a meeting of the Monetary Council of the Eastern Caribbean Currency Union held on March 2, 2017. The Monetary Council decided that the Eastern Caribbean Central Bank would work in conjunction with the Government of Antigua and Barbuda towards finding a resolution of the matter in the best interest and mutual benefit of all parties involved, including the Bank. Further, all efforts would be made to ensure the Bank would not incur any impairment loss on the amount of the notes it holds. The Eastern Caribbean Central Bank advised that the Monetary Council deemed the resolution of this matter as a priority for all stakeholders and indicated its intention to ensure that the matter is resolved expeditiously.

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

	2016 **$**	**2015** **$**
Balance, beginning of year	**108,556**	90,518
Additions	**11,673**	25,903
Disposals (sales/redemptions)	**(6,949)**	(9,481)
Interest receivable	**884**	1,616
Balance, end of year	**114,164**	108,556

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities

	2016 $	2015 $
(A) Available-for-sale securities		
Securities at fair value		
Listed	**593,695**	373,003
Unlisted	**23,468**	16,766
Total available-for-sale securities, gross	**617,163**	389,769
Less provision for impairment	**(5,006)**	(6,333)
	612,157	383,436
Interest receivable	**2,265**	1,322
Total available-for-sale securities, net	**614,422**	384,758

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

	2016 $	2015 $
Balance, beginning of year	**384,758**	525,992
Additions	**1,187,802**	665,519
Disposals (sales/redemptions)	**(926,598)**	(773,994)
Fair value losses	**(33,273)**	(34,081)
Impairment losses	**(532)**	–
Interest receivable	**2,265**	1,322
Balance, end of year	**614,422**	384,758

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

	2016 $	2015 $
Beginning balance	**6,333**	6,333
Write-off for year	**(1,708)**	–
Reversal of allowance	**(151)**	–
Addition for the year (note 26)	**532**	–
Ending balance	**5,006**	6,333

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities *...continued*

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

	2016 $	2015 $
Listed securities:		
- Equity securities – US	**451,576**	208,309
- Debt securities – US	**137,593**	159,744
- Equity securities – Caribbean	**4,526**	4,950
Total listed securities	**593,695**	373,003
Unlisted securities:		
- Equity securities – Caribbean	**12,929**	14,637
- Debt securities – US	**8,480**	–
- Debt securities – Caribbean	**2,010**	2,010
- Equity securities – US	**49**	119
Total unlisted securities	**23,468**	16,766
Total available-for-sale securities, gross	**617,163**	389,769
Provision for impairment	**(5,006)**	(6,333)
	612,157	383,436
Interest receivable	**2,265**	1,322
Total available-for-sale securities, net	**614,422**	384,758

(expressed in thousands of Eastern Caribbean dollars)

10 Investment securities...*continued*

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

	2016 $	2015 $
Listed:		
US dollars	**589,169**	368,053
EC dollars	**4,526**	4,950
Total listed securities	**593,695**	373,003
Unlisted:		
US dollars	**8,529**	9,442
EC dollars	**14,939**	7,324
Total unlisted securities	**23,468**	16,766
Total available-for-sale securities, gross	**617,163**	389,769
Less: Provision for impairment	**(5,006)**	(6,333)
	612,157	383,436
Interest receivable	**2,265**	1,322
Total available-for-sale securities, net	**614,422**	384,758

11 Property inventory

	2016 $	2015 $
Balance at beginning of the year	**7,954**	8,193
Provision for impairment during the year	–	(239)
Balance at end of year	**7,954**	7,954

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.

	2016 $	2015 $
Cost	**8,193**	8,193
Net realisable value	**7,954**	7,954

(expressed in thousands of Eastern Caribbean dollars)

12 Investment property

	2016 $	2015 $
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 interest. The estimated fair market value of the investment property is $4,573 based on an independent valuation that was performed in 2015.

(expressed in thousands of Eastern Caribbean dollars)

13 Property, plant and equipment

	Land and property $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2015						
Opening net book value	21,968	3,679	533	2	1,369	27,551
Additions	–	1,017	190	–	1,327	2,534
Disposals	–	(159)	(42)	–	–	(201)
Depreciation charge	(844)	(1,324)	(197)	(1)	–	(2,366)
Write-back on disposals	–	137	42	–	–	179
Effect of revaluation:						
Valuation	(5,706)	–	–	–	–	(5,706)
Accumulated depreciation	5,706	–	–	–	–	5,706
Revaluation surplus	10,660	–	–	–	–	10,660
Revaluation loss	(61)	–	–	–	–	(61)
Closing net book value	**31,723**	**3,350**	**526**	**1**	**2,696**	**38,296**
At June 30, 2015						
Cost or valuation	**32,673**	**22,596**	**1,290**	**161**	**2,696**	**59,416**
Accumulated depreciation	**(950)**	**(19,246)**	**(764)**	**(160)**	–	**(21,120)**
Net book value	**31,723**	**3,350**	**526**	**1**	**2,696**	**38,296**

(expressed in thousands of Eastern Caribbean dollars)

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

	Land and property $	Equipment, furniture and fittings $	Motor vehicles $	Reference books $	Projects ongoing $	Total $
Year ended June 30, 2016						
Opening net book value	31,723	3,350	526	1	2,696	38,296
Additions	106	224	126	–	1,348	1,804
Transfers	–	2,916	–	–	(2,916)	–
Reclassification of projects ongoing to expense	–	–	–	–	(389)	(389)
Disposals	–	–	(88)	–	–	(88)
Depreciation charge	(1,106)	(1,214)	(214)	–	–	(2,534)
Write-back on disposals	–	–	88	–	–	88
Closing net book value	**30,723**	**5,276**	**438**	**1**	**739**	**37,177**
At June 30, 2016						
Cost or valuation	32,779	25,736	1,328	161	739	60,743
Accumulated depreciation	(2,056)	(20,460)	(890)	(160)	–	(23,566)
Net book value	**30,723**	**5,276**	**438**	**1**	**739**	**37,177**

(expressed in thousands of Eastern Caribbean dollars)

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

In 2015, the Group's land and buildings were revalued based on the appraisal made by an independent firm of appraisers. Valuations were made on the basis of comparative recent market transactions on arm's length terms. The revaluation surplus was credited to 'properties revaluation reserve' in shareholders' equity.

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

	Land $	Buildings $	Total $
Cost	3,792	17,659	21,451
Accumulated depreciation	–	(4,897)	(4,897)
Net book value as of June 30, 2016	**3,792**	**12,762**	**16,554**
Net book value as of June 30, 2015	**3,792**	**13,111**	**16,903**

(expressed in thousands of Eastern Caribbean dollars)

14 Intangible assets

	Computer software $
Year ended June 30, 2015	
Opening balance	403
Additions	580
Disposal	(2,375)
Amortisation charge	(404)
Write-back on disposal	2,375
Net book amount	**579**
At June 30, 2015	
Cost or valuation	7,198
Accumulated amortisation	(6,619)
Net book value	**579**
Year ended June 30, 2016	
Opening balance	579
Additions	167
Amortisation charge	(267)
Net book amount	**479**
At June 30, 2016	
Cost or valuation	7,365
Accumulated amortisation	(6,886)
Net book value	**479**

(expressed in thousands of Eastern Caribbean dollars)

15 Other assets

	2016 $	2015 $
Insurance and other receivables	**24,318**	27,218
Net defined benefit asset (note 34)	**17,664**	18,300
ePassporte receivable	**8,108**	8,108
Prepayments	**2,487**	3,472
Customer's liability under acceptances, guarantees and letters of credit	**7,744**	6,803
Stationery and card stock	**891**	719
	61,212	64,620
Less: provision for impairment	**(1,000)**	–
	60,212	64,620
Current	**37,658**	31,979
Non-current	**22,554**	32,641
	60,212	64,620

16 Customers' deposits

	2016 $	2015 $
Fixed deposit accounts	**1,441,900**	1,357,168
Direct demand accounts	**910,638**	1,124,099
Savings accounts	**407,665**	392,961
Call accounts	**271,390**	98,839
Interest payable	**17,680**	23,026
	3,049,273	2,996,093
Current	**3,048,818**	2,995,641
Non-current	**455**	452
	3,049,273	2,996,093

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 balances that comprise 'Customers' deposits' at the reporting date represent current amounts.

The Group pays interest on all categories of customers' deposits. As of the reporting date, total interest paid on deposit accounts for the year amounted to $65,534 (2015: $69,921). The average effective rate of interest paid on customers' deposits was 2.2% (2015: 2.5%).

(expressed in thousands of Eastern Caribbean dollars)

17 Other borrowed funds

	2016 $	2015 $
Acceptances, guarantees and letters of credit	**7,744**	6,803
Due to other financial institutions	**224**	693
	7,968	7,496

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

Total interest expense during the year amounted to $nil (2015: $nil).

18 Accumulated provisions, creditors and accruals

	2016 $	2015 $
Actuarial liabilities	**80,965**	76,710
Deposit funds	**42,041**	39,484
Insurance contract liabilities	**23,277**	26,846
Other payables	**21,098**	23,406
Unpaid drafts on other banks	**1,855**	1,676
Managers' cheques and bankers' payments	**3,010**	1,701
	172,246	169,823
Current	**128,722**	129,008
Non-current	**43,524**	40,815
	172,246	169,823

(expressed in thousands of Eastern Caribbean dollars)

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

Actuarial liabilities

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

	2016 $	2015 $
Whole life plans	**69,900**	66,327
Endowment plans	**6,941**	6,491
Limited payment life plans	**2,829**	2,562
Other plans	**1,295**	1,330
Total actuarial liabilities	**80,965**	76,710

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% (2015: 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% (2015: 2.9%).

Insurance contract liabilities

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

	2016 $	2015 $
Life		
Outstanding claims	**290**	321
Non-life		
Unexpired risks	**12,732**	12,605
Reinsurance premiums payable	**3,332**	6,748
Outstanding claims	**3,587**	3,943
IBNR	**2,135**	2,249
Premiums received in advance	**1,201**	980
	22,987	26,525
Total insurance contract liabilities	**23,277**	26,846

Deposit funds

The deposit funds represent pension funds which the Group manages for its employees and a third party entity. The fund provides a guaranteed minimum rate of 5% (2015: 5%). The fund balance represents the amount standing on account of the contributors to the fund and those liabilities are supported by term deposits and treasury bills.

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation

	2016 $	2015 Restated $
Income for the year before tax	**30,072**	23,380
Income tax expense at rate of 33%	**9,924**	7,715
Non-deductible expenses	**7,183**	7,317
Deferred tax movement not recorded	**1,624**	337
Effect of capital allowances carried forward	**(1)**	–
Effect of losses utilised	**(39)**	–
Income not subject to tax	**(16,993)**	(17,669)
Other applicable tax differences	**–**	(24)
Prior year's income tax	**–**	(99)
	1,698	(2,423)
Represented as follows:		
Current tax expense	**2,087**	886
Deferred tax loss/credit	**(389)**	(3,309)
	1,698	(2,423)

The net deferred tax asset is comprised as follows:

	2016 $	2015 Restated $
Deferred tax asset		
Items recognized in profit or loss		
Tax losses carried forward	**15,128**	15,128
Capital loss allowance carried forward	**2,055**	1,380
Accelerated depreciation	**(402)**	(313)
	16,781	16,195
Items recognized directly in other comprehensive income		
Unrealised losses on AFS securities	**26,764**	15,784
Net defined benefit asset	**(5,829)**	(6,039)
	20,935	9,745
	37,716	25,940

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation...*continued*

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

	2016 $	2015 Restated $
Balance, beginning of year	**25,940**	12,083
Current year change	**586**	3,307
Net unrealised gain/(loss) in movement for the year	**10,980**	11,249
Re-measurement (gain)/loss of defined benefit asset	**210**	(665)
Revaluation of property	**–**	(34)
Balance, ending of year	**37,716**	25,940

The movement in the income tax liability is as follows:

	2016 $	2015 Restated $
Balance at beginning of year	–	142
Tax expense for the year	**2,087**	886
Tax paid during the year	**(1,271)**	(1,965)
Excess payment transferred to income tax recoverable	**(816)**	937
Balance at end of year	–	–

Tax losses

The Group has incurred income tax losses amounting to $54,454 (2015: $50,316) 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:

	$
2017	**835**
2018	**27,717**
2019	**10,164**
2020	**10,636**
2021	**5,102**
	54,454

(expressed in thousands of Eastern Caribbean dollars)

19 Taxation *...continued*

Tax losses arise primarily from interest and investment income earned, which is exempted from income taxes. A deferred tax asset of $15,128 (2015: $24,276) has been recognised on $45,842 (2015: $49,352) of these tax losses. No deferred tax asset has been recognised on the remaining tax losses of $8,613 (2015: $964) due to the uncertainty of its recovery.

Income tax recoverable

Included in the statement of financial position is an amount of $4,541 (2015: $5,357) that relate to income tax credits/advance tax payments due from the Inland Revenue Department. The amount may be applied against any future taxes payable by the Group.

20 Issued share capital

	2016 $	2015 $
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:

	2016 $	2015 $
Statutory reserve	**116,449**	111,674
Revaluation reserve	**(34,700)**	(12,406)
Other reserves	**214,580**	213,748
	296,329	313,016

a) Statutory reserve

	2016 $	2015 $
Balance, beginning of year	**111,674**	106,849
Addition	**4,775**	4,825
Balance, ending of year	**116,449**	111,674

In accordance with Section 45 (1) of Saint Christopher and Nevis Banking Act, 2015, the Bank is required to maintain a reserve fund into which it shall transfer not less than 20% of its net income of each year whenever the reserve fund is less than the Bank's paid-up capital.

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves *...continued*

b) Revaluation reserve

	2016 $	2015 $
Balance, beginning of year	**(12,406)**	432
Movement in market value of investments, net	**(22,294)**	(22,833)
Revaluation	**–**	9,995
Balance, end of year	**(34,700)**	(12,406)
Revaluation reserve is represented by:		
Investment securities available-for-sale	**(54,361)**	(32,067)
Properties (note 13)	**19,661**	19,661
Balance, end of year	**(34,700)**	(12,406)

c) Other reserves

	2016 $	2015 $
Balance at beginning of year	**213,748**	211,885
Transfers from retained earnings	**1,657**	1,795
Other comprehensive income	**(825)**	68
Balance ending of year	**214,580**	213,748
Other reserves is represented by:		
General reserve	**129,264**	130,430
Insurance and claims equalization reserves	**32,162**	30,504
Reserve for interest accrued on non-performing loans	**46,240**	45,075
Defined benefit pension plan	**6,914**	7,739
	214,580	213,748

Insurance and claims equalization reserve
The insurance reserve is a discretionary reserve for the health and public liability insurance business. The underlying assets are included in the Group's cash balances which form part of 'Cash and cash equivalents' (Note 33).

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

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

(expressed in thousands of Eastern Caribbean dollars)

21 Reserves *...continued*

c) Other reserves *...continued*

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

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

22 Net interest income

	2016 $	2015 $
Interest income		
Loans and advances	**43,361**	45,628
Financial asset (note 32)	**27,864**	26,462
Others	**7,168**	9,839
Available-for-sale investments	**8,042**	7,321
Originated debt	**4,499**	4,108
Deposits with other financial institutions	**1,438**	882
Interest income for the year	**92,372**	94,240
Interest expense		
Fixed deposits	**50,558**	53,592
Savings accounts	**9,300**	11,982
Call accounts	**330**	1,351
Current and other deposit accounts	–	189
Interest expense for the year	**60,188**	67,114
Net interest income	**32,184**	27,126

(expressed in thousands of Eastern Caribbean dollars)

23 Net fees and commission income

	2016 $	2015 $
Fees and commission income		
International business and foreign exchange	**8,604**	9,200
Brokerage and other fees and commission	**4,158**	3,137
Credit related fees and commission	**3,887**	3,871
Fees and commission income for year	**16,649**	16,208
Fee expenses		
International business and foreign exchange	**7,046**	9,890
Other fee expenses	**1,455**	2,729
Brokerage and other related fee expenses	**1,389**	162
Fee expenses for year	**9,890**	12,781
Net fees and commission income	**6,759**	3,427

24 Other income

	2016 $	2015 $
Net insurance related income	**31,103**	27,293
Net gain on AFS investments at fair value	**11,892**	24,720
Foreign exchange gains	**4,863**	5,864
Dividend income	**3,760**	2,291
Other operating income	**597**	2,353
	52,215	62,521

(expressed in thousands of Eastern Caribbean dollars)

25 Administrative and general expenses

	2016 $	2015 $
Employee benefit expense	**25,225**	24,526
Repairs and maintenance	**5,650**	4,075
Other general expenses	**1,507**	2,243
Communication	**926**	1,047
Utilities	**720**	1,195
Stationery and supplies	**703**	770
Rent and occupancy expenses	**641**	1,015
Insurance	**589**	659
Sundry losses	**564**	6,798
Advertisement and marketing	**530**	1,161
Legal fees and expenses	**324**	569
Security services	**301**	286
Shareholders' expenses	**196**	225
Taxes and licences	**116**	164
Premises upkeep	**43**	124
Property management	**4**	168
	38,039	45,025

25.1 *Employee benefit expense*

	2016 $	2015 $
Salaries and wages	**16,869**	16,136
Other staff cost	**4,513**	5,174
Pension and social security expense	**3,843**	3,216
	25,225	24,526

26 Impairment expense

	2016 $	2015 $
Other Assets	**1,000**	–
Equity investments	**532**	–
Loans and advances	**(1,228)**	**2,083**
Deposit with other financial institutions	–	**796**
Property inventory	–	**239**
	304	**3,118**

(expressed in thousands of Eastern Caribbean dollars)

27 Other expenses

	2016 $	2015 $
Net claims incurred	**18,595**	17,074
Depreciation and amortization	**2,801**	2,770
Directors fees and expenses	**821**	1,088
Professional fees and expenses	**526**	619
	22,743	21,551

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.

	2016 $	2015 $
Net income attributable to shareholders	**28,374**	25,803
Weighted average number of ordinary shares in issue	**135,000**	135,000
Basic and diluted earnings per share	**0.21**	0.19

29 Dividend

The financial statements reflect dividend payment of $13,500 or $0.10 per share for the financial year ended June 30, 2016 (2015: $13,500 or $0.10 per share) on December 17, 2015 and January 21, 2016 of $6,750 or $0.05 per share each payment. Approval of these payments was given at the Forty-Fifth Annual General Meeting held on January 21, 2016.

(expressed in thousands of Eastern Caribbean dollars)

30 Related parties balances and transactions

Government of St. Kitts and Nevis

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

	2016	**2015**
	$	**$**
Public sector		
Net position (loans, advances and deposits)	**1,335,254**	1,194,157
Interest on deposits	**42,257**	48,829
Interest on loans, advances and other	**11,026**	12,599
Interest on special financial asset	**27,864**	26,462
Insurance contract liabilities	**2,962**	1,691
Gross premium written	**15,954**	14,527
Gross claims incurred	**7,352**	8,914
Associated companies		
Loans and advances	**70,295**	70,613
Deposits	**11,402**	11,168
Interest on deposits	**87**	146
Interest from loans and advances	**30**	4,434
Directors and associates		
Loans and advances	**1,059**	34
Deposits	**367**	462
Interest on deposits	**6**	5
Interest from loans and advances	**55**	2
SKNANB $1 shares held by directors	**161**	177
Directors fees and expenses	**563**	1,083
Insurance premium written	**1**	18

(expressed in thousands of Eastern Caribbean dollars)

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

	2016 $	2015 $
Key management		
Number of company $1 shares held	**46**	50
Loans and advances	**4,020**	4,132
Deposits	**1,052**	1,643
Interest on deposits	**55**	51
Interest from loans and advances	**281**	300
Salaries and short-term benefits	**3,809**	3,359
Insurance premium written	**100**	79
Outstanding insurance balances	**7**	10

Loans advanced to directors and key management during the year are repayable on a monthly basis at a weighted average effective interest rate of 6.0% (2015: 6.0%). Secured loans are collaterised by cash and mortgages over residential properties.

A provision of $12,258 (2015: $13,554) has been recognised in respect to advances made to related parties (associated company).

31 Contingent liability and commitments

Contingent tax liability

On January 29, 2016, the St. Kitts and Nevis Inland Revenue Department (IRD) assessed the Bank with additional corporate income taxes for the financial years 2012 to 2014. The Bank has accepted and accrued for additional income taxes payable relating to the disallowance of salaries in excess of the statutory limit for the year ended June 30, 2013. Refer to note 33. Further, the Bank is disputing the remaining assessment and responded on May 3, 2016 with a formal objection to the IRD. No provision has been recorded in these consolidated financial statements by the Bank for the disputed amounts as the outcome of the amounts claimed by the IRD cannot yet be reasonably determined.

Commitments

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

	2016 $	2015 $
Loan commitments	**54,073**	34,015

32 Financial asset

The financial asset of $798,480 (2015: $798,397) represents the Bank's right to that amount of cash flows from the sale of certain lands pursuant to a Shareholder's Agreement (Agreement) dated April 18, 2012 and September 4, 2014 between the Bank and its majority shareholder, the Government of St. Kitts & Nevis ("GOSKN"), and the Nevis Island Administration (NIA) respectively. Under the terms of the Agreement, the secured debt obligations owed to the Bank by the GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain land assets to the Bank. Further, the unsecured debt obligations owed to the Bank by GOSKN, NIA and certain public corporations would be irrevocably released and discharged by the Bank in exchange for the transfer of certain unencumbered land assets to a specially created entity, Special Land Sales Company (St. Kitts) Limited ("SLSC") and the allocation of certain shares in SLSC to the Bank. SLSC was incorporated for the purpose of 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 supplement 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 1200 acres of land in the first tranche based on an independent valuation. The second and third tranches were completed during the year and the amounts swapped amounted to $230,951 which is the value of 735 acres of land.

Based on the terms of the Agreement:

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

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

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

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

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

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

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

For the year ended June 30, 2016, the Group's statement of income includes interest income amounting to $27,864 (2015: $26,462) of which $27,780 (2015: $25,711) was received and the remaining $84 (2015: $2,376) is a receivable.

(expressed in thousands of Eastern Caribbean dollars)

32 Financial asset...*continued*

Based on the terms of the Agreement, all of the risks and rewards of ownership of the secured land assets have not been transferred to the Bank. The Bank is only entitled to receive cash flows from the sales of said lands up to the face value of the eligible secured debt that was exchanged and any interest payments as noted above.

Additionally, if the lands are sold for less than the value that was transferred, the GOSKN and NIA is obligated to transfer additional lands to make up for the shortfall. The Bank's interest in the land assets is not subject to variation of returns as there is no risk of loss for the Bank, and also the Bank does not stand to benefit should the lands be sold for more than the value. Therefore, the Bank has not classified the amounts received in exchange for the loans as inventory, but as a loan and receivable financial asset based on its rights to the cash flows from the sales of the land assets under the Agreement.

The Bank has not included in these financial statements any investment in SLSC. As of June 30, 2016 SLSC is currently operational, however no unsecured land assets have been vested in the Company. Further the Bank has not invested any funds in SLSC and its interest in SLSC has no carrying value as of June 30, 2016.

33 Cash and cash equivalents

	2016 $	2015 $
Deposits with other financial institutions (note 7)	**851,640**	1,129,408
Cash and balances with Central Bank (note 5)	**80,377**	54,240
Treasury bills (note 6)	**8,959**	2,665
	940,976	1,186,313

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, 2016 by KPMG (Canada). The present value of the defined benefit obligation and related current service cost were measured using the Projected Unit Credit Method.

	2016 Per annum %	2015 Per annum %
Actuarial assumptions		
Discount rate	**4.0**	4.0
Return on plan assets	**6.0**	6.0
Future salary increases	**3.5**	3.5

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

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset *...continued*

	2016 $	2015 $
Changes in the present value of defined benefit obligation		
Opening defined benefit obligation	**37,816**	36,071
Current service cost	**1,666**	1,578
Interest cost	**1,513**	1,443
Actuarial losses/(gains)	**180**	(759)
Benefits paid	**(531)**	(517)
Closing defined benefit obligation	**40,644**	37,816
Changes in the fair value of plan assets		
Opening fair value of plan assets	**56,116**	53,643
Interest income	**3,367**	3,219
Return on plan assets (other than net interest)	**(936)**	(481)
Employer's contribution	**461**	428
Benefit paid	**(518)**	(517)
Management fees	**(182)**	(176)
Closing defined benefit asset	**58,308**	56,116
Benefit cost		
Current service cost	**1,666**	1,578
Interest cost	**430**	1,443
Interest on plan assets	**(2,230)**	(3,219)
Decrease in employee benefit expense	**(134)**	(198)
Amount recognised in other comprehensive income		
Actuarial losses/(gains)	**180**	(759)
Interest on plan assets	**3,367**	3,219
Actual return on plan assets	**(2,316)**	(2,562)
Losses/(gains) on re-measurement of net defined benefit asset	**1,231**	(102)
Net defined benefit asset recognised in the statement of financial position		
Fair value of plan assets	**28,443**	56,116
Present value of funded obligation	**(10,779)**	(37,816)
Net defined benefit asset	**17,664**	18,300

(expressed in thousands of Eastern Caribbean dollars)

34 Defined benefit asset...*continued*

	2016 $	2015 $
Reconciliation: Net defined benefit asset		
Opening net defined benefit asset	**18,300**	17,572
Period cost	**134**	198
Effect of other comprehensive income	**(1,231)**	102
Employer's contribution	**461**	428
Closing balance (note 15)	**17,664**	18,300

Plan assets allocation is as follows:

	2016 %	2015 %
Equity	**1.1**	1.3
Cash and cash equivalents	**98.9**	98.7

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	**(2,915)**	**(3,809)**

	Mortality plus 10% $	Mortality minus 10% $
(Decrease)/ increase in obligation	**(759)**	**(2,038)**

(expressed in thousands of Eastern Caribbean dollars)

35 Subsidiaries

	Percentage of equity interest held 2016 %	2015 %
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

36 Business segments

As of June 30, 2016 the operating segments of the Group were as follows:

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

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

(expressed in thousands of Eastern Caribbean dollars)

36 Business segments *...continued*

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

	Commercial and retail banking $	Insurance, real estate and investments $	Long-term financing and trust services $	Consolidation and other adjustments $	Total $
June 30, 2016					
Total segment revenues	128,432	38,686	938	–	**168,056**
Intersegment revenues	(806)	(5,780)	(234)	–	**(6,820)**
Revenue for the year from external customers	127,626	32,906	704	–	**161,236**
Cost of revenue generation	(98,754)	(31,690)	(720)	–	**(131,164)**
Income tax credit (expense)	430	(2,089)	(39)	–	**(1,698)**
	29,302	**(873)**	**(55)**	–	**28,374**
Property, plant and equipment and intangibles	29,381	8,274	1	–	**37,656**
Depreciation and amortisation	2,047	754	–	–	**2,801**
Segment assets	3,673,910	238,549	7,035	(222,435)	**3,697,059**
Segment liabilities	3,262,419	161,276	477	(194,685)	**3,229,487**
June 30, 2015					
Total segment revenues	143,954	34,973	2,068	–	**180,995**
Intersegment revenues	(1,286)	(6,542)	(198)	–	**(8,026)**
Revenue for the year from external customers	142,668	28,431	1,870	–	**172,969**
Cost of revenue generation	(119,582)	(29,196)	(811)	–	**(149,589)**
Income tax credit (expense)	3,390	(897)	(70)	–	**2,423**
	26,476	**(1,662)**	**989**	–	**25,803**
Property, plant, equipment and intangibles	30,088	8,786	1	–	**38,875**
Depreciation and amortisation	2,196	574	–	–	**2,770**
Segment assets	3,628,202	230,431	8,349	(217,753)	**3,649,229**
Segment liabilities	3,203,804	157,646	1,965	(190,003)	**3,173,412**

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 Restatement of prior period

Correction of prior period error for Corporate Income Tax

In fiscal year 2012 the Bank incorrectly assessed its tax liability on staff salaries over the statutory limit of $60,000 per year and failed to include in its accounts the effect of an amendment to Section 11 of the Income Tax Act "*deductions not allowed*" which took effect in April 2012. The opening statement of financial position of the comparative period presented (July 1, 2014) has been restated to give effect to the amendment. The following table outlines the impact on the statement of financial position:

	Income Tax Recoverable $	Deferred Tax Asset $	Retained Earnings $
Balance as previously reported at July 1, 2014	**6,004**	**19,591**	**27,335**
Prior period adjustments (a)	19		19
Prior period adjustments (b)	(620)	–	(620)
Prior period adjustments (c)	(985)	–	(985)
Effect of Amendment to Income Tax Act (c)	–	(7,508)	(7,508)
	4,418	**12,083**	**18,241**
Balance as previously reported at June 30, 2015	**6,004**	**36,145**	**35,715**
Effect of amendment to Income Tax Act - brought forward	(1,586)	(7,508)	(9,094)
Prior period adjustments	–	(2,697)	(2,697)
	4,418	**25,940**	**23,924**

a. Over the period July 01, 2011 to June 30, 2015 the Bank has reported an income tax recoverable from the St. Kitts and Nevis Inland Revenue Department (IRD) as $6,004. However, the IRD assessment of the Bank's corporation income tax for June 30, 2011 amounted to a recoverable of $6,023 and therefore provided a difference of $19.

b. Correcting error made in Salaries in Excess of Statutory Limit not allowed in 2013 of $620. Payment of $1,712 in 2013 for Staff bonus was not included in amounts not allowed for tax deduction. The tax effect of that error which amounted to $620 was as follows:

Corrected salaries in excess of statutory limit	$5,512
Income tax at the rate of 34%	$1,874
Reported salaries in excess of statutory limit	$3,800
Income tax at the rate of 33%	$1,254

Income tax liability $620 ($1,874 less $1,254)

(expressed in thousands of Eastern Caribbean dollars)

37 Restatement of prior period *…continued*

c. The April 2012 amendment to the Income Tax Act has led to decreases in the Bank's taxable losses and the income tax recoverable amount since 2013. As a result, the opening retained earnings at July 1, 2014 have been reduced by $7,508 relating to the overstatement of the deferred income tax asset and $985 relating to the overstatement of the income tax recoverable. These are the adjustments relating to periods prior to 2014.

The effects of the restatements on the statement of financial position were as follows:

	2015	**2015 $**
Net decrease in income tax recoverable	(1,586)	(1,586)
Decrease in deferred tax asset	(10,205)	(7,508)
Net adjustment to total assets	**(11,791)**	**(9,094)**
Decrease in retained earnings	(11,791)	(9,094)
Net adjustment to total liabilities and shareholders' equity	**(11,791)**	**(9,094)**

The effect of the restatements on the consolidated statement of income for the year ended June 30, 2015 was as follows:

	2015 $
Net decrease in income tax credit	(2,697)
Decrease in consolidated statement of income	**(2,697)**

The correction of prior year period error for income taxes recoverable did not have a material impact on the statement of cash flows.

SEPARATE FINANCIAL STATEMENTS
June 30, 2016

Grant Thornton

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Independent Auditors' Report

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

We have audited the accompanying separate financial statements of **St. Kitts-Nevis-Anguilla National Bank Limited,** which comprise the separate statement of financial position as of June 30, 2016, and the separate statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the **St. Kitts-Nevis-Anguilla National Bank Limited** as of June 30 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton

Chartered Accountants
March 30, 2017
Basseterre, St. Kitts

St. Kitts-Nevis-Anguilla National Bank Limited

SEPARATE STATEMENT OF FINANCIAL POSITION

As of June 30, 2016

(expressed in thousands of Eastern Caribbean dollars)

	June 30 2016 $	June 30 2015 Restated $	July 1 2014 Restated $
Assets			
Cash and balances with Central Bank	**269,151,813**	239,696,341	293,226,003
Treasury bills	**135,370,549**	143,796,220	162,908,892
Deposits with other financial institutions	**895,478,694**	1,173,713,941	710,787,386
Financial asset	**798,480,221**	798,396,748	566,695,449
Loans and receivables – Loans and advances to customers	**715,110,073**	656,768,900	694,712,311
– Originated debts	**114,164,002**	108,555,815	90,518,117
Investment securities – available-for-sale	**613,956,008**	384,212,294	525,426,711
Investment in subsidiaries	**26,750,000**	26,750,000	26,750,000
Customers' liability under acceptances, guarantees and letters of credit	**7,743,745**	6,802,840	4,735,557
Income tax recoverable	**4,417,997**	4,417,997	4,417,997
Property and equipment	**28,957,351**	29,615,216	21,039,067
Intangible assets	**423,924**	473,240	260,522
Other assets	**22,441,489**	25,435,747	29,883,740
Deferred tax asset	**41,464,236**	29,567,800	15,043,703
Total assets	**3,673,910,102**	3,628,203,099	3,146,405,455
Liabilities			
Customers' deposits	**3,232,571,338**	3,175,587,428	2,680,140,065
Due to other financial institutions	**224,753**	692,915	646,839
Acceptances, guarantees and letters of credit	**7,743,745**	6,802,840	4,735,557
Accumulated provisions, creditors and accruals	**21,878,797**	20,721,120	29,355,360
Other borrowed funds	–	–	2,709
Total liabilities	**3,262,418,633**	3,203,804,303	2,714,880,530
Shareholders' equity			
Issued share capital	**135,000,000**	135,000,000	135,000,000
Share premium	**3,877,424**	3,877,424	3,877,424
Reserves	**258,637,739**	277,143,688	286,731,109
Retained earnings	**13,976,306**	8,377,684	5,916,392
Total shareholders' equity	**411,491,469**	424,398,796	431,524,925
Total liabilities and shareholders' equity	**3,673,910,102**	3,628,203,099	3,146,405,455

Approved for issue by the Board of Directors on March 30, 2017.

Director **Director**

St. Kitts-Nevis-Anguilla National Bank Limited

SEPARATE STATEMENT OF INCOME

For the year ended June 30, 2016

(expressed in thousands of Eastern Caribbean dollars)

	2016 $	2015 Restated $
Interest income	**92,039,509**	93,988,303
Interest expense	**(66,422,880)**	(74,089,484)
Net interest income	**25,616,629**	19,898,819
Fees and commission income	**15,518,640**	14,874,248
Fees expense	**(8,583,477)**	(11,143,216)
Net fees and commission income	**6,935,163**	3,731,032
Net realised gains and losses from investments	**11,892,436**	24,720,068
Gain on foreign exchange	**4,862,868**	5,864,017
Dividend income	**3,760,287**	2,290,988
Other operating income	**358,438**	2,216,049
Other income	**20,874,029**	35,091,122
Total operating income	**53,425,821**	58,720,973
Operating expenses		
Administrative and general expenses	**26,764,036**	35,505,464
Depreciation and amortisation	**2,046,699**	2,195,763
Directors fees and expenses	**563,082**	675,338
Audit fees and expenses	**330,000**	382,100
Impairment charges	**278,594**	2,566,941
Total operating expenses	**29,982,411**	41,325,606
Income before tax	**23,443,410**	17,395,367
Income tax credit	**429,868**	3,390,629
Net income for the year	**23,873,278**	20,785,996
Earnings per share (basic and diluted)	**0.18**	0.15

St. Kitts-Nevis-Anguilla National Bank Limited

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2016

(expressed in thousands of Eastern Caribbean dollars)

	Notes	2016 $	2015 $
Net income for the year		**23,873,278**	20,785,996
Other comprehensive income, net of income tax:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale financial assets:			
Unrealised losses on investment securities, net of tax		**(48,089,619)**	(24,685,521)
Reclassification adjustments for gains included in income		**25,849,925**	1,864,373
		(22,239,694)	(22,821,148)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Property and equipment:			
Revaluation surplus		**–**	8,192,192
		–	8,192,192
Re-measurement of defined benefit asset		**(1,553,599)**	323,629
Income tax relating to items that will not be reclassified subsequently to profit or loss		**512,688**	(106,798)
		(1,040,911)	216,831
Total comprehensive income for the year		**592,673**	6,373,871

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended June 30, 2016

(expressed in thousands of Eastern Caribbean dollars)

	Issued share capital $	Share premium $	Statutory reserves $	Other reserves $	Available-for-sale investment revaluation reserves $	Property revaluation reserve $	Retained earnings $	Total $
Balance as of July 1, 2014, (as previously stated)	**135,000,000**	**3,877,424**	**106,849,652**	**181,643,268**	**(9,482,432)**	**7,720,621**	**15,010,408**	**440,618,941**
Effect of correction of prior period error	–	–	–	–	–	–	(9,094,016)	(9,094,016)
Balance as of July 1, 2014, (Restated)	**135,000,000**	**3,877,424**	**106,849,652**	**181,643,268**	**(9,482,432)**	**7,720,621**	**5,916,392**	**431,524,925**
Net income for the year	–	–	–	–	–	–	20,785,996	20,785,996
Other comprehensive income	–	–	–	216,831	(22,821,148)	8,192,192	–	(14,412,125)
Total comprehensive income for the year (as restated)	–	–	–	216,831	(22,821,148)	8,192,192	20,785,996	6,373,871
Transfer to reserves	–	–	4,824,704	–	–	–	(4,824,704)	–
Transaction with owners								
Dividends	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2015 (Restated)	**135,000,000**	**3,877,424**	**111,674,356**	**181,860,099**	**(32,303,580)**	**15,912,813**	**8,377,684**	**424,398,796**

St. Kitts-Nevis-Anguilla National Bank Limited

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY ...CONTINUED

For the year ended June 30, 2016

(expressed in thousands of Eastern Caribbean dollars)

	Issued share capital $	Share premium $	Statutory reserves $	Other reserves $	Available-for-sale investment revaluation reserves $	Property revaluation reserve $	Retained earnings $	Total $
Balance as of June 30, 2015 (Restated)	**135,000,000**	**3,877,424**	**111,674,356**	**181,860,099**	**(32,303,580)**	**15,912,813**	**8,377,684**	**424,398,796**
Net income for the year	–	–	–	–	–	–	23,873,278	23,873,278
Other comprehensive income	–	–	–	(1,040,911)	(22,239,694)	–	–	(23,280,605)
Total comprehensive income for the year	–	–	–	(1,040,911)	(22,239,694)	–	23,873,278	592,673
Transfer to reserves	–	–	4,774,656	–	–	–	(4,774,656)	–
Transaction with owners								
Dividends	–	–	–	–	–	–	(13,500,000)	(13,500,000)
Balance as of June 30, 2016	**135,000,000**	**3,877,424**	**116,449,012**	**180,819,188**	**(54,543,274)**	**15,912,813**	**13,976,306**	**411,491,469**

St. Kitts-Nevis-Anguilla National Bank Limited

SEPARATE STATEMENT OF CASH FLOWS

For the year ended June 30, 2016

(expressed in thousands of Eastern Caribbean dollars)

	2016 $	2015 $
Cash flows from operating activities		
Income before tax	**23,443,410**	17,395,367
Adjustments for:		
Interest expense	**66,422,880**	74,089,484
Depreciation and amortisation	**2,046,699**	2,195,763
Reclassification of projects ongoing to expense	**389,835**	–
Provision for impairment	**278,594**	2,566,941
Property revaluation expense	**–**	60,873
Gain on disposal of intangible assets and equipment	**–**	(1,048,071)
Retirement period recovery	**(38,032)**	(13,858)
Dividend income	**(3,760,287)**	(2,290,988)
Interest income	**(92,039,509)**	(93,988,303)
Operating loss before changes in operating assets and liabilities	**(3,256,410)**	(1,032,792)
(Increase)/decrease in operating assets:		
Loans and advances to customers	**(57,042,601)**	30,986,303
Mandatory deposits with the Central Bank	**(3,318,966)**	(25,943,826)
Financial asset	**–**	(230,950,666)
Other assets	**478,691**	4,785,480
Increase/(decrease) in operating liabilities:		
Customers' deposits	**60,110,343**	498,254,502
Due to other financial institutions	**(468,162)**	46,076
Accumulated provisions, creditors, and accruals	**1,157,677**	(8,634,240)
Cash (used in)/ generated from operations	**(2,339,428)**	267,510,837
Interest received	**72,109,995**	78,847,086
Interest paid	**(69,549,313)**	(76,896,623)
Net cash generated from operating activities	**221,254**	269,461,300
Cash flows from investing activities		
Proceeds from sale of investment securities	**930,609,890**	779,244,609
Interest received from investment	**19,841,632**	23,134,153
Dividends received	**3,760,287**	2,290,988
Proceeds from disposal of equipment	–	1,070,010
Purchase of equipment and intangible assets	**(1,729,353)**	(2,875,250)
Decrease/(increase) in special term deposits	–	34,995,004
Decrease in restricted term deposits and treasury bills	**8,057,461**	18,524,565
Increase in investment securities and originated debt	**(1,199,474,798)**	(691,421,718)
Net cash (used in)/ generated from investing activities	**(238,934,881)**	164,962,361
Cash flows from financing activities		
Other borrowed funds	–	(2,709)
Dividend paid	**(13,500,000)**	(13,500,000)
Net cash used in financing activities	**(13,500,000)**	(13,502,709)
Net (decrease)/increase in cash and cash equivalents	**(252,213,627)**	420,920,952
Cash and cash equivalents, beginning of year	**1,182,080,830**	761,159,878
Cash and cash equivalents, end of year	**929,867,203**	1,182,080,830

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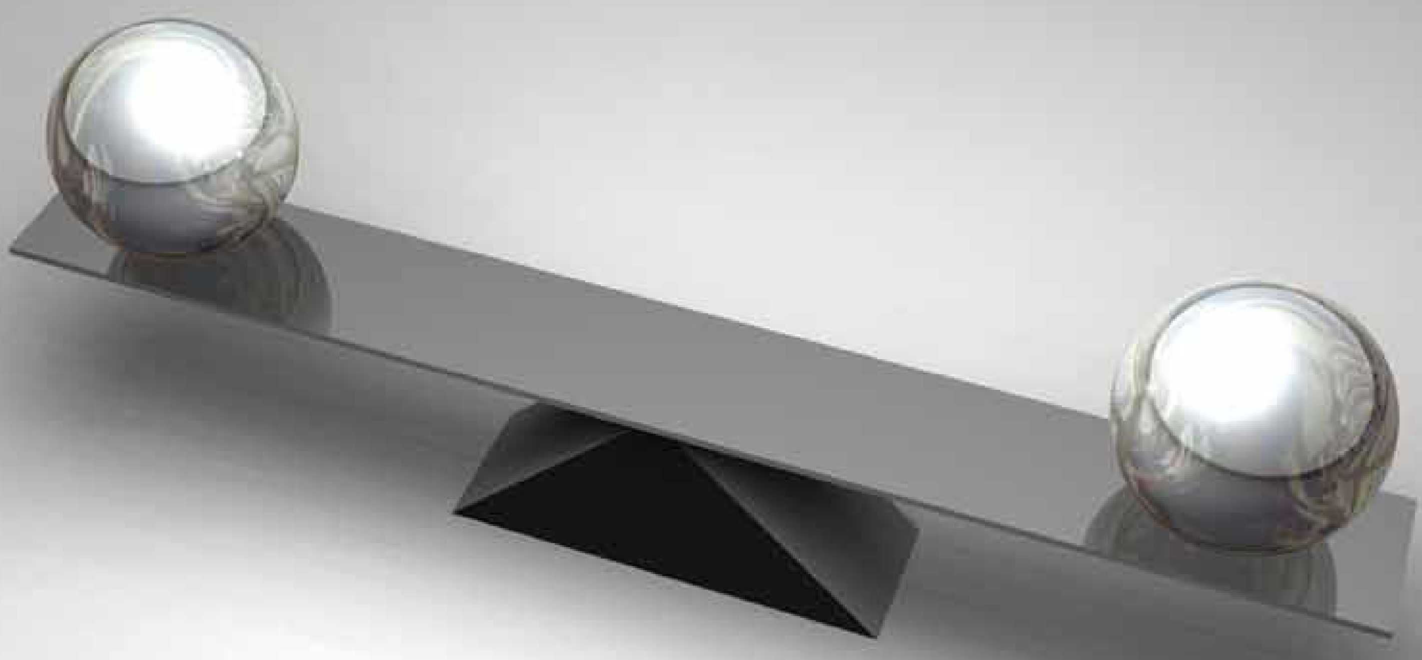

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BALANCING...

Sound Policies and
Sustained Growth

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