Schedule 3

FORM ECSRC – Q

(Select One)

Quarterly Report
For the period ended ________***DECEMBER 31, 2009***___________________________________

or

TRANSITION REPORT ____
(Applicable where there is a change in reporting issuer's financial year)

For the transition period from ____________________________to ________________________

Issuer Registration number **___SKNANB 28071959KN_______________________________**

_____________***ST KITTS-NEVIS-ANGUILLA NATIONAL BANK LTD*** _________________________
(Exact name of reporting issuer as specified in its charter)

______________________***ST KITTS*** ____
(Territory or jurisdiction of incorporation)

__________________***CENTRAL STREET, BASSETERRE, ST. KITTS***______________________
(Address of principal office)

Reporting issuer's:

Telephone number (including area code): ___(869) 465 2204_______________________

Fax number: ___(869) 465 1050_______________________

Email address: ____webmaster@sknanb.com_____________

(Provide information stipulated in paragraphs 1 to 8 hereunder)

Indicate the number of outstanding shares of each of the reporting issuer's classes of common stock, as of the date of completion of this report.

CLASS	**NUMBER**
ORDINARY SHARES	134,998,883

SIGNATURES

Name of Chief Executive Officer

_Sir Edmund Lawrence___________

____
Signature

____
Date

Name of Director:

__Mr. Walford Gumbs_________________

____
Signature

____
Date

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

UNAUDITED

FINANCIAL STATEMENTS

FOR THE SECOND QUARTER ENDED

DECEMBER 31, 2009

SKNA National Bank Ltd. Comptroller Division

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

UNAUDITED FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED DECEMBER 31, 2009

C O N T E N T S

	Page
MANAGEMENT'S DISCUSSION AND ANALYSIS	
Introduction	1
Income Statement	1
Net Interest Income	1
Net Fees & Commission Income	1
Other Income	2
Operating Expenses	2
Net Income	2
Balance Sheet	2
Assets	2
Deposits	3
Loans and Advances	3
Shareholders' Equity	3
Corporate Governance	3
Risk Management	4
Outlook	4
BALANCE SHEET	5
INCOME STATEMENT	6
STATEMENT OF CHANGES IN EQUITY	7
CASH FLOW STATEMENT	8
NOTES TO THE FINANCIAL STATEMENTS	9 – 56

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the 2nd quarter ended December 31, 2009

Introduction

The Management Discussion and Analysis gives an overview of the Company's financial condition and results of operations for the second quarter ended December 31, 2009. The report includes forward-looking statements about objectives, strategies and expected financial results. These statements are inherently subject to risks and uncertainties beyond the Bank's control including, but not limited to, economic and financial conditions globally, technological development, competition, and regulatory developments in St. Kitts and Nevis and elsewhere. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements. The reader is therefore cautioned not to place undue reliance on these statements.

Income Statement

Net Interest Income

At December 31, 2009, net interest income fell slightly by $0.5 million or 2.8% when compared with the results attained for the same period in 2008. A sharp fall in interest rates on fixed deposits held with Banks in the United States resulted in lower interest income, which in turn negatively impacted on net interest income for the period.

Net Fees & Commission Income

Net fees and commission income fell by 41.5% at December 31, 2009 when compared with one year ago. The year-over-year decrease in fees and commission income was due mainly to a fall in income from E-business transactions. Management anticipates an improvement in fees and commission income during the next quarter and beyond due to continued prudent measures.

Other Income

At December 31, 2009 income from other sources increased by $0.8 million or 41.9% when compared with December 31, 2008. This increase was mainly the result of gains on investments.

Operating Expenses

Operating expenses were $14.1 million at December 31, 2009. This compares with $11.3 million at December 31, 2008 and represents an increase of 24.5%. The increase in operating expenses resulted mainly from increased staff costs, legal expenses and repairs and maintenance.

The company anticipates lower operating expenses over the next quarter through continued emphasis on cost containment, effective risk management and operational efficiencies. Cost savings will also be attained through continued improvements in the technology infrastructure.

Net Income

The net result of the Bank's operations, over the review period, was a fall in net income. At December 31, 2009 net income was $13.6 million, or $8.3million lower than the prior year's earnings of $21.9 million.

The Company believes that net income will show an improvement over the next quarter and beyond, through continued focus on exploring new avenues to diversify and enhance our non-interest income base.

Balance Sheet

Assets

At December 31, 2009 total assets increased by 3.3% when compared with June 30, 2009. Growth in total assets was due mainly to an increase in loans & advances and deposits with other financial institutions during the period. Loans and advances contributed to 51% of total assets at December 31, 2009, while deposits with other financial institutions contributed to 17.4%. All other assets accounted for the remaining 31.6%.

Deposits

At the end of December 2009, customer deposits increased by 6.1% over that recorded at the end of fiscal year 2009. The Bank recognizes and appreciates the importance of its core deposit base and as such management continues to monitor activity in customer deposits, especially the non-core deposits area.

Loans and Advances

At December 31, 2009 loans and advances to customers increased by $56.5 million representing a 5.5% rise from $1,032.1 million recorded at June 30, 2009. The increase in loans and advances to customers resulted mainly from the increased utilization of our overdraft facility by the public and private sectors.

Shareholders' Equity

The company continues to realize its goal of providing a satisfactory return to shareholders and increasing the value of investments. Shareholders' Equity was $431.6 million at December 31, 2009 compared with $418.0 million at June 30, 2009. This represents a 3.2% increase, resulting from the net operating income for the period.

Corporate Governance

The Board of Directors continues to search for innovative ways to improve corporate governance, risk management, ethical conduct, best practices and maintenance of international standards. In this regard the Board is focused on:

• Adoption and implementation of corporate governance guidelines and codes of ethics and business conduct.

• Continued emphasis on the Corporate Strategic Plan, which includes management's philosophy, economic outlook and conditions, performance targets and plans for implementation of strategies over the next 5 years.

Additionally, the Board will continue to take vital steps towards culturing a strong corporate governance environment, improving transparency and fostering high levels of integrity, thereby strengthening shareholder confidence in the Company.

Risk Management

The management of risks has emerged as one of the greatest challenges that banks now face. This challenge must be tackled by developing new approaches and by adjusting current processes.

The Bank has taken up this challenge and has placed increased emphasis on the management of risks through the systematic development of tools and strategies to mitigate these risks. Risks are continuously being evaluated in terms of the level of impact they can have on income and asset values.

While the bank places strong emphasis on the management of risks, it does so with the objective of balancing risk taking with expected returns to our shareholders.

Outlook

Over the next quarter, the Company will continue to focus on cost containment, risk management and operational efficiency. We will continue to build on our existing infrastructure and technology to enhance our products and services and focus on initiatives to augment our interest income and non-interest income base.

These measures should boost total revenue. At the end of the second quarter ending December 31, 2009 we anticipate an increase in shareholders equity, deposits and assets when compared to the end of the same period in 2008.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

BALANCE SHEET AS AT DECEMBER 31, 2009

Audited Year Ended June 2009 $	Assets	Notes	*Unaudited* Quarter Ended December 2009 $	*Unaudited* Quarter Ended December 2008 $
80,707,270	Cash and balances with Central Bank	6	92,490,555	81,994,061
90,715,601	Treasury Bills	7	90,715,601	90,715,601
340,374,351	Deposits with other financial Institutions	8	370,485,255	376,136,662
1,032,119,164	Loans and Advances - customers	9	1,088,671,254	1,020,444,527
86,976,913	- originated debts	10	91,436,913	87,516,913
349,806,134	Investments - available for sale	11	340,574,758	413,176,289
17,750,000	Investment in Subsidiaries	12	17,750,000	17,750,000
5,186,100	Customers' Liability under Acceptances, Guarantees, and Letters of Credit (per contra)	13	5,070,100	5,181,100
25,241,004	Bank Premises and Equipment	14	24,929,847	22,389,143
1,572,368	Intangible Assets	15	1,661,480	
32,203,116	Other Accounts	16	8,052,907	13,699,398
200,907	Deferred Tax	20	200,907	382,238
2,062,852,928	**Total Assets**		**2,132,039,577**	**2,129,385,932**
	Liabilities			
1,359,465,172	Due to Customers	17	1,442,851,780	1,302,220,408
623,102	Due to other financial institutions		3,480,337	
176,750,620	Other borrowed funds	18	176,999,958	180,599,128
-	Deferred Credit			11,473,856
5,186,100	Acceptances, Guarantees and Letters of Credit (per contra)		5,070,100	5,181,100
957,999	Income tax liability		(6,315,006)	38,456,985
87,248,572	Accumulated Provisions, Creditors, and Accruals	19	63,715,155	88,589,293
14,646,767	Deferred Tax Liability		14,646,767	40,201,619
1,644,878,332	**Total Liabilities**		**1,700,449,091**	**1,666,722,389**
	Shareholders' Equity			
81,000,000	Issued Share Capital	21	134,998,883	81,000,000
3,877,424	Share Premium		3,877,424	3,877,424
23,307,744	Retained Earnings		36,923,634	54,404,912
309,789,428	Other Reserves	22	255,790,545	323,381,207
417,974,596	**Total Shareholders' Equity**		**431,590,486**	**462,663,543**
2,062,852,928	**Total Liabilities and Shareholders' Equity**		**2,132,039,577**	**2,129,385,932**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Statement of Income for the period ended December 31, 2009

Audited Year Ended June 2009		Unaudited Quarter Ended December 2009 $	Unaudited Quarter Ended December 2008 $
	INCOME		
114,627,731	Interest income	53,036,955	51,852,447
(69,124,287)	Interest expense	(36,233,641)	(34,569,565)
45,503,444	Net interest income	**16,803,314**	**17,282,882**
(5,877,151)	Credit Impairment losses	**-**	**-**
39,626,293	**Sub-total - Interest Revenue**	**16,803,314**	**17,282,882**
45,725,223	Fees and commission income	11,540,875	18,918,099
(3,570,648)	Fee expense	(1,170,260)	(1,173,517)
42,154,575	**Net fees and commission income**	**10,370,615**	**17,744,582**
983,434	Dividend income	426,187	543,242
(9,145,409)	Gains less losses from investments	1,083,986	(8,134)
1,505,032	Gain on foreign exchange	1,344,246	1,401,955
183,620	Other operating income	41,835	104,014
(6,473,323)	**Other Income**	**2,896,254**	**2,041,077**
75,307,545	**Operating income**	**30,070,183**	**37,068,541**
	Operating expenses		
26,235,780	Administration and general expenses	13,027,549	10,243,182
333,432	Directors fees and expenses	190,084	190,712
260,000	Audit fees and expenses	-	19,000
1,601,993	Depreciation	657,576	657,578
415,635	Amortisation	176,280	176,278
28,846,840	**Total operating expenses**	**14,051,489**	**11,286,750**
46,460,705	**Operating income before tax**	**16,018,694**	**25,781,791**
(6,791,113)	**Income tax expense**	(2,402,804)	(3,867,268)
39,669,592	**Net income for the year**	**13,615,890**	**21,914,523**
0.49	**Earnings per share (Annualized)**	**0.20**	**0.54**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LTD.
STATEMENT OF CASHFLOW
FOR THE PERIOD ENDED DECEMBER 31, 2009

Audited Year Ended June 2009		Notes	Unaudited Quarter Ended December 2009 $	Unaudited Quarter Ended December 2008 $
	Cash flows from operating activities			
46,460,705	Operating Income before taxation		16,018,694	25,781,791
	Adjustments for:			
(114,627,731)	Interest Income		(53,036,955)	(51,852,447)
69,124,287	Interest Expense		36,233,641	34,569,565
1,601,993	Depreciation		657,576	657,578
415,635	Amortisation		176,280	176,278
5,877,151	Provision for loan impairment, net			
	Prior year adjustments			788
(65,998)	Gain/Loss on disposal of fixed assets		(1,690)	
8,786,042	Operating income before changes in operating assets and liabilities		**47,546**	**9,333,553**
	(Increase) decrease in operating assets:			
(70,676,341)	Loans and advances to customers		(56,895,877)	(58,903,692)
(8,673,700)	Mandatory deposits with Central Bank		(5,185,880)	(6,262,731)
4,177,746	Other accounts		24,150,208	22,681,463
	Increase (decrease) in operating liabilities:			
3,789,002	Customers' deposits		71,725,175	(43,931,843)
(12,350,559)	Due to other financial institutions		2,857,235	(12,973,661)
(75,766,270)	Accumulated provisions, creditors, and accruals		(23,706,027)	(94,242,962)
(150,714,080)	**Cash generated from operations**		**12,992,380**	**(184,299,873)**
109,991,182	Interest received		52,304,649	50,911,947
(79,762,986)	Interest paid		(24,399,598)	(23,440,243)
(50,890,041)	Income tax paid		(9,675,809)	(10,650,000)
(171,375,925)	***Net cash generated in operating activities***		**31,221,622**	**(167,478,169)**
	Cash flows from investing activities			
(6,254,024)	Purchase fixed assets		(611,810)	(577,021)
135,000	Proceeds from disposal of assets		1,690	
14,018,520	(Increase)/Decrease in special term deposits		(13,184,042)	(24,586,854)
(12,752,390)	(Increase)/Decrease in restricted term deposits		(7,706,106)	(4,531,099)
(34,956,372)	(Increase)/Decrease in investments		4,677,221	(25,849,513)
(39,809,266)	***Net cash used in investing activities***		**(16,823,047)**	**(55,544,487)**
	Cash flows from financing activities			
3,908,263	Other Borrowed Funds		249,338	7,756,771
(14,985,000)	Dividend paid			
(11,076,737)	***Net cash used in financing activities***		249,338	7,756,771
(222,261,928)	**Increase (Decrease) in cash and cash equivalents**		**14,647,913**	**(215,265,885)**
493,316,143	**Cash and cash equivalents at beginning of period**		**271,054,215**	**493,316,143**
271,054,215	**Cash and cash equivalents at end of period**	31	**285,702,128**	**278,050,258**

STATEMENT OF CHANGES IN EQUITY

For The Quarter Ended December 31, 2009

	Notes	Share Capital $	Share Premium $	Statutory Reserves $	Other Reserves $	Revaluation Reserves $	Retained Earnings $	Total Shareholders' Equity $
Balance at June 30, 2008 as restated		**81,000,000**	**3,877,424**	**81,000,000**	**160,000,000**	**80,584,965**	**32,490,389**	**438,952,778**
Net Income		-	-	-	-	-	21,914,523	21,914,523
Fair value appreciation - securities, net	22	-	-	-	-	1,796,242	-	1,796,242
Balance at December 31, 2008		**81,000,000**	**3,877,424**	**81,000,000**	**160,000,000**	**82,381,207**	**54,404,912**	**462,663,543**
Net Income		-	-	-	-	-	17,755,069	17,755,069
Fair value depreciation - securities, net	22	-	-	-	-	(47,459,016)	-	(47,459,016)
Reserves for loan impairment	22	-	-	-	(20,000,000)	-	20,000,000	-
Transfer to Reserves	22	-	-	-	53,867,237	-	(53,867,237)	-
Dividends	28	-	-	-	-	-	(14,985,000)	(14,985,000)
Balance at June 30, 2009		**81,000,000**	**3,877,424**	**81,000,000**	**193,867,237**	**34,922,191**	**23,307,744**	**417,974,596**
Net Income		-	-	-	-	-	13,615,890	13,615,890
Bonus share dividend		53,998,883	-	-	(53,998,883)	-	-	-
Balance at December 31, 2009		**134,998,883**	**3,877,424**	**81,000,000**	**139,868,354**	**34,922,191**	**36,923,634**	**431,590,486**

1. Incorporation

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

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

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

The Bank is listed on the Eastern Caribbean Securities Exchange.

2. Adoption and amendments of published standards and interpretations

2.1 Amendments to published standards and interpretations adopted in current period

- IFRIC 14, '*IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interpretation*', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability must be affected by a statutory or contractual minimum funding requirement. This interpretation has no impact on the Bank financial statements.
- IAS 39 (*Amendment*), *Reclassification of an asset*. The amendment to the standard, issued in October 2008, permits an entity to re-classify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available-for-sale), if the entity has the intention and ability to hold that asset for the foreseeable future. This amendment has no impact on the Bank financial statements.

2.2 Interpretations and amendment effective in current preiod but not adopted

- IFRIC 11, '*IFRS 2 – Group and treasury share transactions*', is mandatory for accounting periods beginning on or after March 1, 2007 but is not relevant to the Bank operations
- IFRIC 12, '*Service concession Arrangements'*, is mandatory for accounting periods beginning on or after January 1, 2008 but is not relevant to the Bank operations
- IAS 19 (*Amendment*), '*Employee benefits'* (effective for annual periods on or after January 1, 2009). This amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment; an amendment that changes benefit attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

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

2.2 Interpretations and amendment effective in 2008 but not relevant to the Bank operations…………..continued

The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short-term and long-term employee benefits is based on whether benefits are due to be settled within or after 12 months of employee service being rendered. IAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed not recognized. IAS 19 has been amended to be consistent in this regard.

2.3 Standards and amendments to existing standards not yet effective and have not been early adopted

- IAS 1 (*Revised*), *'Presentation of financial statements'* (effective for annual periods beginning on or after January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.
- IAS 1 (*Amended*), *'Presentation of financial statements'* (effective for annual periods beginning on or after January 1, 2009). This amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively.
- IAS 36 (*Amendment*), *'Impairment of assets'* (effective for annual periods beginning on or after January 1, 2009). Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

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

2.4 Standards, amendments and interpretations to existing standards in issue but not effective

- IAS 16 (*Amendment*), *'Property, Plant and Equipment'* (effective for annual periods beginning on or after January 1, 2009);
- IAS 19 (*Amendment*), *'Employee Benefits'* (effective for annual periods beginning on or after January 1, 2009);
- IAS 20 (*Amendment*), *'Accounting for Government Grants and Disclosure of Government Assistance'* (effective for annual periods beginning on or after January 1, 2009);
- IAS 23 (*Amendment*), *'Borrowing Costs'* (effective for annual periods beginning on or after January 1, 2009);
- IAS 27 (*Revised*), *'Consolidated and Separate Financial Statements'* (effective for annual periods beginning on or after January 1, 2009);
- IAS 27 (*Amendment*), *'Consolidated and Separate Financial Statements'(*effective for annual periods beginning on or after January 1, 2009);
- IAS 28 (*Amendment*), *'Investment in Associates' (and consequential amendments to IAS 32, Financial Instruments: Presentation' and IFRS 7, 'Financial Instruments: Disclosures*') (effective for annual periods beginning on or after January 1, 2009);
- IAS 29 (*Amendment*), *'Financial Reporting in Hyperinflationary Economies'* (effective for annual periods beginning on or after January 1, 2009);
- IAS 31 (*Amendment*), *'Interest in Joint Ventures' (and consequential amendments to IAS 32 and IFRS 7)*(effective for annual periods beginning on or after January 1, 2009);
- IAS 32 (*Amendment*), *'Financial Instruments: Presentation*' and IAS 1 (*Amendment*), *'Presentation of Financial Statements*' – *'Puttable Financial Instruments and obligations arising on liquidation'* (effective for annual periods beginning on or after January 1, 2009);
- IAS 38 (*Amendment*), *'Intangible Assets'* (effective for annual periods beginning on or after January 1, 2009);
- IAS 39 (*Amendment*), *'Financial Instruments: Recognition and Measurement'* (effective for annual periods beginning on or after January 1, 2009);
- IAS 40 (*Amendment*), '*Investment Property* (effective for annual periods beginning on or after January 1, 2009);
- IAS 41 (*Amendment*), *'Agriculture'* (effective for annual periods beginning on or after January 1, 2009);
- IFRS1 (*Amendment*) *'First-time Adoption of IFRS*' and IAS 27 *'Consolidated and Separate Financial Statements'* (effective for annual periods beginning on or after January 1, 2009);
- IFRS 2 (*Amendment*), *'Share-based Payment'* (effective for annual periods beginning on or after January 1, 2009);
- IFRS 3 (*Revised*), *'Business Combinations'* (effective for annual periods beginning on or after January 1, 2009);

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

2.4 Standards, amendments and interpretations to existing standards in issue but not effective …………continued

- IFRS 5 (*Amendment*), *'Non-current Assets Held for Sale and Discontinued Operations'* (and consequential amendment to IFRS 1, *'First-time Adoption'*) (effective for annual periods beginning on or after January 1, 2009);
- IFRIC 13, *'Customer Loyalty Programmes'* (effective for annual periods beginning on or after January 1, 2009);
- IFRIC 15, '*Agreements to Construction of Real Estate'* (effective for annual periods beginning on or after January 1, 2009);
- IFRIC 16, *'Hedges of Net Investment in Foreign Operations'* (effective for annual periods beginning on or after October 1, 2008).

3. Summary of significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

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

3.3 Foreign currency transaction

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

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

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

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

3.4 Financial assets

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

(a) ***Financial assets at fair value through profit or loss***
Certain investments, such as equity investments, principal protected investments and others, that are managed and evaluated on a fair value basis in accordance with a documented investment strategy and reported to management on that basis are designated at fair value through profit or loss.

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

Loans and receivables are recognized when cash or the right to cash is advanced to a borrower.

(c) ***Held-to-maturity financial assets***
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

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

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

Financial assets are initially recognized at fair value plus transaction cost for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

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

3.4 Financial assets…………………continued
(d) ***Available-for-sale financial assets………****continued*

Available-for-sale financial assets and financial assets at fair value through profit or loss are substantially carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial assets is derecognized or impaired, at which time, the cumulative gain or loss previously recognized in equity is then recognized in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the right to receive payment is established.

The fair values of quoted investments in active markets are based on the current bid prices. If the market for a financial asset is not active (such as investments in unlisted entities) and the fair value cannot be reliably measured, these assets are measured at cost.

3.5 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within 'interest income' and 'interest expense' in the statement of income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, estimates of cash flows that consider all contractual terms of the financial instrument are included (for example, repayment options), except for future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The Bank has initiated a change in reporting interest earned which is to include in income all interest charged on delinquent accounts instead of including only overdue interest due up to ninety (90) days. The current treatment is prescribed by the IFRS rules whereas the former is prescribed by ECCB. The Bank has included in its expenses charged against income for the year and its Reserves, amounts considered adequate to protect the Bank against likely realized losses.

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

3.6 Fee and commission income

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

3.7 Dividend income

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

3.8 Impairment of financial assets

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

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

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

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

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

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

3.8 Impairment of financial assets*…………continued*

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

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

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

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

(b) ***Assets classified as available for sale***

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

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

3.8 Impairment of financial assets*…………continued*

(c) Renegotiated Loans

Loans and advances that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

3.9 Bank premises and equipment

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

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

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, any revaluation surplus remaining in fixed asset 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.

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

3.10 Intangible assets – computer software

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

3.11 Impairment of non-financial assets

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

3.12 Investment in subsidiaries

The investment in subsidiaries is accounted for using the cost method and therefore the assets, liabilities and results of operations of the entities have not been reflected in these accounts.

3.13 Leases

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

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

3.14 Cash and cash equivalents

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

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

3.15 Employee benefits

(a) ***Pension plan***
The Bank operates a defined contribution plan for its employees. The Bank pays for annual insurance premiums to fund a post-employment benefit plan. Payment of premiums is used to purchase an insurance policy in the name of a specified plan participant or a group of plan participants that is separate and distinct from the Bank. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Payments of premiums are charged to income.

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

3.16 Current and deferred income tax

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

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

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

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

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

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

3.17 Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with differences between proceeds net of transaction costs and the redemption value being recognized in the statement of income over the period of the borrowing using the effective interest method.

3.18 Guarantees and letters of credit

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

3.19 Share capital

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

(b) ***Dividends on ordinary shares***
Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank’s shareholders.

Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note (Note 28).

3.20 Comparatives

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

4. Financial risk management

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

4. Financial risk management…….*continued*

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

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

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

4.1 Credit risk

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

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

4.1.1 Credit risk measurement

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

4. Financial risk management…….*continued*

4.1.1 Credit risk measurement*……continued*

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

		Loans and advances	
		Dec 2009	**Jun 2009**
Bank rating	**Description of the classifications**		
1	Pass	851,906,747	807,675,841
2	Special mention	167,973,226	156,475,658
3	Sub-standard	35,677,079	34,346,440
4	Doubtful	14,831,681	14,994,918
5	Loss	168,806	168,805
		1,070,557,539	**1,013,661,662**

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

4.1.2 Risk limit control and mitigation policies

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

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

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

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

4. Financial risk management…….*continued*

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

(a) ***Collateral***

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

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

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

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

(b) ***Credit-related commitments***

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

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

4.1.3 Impairment and provisioning

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

Bank rating

	Dec 2009		June 2009	
	Loans and advances (%)	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
1 Pass	79.57	6.74	79.68	6.74
2 Special mention	15.69	1.30	15.44	1.30
3 Sub-standard	3.33	29.93	3.39	29.93
4 Doubtful	1.39	61.30	1.48	61.30
5 Loss	0.02	0.73	0.01	0.73
	100.00	100.00	100.00	100.00

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

Loans

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

Advances (overdrafts)

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

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

4. Financial risk management…….*continued*

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

	Maximum exposure	
	Dec 2009	**June 2009**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Treasury bills	90,715,601	90,715,601
Deposits with other financial institutions	370,485,255	340,374,351
Loans and advances:		
• Overdrafts	184,132,001	274,927,346
• Corporate customers	45,817,833	73,018,737
• Term loans	752,382,409	583,732,288
• Mortgages (personal)	106,339,011	100,440,793
• Originated debts	91,436,913	86,976,913
• Available-for-sale investments	48,844,326	67,997,035
Other assets	6,798,992	31,655,570
Credit risk exposure relating to off-balance sheet items are as follows:		
• Loan commitments and financial guarantees	41,112,756	20,745,455
Total	**1,738,065,097**	**1,670,584,089**

The above table represents a worse case scenario of credit risk exposure to the Bank at Dec 31, 2009 and June 30, 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 62.6% (June 2009 – 61.8%) of the total maximum exposure is derived from loans and advances to banks and customers; 8.1% (June 2009 – 9.3%) represents investments in debt securities.

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

- 95% (June 2009 – 95%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;

4. Financial risk management…….*continued*

4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements…………..*continued*

- Term loans, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees.
- 87% (June 2009 – 85%) of the loans and advances portfolio are considered to be neither past due nor impaired.
- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines.

4.1.5 Loans and advances

	Dec 2009 $	June 2009 $
Loans and advances are summarized as follows:		
Loans and advances to customers		
Neither past due nor impaired	934,969,519	860,602,995
Past due but not impaired	86,270,251	103,548,504
Impaired	49,317,769	49,510,163
	1,070,557,539	**1,013,661,662**
Interest receivable	54,923,662	55,267,449
Less allowance for impairment losses (Note 23)	(36,809,947)	(36,809,947)
Net	**1,088,671,254**	**1,032,119,164**

The total allowance for impairment losses on loans and advances is $36,809,947 of which $33,826,064 represents the individually impaired loans and the remaining amount of $2,958,883 represents the portfolio provision. Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 25.

4. Financial risk management…….*continued*

4.1.5 Loans and advances…………continued

(a) ***Loans and advances neither past due nor impaired***

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

Dec 31, 2009

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
Loans and advances to customers					
Classifications:					
1. Pass	74,743,883	520,039,632	66,956,675	105,059,025	766,799,215
2. Special mention	96,327,285	997,856	2,680,683	68,164,480	168,170,304
Gross	**171,071,168**	**521,037,488**	**69,637,358**	**173,223,505**	**934,969,519**

June 30, 2009

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
Loans and advances to customers					
Classifications:					
3. Pass	175,714,430	355,553,889	65,237,334	107,621,684	704,127,337
4. Special mention	85,691,501	1,369,975	4,004,461	65,409,721	156,475,658
Gross	**261,405,931**	**356,923,864**	**69,241,795**	**173,031,405**	**860,602,995**

4. Financial risk management…….*continued*

4.1.5 Loans and advances…………continued

(b) ***Loans and advances past due but not impaired***

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Term loans $	Mortgages $	Corporate customers $	Total $
At Dec 31, 2009				
Past due up to 30 days	64,705,986	8,526,550	-	73,232,536
Past due 30 – 60 days	494,984	4,753,246	-	5,248,230
Past due 60 – 90 days	448,144	1,097,671	3,230,861	4,776,676
Over 90 days	904,825	1,851,380	256,604	3,012,809
Gross	**66,553,939**	**16,228,847**	**3,487,465**	**86,270,251**
Fair value of collateral	**77,767,240**	**26,846,188**	**91,681,125**	**196,294,553**

	Term loans $	Mortgages $	Corporate customers $	Total $
At June 30, 2009				
Past due up to 30 days	65,324,443	7,693,117	5,939,983	78,957,543
Past due 30 – 60 days	485,682	2,491,639	18,788,689	21,766,010
Past due 60 – 90 days	517,583	423,045		940,628
Over 90 days	173,695	1,710,628		1,884,323
Gross	**66,501,403**	**12,318,429**	**24,728,672**	**103,548,504**
Fair value of collateral	**77,767,240**	**26,846,188**	**91,681,125**	**196,294,553**

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

4. Financial risk management…….*continued*

4.1.5 Loans and advances…………continued

(c) ***Loans and advances individually impaired***
The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $49,317,769.

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

	Overdrafts $	**Term loans $**	**Mortgages $**	**Corporate customers $**	**Total Loans and advances to customers $**
Dec 31, 2009					
Pass		8,202	207,376		215,578
Special mention	55	480,846	250,374		731,275
Substandard	2,149,841	2,686,601	11,292,048	17,395,795	33,524,285
Doubtful	3,963,334	2,771,573	4,530,477	3,412,440	14,677,824
Loss	166,470	2,337			168,807
	6,249,700	**5,949,559**	**16,280,275**	**20,808,235**	**49,317,769**
Fair value of collateral	13,631,713	16,275,247	27,864,831	132,388,119	190,159,910

	Overdrafts $	Term loans $	Mortgages $	Corporate customers $	Total Loans and advances to customers $
June 30, 2009					
Pass		27,170	36,425		63,595
Special mention		91,349		95,870	187,219
Substandard	2,441,011	1,452,591	11,536,566	18,665,458	34,095,626
Doubtful	4,132,802	1,306,961	4,646,945	4,908,210	14,994,918
Loss	166,469	2,330		6	168,805
	6,740,282	**2,880,401**	**16,219,936**	**23,669,544**	**49,510,163**
Fair value of collateral	13,631,713	16,275,247	27,864,831	132,388,119	190,159,910

4. Financial risk management…….*continued*

4.1.5 Loans and advances…………continued

(d) ***Loans and advances renegotiated***
Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. There were no renegotiated loans that would otherwise be past due or impaired at December 31, 2009 and June 30, 2009.

4.1.6 Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at December 31, 2009, based on Standard & Poor's ratings or equivalent:

	Treasury Bills $	Investment Securities $	Loans and receivables - notes & bonds $	Total $
AAA				
AA- to AA+		2,184,498		**2,184,498**
A- to A+		11,761,276		**11,761,276**
Lower than A-		13,528,648		**13,528,648**
Unrated	90,715,601	203,613,820	91,436,913	**385,766,334**
Total	**90,715,601**	**231,088,242**	**91,436,913**	**413,240,756**

4. Financial risk management…….*continued*

4.1.7 Geographical concentrations of assets, liabilities, income, capital expenditure and off balance sheet items

The Bank operates only one business segment (commercial and retail banking services) which is predominantly localized to St. Kitts and Nevis. Commercial banking activities, however, accounts for a significant portion of credit risk exposure. The credit risk exposure is, therefore, spread geographically and over a diversity of personal and commercial customers:

	St. Kitts & Nevis $	United States & Canada $	Europe $	Other Caribbean States $	Total $
Dec 31, 2009					
Treasury bills	90,715,601				90,715,601
Deposits with Fin. Inst.	40,281,507	179,746,891	33,422,430	117,034,427	370,485,255
Loans and advances	1,048,472,903	25,273,835	2,347,764	12,576,752	1,088,671,254
Originated debts	76,300,000			15,136,913	91,436,913
Investments (AFS)		48,844,326			48,844,326
Other assets	6,798,992				6,798,992
	1,262,569,003	**253,865,052**	**35,770,194**	**144,748,092**	**1,696,952,341**
June 30, 2009					
Treasury bills	90,715,601				90,715,601
Deposits with Fin. Inst.	37,689,057	153,018,744	49,103,188	100,563,362	340,374,351
Loans and advances	991,801,491	25,555,850	1,954,536	12,807,287	1,032,119,164
Originated debts	76,300,000			10,676,913	86,976,913
Investments (AFS)		67,997,035			67,997,035
Other assets	31,190,447				31,190,447
	1,227,696,596	**246,571,629**	**51,057,724**	**124,047,562**	**1,649,373,511**

4. Financial risk management…….*continued*

4.1.8 Sectoral analysis of the loans and advances portfolio

The table below gives a break-down of concentration of credit and risk by sector in the loans and advances portfolio:

	Dec 2009 $	June 2009 $
Consumers	130,168,170	126,200,722
Agriculture, fisheries and manufacturing	5,372,805	5,462,690
Construction and land development	47,912,017	42,268,609
Distributive trade, transportation and storage	10,077,121	10,985,722
Tourism, entertainment and catering	20,477,260	22,895,695
Financial institutions	13,385,157	12,292,632
State, statutory bodies and public utilities	825,605,525	779,757,679
Professional and other services	17,559,484	13,797,913
Total	**1,070,557,539**	**1,013,661,662**

4.19 Concentration of risks of financial assets with credit exposure

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

	Public Sector $	Construction $	Tourism $	Financial Inst. $	Individuals $	Other Industries $	TOTAL $
December 31, 2009							
Treasury Bills	90,715,601	-	-	-	-	-	90,715,601
Deposits with banks & Non bank financial Inst.	-	-	-	370,485,255	-	-	370,485,255
Originated Debt	81,496,913	-	-	1,300,000	-	8,640,000	91,436,913
Investment securities - Debt securities	-	-	-	-	-	48,844,326	48,844,326
Loans & Advances to customers	825,756,575	51,952,798	27,986,389	13,289,448	133,590,575	36,095,469	1,088,671,254
Other Assets	-	-	-	2,000,000	53,862	4,745,130	6,798,992
Total	**997,969,089**	**51,952,798**	**27,986,389**	**387,074,703**	**133,644,437**	**98,324,925**	**1,696,952,341**
June 30, 2009	**946,970,193**	**46,309,390**	**31,349,462**	**353,871,274**	**130,390,123**	**140,483,069**	**1,649,373,511**

4. Financial risk management…….*continued*

4.2 Market risk

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

Non-trading portfolios primarily arise from the interest rate management of the Bank retail and commercial banking assets and liabilities. Non-trading portfolios also consist of equity risks arising from the Bank available-for-sale investments.

4.2.1 Price risk

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

4.2.2 Foreign exchange risk

The Bank is exposed to foreign exchange risk through fluctuation in certain prevailing foreign exchange rates on its financial position and cash flows. The Board of Directors limits the level of exposure by currency and in total which are monitored daily. The Bank exposure to currency risk is minimal since most of its assets and liabilities in foreign currencies are held in United States dollars. The Bank uses the mid-rate of exchange ruling on that day to convert all assets and liabilities in foreign currencies to Eastern Caribbean dollar (EC$). The Bank has set the mid-rate of exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) at EC$2.7026=US$1.00 since 1976. The following table summarises the Bank exposure to foreign currency exchange rate risk at December 31, 2009. Included in the table are the Bank financial instruments at carrying amounts, categorized by currency.

4. Financial risk management…….*continued*

4.2.2 Foreign exchange risk…….continued

Concentration of currency risk – on and off balance sheet financial instruments

December 31, 2009	EC$	US$	EURO	GBP	CAN	BDS	GUY	TOTAL
Assets								
Cash & Balances with Central Bank	90,483,910	1,669,530	56,221	195,869	54,596	30,429	-	92,490,555
Treasury Bills	90,715,601	-	-	-	-	-	-	90,715,601
Deposits with other banks	33,294,871	165,469,916	1,436,057	781,974	638,170	440,779	47,058	202,108,825
Deposits with non-bank financial bodies	33,272,110	135,104,320	-	-	-	-	-	168,376,430
Loans and receivables								
- Loans and advances to customers	1,088,671,254	-	-	-	-	-	-	1,088,671,254
- Originated Debt	89,940,000	1,496,913	-	-	-	-	-	91,436,913
Investment Securities - avail for sale	9,118,380	331,456,378	-	-	-	-	-	340,574,758
Other Assets	6,798,992	-	-	-	-	-	-	6,798,992
Total financial Assets	**1,442,295,118**	**635,197,057**	**1,492,278**	**977,843**	**692,766**	**471,208**	**47,058**	**2,081,173,329**
Liabilities								
Due to customers	1,198,837,335	241,223,307	712,939	560,312	1,517,887	-	-	1,442,851,780
Due to other financial institutions	-	3,367,810	-	112,527	-	-	-	3,480,337
Other borrowed funds	-	176,999,958	-	-	-	-	-	176,999,958
Other liabilities	25,642,324	42,578,845	42,179	320,272	143,335	58,300	-	68,785,255
Total financial Liabilities	**1,224,479,659**	**464,169,920**	**755,118**	**993,111**	**1,661,222**	**58,300**	**-**	**1,692,117,330**
Net on-balance sheet positions	**217,815,459**	**171,027,137**	**737,160**	**(15,268)**	**(968,456)**	**412,908**	**47,058**	**389,055,999**

June 30, 2009	EC$	US$	EURO	GBP	CAN	BDS	OTHER	TOTAL
Total Financial Assets	1,403,287,840	629,434,094	613,197	912,352	700,245	885,815	5,106	2,035,838,649
Total Financial Liabilities	1,181,540,331	448,260,374	631,873	982,700	1,254,307	58,300	-	1,632,727,885
Net on-balance sheet positions	**221,747,509**	**181,173,720**	**(18,676)**	**(70,348)**	**(554,062)**	**827,515**	**5,106**	**403,110,764**

4.2.3 Interest rate risk

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

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

	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$	$	$	$	$	$	$
As at December 31, 2009							
Financial Assets							
Cash & balances with Central Bank	-	-	-	-	-	92,490,555	92,490,555
Treasury Bills	-	90,715,601	-	-	-	-	90,715,601
Deposits with other financial Inst.	163,462,723	31,695,198	102,047,309	-	-	73,280,025	370,485,255
Loans & Advances to customers	239,060,566	516,335	32,113,583	34,170,004	774,697,334	8,113,432	1,088,671,254
- Originated Debts	-	-	-	1,000,000	90,436,913	-	91,436,913
Investment securities	-	-	8,211,111	27,610,288	25,683,107	279,070,252	340,574,758
Other Assets	-	-	-	-	-	30,066,971	30,066,971
Total Financial Assets	402,523,289	122,927,134	142,372,003	62,780,292	890,817,354	483,021,235	2,104,441,307
Financial Liabilities							
Due to Customers	533,462,945	282,147,893	438,447,963	4,525,085	-	184,267,894	1,442,851,780
Due to Other financial Inst.	3,480,337	-	-	-	-	-	3,480,337
Other Borrowed funds	-	-	3,280,733	3,270,588	170,448,637	-	176,999,958
Other Liabilities	37,939	-	973,535	-	-	64,662,513	65,673,987
Total Financial Liabilities	536,981,221	282,147,893	442,702,231	7,795,673	170,448,637	248,930,407	1,689,006,062
Total Interest repricing gap	**(134,457,932)**	**(159,220,759)**	**(300,330,228)**	**54,984,619**	**720,368,717**		
As at June 30, 2009							
Total Financial Assets	482,512,715	161,358,214	95,058,871	85,916,069	735,203,077	475,250,002	2,035,298,948
Total Financial Liabilities	487,157,660	66,149,496	624,238,277	7,790,588	170,448,637	273,705,303	1,629,489,961
Total Interest repricing Gap	**(4,644,945)**	**95,208,718**	**(529,179,406)**	**78,125,481**	**564,754,440**		

4. Financial risk management…….*continued*

4.2.3 Interest rate risk…………*continued*

The Bank fair value arises from debt securities classified as available-for-sale. Cash flow interest rate risk arises from loans and advances to customers at available rates.

4.3 Liquidity risk

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

4.3.1 Liquidity risk management

The Bank liquidity is managed and monitored by the Comptroller Division with guidance, where necessary, by an executive director of the Board. This includes:

- Daily monitoring of the Bank liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers. The Bank ensures that sufficient funds are held to meet its obligation by not converting into foreign deposits, demand deposits, reserve, provision for interest, provision for loan losses, and other net financial assets and liabilities.

- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, currency and term.

- Daily monitoring of the balance sheet liquidity ratios against internal and regulatory requirements.

- Managing the concentration and profile of debt maturities.

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

4.3.2 Funding Approach

Sources of liquidity are regularly reviewed to maintain a wide diversification of geography, currency, provider, product and term.

4. Financial risk management…….*continued*

4.3.3 Non-derivative cash flows

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

Analysis of Assets and Liabilities into relevant maturity grouping

	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	$	$	$	$	$	$
As at December 31, 2009						
Financial Liabilities						
Due to Customers	697,310,260	293,594,998	447,338,296	4,608,226	-	1,442,851,780
Due to other financial Inst.	3,480,337	-	-	-	-	3,480,337
Other Borrowed funds	-	-	3,280,733	3,270,588	170,448,637	176,999,958
Other Liabilities	47,241,058	5,131,201	9,131,710	4,170,018	-	65,673,987
Total Financial Liabilities	**748,031,655**	**298,726,199**	**459,750,739**	**12,048,832**	**170,448,637**	**1,689,006,062**
Total Financial Assets	**584,007,226**	**122,927,134**	**134,745,779**	**72,482,023**	**1,190,279,145**	**2,104,441,307**
As at June 30, 2009						
Total Financial Liabilities	**733,793,934**	**71,481,116**	**641,822,443**	**11,943,831**	**170,448,637**	**1,629,489,961**
Total Financial Assets	**611,118,630**	**161,120,623**	**94,854,165**	**141,648,740**	**1,026,556,790**	**2,035,298,948**

4. Financial risk management…….*continued*

4.3.4 Off-balance sheet items

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

Contingent liabilities and commitments

At December 31, 2009 the Bank had contractual commitments to extend credit to consumers, guarantee and other facilities as follows:

	Dec 2009	June 2009
Loan commitments	36,042,656	15,559,355
Guarantees and standby letters of credit	5,070,100	5,186,100
	41,112,756	**20,745,455**

4.4 Fair values of financial assets and financial liabilities

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

The fair value of cash resources, other assets and liabilities, items in transit and due to other financial institutions 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 4.3.4 (above).

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

4. Financial risk management…….*continued*

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

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

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

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

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

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

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

4. Financial risk management…….*continued*

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

The table below summarises the carrying amounts and fair values of those financial assets and financial liabilities not presented on the Bank balance sheet at their fair value

	Carrying Value		Fair Value	
	Dec 2009	June 2009	Dec 2009	June 2009
Financial assets				
Treasury bills	90,715,601	90,715,601	90,715,601	90,715,601
Deposits with other financial institutions	370,485,255	340,374,351	370,485,255	340,374,351
Loans and receivables:				
Loans and advances	1,088,671,254	1,032,119,164	1,470,907,337	1,403,844,907
Originated debts	91,436,913	86,976,913	91,436,913	86,976,913
Financial Liabilities				
Due to customers	1,442,851,780	1,359,465,172	1,442,851,780	1,359,465,172
Due to financial institutions	3,480,337	623,102	3,480,337	632,102
Other borrowed funds	176,999,958	176,750,620	176,999,958	176,750,620

4.5 Capital management

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

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

4. Financial risk management…….*continued*

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

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

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the period ended December 31, 2009 and June 30, 2009. During these two periods, the Bank complied with all the externally imposed capital requirements to which it is subject.

	Dec 2009	June 2009
Tier 1 capital		
Share Capital	134,998,883	81,000,000
Bonus shares from capitalization of unrealized asset revaluation reserve	(4,500,000)	(4,500,000)
Reserves	224,745,778	278,744,661
Retained earnings	36,923,634	23,307,744
Total qualifying Tier 1 capital	**392,168,295**	**378,552,405**

4. Financial risk management…….*continued*

4.5 Capital management………..*continued*

	Dec 2009 $	June 2009 $
Tier 2 capital		
Revaluation reserve – available-for-sale investments	27,201,570	27,201,570
Revaluation reserve – property, plant and equipment	7,720,621	7,720,621
Bonus shares capitalization	4,500,000	4,500,000
Accumulated impairment allowance	36,809,947	36,809,947
Total qualifying Tier 2 capital	**76,232,138**	**76,232,138**
Investment in subsidiaries	(17,750,000)	(17,750,000)
Total regulatory capital	**450,650,433**	**437,034,543**
Risk-weighted capital		
On-balance sheet	748,967,961	727,600,298
Off-balance sheet	31,182,772	11,527,055
Total risk-weighted assets	**780,150,733**	**739,127,353**
Basel ratio	**58%**	**59%**

5. Critical accounting estimates and judgments

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

(a) Impairment losses on loans and advances

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

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

The Bank determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, when there is evidence of deterioration in the financial health of the investee industry and sector performance, changes in technology and operational and financing cash flows. There were no declines in fair value below cost considered significant or prolonged as at December 2009.

6. Cash and balances with Central Bank

	Dec 2009	June 2009
Cash in hand	9,834,496	7,982,347
Balances with Central Bank other than mandatory deposits	(1,296,694)	(6,041,950)
Included in cash and cash equivalent (Note 31)	8,537,802	1,940,397
Mandatory deposits with Central Bank	83,952,753	78,766,873
Total	**92,490,555**	**80,707,270**

Commercial banks are required under Section 17 of the Banking Act, 1991 to maintain a reserve deposit with the Central Bank equivalent to 6 percent of their total deposit of customers. This reserve deposit is not available to finance the Bank’s day-to-day operations. Cash and balances with Central Bank do not receive interest payments.

7. Treasury bills

	Dec 2009	June 2009
Government of St. Kitts and Nevis maturing February 16, 2010 at 6.5% interest	**90,715,601**	**90,715,601**

Treasury bills are debt securities issued by a sovereign government. They also form part of cash and cash equivalent (Note 31).

	Dec 2009	June 2009
8. Deposits with other financial institutions		
Operating cash balances	129,106,067	121,940,663
Items in the course of collection	7,001,084	5,569,385
Interest bearing term deposits	50,341,574	50,888,169
Included in cash and cash equivalent (Note 31)	186,448,725	178,398,217
Special term deposits*	27,285,472	14,101,431
Restricted term deposits**	151,550,780	143,844,674
Interest receivable	5,200,278	4,030,029
Total	**370,485,255**	**340,374,351**

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

Interest earned on both 'Special term deposits' and 'Restricted term deposits' is credited to income.

	Dec 2009	June 2009
9. Loans and advances to customers		
Overdrafts	171,071,168	261,405,931
Mortgages	71,189,145	68,973,762
Demand	209,658,967	225,458,579
Special Term	547,545,589	387,500,000
Secured	14,773,115	14,380,399
Personal	7,001,786	6,432,828
Productive	1,021,239,770	964,151,499
Non-productive	49,317,769	49,510,163
Gross	**1,070,557,539**	**1,013,661,662**
Less allowance for impairment (Note 25)	(36,809,947)	(36,809,947)
	1,033,747,592	**976,851,715**
Interest receivable	54,923,662	55,267,449
Net loans and advances	**1,088,671,254**	**1,032,119,164**

	Dec 2009	June 2009

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

Net loans and advances

	Dec 2009	June 2009
Current	279,803,916	287,955,075
Non-current	808,867,338	744,164,089

10. Originated debts

	Dec 2009	June 2009
Government of St. Kitts and Nevis bonds maturing March 03, 2020 at 8.5 % interest	75,000,000	75,000,000
Eastern Caribbean Home Mortgage Bank Long-term bond maturing July 01, 2010 at 5.5 % interest	1,000,000	1,000,000
Antigua Commercial Bank 10 % interest rate Series A bond maturing December 31, 2016	1,496,913	1,496,913
Grenada Electricity Services Limited 10-year 7 % bond maturing December 18, 2017	8,640,000	9,180,000
Government of St. Vincent & the Grenadines 7.50% 10-year bond maturing December 17, 2019	5,000,000	-
Caribbean Credit Card Corporation unsecured loan at 10 % interest (no specific repayment terms)	300,000	300,000
Total	**91,436,913**	**86,976,913**

	Dec 2009	Jun 2009

11. Investment securities

	Dec 2009	Jun 2009
Available-for-sale securities		
Securities at fair value		
-- Unlisted	11,207,209	11,062,409
-- Listed	329,014,494	338,296,515
-- Interest receivable	353,055	447,210
	340,574,758	**349,806,134**

12. Investment in subsidiary

	Dec 2009	Jun 2009
National Bank Trust Company (St Kitts-Nevis-Anguilla) Limited	5,750,000	5,750,000
St Kitts and Nevis Mortgage and Investment Company Limited (MICO)	12,000,000	12,000,000
Total	**17,750,000**	**17,750,000**

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

	Dec 2009	Jun 2009
Letters of credit	973,535	1,089,535
Guarantees	4,096,565	4,096,565
Total	**5,070,100**	**5,186,100**

14. Property, Plant and Equipment

COST	**Total**	**Property**	**Equipment**	**Furniture And Fittings**	**Motor Vehicles**	**Reference Books**	**Projects Ongoing**
At July 1, 2009	36,289,013	20,474,781	10,452,628	2,088,586	477,000	134,908	2,661,110
Additions	346,419	-	267,671	48,512	-	5,461	24,775
Disposals							
Dec 31, 2009	36,635,432	20,474,781	10,720,299	2,137,098	477,000	140,369	2,685,885
Accumulated Depreciation							
At July 1, 2009	11,048,009	1,621,728	7,678,290	1,445,704	174,098	128,189	-
Charge for Year	657,576	232,038	329,452	61,946	31,500	2,640	-
Eliminated on Disposal							
Dec 31, 2009	11,705,585	1,853,766	8,007,742	1,507,650	205,598	130,829	-
Net Book Value							
At Dec 31, 2009	**24,929,847**	**18,621,015**	**2,712,557**	**629,448**	**271,402**	**9,540**	**2,685,885**
At June 30, 2009	**25,241,004**	**18,853,053**	**2,774,338**	**642,882**	**302,902**	**6,719**	**2,661,110**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2009

15. Intangible assets

	Dec 2009	Jun 2009
Cost	4,682,787	3,308,582
Additions	265,391	1,374,205
Disposal		
Total	**4,948,178**	**4,682,787**
Accumulated amortisation		
At July 1, 2009	3,110,419	2,694,784
Charges for the year	176,279	415,635
Disposals		
Total	**3,286,698**	**3,110,419**
Net book value	**1,661,480**	**1,572,368**

Intangible assets represent computer software acquired for the Bank use.

16. Other assets

	Dec 2009	Jun 2009
Prepayments	6,798,992	31,190,447
Stationery and card stock	787,415	539,701
Other receivables	466,500	472,968
Total	**8,052,907**	**32,203,116**

17. Due to customers

	Dec 2009	Jun 2009
Consumers	364,605,026	364,568,559
Private businesses and subsidiaries	291,568,374	303,384,666
State, statutory bodies and non-financial bodies	671,070,460	609,332,851
Others	94,422,568	72,655,176
Interest Payable	21,185,352	9,523,920
Total	**1,442,851,780**	**1,359,465,172**

17. Due to customers *continued*

'Due to Customers" represents all types of deposit accounts held by the Bank on behalf of its customers. The deposit include demand deposit accounts, call accounts, savings accounts and fixed deposits.

The Bank pays interest on all categories of customers' deposits. In December 2009 total interest paid on deposit accounts amounted to $31,770,105 (June 2009 - $58,793,561). The average effective rate of interest paid on customers' deposits was 4.47% (June 2009 – 4.36%).

18. Other borrowed funds

	Dec 2009	Jun 2009
Credit line	82,360,311	82,346,746
Bonds issued	93,540,229	93,540,229
Interest payable	1,099,418	863,645
Total	**176,999,958**	**176,750,620**

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

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

19. Accumulated provisions, creditors and accruals

	Dec 2009	Jun 2009
Other interest on customers' deposits	11,097,079	10,924,469
Managers cheques and bankers payments	1,552,995	1,305,254
Unpaid drafts on other banks	1,258,931	1,277,347
E-commerce payables	34,134,346	24,269,344
Other payables	15,671,804	49,472,158
Total	**63,715,155**	**87,248,572**

20. Taxation

Tax expense

	Dec 2009	Jun 2009
Current tax	2,402,804	6,615,097
Deferred tax	-	181,331
Prior year income tax expense	-	(5,315)
Total	**2,402,804**	**6,791,113**

	Dec 2009	Jun 2009
Income for the year before tax	**16,018,694**	**46,460,705**
Income tax at the applicable tax rate of 35%	2,402,804	16,261,246
Non-deductible expenses	41,069	2,383,213
Deferred tax over provided	-	(5,984)
Income not subject to tax	(41,069)	(11,842,047)
Prior year income tax expense	-	(5,315)
Total	**2,402,804**	**6,791,113**

Deferred income tax

The movement on deferred income tax assets and liabilities during the period, without taking into consideration any offsetting balances is as follows:

	Dec 2009	Jun 2009
Tax asset	(200,907)	(382,238)
Recovered during the year, net	-	181,331
Tax liability	14,646,767	14,646,767
Net	**14,445,860**	**14,445,860**
Accelerated depreciation	(200,907)	(200,907)
Available-for-sale securities	14,646,767	14,646,767
Net	**14,445,860**	**14,445,860**

21. Share Capital

	Dec 2009	Jun 2009
Authorised: -		
135,000,000 Ordinary Shares of $1 each	**135,000,000**	**135,000,000**
Issued and Fully Paid: -		
81,000,000 Ordinary Shares of $1 each	81,000,000	81,000,000
Bonus issue - 53,998,883 ordinary shares of $1 each	53,998,883	-
	134,998,883	**81,000,000**

22. Reserves

22.1 Statutory reserve

In accordance with Section 14 (1) of Saint Christopher and Nevis Banking Act No. 6 of 1991, the St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain a reserve fund into which it shall transfer not less than 20% of its net profit of each year whenever the reserve fund is less than the Bank paid-up capital.

22.2 Revaluation reserve

	Dec 2009	Jun 2009
Balance brought forward	34,922,191	80,584,965
Movement in market value of investments, net	-	(45,662,774)
Movement in market value of land and buildings	-	-
Balance	**34,922,191**	**34,922,191**
Revaluation reserve is represented by:		
Available for sale investment securities	27,201,570	27,201,570
Properties	7,720,621	7,720,621
	34,922,191	**34,922,191**

22. Reserves…………*continued*

Properties revaluation reserve
Property revaluation reserve arises on the revaluation of land and buildings. Where revalued Land and buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and is effectively realized, is transferred to retained earnings.

Distributions from the properties revaluation reserve can be made where they are in accordance with the requirements of the Bank constitution, the Companies Act and relevant case law. Generally, there is no restriction on the payment of 'bonus shares' out of the properties revaluation reserve. However, the payment of cash distribution out of the reserve is restricted by the terms of the Bank constitution. These restrictions do not apply to any amounts transferred to retained earnings.

Investments revaluation reserve
The investments revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realized, is recognized in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that financial asset is recognized in profit or loss.

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

22.3 Other reserves

Balance brought forward	193,867,237	160,000,000
Transfer from retained earnings	-	53,867,237
Transfer to retained earnings	-	(20,000,000)
Transfer to Share Capital	(53,998,883)	-
	139,868,354	**193,867,237**

Other reserves is represented by:

Loan Loss reserve	-	-
Reserve for interest on non-performing loans	54,534,644	54,534,644
General reserve	85,333,710	139,332,593
	139,868,354	**193,867,237**

22. Reserves…………*continued*

Included in Other reserves are the following individual reserves:

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

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

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

23. Net Interest Income

	Dec 2009	Jun 2009
Interest Income		
Loans and Advances (see Note 22)	40,105,732	82,210,785
Deposits with other Banks	5,581,908	9,888,156
Investments	7,311,232	22,528,790
Other	38,083	-
	53,036,955	**114,627,731**

23. Net interest income……………*continued*

	Dec 2009	Jun 2009
Interest Expense		
Savings accounts	4,791,233	9,713,029
Call accounts	1,398,903	1,266,362
Fixed Deposits	25,028,248	38,039,271
Current and other deposit accounts	551,721	9,774,899
Debt and other related accounts	4,463,536	10,330,726
	36,233,641	69,124,287
Net	**16,803,314**	**45,503,444**

24. Net fees and commission income

	Dec 2009	Jun 2009
Credit related fees and commission	1,384,416	2,990,135
International and foreign exchange	9,848,205	42,120,640
Brokerage and other fees and commission	308,254	614,448
Fees and commission income	**11,540,875**	**45,725,223**
Fee expenses		
Brokerage and other related fee expenses	48,374	145,661
International and foreign exchange fee expenses	997,669	3,248,877
Other fee expenses	124,217	176,110
Fee expenses	**1,170,260**	**3,570,648**
Total net	**10,370,615**	**42,154,575**

25. Provision for loan impairment, net of recoveries

	Dec 2009	Jun 2009
Balance brought forward	36,809,947	44,834,768
Charge-offs and write-offs	-	(13,901,972)
Provision for impairment losses	-	5,902,151
Recoveries during the year	-	(25,000)
Total	**36,809,947**	**36,809,947**

26. Administration and general expenses

	Dec 2009	Jun 2009
Advertisement and marketing	146,980	553,552
Stationery and supplies	347,382	738,799
Communication	279,521	509,022
Utilities	262,493	857,933
Shareholders' expenses	225	128,146
Rent and occupancy expenses	268,022	385,772
Taxes and licences	37	98,566
Security services	137,493	408,732
Insurance	71,069	439,154
Legal expenses	798,222	1,285,279
Staff employment	9,002,346	17,898,046
Repairs and maintenance	1,400,475	2,292,408
Premises upkeep	34,838	50,803
Other general expenses	278,446	589,568
Total	**13,027,549**	**26,235,780**

27. Earnings per share

Earning 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.

	Dec 2009	Jun 2009
Net income attributable to shareholders	13,615,890	39,669,592
Weighted average number of ordinary shares in issue	134,998,883	81,000,000
Basic earnings per share (annualized)	**$0.20**	**$0.49**

28. Dividends

The financial statements reflect a dividend of $14,985,000 for the year ended June 30, 2008, which was approved at the Thirty-eighth Annual General Meeting held on March 31, 2009 and subsequently paid.

29. Subsequent events

Litigation

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

National Consumer Mortgage, LLC (a California Limited Liability Company) (Debtor) John P Brincko, Chapter 11 Trustee (Plaintiff) v. St Kitts-Nevis-Anguilla National Bank Limited (Defendant)
Case No. 8:06-10429-TA
The Trustee asserts that the Bank engaged in negligent, reckless and intentional misconduct that enabled a certain company to open and maintain an account into which the Debtor made fraudulent transfers. The assertion is based on a belief by the Trustee that the Bank knew or reasonably should have known that the Company was a fraudulent business entity. It is likely that this matter can/will be withdrawn as the Bank performed its due diligence and the company in question was a valid company properly registered to do business at all material times.

As a result, no provision for a contingent liability is included in these financial statements.

30. Related Parties

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making operational or financial decisions.

A number of banking transactions are entered into with our subsidiaries and directors in the normal course of business. Those transactions, which include deposits, loans and other transactions, are carried out on commercial terms and conditions, at market rates.

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

Public sector indebtedness to the Bank as at December 31, 2009 was 1,016,684,028 (June 30, 2009 - $972,758,753).

Subsidiaries
Advances outstanding as at December 31, 2009 amounted to $12,970,847 (June 30, 2009 - $9,822,108).

Deposits balances as at December 31, 2009 amounted to $117,497,265 **(**June 30, 2009 - $114,515,313).

Directors and Associates
Advances outstanding as at December 31, 2009 amounted to $1,113,121 (June 30, 2009 - $1,256,869).

Deposits balances as at December 31, 2009 amounted to $1,243,519 (June 30, 2009 - $1,485,305).

Senior Management
At the end of December 2009 the following amounts were in place:

- Gross salaries, allowances and bonus payments amounted to $1,280,742
- Loans and advances amounted to $1,645,289;
- Deposit amounts were $1,983,662; and
- Total St. Kitts-Nevis-Anguilla National Bank Limited shares held were 1,152,417

31. Cash and cash equivalent

	Dec 2009	Jun 2009
Cash and balances with Central Bank (Note 6)	8,537,802	1,940,397
Treasury bills (Note 7)	90,715,601	90,715,601
Deposits with other financial institutions (Note 8)	186,448,725	178,398,217
	285,702,128	**271,054,215**