RESPONDING TO NEW CHALLENGES

ANNUAL REPORT 2013

THE BANK OF NEVIS LIMITED

CAB
Caribbean Association of Banks Inc. Member

VISION

To be the Preferred Financial Institution in the Markets we serve.

MISSION

To be a Profitable and Compliant Financial Institution, proactive in exceeding our stakeholders' expectations, with a committed and empowered team.

CORE VALUES

OUR CUSTOMERS
We will build relationships with our customers by meeting our commitments, exceeding service requirements whenever possible, providing good values, responding in a timely manner to their needs and being innovative in helping them to realize their financial goals.

OUR COLLEAGUES
We will provide a working environment of fairness, equity and transparency which facilitates trust, respect and team work and afford all staff opportunities for meaningful, challenging and rewarding work.

OUR SHAREHOLDERS
We will achieve consistent growth and profitability over a long term with returns that result in increasing shareholder value.

OUR SUPPLIERS
We will treat suppliers fairly and forthrightly and fully live up to our agreements.

OUR COMMUNITIES
We will be good corporate citizens, respected and recognized as much for our integrity, commitment, insight and progressiveness, as for financial success. We will take an active interest in the communities in which we serve.

OUR WORK
Integrity – We value integrity in our employees, in our relationships with our customers and in our business practices. We believe in conducting business and maintaining all relationships with the highest ethical standards.

Respect - We recognize and appreciate the uniqueness of each individual. We are driven by shared goals and expectations and respect each other in our daily interactions.

SERVICE EXCELLENCE
We take pride in delivering superior service that consistently exceeds expectations. We are committed to providing personalized, relationship oriented service that our customers value.

OPEN COMMUNICATION LINES
We foster open communication throughout the organization. We support healthy debate and personal participation. Employee, customer and shareholder feedback are critical to our development.

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NOTICE OF MEETING

AGENDA

Notice is hereby given that the Twenty Seventh Annual General Meeting of The Bank of Nevis Limited (the 'Company') will be held at Occasions located on the Pinneys By-pass Road, Nevis on Wednesday, March 19, 2014 at 5:00 p.m.

1. To approve the Minutes of the twenty-sixth Annual General Meeting held on April 12, 2013.

2. To receive the report of the directors.

3. To receive and consider the accounts for the year ended June 30, 2013.

4. To elect one independent director; Dr. Telbert Glasgow retires by rotation, and being eligible, offers himself for re-election.

5. To elect two non-independent directors; Richard Lupinacci retires by rotation, and being eligible, offers himself for re-election, David A. Straz, Jr. resigned from office on May 18, 2013.

6. To declare a dividend of 15 cents per share.

7. To appoint auditors for the year ending June 30, 2014. PKF/Deloitte and Touche, Chartered Accountants, retire and being eligible, offer themselves for reappointment.

8. Any other business.

BY ORDER OF THE BOARD

A. Knights.

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AIANDRA E. KNIGHTS (MS.)
Secretary

NOTICE OF MEETING...cont'd

NOTES

1. Votes at meetings of shareholders may be given either personally or by proxy or, in the case of a shareholder who is a body corporate or association, by an individual authorised by a resolution of the directors or governing body of that body corporate or association to represent it at meetings of shareholders of the Company.

2. A shareholder who is entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxy holder, or one or more alternate proxy holders, none of whom need be shareholders, to attend and act at the meeting or any adjournment thereof, in the manner and to the extent authorized by the proxy and with the authority conferred by the proxy. A corporation being a member of the company may appoint as a proxy one of its officers or any other person though not a member of the Company.

3. A proxy is valid only at the meeting in respect of which it is given or any adjournment of that meeting.

4. No person not being a retiring director shall, unless recommended by the directors for election, be eligible for election to the office of Director at any General Meeting unless he, or some other member intending to propose him has, at least seven clear days before the meeting, left at the office a notice in writing, duly signed, specifying his candidature for the office, and the intention of such member to propose him.

5. In proposing candidates for nomination to directorship generally, shareholders are asked to have regard to the following subsections of the ***Banking Act, CAP.21.01 of the Revised Laws of St. Christopher and Nevis:***

26.(1) Every person who is, or is likely to be a director, significant shareholder, or manager of the licensed financial institution shall be a fit and proper person to hold the particular position which he holds or is likely to hold.

(2) In determining whether a person is a fit and proper person to hold any particular position, regard shall be had to

a. that person's probity, competence and soundness of judgment for fulfilling the responsibilities of that position;

b. the diligence with which that person is fulfilling or likely to fulfill the responsibilities of that position; and

c. whether the interest of depositors or potential depositors of the licensed financial institution are, or are likely to be, in any way threatened by that person holding that position.

NOTICE OF MEETING...cont'd

6. In proposing candidates for nomination as independent directors, shareholders are asked to have regard to the definition ascribed to and determining considerations for an 'Independent Director' in the Eastern Caribbean Central Bank's (ECCB) ***Enforced Guidelines on Corporate Governance for Institutions licensed to conduct Banking Business*** (the 'Guidelines'). The Guidelines define 'Independent Director' as a director who is independent of management and free of any business or other relationships that would materially interfere with, or could reasonably be perceived to materially interfere with the exercise of his unfettered and independent judgment; the guidelines go on to state that in the determination of independence, consideration should be given to whether the person:

    a. ***Was employed by the institution within the last five years; or***
    b. ***Within the last five years, had a material relationship with the institution either directly, or as an advisor, partner, shareholder, director or senior employee of a body that has or had such relationship with the institution; or***
    c. ***Received or receives additional remuneration from the institution apart from a director's fee, participates in the institution's share option or a performance-related pay scheme, or is a member of the institution's pension scheme, or receives other forms or deferred compensation not contingent upon continued service; or***
    d. ***Represents a significant shareholder on the board; or***
    e. ***Has served on the board for more than ten years.***

CORPORATE INFORMATION

BOARD OF DIRECTORS

Rawlinson Isaac (Chairman)
Financial Consultant

Richard Lupinacci Sr.
Hotelier

Janice Daniel-Hodge
Businesswoman

Sonya Parry
Solicitor

Vernel Powell
Businessman

Dr. Telbert Glasgow
Engineer

C. Steve Wrensford
Businessman

SECRETARY

Aiandra E. Knights

REGISTERED OFFICE

Bank of Nevis Building
Main Street, Charlestown
Nevis, West Indies

AUDITORS

Deloitte & Touche
3rd Floor
The Goddard Building
Haggatt, St. Michael
Barbados

PKF
Independence House
North Independence Square
Basseterre
St. Kitts

IN-HOUSE COUNSEL

Aiandra E. Knights, LL.B (Hons.) UWI, LEC
General Counsel

SUBSIDIARIES

Bank of Nevis International Limited
Bank of Nevis International Fund Limited
Bank of Nevis International Fund Managers Limited
Bank of Nevis Mutual Fund Limited
Bank of Nevis Fund Managers Limited

CORRESPONDENT BANKS

Antigua & Barbuda	Antigua Commercial Bank
Barbados	Republic Bank (Barbados) Ltd
Canada	Royal Bank of Canada Bank of America
St. Kitts & Nevis	SKNA National Bank CIBC/First Caribbean International Bank Royal Bank of Canada
St. Lucia	Bank of St. Lucia
St. Maarten	Windward Island Bank
St. Vincent & the Grenadines	Bank of St. Vincent and the Grenadines Ltd.
United Kingdom	The Royal Bank of Scotland Lloyds TSB Bank PLC
United States	Bank of America Deutsche Bank Trust Company Americas

INVESTMENT BROKERS

First Citizens Investment Services Ltd.
Morgan Stanley Smith Barney

BOARD COMMITTEES

Audit
Building
Credit
Customer Service and Marketing
Human Resource
Investment
Risk Management

BOARD OF DIRECTORS

Term of Office
4 years

Shareholding
43,250

RAWLINSON ISAAC (Chairman)

Mr. Rawlinson A. Isaac has had a long and distinguished career in banking spanning 30 years. He holds a BA (Hons.) in Accounting, an MBA in Finance, a Post Graduate Diploma in Financial Studies (Dip. FS), and a Diploma in Trust and Estate Practice (DTEP). He is a Fellow of the Chartered Institute of Bankers, Fellow of the Institute of Financial Accountants, Fellow of the Association of International Accountants and a Fellow of the Chartered Management Institute.

Mr. Isaac previously served as a director of The Bank of Nevis Limited from 1992 – 2008. He also served as General Manager of the Bank from 1991 – 2006.

He has served on the following Boards: Caribbean Credit Card Corporation Ltd., Eastern Caribbean Home Mortgage Bank, Eastern Caribbean Securities Exchange, West Indies Power (Nevis) Ltd.

Mr. Isaac owns a Consulting Practice in Finance and Management.

Term of Office
28 years

Shareholding
64,912

RICHARD LUPINACCI SR.

Mr. Richard Lupinacci Sr., an alumni of Penn State University, has been involved in commercial and international banking since 1963. In 1968, he took up residence in the Federation of St. Kitts and Nevis where he became actively involved in banking, hospitality and a myriad of other community activities. He served as the first Managing Director of The Bank of Nevis Limited.

He is the owner of The Hermitage Inn and Hermitage Builders and is the Director of the Nevis Tourism Authority, St. Kitts-Nevis Hotel Association and the Nevis Humane Society.

Term of Office
7 years

Shareholding
25,000

JANICE DANIEL-HODGE

Ms. Daniel-Hodge holds a Bachelors of Science degree from St. Francis College in New York and a Master of Science degree from Alabama A&M University in Alabama. She currently serves as the principal of Caribbean Development and Environmental Consultants Inc. and offers consulting and real estate services in St. Kitts and Nevis.

BOARD OF DIRECTORS…cont'd

Term of Office	Shareholding
6 years	10,562

SONYA PARRY (Independent Director)

Miss Parry is a practising Barrister-at-Law and Solicitor and is presently a partner at the firm Gonsalves Hamel-Smith.

She holds a Bachelor of Laws with Upper Second Class Honours from the University of the West Indies, a Master of Laws with a specialisation in Banking and Finance from the University College of London and a Diploma in International Trust Management from the Society of Trust and Estate Practitioners.

Term of Office	Shareholding
4 years	681

VERNEL POWELL

Mr. Powell is the Assistant Director of the Nevis Branch of the St. Christopher and Nevis Social Security Board and has served in this capacity since 1992.

Term of Office	Shareholding
6 years	2,500

DR. TELBERT GLASGOW (Independent Director)

Dr. Glasgow holds a Doctor of Philosophy degree in telecommunications engineering from the University of Southampton in England. His work experience spans tutoring of social and natural sciences in schools and universities, management in government communication and planning ministries and engineering consultancy in telecommunications.

Dr. Glasgow is the Managing Director of Heritor Management Ltd and Heritage Services Ltd.

BOARD OF DIRECTORS...cont'd

Term of Office	Shareholding
2 years	1,250

C. STEVE WRENSFORD

Mr. C. Steve Wrensford is a citizen of the Federation of St. Kitts-Nevis and resides on St. Kitts. He holds a Bachelor of Arts Degree in Accounting and a Masters Degree in Business Administration. Mr. Wrensford at present is the Deputy Director of the St. Kitts-Nevis Social Security Board and has occupied that position since 1996. He is also the owner of Steve's Enterprises and the current Ambassador to the Republic of Trinidad & Tobago and the Bolivarian Republic of Venezuela.

Mr. Wrensford is an ardent sports fan and has held many managerial positions in both football and cricket in the United States Virgin Islands and St. Kitts.

AIANDRA KNIGHTS (Secretary)

Ms. Knights was appointed as Secretary to the Boards of both The Bank of Nevis Limited and Bank of Nevis International Limited on September 30, 2007. She is an attorney and has also held the position of General Counsel to both Banks since August 1, 2007. She attended the University of the West Indies (Cave Hill Campus) and Sir Hugh Wooding Law School, qualifying as an attorney in 2002.

Ms. Knights has been admitted to practice in Dominica, Barbados, St. Lucia and St. Christopher and Nevis.

GROUP FINANCIAL HIGHLIGHTS

Expressed in Eastern Caribbean Dollars

	2013 (000)	Restated 2012 (000)	Restated 2011 (000)	Restated 2010 (000)	Restated 2009 (000)
Total assets	455,754	414,387	411,551	385,072	385,574
Due from banks and other financial institutions	130,132	94,728	97,979	95,030	100,464
Investment securities	90,925	93,116	89,729	85,402	86,394
Loans & advances	204,595	200,501	199,373	185,116	176,021
Customers' deposits	391,386	349,886	337,920	312,586	319,652
Paid-up share capital	9,348	9,348	9,348	7,478	7,478
Shareholders' equity	58,666	50,382	51,128	45,735	41,441
Gross operating income	31,688	29,808	29,245	29,706	25,912
Total expenses & provisions (excl. tax)	24,896	28,280	23,138	25,985	30,941
Interest income	24,864	23,836	23,027	23,790	22,095
Interest expense	12,467	12,323	11,921	11,519	9,795
Staff costs	5,393	5,901	5,413	5,700	5,338
Operating income / (loss) before tax	6,792	1,528	6,108	3,721	(5,029)
Income tax expense	223	939	547	349	952
Net profit / (loss)	6,569	590	5,561	3,372	(5,981)
Earnings per share ($)	0.70	0.06	0.59	0.45	(0.80)
Dividend per share (cents)	-	10.00	10.00	5.00	-
Return on average assets (%)	1.51	0.14	1.40	0.88	(1.61)
Return on average equity (%)	12.05	1.16	11.48	7.74	(13.12)
Number of employees	57	60	59	60	64

CHAIRMAN'S REMARKS

Rawlinson A. Isaac **CHAIRMAN**

It gives me great pleasure to report to you, our Shareholders, that notwithstanding the many financial challenges, vulnerabilities, uncertainties and headwinds, precipitated by the global financial crisis over the past 5 years, and which no doubt, impacted adversely our macro-economic variables, a stellar performance has been achieved by The Bank of Nevis Limited and its subsidiaries (the 'Bank') for the financial year ended June 30, 2013.

This impressive performance for the 2013 financial year is highlighted as follows:

- Total assets grew by EC$41.4 million or 10.0% compared with EC$2.8 million or 0.7% in 2012
- Total deposits increased by EC$41.5 million or 11.9% compared with EC$12.0 million or 3.5% in 2012
- Shareholders' Equity increased by EC$8.3 million or 16.4% to EC$58.7 million compared with a loss of EC$0.7 million or 1.5% in 2012
- Net income achieved stood at EC$6.6 million compared with EC$0.6 million in 2012 (an increase of EC$6.0 million)
- Earnings per share (EPS) was $0.70 (compared with EC$0.06 per share in 2012)
- Return on Assets (ROA) 1.5% up from 0.14% in 2012
- Return on Shareholders' equity (ROE) of 12.1%, up from 1.16% in 2012

Inherent in the Bank's Balance Sheet is a policy framework which is the embodiment of good corporate governance, risk mitigation, sound banking practices and a deep sense of duty to depositors' safety, as well as, increasing shareholders' wealth.

Throughout the financial year under review, the Board of Directors (the 'Board') has ensured adherence to the Bank's strong liquidity policy, as is evidenced by Cash and balances due from banks and other financial institutions, in the sum of EC$130.0 million, an increase of EC$35.4 million or 37.4%, over 2012. In order to mitigate the risk borne by these assets, balances are held in low interest yielding instruments.

The Bank's investment portfolio represents 20% of the Balance Sheet (EC$90.9 million). The investment strategy applied to these assets ensures that the securities and market instruments held by the Bank are well-diversified so as to reduce risk.

Net loans and advances increased by EC$4.1 million to EC$204.6 million compared with an increase of EC$1.1 million in 2012. Shareholders will recall that last year I reported that the Bank was engaged in discussions with the Federal Government, Nevis Island Administration (NIA) and their Debt Advisors (White Oak Advisory LLP), in relation to the debt restructuring program agreed to with the International Monetary Fund (IMF). During the final quarter (Q4) of the financial year 2013, the Bank concluded its negotiations with the NIA in relation to its credit facilities totaling EC$54.8 million, resulting in a reduction of the interest rate thereon, from an average of 8.2% per annum to an average of 3.5% per annum, and an extension of the loan maturity schedule to 35 years. This interest rate reduction will result in a loss of interest income of approximately EC$2.6 million during the 2014 financial year. This asset group is also impacted by non-performing loans and advances, which at the end of the financial year under review, stood at EC$25.6 million or 12.3% of the total loans and advances. These

CHAIRMAN'S REMARKS...cont'd

non-performing credit facilities spread across all loan categories, and are a direct consequence of the inability of some borrowers to meet their contractual service obligations to the Bank. It was therefore necessary for the Bank to increase its impairment provision on loans and advances by EC$1.2 million, compared with EC$67 thousand in 2012.

In respect of the Bank's fixed assets, significant investment has been made in property, plant and equipment, and I am happy to report that the construction of the second phase of the building project is scheduled to be completed by March 2014.

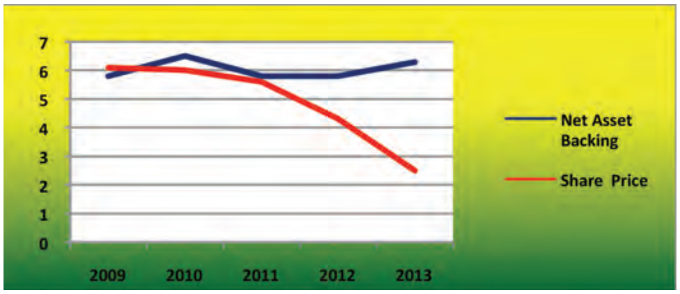
On the liability side, the Bank's primary source of funding is its deposits, the cost of which remains relatively high. While the interest expense ratio dropped slightly from 51.7% in 2012 to 50.1% in 2013, going forward, the Bank will pursue a repricing strategy for its deposits, which is geared at boosting net interest income, while maintaining a competitive advantage.

The other source of funding for the Bank has been the Shareholders' Equity, which has grown organically from EC$7.1 million in 1998, being the last time Shareholders injected cash into the Bank, to EC$58.7 million in 2013, representing a compound annual growth rate of 15.1%. At June 30, 2013, Shareholders' Equity represents 12.9% of the Balance Sheet.

It must be noted that the Bank has exceeded all the capital adequacy ratios as measured by local and international standards.

SHAREHOLDERS' VALUE AND DIVIDENDS

At June 30, 2013 the Net Assets Backing per share stood at EC$6.28, up from EC$5.39 per share in 2012, while the market price per share plummeted from EC$4.25 to EC$2.50. These changes signal a strong buy to potential investors driven by a drop in the Equity Valuation Ratio (EVR) from 0.79 in 2012 to 0.40 in 2013, together with a significant increase in earnings per share of EC$0.70 in 2013 compared with EC$0.06 in 2012.(see graph below)



Fellow Shareholders, despite a drop in the value of the Bank's share price, creating sustainable share value continues to be one of the Board's principal objectives, as such, we have recommended for your approval, a dividend of EC$0.15 per share for the financial year ended June 30, 2013, an increase from EC$0.10 per share recommended in 2012. It is the Board's firm belief that the banking sector must play a pivotal role in driving economic restoration, and it is our intention to continue the Bank's efforts to ensure that the economic environment in which we operate is restored, in order to bring the share price in line with the net asset backing.

FOSTERING SAFETY AND STABILITY OF THE INDIGENOUS BANKS

The financial landscape has changed during the last 5 years, particularly as a result of the global financial crisis. This has prompted Central Banks and other regulatory authorities around the world to conduct comprehensive risk assessments and asset quality reviews of the banks they oversee, so as to foster transparency and enhance the quality and depth of information available to determine the resilience of the banking sector to adverse conditions.

CHAIRMAN'S REMARKS...cont'd

The evidence shows that when the economy is weak and jobs threatened, the financial system feels the effects first through its non-performing portfolio along with liquidity challenges. These factors have already led to the failure of some of our Eastern Caribbean Currency Union (ECCU) banks, whereupon, regulatory intervention was required to protect depositors' funds. There has been a clarion call in the region for the consolidation of the banking sector in order to provide systemic stability, promote desirable banking practices, enhance capabilities, reduce unit costs through economies of scale and platform convergence, increase profitabilty and hence, shareholders' wealth.

Whereas safety is concerned with the protection of depositors' funds, stability, on the other hand, is concerned with the protection of the economy from the vicissitudes of the financial system. To this end, the governments of the ECCU have endorsed the amalgamation of the indigenous banks as a vital component of the ECCU Eight Point Stabilization and Growth Programme. I therefore wish to report that at a retreat held at the Eastern Caribbean Central Bank (ECCB) on November 23, 2013, all the indigenous banks in the ECCU agreed in principle to a process by which amalgamation will be pursued. Also, at a Board meeting held on December 18, 2013, the Board passed a resolution endorsing the Bank's participation in the amalgamation process, subject to the requisite approval being obtained from you, the Shareholders, at the appropriate time. The objective of the amalgamation is to establish one consolidated, highly capitalized indigenous bank, with the resource capacity to compete effectively and efficiently with the foreign and regional banks operating in the ECCU financial space. A committee comprising representatives of the various indigenous banks has therefore been established to define the road map for the amalgamation, and it is our hope that Shareholders will find favor with and support this initiative.

The change of the financial landscape over the past years has been driven primarily by technology, competition, regulation, globalization, earnings volatility and increased capital requirement standards imposed by the industrial nations. Faced with the inevitable consequences of the changes, we can no longer apply the once successful responses of the past, but must hasten to find new responses to the new challenges, if we are to survive and prosper in the new banking environment.

OUR STAKEHOLDERS

The financial year under review was indeed a successful one, as evidenced by the performance measures. This achievement could not have been possible without the support of all the stakeholders. And so, it is with great pleasure, pride and humility that I salute the loyal customers for their continued patronage over the years; my fellow Directors for their insight, vision, experience and sagacity; the Management and staff for their dedication, hard-work and commitment, and the Shareholders for their continued confidence, trust and investment.

Happy 2014.

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Rawlinson A. Isaac
Chairman

CORPORATE GOVERNANCE

INTRODUCTION

The Bank of Nevis Limited (the "Bank") which was established under the Companies Ordinance, Chapter 7.06 of the laws of St. Christopher and Nevis, is a licensed deposit taking institution under the Banking Act, Chapter 21.01 of the laws of St. Christopher and Nevis, and therefore regulated by the Eastern Caribbean Central Bank (ECCB). As a public company whose shares are traded on the regional securities market, the Bank is also accountable to the Eastern Caribbean Securities Regulatory Commission. In addition to ensuring adherence to policies and guidelines established by these Regulators, the Bank's Board of Directors (the "Board") also recognises the need to adhere to best practices in corporate governance. The Board is cognisant that sound corporate governance policies and practices are important to the creation of shareholder value and maintaining the confidence of depositors and investors alike. As such, the Bank's corporate governance policies are designed to ensure the independence of the Board and its ability to effectively supervise management's operation of the Bank.

THE BOARD OF DIRECTORS

The Board comprises 8 elected directors, 6 non-independent directors and 2 independent directors, who govern the affairs of the Bank. The Board continuously monitors, and updates as necessary, the Bank's internal systems in order to ensure its standards reflect best international practices while tailored to the specific needs of the Bank. At all times the Board seeks to exercise leadership, enterprise, integrity and good judgment in directing the Bank to achieve continuing prosperity for its stakeholders.

The Board provides leadership to the Bank within a framework of prudent and effective controls that enables risk to be assessed and managed. It sets the Bank's strategic aims, ensuring that the necessary financial and human resources are in place for it to meet its objectives and review management performance. The Bank's values and standards are set to ensure that obligations to its shareholders and other stakeholders are met.

THE ROLE OF THE BOARD

Pursuant to the mandate to ensure that the interests of the various stakeholders are considered, the Board meets on a monthly basis. Directors are expected to attend Board meetings, meetings of committees on which they serve, and annual meetings of the shareholders. Information and data that are important to the Board's understanding of the business to be conducted at a Board or committee meeting are usually distributed to the Directors in advance of each meeting in order to allow time to review these materials. In addition to its monthly scheduled meetings, the Board meets at such other times as the situation warrants. Before the commencement of every meeting, members disclose their conflicts of interests in any matter on the agenda.

The Board is responsible for:

- Overseeing the Bank, including its control and accountability systems;
- Appointing and removing members of senior management;
- Approving policy;
- Contributing to and final approval of management's development of corporate strategy and performance objectives;
- Reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- Monitoring senior management's performance and ensuring appropriate resources are available, for implementation of corporate strategy;
- Approving and monitoring the progress of major

CORPORATE GOVERNANCE...cont'd

capital expenditure, capital management and acquisitions and divestitures;
- Approving and monitoring financial and other reporting; and
- Approving credit facilities in excess of a defined amount.

The Board delegates the daily management of the Bank to the General Manager. The General Manager's responsibilities and authorities are documented and approved by the Board. Limits on credit dispensation, capital and operating expenditures are stated specifically in the General Manager's Authorities which are reviewed by the Board annually.

During the first half of the 2013 calendar year, the Board approved the Bank's 2013-2016 Strategic Plan which was formulated by the Management Team and staff.

COMMITTEES OF THE BOARD

The standing committees of the Board are the Audit Committee, Credit Committee, Customer Service and Marketing Committee, Human Resources Committee, Investment Committee and Risk Management Committee. Each Committee reports directly to the Board. Subject to their availability, each director should serve on one or more Board Committees. Committee members and chairs are appointed by the Board after consultation with the individual Directors. Committee chairs and members are reappointed annually. The Chairman of the Board is an ex officio member of all Committees.

Each Committee has its own written charter which complies with all applicable laws and regulations. The charters set forth the mission and responsibilities of the committees as well as procedures for committee member appointment, committee structure and operations and reporting to the Board. Committee charters are reviewed annually.

The Board may from time to time, establish or maintain additional committees as necessary or appropriate.

AUDIT COMMITTEE

The Audit Committee is chaired by Sonya Parry. Other members include C. Steve Wrensford, Richard Lupinacci, and L. Mignon-Wade (Independent Member).

The Audit Committee of the Board meets at least quarterly to review the Bank's system of internal control, financial reporting process, audit and inspection process, and compliance with statutory and regulatory laws. The heads of the Bank's Internal Audit Department and Compliance Department, report directly to the Audit Committee.

Achievements of the Audit Committee during the financial year under review include:
- Ensured the Bank's readiness for the Safety and Soundness Examination undertaken by the ECCB as at January 31st, 2013;
- Ensured the annual review and implementation of the Bank's Operational Policy Manuals to incorporate changes in the banking sector;
- Ensured the formation of a working internal FATCA Committee to prepare for and implement the requirements of FATCA;
- Ensured compliance with internal Policy Manuals and Best Banking Practices to ensure protection of depositors' funds; and
- Reviewed 2013 financial statements with the External Auditors and the Bank's senior management prior to presentation and approval thereof by the Board.

CORPORATE GOVERNANCE...cont'd

CREDIT COMMITTEE

Directors who sit on the Credit Committee include Richard Lupinacci who serves as chairman, Rawlinson Isaac, Janice Daniel-Hodge, Dr. Telbert Glasgow and C. Steve Wrensford. The Credit Committee meets monthly and at such other times as may be necessary. The Committee is responsible for overseeing the credit and lending strategies and objectives of the Bank, including oversight of the credit risk management of the Bank, reviewing internal credit policies and establishing portfolio limits; and reviewing the quality and performance of the Bank's credit portfolio.

During the year ended June 2013 the Credit Committee:

- Approved and/or recommended credit facilities within established limits;
- Based on the submission of monthly reports, monitored and made recommendations in respect of the Bank's delinquent/non-performing accounts;
- Recommended to the Board for implementation the following policies:-
  1. Revised Loan Terms and Requirements
  2. Card Services Manual; and
- Negotiated the restructuring of the public sector debts.

CUSTOMER SERVICE AND MARKETING COMMITTEE

Directors who sit on the Customer Service and Marketing Committee include Rawlinson Isaac who serves as chairman, Janice Daniel-Hodge and Sonya Parry. The Customer Service and Marketing Committee meets at least quarterly and at such other times as may be necessary. The Committee is responsible for overseeing the overall marketing policies and strategies of the Bank, subject to approval by the Board, and establishing customer service and marketing guidelines in furtherance of those policies. The Committee monitors the management of the Bank's marketing plan for compliance with the customer service and marketing policies and guidelines and for meeting performance objectives over time.

During the 2013 financial year the Customer Service and Marketing Committee:

- Approved the Bank's annual marketing plan;
- Approved the Bank's promotion of products and services;
- Selected the 2013 recipients of The Bank of Nevis Limited Dr. Simeon Daniel Scholarship Fund; and
- Reviewed and approved requests for donations/sponsorships in the areas of education, health, culture and sports.

HUMAN RESOURCES COMMITTEE

The Human Resources Committee comprises three (3) members: its chairperson Janice Daniel-Hodge, Sonya Parry and Vernel Powell. The Committee meets at least quarterly and at such other times as may be necessary.

The mandate of the Human Resources Committee is to assist the Board in fulfilling its oversight responsibilities in relation to talent management and development within the Bank, and to provide recommendations and advice to the Board in respect of the Bank's talent management strategies, initiatives, and policies. The Human Resources Committee achieved the following during the 2013 financial year:

- Approved a review of the Bank's Credit Department in order to make human resource related changes with a view to improving the efficiency of the Credit Department;
- Reviewed and recommended the Human Resources Policy Manual to the Board for approval;
- Conducted a review of the Bank's Training and Education Assistance Policy Manual and the Staff

CORPORATE GOVERNANCE...cont'd

Recognition Policy, and made recommendation to the Board for the revision thereof; and

- Reviewed and recommended to the Board for approval, requests from staff members to undergo educational studies by way of the Bank's Training and Education Assistance Programme.

INVESTMENT COMMITTEE

The Investment Committee is chaired by Dr. Telbert Glasgow, with other members being Rawlinson Isaac, Vernel Powell and Richard Lupinacci. The Investment Committee meets monthly and at such other times as may be necessary.

Throughout the year, the Investment Committee:

- Approved investments in accordance with the approved Investment Policy, upon the recommendation of the Internal Management Investment Committee;
- Reviewed portfolio performance on a monthly basis through reports provided by management;
- Monitored portfolio performance in accordance with the Investment Policy's objectives; and
- Monitored investment risk by ensuring diversification across asset classes and through the periodic review of investment strategies.

RISK MANAGEMENT COMMITTEE

Members of the Risk Management Committee include Dr. Telbert Glasgow (Chairperson), Rawlinson Isaac, Richard Lupinacci, and Vernel Powell. The Risk Management Committee meets at least quarterly and at such other times as may be necessary.

During the year ended June 2013 the Risk Management Committee undertook the following:

- Monitored the risk of impairment of the Bank's sizeable credit facilities and investments;
- Considered the risks associated with the debt restructuring proposals presented to the Bank by the Nevis Island Administration;
- Reviewed and recommended the Risk Management Manual for Board approval; and
- Reviewed and made recommendation to the Board in respect of the security survey report prepared by a security management consultant engaged by the Bank, with a view to improving the Bank's overall security.

The Bank also has a Building Committee that meets on an ad hoc basis as required. The Building Committee oversees the construction of the Bank's new premises.

DIRECTORS' REPORT

Your Directors are pleased to report on the performance of The Bank of Nevis Limited and its subsidiaries (the Bank) for the financial year ended June 30, 2013.

OPERATING ENVIRONMENT

International Economy

The prolonged sluggish global economic activity continued in 2013 with emerging market economies on average reporting higher growth rates than developed economies. The International Monetary Fund (IMF) in its updated World Economic Outlook for January 2014 estimates global growth of 3.0% in 2013 with growth of 4.7% for developing economies and 1.3% for developed countries. The global growth in 2013 represented a marginal decline from the 3.1% recorded in 2012. The reasons for the sluggish growth varied across countries but were generally associated with stabilising or falling commodity prices, less policy support and weak lending. In our primary trading partner, the United States, economic growth was 1.9% in 2013 compared to 2.8% in 2012. In the latter part of 2013, the United States economy was affected by a 16-day government shutdown and despite agreements to continue funding government in the short term, the potential for a future shutdown remains. Nonetheless, economic activity is expected to expand in the United States influenced by the Federal Reserve tapering its quantitative easing measures as well as the recovering real estate market, higher household wealth, easier banking conditions and more borrowing.

Meanwhile, the main economies of the Eurozone experienced some signs of recovery as growth contracted by 0.4% in 2013 compared to a contraction of 0.7% in 2012. However, European economies will continue to face headwinds particularly high public and private debt and financial fragmentation which will stymie domestic demand. The outlook for 2014 is positive as global growth is forecasted at 3.7% buoyed by projected growth of 5.1% in emerging market economies and 2.2% in advanced economies. The United States economy will remain the focus in 2014 and is forecasted to grow by 2.8%.

Regional Economy

The economies of the larger Caricom countries of Barbados, Trinidad and Tobago and Jamaica continued to be challenged by the legacies of the international financial crisis. According to the Republic Bank Economic Newsletter (December 2013), the Barbados economy contracted by 0.7% with declines in most of the key sectors. The tourism sector declined by 2.1%, associated with a 6.2% reduction in stay-over arrivals. The agriculture and construction sectors recorded contractions of 2.5% and 13.3% respectively, while the manufacturing sector reported a marginal growth of 1.2%. The Barbados government's fiscal position continued to worsen as its foreign reserves declined from BDS$1,457 million in December 2012 to BDS$1,010.5 million during the first nine months of 2013. Meanwhile, the credit rating agency, Standard and Poor's, lowered Barbados' rating in November to BB-/B with a negative outlook.

The Trinidad and Tobago economy recorded modest growth of 1.6% in 2013 which was lower than the 2.5% forecasted by the Central Bank of Trinidad and Tobago. Low interest rates and government spending fuelled the growth which was associated primarily with the non-energy sector. In the energy sector, oil production contracted by 1.3% while natural gas only recorded a marginal increase over the 2012 figures. The Central Bank held the "Repo" rate at 2.75% and the Mortgage Market Reference Rate fell to 2.25% during the period facilitating an increase in mortgage lending by 9.3%. The government recorded a fiscal deficit of 4.6% of Gross Domestic Product (GDP) but the inflation rate contracted to 5.0% and the unemployment rate remained steady at 5.0%. The Latin

DIRECTORS' REPORT...cont'd

America Monitor (vol 31 issue 2) reported that Jamaica recorded real GDP growth of 0.8% in 2013 compared with a contraction of 0.3% in 2012. However, the country continued to make progress with its structural reforms to facilitate increased economic activity. The IMF has indicated that it is satisfied with Jamaica's progress as all of the quantitative benchmarks have been achieved. As government attempts to restore fiscal sustainability, the authorities have announced that the capital budget would be reduced by US$359 million and projected that expenditure will be capped at 3.0% of GDP.

The countries of the Eastern Caribbean Currency Union (ECCU) continue to be challenged by sluggish economic activity. The Eastern Caribbean Central Bank's June 2013 Economic and Financial Review indicated that preliminary data suggests that the ECCU recorded a modest growth during the first six months of the year as the sectors of construction, hotels and restaurant, agriculture, livestock and forestry all recorded increased output. The report noted that all the ECCU countries recorded improved economic activity except Anguilla which recorded a contraction in the first half of 2013. However, tourism activity contracted as total visitor arrivals declined by 6.9% compared to a 4.0% decline in the same period in 2012. The reduction in total visitor arrivals was associated with reduced cruise ship passenger arrivals. The fiscal position of the ECCU governments improved during the first six months of 2013 as the combined overall deficit declined by EC$56.7 million to EC$131.0 million and the primary surplus balance increased by EC$26.6 million to EC$80.0 million. The report noted that the forecast for the second half of 2013 was expected to remain subdued.

Local Economy

The Eastern Caribbean Central Bank reported in its June 2013 Economic and Financial Review that economic activity in St Kitts and Nevis increased during the first half of the year and was expected to continue improving premised on a rebound in the construction sector and value added in the tourism sector which could positively impact the real estate sector. However, this increase was expected to be tempered by a decline in the manufacturing industry. The growth in the construction sector was associated with increased government spending and an expansion in private sector construction activity. Capital outlay in the public sector increased by 11.9% in the first half of the year and was associated with improvement works on the country's roads and drains as well as the water project in Nevis. In the private sector, work continued on the commercial park at Golden Rock, Kittitian Hill and Tamarind Cove Marina Development. The sector also benefited from the financial support of the St. Kitts and Nevis Sugar Industry Diversification Fund (SIDF) through the Foundation for the Realization of Economic Empowerment through Subsidized Housing (FREESH). The improvement in the sector was evidenced by a 22.1% increase in the importation of construction materials.

Activity in the tourism sector improved as stay over arrivals increased by 5.6% in the first half of 2013 buoyed by a 4.3% increase in arrivals from the United States; this compared favorably with the 5.4% in stay over arrivals in the same period in 2012. The increase in stay over arrivals in 2013 was associated with increased airlift into the Federation. However, the overall increase in stay over arrivals was partly tempered by a 9.2% decline in cruise ship passengers. Meanwhile, the fiscal position of the Federal Government resulted in an overall surplus of EC$157.3 million in the first half of the year and was primarily influenced by growth in current account revenue flows and a decline in expenditure. Current revenue grew by 41.3% as non-tax revenue doubled to EC$183.0 million in the first half of the year on account of success in revenue flows from the Citizenship by Investment Programme (CBI). Public sector debt also continued to decline as the debt fell by 3.2% in the first half of the year

DIRECTORS' REPORT...cont'd

compared to a 6.0% decline in the same period in 2012. Liquidity in the commercial banking system continued to expand with an increase in the ratio of liquid assets to total deposits by 5.8 percentage points to 76.4% while the loans to deposit ratio improved by 6.2 percentage points to 59.8%. However, lending continued to decline with only personal credit increasing.

FINANCIAL PERFORMANCE

As the Bank continued to be confronted by new challenges associated with the legacies of the financial crisis, your Directors focused on prudent banking practices, risk mitigation strategies and strengthening the institution's corporate governance culture. Concomitantly, efforts were concentrated on talent management and development, service excellence and customer care and effective product and services promotion. Accordingly, during the 2013 financial year, the Bank returned an outstanding performance of $6.6 million after tax.

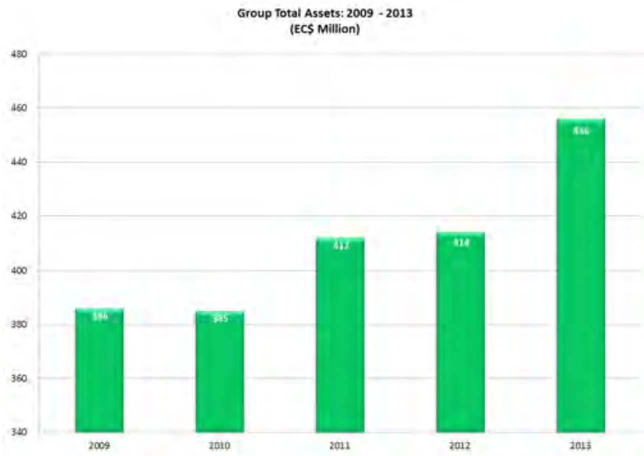
In order to ensure compliance with International Financial Reporting Standards (IFRS), the Bank previously recognized interest on non-performing loans and advances to the extent that the present value of estimated future cash flows exceeded the carrying amounts of the loans. The interest income was recognized in the income statement but was held in a non-distributable reserve account. However, this practice conflicted with the Eastern Caribbean Central Bank's guidelines. Accordingly, on 1 July 2012, the Bank decided to discontinue the practice of recognizing interest income on non-performing loans and advances. This decision was not only to ensure that the Bank was compliant with the ECCB's guidelines but to adopt a more conservative approach. This change in the accounting policy was accounted for retrospectively and therefore the comparative information has been restated as reflected in the financial statements. This has also resulted in the Auditors discontinuing the emphasis of matter paragraph included in their opinion over the last two years.

Additionally, it should be noted that the Bank previously paid corporate income taxes on the interest recognized on non-performing loans in previous years. The change in the accounting policy and the concomitant re-statement of the financial statements has therefore resulted in a "temporary" difference related to the taxes already paid on the derecognized income. The Bank has recorded a deferred tax asset to reflect this difference and is awaiting a response from the tax authorities regarding a potential recovery of the taxes already paid.

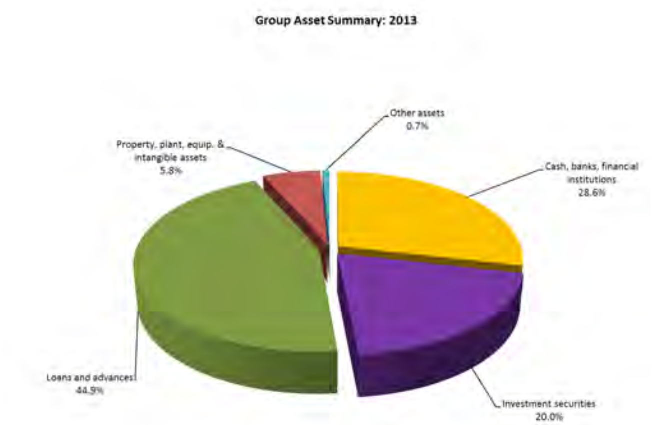
Assets

During the period under review, the Bank's total asset base continued on its strategic growth path increasing by EC$41.4 million (10.0%) to EC$455.8 million and was primarily associated with an increase in cash and bank balances from banks and other financial institutions of $35.4 million (37.4%), loans and advances of EC$4.1 million (2.0%) and property, plant and equipment of EC$3.6 million (16%) partially moderated by a EC$2.2 million (2.4%) decline in investments. The significant increase in property, plant and equipment was associated with the Bank's ongoing construction project. The growth in the total asset base was significantly above the EC$2.8 million (0.7%) recorded in 2012. The significant increase in the asset base reflects the economic environment in which the institution operates as it garnered significant deposits associated with the Citizenship by Investment Programme, which were mainly placed with other regional and international banks.

DIRECTORS' REPORT...cont'd

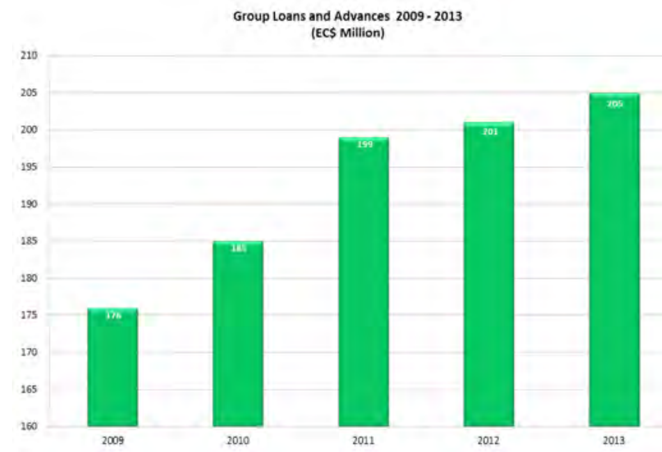


The Bank's asset allocation strategy was maintained in 2013 with a strategic focus on growing loans, the primary source of income. Accordingly, the Bank's loans and advances portfolio represented the largest asset component in the amount of EC$204.6 million (44.9%) while EC$130.1 million (28.6%) and EC$90.9 million (20.0%) were employed in bank deposits and investment securities respectively. The graph below outlines the allocation of the asset base.



Loans and Advances

As the credit market conditions remained depressed, loans and advances, net of provisions for credit losses, grew moderately by EC$4.1 million (2.0%) to EC$204.6 million. However, this increase compared favourably with the increase of EC$1.1 million (0.6%) recorded during the 2012 financial year.



During the year, there were two significant events that impacted the loans portfolio. First, the Bank completed its negotiations with the Federal Government, Nevis Island Administration (NIA) and the debt advisors (White Oak Advisory LLP), in relation to the debt restructuring programme. This resulted in the NIA's debt with the Bank being extended to 35 years and the interest rates being reduced from an average of 8.2% per annum to 3.5% per annum. Second, the Bank changed its accounting policy to derecognize income earned on non-performing loans to ensure full compliance with the ECCB's guidelines and to adopt a more conservative approach. Collectively, these two events impacted the Bank's loan portfolio earnings and the results for 2013.

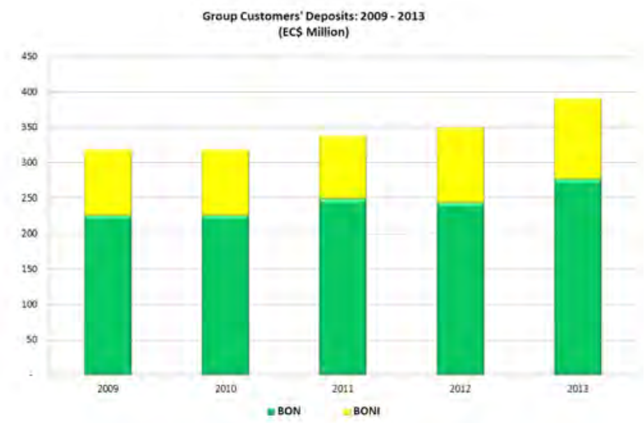
Customers' Deposits

Customers' deposits expanded significantly by EC$41.5 million (11.9%) to EC$391.4 million and reflected a substantial improvement over the growth of EC$12.0 million (3.5%) in 2012. This growth in customers' deposits was primarily associated with deposits from the CBI Programme and reflected across the three categories of deposits. Time deposits increased by EC$18.9 million (12.4%) to EC$170.4 million while savings deposits and current accounts grew by EC$11.4 million (8.9%) to EC$139.3 million and EC$11.1 million or 16.5% to EC$78.1 million re-

DIRECTORS' REPORT...cont'd

spectively. Time deposits represented 43.9% of total customers' deposits while savings and current accounts amounted to 35.9% and 20.2% of overall deposits respectively.

At the end of the review period, the Domestic Bank deposits totaled EC$279.3 million (71.4%) while EC$112.1 million (28.6%) of the Group's deposits were held in the Offshore Bank. The chart below reflects the breakdown of the overall deposits.



Profitability

Notwithstanding the economic headwinds and new challenges emanating from the continuing global financial crisis, the Bank recorded an after tax profit of EC$6.6 million (EC$6.8 million pre-tax), an increase of EC$6.0 million, compared to a net profit after tax of EC$0.6 million in 2012. This is an outstanding performance considering the Bank's change in accounting policy to derecognize interest earned on non-performing loans which was previously included in the income statement, although not distributable. This improvement in profitability was associated with increased income from loans and advances and other operating income. Of note is that the Offshore Bank's earnings in the prior year was impacted by the loss on derecognition of its investment in the Federation of St. Christopher (St. Kitts) and Nevis Government Bond and the domestic Bank wrote down EC$0.9 million of its investment in the ECIC Holdings Limited.

Additionally, the Bank continued its efforts to reduce cost which resulted in a decline in General and Administration Expenses primarily in salaries and wages and other staff cost.

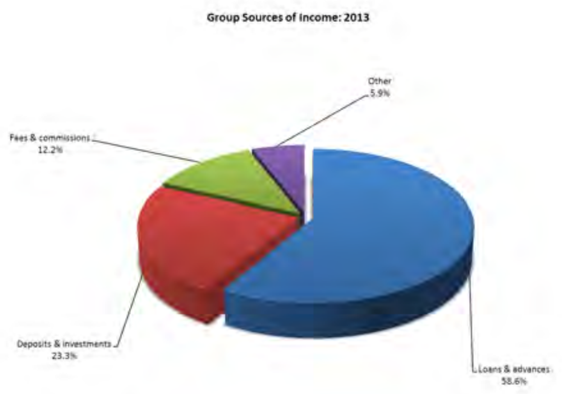
Profits in 2013 were driven by the Offshore Bank which contributed significantly to the overall earnings position of the Bank with EC$6.0 million in pretax profit before Inter-Company Earnings.

Contribution to Profit

Contribution to Pre-tax Income Before Inter-Company Earnings (EC$ Millions)

	Restated 2009 EC$M	Restated 2010 EC$M	Restated 2011 EC$M	Restated 2012 EC$M	2013 EC$M
Domestic Bank	2.17	1.37	2.21	2.28	0.83
Offshore Bank	(7.20)	2.35	3.90	(0.75)	6.00

The Bank's income structure remained the same with loans and advances continuing to represent the Bank's main source of income. Loans and advances provided 58.6% of gross earnings while deposits and investments contributed 23.3%; fees and commission represented 12.2% and other 5.9% respectively.



At review date, 30 June 2013, operating income amounted to EC$18.8 million, an increase of EC$5.6 million (42.7%) over the EC$13.2 million recorded in 2012. Net interest income of EC$12.4 million increased by EC$0.9 million (7.7%) and was 66.0% of operating income compared to EC$11.5 million or 87.5% in 2012. Non-interest income of EC$6.4 million for the review period was 34.0% of operating income

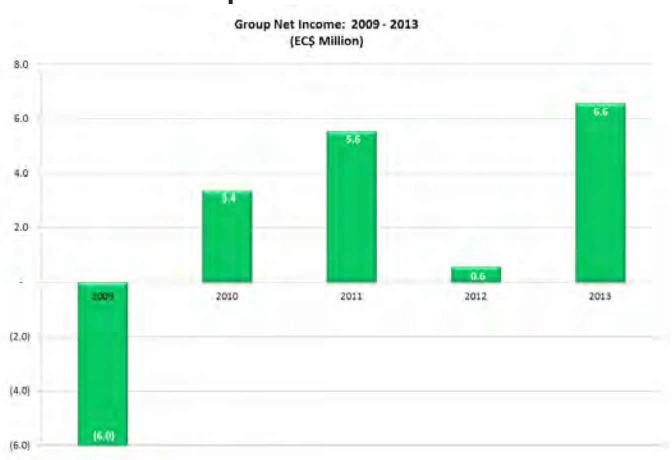
DIRECTORS' REPORT...cont'd

compared with EC$1.7 million or 12.5% in 2012.

During the 2013 financial year, the Bank's operating expenses of EC$12.0 million expanded marginally by EC$0.4 million (3.2%) and was associated with an increase in impairment provisions on loan and advances of EC$1.2 million compared with EC$67 thousand in 2012. However, this increase was partially offset by a decrease of EC$0.7 million (7.2%) in General and Administrative Expenses.

Return on average assets was 1.51% in 2013 compared to 0.14% in 2012 and return on average equity 12.05%, compared to 1.16% in the prior year. The graph below depicts the Bank's consolidated net income position over the last 5 years.

Group Net Income or Loss



Capital

The Bank's policy is to diversify the sources of capital and to manage the capital levels based on the underlying risk of its business. Capital adequacy is monitored to ensure compliance with the ECCB's risk based capital guidelines which require a minimum ratio of core capital (Tier I) to risk weighted assets of 4% and a minimum total regulatory qualifying capital (Tier II) ratio of 8%. Tier I capital comprises of share capital, statutory reserves and retained earnings. At 30 June 2013, the Bank was in compliance with the capital adequacy requirements. The Bank's total shareholders' equity comprising of share capital, statutory reserves, revaluation reserves, retained earnings and other reserves was EC$58.7 million, an increase of EC$8.3 million (16.5%), compared with EC$50.4 million in 2012. The increase in shareholders' equity was mainly associated with increases in retained earnings of EC$4.8 million (26.5%) and revaluation reserves of EC$2.7 million (26.6%) associated with the revaluation of the Bank's property arising from the construction of the new premises. The Bank remains committed to enhancing capital for the future growth and development of the institution.

TALENT MANAGEMENT

The management of our people is to ensure efficiency, productivity and the creation of value which is imperative to the success of our organization. The Bank is committed to implementing strategic talent management processes, practices and programmes to ensure a high performance talent pool exists with the capability to guide the institution in its strategic direction. A part of the Bank's talent management framework is the development of staff competencies and during the 2013 financial year, staff participated in training including the following areas:

- Customer Service
- Credit Management
- Business Writing Skills
- Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT).
- Credit/Debit Card Fraud Management
- Health Issues (HIV Aids in the Work Place/Labour Standards)
- Engagement and Leadership
- Customer Care

The Bank continues to place emphasis on the development of staff involved in the Succession Planning Programme as well as general training in banking skills. The Bank supports several staff members pur-

DIRECTORS' REPORT...cont'd

suing graduate, undergraduate and diploma studies in banking and finance and accounting certification.

The Directors express congratulations to Mrs Paula Wallace who celebrated twenty five years during the 2013 financial year. Her dedication and commitment to both the domestic and offshore banks have been outstanding.

OPERATIONS AND TECHNOLOGY CHANGES

The availability and efficient use of technology is critical to the achievement of the Bank's strategic goals and objectives. Accordingly, during the 2013 financial year, the Bank continued the implementation and enhancement of the technology associated with the Automated Clearing Housing and the back office capability of the institutions operations. Additionally, the Bank has been undertaking changes to its core banking system to ensure compliance with the Foreign Account Tax Compliance Act (FATCA) which requires foreign financial institutions to report information on accounts held by American citizens to the United States Internal Revenue Service (IRS).

CORPORATE SOCIAL RESPONSIBILITY

The Bank of Nevis Limited remains committed to its role as a responsible corporate entity. Accordingly, we continue the fervent pursuit of philanthropic endeavours to make a difference in our communities and build a better St Kitts and Nevis. During the review period, the Bank was involved in several initiatives in Education, Sports, Health, Culture and other social areas.

Education

The Bank sponsored the Tourism Youth Congress for the second consecutive year. The 2013 Congress was held at the Nevis Red Cross Society Building as part of the Tourism Week 2013. Five students from the island's three secondary schools participated in The Bank of Nevis Limited sponsored Congress which was won by Miss Neila Jones of the Gingerland Secondary School. We are proud to report that the winner of the Congress also won the Caribbean Tourism Youth Congress.

Tourism Youth Congress 2013

As part of its mandate to "Improve the Quality of Life" for the people of St Kitts and Nevis, the Bank continued to provide educational assistance through The Bank of Nevis Limited Dr. Simeon Daniel Scholarships. Two students, Miss Kervincia Webbe of the Gingerland Secondary School and Mr. Marcus Wilkinson of the Charlestown Secondary School were awarded the scholarships for 2012. Mr Adrian Daniel, son of the late Dr Daniel, provided the awards to the students.

Additionally, the Bank continues to reward students for excellence in education through its Academic Excellence Awards to the top students in CAPE and CSEC examinations. The Bank also donated several prizes to other students who excelled in academics at both the primary and secondary level.

DIRECTORS' REPORT...cont'd

Scholarhsip Recipients (2012) With Bank Personnel And Adrian Daniel

The Bank joined in the efforts to promote literacy in the families and by extension, the communities in Nevis with the donation of a brand new, top of the line DELL Computer to the Nevis Library Service on Wednesday September 12, 2012. This computer system is being used as resource for the Library Service's outreach literacy programme.

Computer Handing Over To Nevis Library Service

As part of its continued commitment to assist the youth, the Bank provided assistance to the Nevis 6th Form College with the presentation of a sponsorship cheque which covered the airfare of two of the debaters who represented Nevis in the 41st Leewards Islands Debating Competition (LIDC) held in Antigua from February 21st – 24th, 2013.

Marketing Officer With Debaters

Starting in 2002, the month of October was celebrated as Financial Literacy Month in the Eastern Caribbean Currency Union (ECCU). In 2009, the name was changed to Financial Information Month and this event forms part of the ECCU education programme which is coordinated by the Eastern Caribbean Central Bank (ECCB) as a component of its outreach programme. The objective of the exercise is to enhance the acumen of the citizens of the ECCU on basic personal financial management and consumer skills. During the financial year, the Bank continued to provide active support to the Financial Information Month events partnering with the ECCB and other financial institutions in St. Kitts and Nevis to host Financial Information Month in October. Financial Information Month 2012 was celebrated under the theme: Challenge Yourself: Innovate - Compete - Succeed! and included talks to secondary schools students on money management, the donation of a charity basket to someone who is less fortunate in the community and a financial fitness walkathon.

Sports

The Bank continues to sponsor various sporting organizations and events. During the year, the Bank provided support to all the schools by sponsoring races during their annual track and field sports event. Additionally, the Bank formed a partnership with Nevisian and West Indies opening batsman Kieran Powell to promote its Gold Card. This partnership has raised

DIRECTORS' REPORT...cont'd

the profile of the Bank and we anticipate future collaboration with this young and inspiring sportsman.

Health

On July 20, 2012, the Bank presented cancer survivor, Ms. Vanessa Taveras, with a generous donation to assist her with purchasing a prosthetic leg. Additionally, the Bank continues to provide support to the Nevis Renal Society and local cancer organizations as well as to persons travelling overseas for medical treatment.

Vanessa Taveras

Culture

The Bank of Nevis Limited continued to support the island's premiere cultural festival, Culturama, by sponsoring the representatives from the Charlestown Primary School (CPS) in the 2012 Mr. & Miss Talented Youth Pageant. The two participants, Mr. Zaykeese Smith and Miss Mickelsea Scarborough emerged victorious.

The Bank Of Nevis CPS Students

Social Recognition

The Bank of Nevis Limited was presented with an award for Excellence in Financial Services from the Nevisian Association of Washington DC (NEV-DC) for outstanding contribution to the Banking and Finance sector in Nevis. The award was presented at the NEV-DC's 8th Annual Awards and Banquet held at the Bethesda Marriott Hotel and Conference Center in Maryland, USA on Saturday September 22, 2012. General Manager of the Bank, Mr. L. Everette Martin accepted the award on behalf of the Bank. The Featured Speaker at the event was the Bank's Chairman Mr. Rawlinson Isaac.

The Excellence in Financial Services Award reads:

> *The Nevisian Association of Washington DC (NEV-DC) honours The Bank of Nevis Limited. For over a quarter century through disciplined leadership, committed service, you have significantly contributed to the physical and human development of Nevis and Her people. You have indeed improved the quality of life. We Salute You!*

DIRECTORS' REPORT...cont'd

NEVDC Honours BON

CHANGES IN DIRECTORSHIP

During the 2013 financial year, Mr David Straz Jr. retired from the Bank's Board of Directors. Mr. Straz is one of the Bank's major shareholders and has played a pivotal role in the advancement of the institution over the years. We thank him for his wise counsel and guidance over the years and look forward to his continued support.

CONSTRUCTION OF NEW PREMISES

The second phase of the Bank's construction and refurbishment project is now nearing completion and is scheduled to be completed by March 2014. This project has been extensive as we seek to ensure that we provide first class premises to serve our customers as well as a professional and comfortable environment for our staff. We have ensured that the premises are consistent with the historical architecture of Charlestown while at the same time presenting a modern image. We look forward to inviting you to the official opening ceremony of these new premises upon completion.

BANK OF NEVIS INTERNATIONAL LIMITED

Bank of Nevis International Limited (BONI) celebrated 15 years of operation on 1 July 2013 and remains the only Offshore Bank in the Federation of St Kitts and Nevis. Over the last five years, the institution has remain a pillar of strength and was the main contributor to the Group's profitability except for 2009 and 2012 when it was necessary to write down some of its investments. As a subsidiary of the Bank, BONI remains a critical component of the Group's strategic framework by providing a range of financial services to financial intermediaries and their clients, focused on wealth management and protection. With the development of a new strategic plan, BONI is now better positioned to service its existing clients and to grow its business base. The main components of the plan comprise:

1. Revising Core Values; Unique Sales Proposition; and Corporate Credo;
2. Redefining BONI's brand identity, including a separate web site;
3. Re-enforcing service level commitments to clients and intermediaries;
4. Meeting the product driven needs of clients and intermediaries;
5. Introducing the Approved Intermediary Programme;
6. Providing Custody Services; and
7. Establishing a Trust Company.

DIRECTORS' REPORT...cont'd

It is common practice for international High Net Worth Individuals to protect their assets and/or to ensure estate succession planning in a controlled manner. This planning is often achieved by using an offshore trust or foundation structure, available through a variety of International Financial Centres such as Nevis. Nevis trust and foundation legislation has an excellent international reputation and, as a consequence, the number of structures being settled in Nevis has been increasing steadily.

At present, BONI only provides banking services but our diversification into the trust business should result in:

1. increased banking business;
2. new fee income streams from services such as trust administration, corporate management and investment management; and
3. enhanced profitability contribution to the BON Group.

To direct the strategic focus of BONI, Mr. David Barron was appointed as Senior Manager -International effective July 1, 2013. Mr. Barron, who is a British citizen, brings to the position 30 years of experience in international banking, including 17 years in wealth management having managed operational offices in the United Kingdom, the United States of America, The Bahamas, and Barbados. He is a Fellow of the Chartered Institute of Bankers in Scotland (FCIBS) and a member of the Society of Trust and Estate Practitioners (STEP) and the Institute of Export (MIEx). We welcome him and look forward to his sterling contribution over the next few years.

In May 2013, BONI sponsored a successful "Nevis Night" for the STEP Caribbean Conference which was held at the St Kitts Marriott Hotel and hosted by the Nevis STEP Chapter. The sponsorship of the STEP conference was a significant investment for BONI and assisted in enhancing the image and profile of the institution.

NEVIS NIGHT – STEP CARIBBEAN CONFERENCE

Your directors are confident that despite the new challenges facing the international financial industry, BONI will remain a stable and profitable entity.

CONCLUSION

We expect that the economic conditions in our operating environment will continue to create new challenges for the institution. However, your Directors remain confident that with prudent banking practices, innovation and creative ideas we can continue to ensure the sustainability of the Bank. The financial performance of the institution is a demonstration of the hard work, commitment and dedication of the management and staff and we thank you all for your unwavering service to the institution. We express appreciation to our Board of Directors for their continuing sound judgment and foresight. Finally, we thank each and every customer and shareholder for your continuing loyalty and confidence in The Bank of Nevis Limited.

BY ORDER OF THE BOARD

AKnights.

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AIANDRA E. KNIGHTS (MS.)
Secretary

THE BANK OF NEVIS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2013

Expressed in Eastern Caribbean Dollars

THE BANK OF NEVIS LIMITED
Consolidated Financial Statements
As at June 30, 2013

(Expressed in Eastern Caribbean dollars)

CONTENTS

Independent auditors' report

To the Shareholders of The Bank of Nevis Limited

We have audited the accompanying consolidated financial statements of The Bank of Nevis Limited which comprise the consolidated statement of financial position as at June 30, 2013, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Independent auditors' report

To the Shareholders of The Bank of Nevis Limited

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Bank of Nevis Limited as of June 30, 2013 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

PKF

The Goddard Building
Haggatt Hall
St Michael
Barbados

Independence House
North Independence Square
Basseterre
St Kitts

December 6, 2013

THE BANK OF NEVIS LIMITED
Consolidated Statement of Financial Position
As at June 30, 2013
(Expressed in Eastern Caribbean dollars)

	2013 $	2012 $ (Restated)	2011 $ (Restated)
Assets			
Cash and balances due from banks and other financial institutions (note 7)	**130,131,896**	94,728,243	97,978,872
Investment securities (note 8)	**90,925,449**	93,115,835	89,728,996
Loans and advances (note 9)	**204,595,473**	200,501,188	199,372,964
Other assets (note10)	**1,682,570**	2,272,165	1,967,771
Property, plant and equipment (note 11)	**26,086,586**	22,495,650	20,935,426
Intangible assets (note 12)	**612,476**	316,046	335,889
Income tax receivable (note 16)	**830,554**	-	-
Deferred tax asset (note 16)	**888,741**	958,017	1,231,095
Total assets	**455,753,745**	414,387,144	411,551,013
Liabilities			
Customers' deposits (note 13)	**391,385,996**	349,885,682	337,920,269
Debt security (note 14)	**-**	7,344,573	14,611,287
Other liabilities and accrued expenses (note 15)	**5,701,384**	6,592,636	7,022,770
Provision for income tax (note 16)	**-**	181,946	869,066
Total liabilities	**397,087,380**	364,004,837	360,423,392
Shareholders' Equity			
Share capital (note 17)	**9,347,687**	9,347,687	9,347,687
Statutory reserves (note 18)	**10,488,590**	10,207,846	9,737,462
Revaluation reserves (note 19)	**12,995,969**	10,346,417	10,746,510
Other reserves (note 20)	**2,794,581**	2,264,817	2,950,934
Retained earnings	**23,039,538**	18,215,540	18,345,028
Total shareholders' equity	**58,666,365**	50,382,307	51,127,621
Total liabilities and shareholders' equity	**455,753,745**	414,387,144	411,551,013

Approved by the Board of Directors on November 27, 2013

_______________ Chairman _______________ Director

The notes on pages 40 to 99 are an integral part of these consolidated financial statements

THE BANK OF NEVIS LIMITED
Consolidated Statement of Income
As at June 30, 2013

(Expressed in Eastern Caribbean dollars)

	2013 $	2012 $ (Restated)
Interest income (note 21)	**24,863,791**	23,835,614
Interest expense (note 22)	**(12,467,312)**	(12,323,114)
Net interest income	**12,396,479**	11,512,500
Realised gains / (losses) from investment securities (note 8)	**303,570**	(3,469,447)
Impairment provision on investment securities (note 8)	**(426,100)**	(851,733)
Other operating income (note 23)	**6,520,250**	5,972,586
Operating income	**18,794,199**	13,163,906
Operating expenses		
General and administrative expenses (note 29)	**9,014,103**	9,709,860
Provision for loan impairment, net of recoveries (note 9)	**1,163,464**	66,881
Directors' fees and expenses	**495,555**	437,673
Audit fees	**432,701**	432,601
Depreciation (note 11)	**355,714**	556,310
Amortisation (note 12)	**223,277**	184,749
Correspondent bank charges	**317,445**	247,655
	12,002,259	11,635,729
Operating profit for the year before taxation	**6,791,940**	1,528,177
Taxation (note 16)		
Current tax expense	**110,155**	686,298
Prior year tax expense	**-**	22,452
Deferred tax expense	**112,509**	229,878
Income tax expense	**222,664**	938,628
Net profit for the year	**6,569,276**	589,549
Earnings per share (note 25)	**0.70**	0.06

The notes on pages 40 to 99 are an integral part of these consolidated financial statements

THE BANK OF NEVIS LIMITED
Consolidated Statement of Comprehensive Income
For the year ended June 30, 2013
(Expressed in Eastern Caribbean dollars)

	2013 $	2012 $ (Restated)
Net profit for the year	**6,569,276**	589,549
Other comprehensive income / (loss) for the year:		
Appreciation / (depreciation) in market value of investment securities, net of tax (note 19)	**191,860**	(400,093)
Revaluation of property	**2,457,692**	-
Total other comprehensive income / (loss) for the year	**2,649,552**	(400,093)
Total comprehensive income for the year	**9,218,828**	189,456

The notes on pages 40 to 99 are an integral part of these consolidated financial statements

THE BANK OF NEVIS LIMITED
Consolidated Statement of Changes in Equity
For the year ended June 30, 2013
(Expressed in Eastern Caribbean dollars)

	Share capital $	Statutory reserves $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance June 30, 2011 as previously reported	**9,347,687**	**9,737,462**	**10,746,510**	**7,322,069**	**17,240,566**	**54,394,294**
Effect of change in accounting policy (note 31)	-	-	-	(4,371,135)	1,104,462	(3,266,673)
Balance June 30, 2011 as restated	**9,347,687**	**9,737,462**	**10,746,510**	**2,950,934**	**18,345,028**	**51,127,621**
Total comprehensive income for the year as restated	-	-	(400,093)	-	589,549	189,456
Transfers to reserves (notes 18 and 20)	-	470,384	-	(686,117)	215,733	-
Dividends	-	-	-	-	(934,770)	(934,770)
Balance at June 30, 2012 as restated	**9,347,687**	**10,207,846**	**10,346,417**	**2,264,817**	**18,215,540**	**50,382,307**
Total comprehensive income for the year	-	-	2,649,552	-	6,569,276	9,218,828
Transfers to reserves (notes 18 and 20)	-	280,744	-	529,764	(810,508)	-
Dividends	-	-	-	-	(934,770)	(934,770)
Balance at June 30, 2013	**9,347,687**	**10,488,590**	**12,995,969**	**2,794,581**	**23,039,538**	**58,666,365**

The notes on pages 40 to 99 are an integral part of these consolidated financial statements

THE BANK OF NEVIS LIMITED
Consolidated Statement of Cash Flows
For the year ended June 30, 2013

(Expressed in Eastern Caribbean dollars)

	2013 $	2012 $ (Restated)
Cash flows from operating activities		
Operating profit for the year before taxation	**6,791,940**	1,528,177
Items not affecting cash:		
Provision for loan impairment	**1,163,464**	66,881
Depreciation	**355,714**	556,310
Amortisation	**223,277**	184,749
Realised (gains) / losses from investment securities	**(303,570)**	3,469,447
Impairment provision on investment securities	**426,100**	851,733
Net (gain) / loss on disposal of plant and equipment	**(26,781)**	12,908
Interest income	**(24,863,791)**	(23,835,614)
Interest expense	**12,467,312**	12,323,114
Cash flows from operating income before changes in operating assets and liabilities	**(3,766,335)**	(4,842,295)
Changes in operating assets and liabilities		
Decrease in restricted deposits	**2,019,353**	2,175,545
Decrease / (increase) in deposits held for regulatory purposes	**388,648**	(2,149,790)
Increase in loans and advances	**(5,361,301)**	(1,015,360)
Decrease / (increase) in other assets	**589,595**	(304,394)
Increase in customers' deposits	**41,340,505**	11,835,168
Decrease in other liabilities and accrued expenses	**(891,252)**	(430,134)
Net cash from operations	**34,319,213**	5,268,740
Interest paid	**(13,665,210)**	(11,908,309)
Interest received	**24,907,412**	21,969,593
Income tax paid	**(1,122,655)**	(1,395,870)
Net cash from operating activities	**44,438,760**	13,934,154
Cash flows from investing activities		
Purchase of property, plant and equipment	**(1,488,958)**	(2,132,076)
Sale of plant and equipment	**26,781**	2,635
Purchase of intangible assets	**(519,705)**	(164,906)
Decrease / (increase) in investment securities	**2,609,106**	(29,969,446)
Decrease / (increase) in fixed deposits	**498,398**	(1,002,348)
Net cash from / (used in) investing activities	**1,125,622**	(33,266,141)

The notes on pages 40 to 99 are an integral part of these consolidated financial statements

THE BANK OF NEVIS LIMITED
Consolidated Statement of Cash Flows…*Continued*
For the year ended June 30, 2013

(Expressed in Eastern Caribbean dollars)

	2013 $	2012 $ (Restated)
Cash flows from financing activities		
Repayment of debt security	**(5,986,866)**	(7,551,274)
Dividends paid	**(934,770)**	(934,770)
Net cash used in financing activities	**(6,921,636)**	(8,486,044)
Increase/(decrease) in cash and cash equivalents	**38,642,746**	(27,818,031)
Cash and cash equivalents, beginning of year	**79,625,633**	107,443,664
Cash and cash equivalents, end of year (note 28)	**118,268,379**	79,625,633

The notes on pages 40 to 99 are an integral part of these consolidated financial statements

1 Incorporation and principal activities

The Bank of Nevis Limited ("BON") is a public company incorporated on August 29, 1985 under the laws of the Federation of St. Christopher and Nevis. The Bank is subject to the provision of the Banking Act No. 4 of 2004 of St. Christopher and Nevis. The principal activity of the Bank is the provision of financial services, and its registered office is Main Street, Charlestown, Nevis.

In July 1998, BON's offshore activities and operations were transferred into a newly formed subsidiary company, Bank of Nevis International Limited which is licensed to carry on the business of Offshore Banking as contemplated by the Nevis Offshore Banking Ordinance No. 1 of 1996.

On July 29, 2004 the Bank of Nevis International Fund Limited was incorporated. The Fund is an open-ended public mutual fund approved to be registered under the Nevis International Mutual Fund Ordinance, 2004. It commenced operations on February 9, 2005. The Fund ceased operations on January 31, 2008.

On July 29, 2004, the Bank of Nevis International Fund Managers Limited was incorporated in Nevis in accordance with the Nevis Business Corporation Ordinance, 1984 as amended and is a licensed and regulated investment manager under the Nevis International Mutual Fund Ordinance, 2004. The company is the investment manager for its related Fund – Bank of Nevis International Fund Limited, and manages the investment activities of the Fund.

On February 3, 2005, the Bank of Nevis Mutual Fund Limited was incorporated. The Fund is an open-ended public investment fund approved to be registered under the Securities Act 2001 of St. Christopher and Nevis. The Fund has not yet commenced its mutual fund activities.

On April 25, 2005, the Bank of Nevis Fund Managers Limited was incorporated under the laws of the Federation of St. Christopher and Nevis, through the Companies Ordinance 1999 of St. Christopher and Nevis. The company will be engaged to provide investment management service to its related Fund, Bank of Nevis Mutual Fund Limited, when the Fund commences its mutual fund activities.

BON's shares are listed on the Eastern Caribbean Securities Exchange (ECSE).

2 Adoption and amendments of published accounting standards and interpretations

Standards, amendments and interpretations effective on or after January 1, 2012

Several new and revised accounting standards came into effect during the current period. The adoption of these new and revised accounting standards did not have a material impact on these consolidated financial statements:

- IAS 12 – Income Taxes (effective January 01, 2012)

Standards and interpretations issued but not yet effective

The following new and revised accounting standards which are relevant to the Bank have been issued, but are not yet effective. These standards when adopted are not expected to have a material impact on the financial statements.

- IAS 19 – Employee Benefits (effective January 01, 2013)
- IAS 27 – Consolidated and Non-consolidated Financial Statements (effective January 01, 2013)
- IAS 28 – Investments in Associates and Joint Ventures (effective January 01, 2013)
- IFRS 9 – Financial Instruments – Classification and Measurement (effective January 01, 2013)
- IFRS 10 – Consolidated Financial Statements (effective January 01, 2013)
- IFRS 12 – Disclosures of Interest in Other Entities (effective January 01, 2013)
- IFRS13 – Fair Value Measurement (effective January 01, 2013)

3 Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial statements of the subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date. The consolidation principles are unchanged from the previous year.

Subsidiaries
The consolidated financial statements of the Bank comprise the financial statements of the parent entity and all subsidiaries (the "Bank") as of June 30, 2013.

Subsidiaries are companies in which the Bank directly or indirectly holds the majority of the voting rights and where it determines their financial and business policies and is able to exercise control over them in order to benefit from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date on which control ceases.

Inter-company transactions, balances and intragroup gains on transactions between group companies are eliminated. Intragroup losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

The principal accounting policies applied in the preparation of these financial statements are set out below.

3.3 Foreign currency translation

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

Transactions and balances
Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the closing rates of exchange prevailing at the reporting date. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

3 Significant accounting policies (continued)

3.4 Financial Assets

The Bank classifies its financial assets into the following specified categories: 'loans and receivables' and 'available-for-sale'. Management determines the classification of its financial instruments at initial recognition.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including cash and bank balances, loans and advances, investment securities and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment.

Interest income on loans and receivables is recognised by applying the effective interest rate, and is included in the statement of income.

(b) Available-for-sale financial assets

Available-for-sale instruments are non-derivative financial assets that are 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, or that are not classified as loans and receivables.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value. Changes in the carrying amount of available-for-sale financial assets relating to changes in foreign currency rates are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of 'revaluation reserves'. Where the financial asset is disposed of or determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

Available-for-sale financial assets that do not have a quoted market price, and whose fair value cannot be reliably measured, are measured at cost less any impairment losses at the end of each reporting period.

Dividends on available-for-sale financial assets are recorded in the statement of income when the Bank's right to receive the dividends is established. Interest income on available-for-sale financial assets is calculated using the effective interest method, and recognised in the statement of income.

3.4.1 Impairment of financial assets

At the end of each reporting period, the Bank's financial assets are assessed for indicators of impairment. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- the Bank granting to the issuer or counterparty, for economic or legal reasons related to the issuer's/counterparty's financial difficulty, a concession that the Bank would not otherwise consider
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties

3 Significant accounting policies (continued)

3.4.1 Impairment of financial assets

(a) *Assets carried at amortised cost*
Loans and receivables are assessed on both individual and collective bases. Objective evidence of impairment of a portfolio of loans and receivable could include the Bank's past experience of payment within the portfolio, as well as observable changes in national or local economic conditions that correlate with defaults on loans and receivables.

If there is objective evidence that an impairment loss on as asset carried at amortised cost exists, 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 a 'provision for loan loss' account and the amount of the loss is recognised in the statement of income. If an asset carried at amortised cost has a variable interest rate, the discount 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. Statutory and other regulatory loan loss reserve requirements that exceed these amounts are recognised in other reserves as an appropriation of retained earnings.

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

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 was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

When a loan is uncollectible, it is written off against the related provision for loan losses. Such loans are written off after all of the available options have been exhausted, the necessary procedures have been completed and the amount of the loss has been determined. If in a subsequent period, amounts previously written off are recovered, the amounts collected are recognised in profit or loss through the 'bad debts recovered' account.

(b) *Assets classified as available-for-sale*
When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of "revaluation reserves".

In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(c) *Renegotiated Loans*
Loans 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 again.

3 Significant accounting policies (continued)

3.4.2 Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to receive the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially of the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Bank retains control), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under the continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3.5 Financial Liabilities

3.5.1 Other financial liabilities

Financial liabilities are classified as 'other financial liabilities', and are initially recognised at cost. Other financial liabilities (including borrowings) are subsequently recognised at amortised cost using the effective interest method.

3.5.2 Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.6 Interest income and expense

Interest income and expenses are recognised in the statement of income for all interest bearing financial assets and liabilities 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 liability on initial recognition. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

3 Significant accounting policies (continued)

3.7 Fees and commission

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans which are likely to be drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan.

Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the acquisition of shares or other securities are recognised on completion of the underlying transaction.

3.8 Dividend income

Dividend income from investment securities is recognised in the statement of income when the Bank's right to receive the payment has been established (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

3.9 Property, plant and equipment and depreciation

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

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

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Furniture, fixtures, vehicles and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The following annual depreciation rates are applied:

Buildings	2.5%
Furniture and fixtures	15%
Equipment	15%
Computer equipment	20%

3 Significant accounting policies (continued)

3.9 Property, plant and equipment and depreciation (continued)

Land is not depreciated.

All repairs and maintenance to property, plant and equipment are charged to operating expenses during the financial period in which they are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any 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 recognised in profit or loss.

3.10 Intangible assets – computer software

Acquired computer software is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful lives of the computer software, which is three to five years, using the straight line method. The estimated useful lives and method of amortisation are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Costs associated with maintaining computer software programs are charged to operating expenses during the financial period in which they are incurred.

3.11 Impairment of Property, Plant, Equipment and Intangible Assets

Property, plant, equipment and intangible assets are periodically reviewed for impairment. An impairment loss is recognised for the amount by which the carrying amount of the asset is greater than its estimated recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell, and value in use.

3.12 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.13 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition. These include cash, unrestricted balances with banks and other financial institutions, treasury bills, and other short term highlight liquid investment securities.

3.14 Share capital

3.14.1 Ordinary shares

Ordinary shares are classified in the financial statements as equity.

3 Significant accounting policies (continued)

3.14 Share capital (continued)

3.14.2 Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year which are approved after the date of the statement of financial position are disclosed in the notes to the financial statements.

3.15 Pension costs

The Bank's contributions to the defined contribution pension plan are charged to the consolidated statement of income in the period to which the contributions relate.

3.16 Income tax

a) *Current income tax*

Income tax payable is calculated on taxable profit for the year, based on the enacted tax rates within the Federation of St. Christopher and Nevis. Taxable profit differs from net profit as reported in the statement of income because of items of income or expense that are taxable or deductible in other years and items that are not taxable or deductible.

b) *Deferred income tax*

Deferred income tax is recognised 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 the enacted tax rates by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from the depreciation of plant and equipment and the revaluation of certain financial assets and liabilities.

Income tax payable on profits, based on the applicable tax law is recognised as an expense in the period in which profits arise. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

4 Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses of profits foregone, which may be caused by internal or external factors.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risks (which are discussed below) and operational risk.

4 Financial risk management

4.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

4.1.1 Credit risk management

(a) Loans and advances

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of the counterparty. They have been developed based on the Eastern Caribbean Central Bank's guidelines. Customers of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The ratings tools are kept under review and upgraded as necessary.

Bank's rating	Description of the grade
1	Pass
2	Special mention
3	Sub-standard
4	Doubtful
5	Loss

(b) Debt securities and other bills

The Bank's portfolio of debt securities and other bills consists of St Christopher and Nevis Federal Government, and Nevis Island Administration treasury bills, and other debt obligations by regional banking and non banking financial institutions, all of which are unrated. The Bank assesses the risk of default on these obligations by regularly monitoring the performance of the St. Kitts and Nevis Federal Government, and the Nevis Island Administration, through published government data, information received directly from government departments and information published by international agencies such as the International Monetary Fund (IMF) and the World Bank. The risk of default on regional corporate debt is assessed by continuous monitoring of the performance of these companies through published financial information, and other data gleaned from various sources.

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.

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.2 Risk limit control and mitigation policies (continued)

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to regular review by the Board of Directors.

The exposure to any one borrower, including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored, on an ongoing basis.

Lending limits are reviewed in light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(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 advanced, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are as follows:

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

Longer-term finance and lending to corporate entities as well as individual credit facilities are generally secured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as there are impairment indicators 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 authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralised by the underlying shipment of goods to which they relate, and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, 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 to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter term commitments.

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.3 Impairment and provisioning policies

The internal rating system described in Note 4.1.1 focuses on expected credit losses – that is, taking into account the risk of future events giving rise to losses. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the date of the consolidated statement of financial position, based on the objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the consolidated financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment provision shown in the consolidated statement of financial position at year end is derived from each of the five rating grades. However, the largest component of the impairment provision comes from the doubtful and loss grades. The table below shows the percentage of the Bank's on and off statement of financial position items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

	2013		2012	
Bank's rating	**Loans and advances (%)**	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
Pass	**82.3**	**-**	70.4	-
Special mention	**5.4**	**-**	16.8	-
Sub-standard	**10.8**	**54.1**	11.3	41.5
Doubtful	**1.4**	**44.1**	1.4	55.7
Loss	**0.1**	**1.8**	0.1	2.8
Total	**100.0**	**100.0**	100.0	100.0

4 Financial risk management (continued)

4.1 Credit risk (continued)

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

	2013 $	2012 $ (Restated)
Credit risk exposures relating to on-statement of financial position assets:		
Deposits with other banks	**83,419,372**	57,095,010
Deposits with non-bank financial institutions	**28,020,000**	17,143,798
Investment securities:		
– Treasury bills and other eligible bills	**56,047,157**	53,957,710
– Bonds and other debt instruments	**10,458,014**	11,187,760
– Available-for-sale investments quoted	**5,427,337**	-
Loans and advances	**204,595,473**	200,501,188
Other assets	**272,493**	505,475
Pledged assets:		
– Available-for-sale fixed income securities, quoted	**-**	9,813,815
– Deposits with non-bank financial institutions	**808,470**	2,827,823
	389,048,316	353,032,579
Credit exposures relating to off-statement of financial position items:		
– Loan commitments and other credit related facilities	**30,324,189**	19,807,788
Total	**419,372,505**	372,840,367

The above table represents a worst case scenario of credit exposure to the Bank at June 30, 2013 and 2012, without taking account of any collateral held or other credit enhancements attached. For on-statement of financial position assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

48.8% of the total maximum exposure is derived from loans and advances (2012: 53.8%) and 17.2% represents investment in securities (2012: 20.1%).

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 investment securities, based on the following:

- 87.7% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2012: 87.2%).
- 83.7% of the loans and advances portfolio are considered to be neither past due nor impaired (2012: 82.2%).
- 12.3% of loans and advances are considered impaired (2012: 12.6%).
- The impairment provision on the balance sheet increased during the year to $4.5 million, an increase of 32.3% over the previous year ($3.4 million).

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances

Loans and advances are summarised as follows:

	2013		2012 (Restated)	
	Loans and advances to customers $	Loans and advances to financial institutions $	Loans and advances to customers $	Loans and advances to financial institutions $
Neither past due nor impaired	170,847,353	4,079,382	164,283,486	3,167,175
Past due but not impaired	8,410,993	-	10,630,686	-
Impaired	25,735,887	-	25,803,934	-
Gross	**204,994,233**	**4,079,382**	**200,718,106**	**3,167,175**
Less: allowance for impairment	(4,467,944)	(10,198)	(3,376,176)	(7,918)
Net	**200,526,289**	**4,069,184**	**197,341,930**	**3,159,257**

The total impairment provision for loans and advances is $4,478,142 (2012: $3,384,094) of which $3,196,928 (2012: $2,067,754) represents the individually impaired loans, and the remaining amount of $1,281,214 (2012: $1,316,340) represents the portfolio provision. Further information on the impairment provision for loans and advances to banks and to customers is provided in Note 10.

(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 internal rating system adopted by the Bank.

As at June 30, 2013

	Overdraft $	Personal $	Commercial $	Public sector $	Total $
Grades:					
Pass	5,930,276	60,473,663	48,797,893	55,504,624	170,909,219
Special mention	3,945,342	190,757	-	-	4,136,099
Total	**9,875,618**	**60,664,390**	**48,797,893**	**55,504,624**	**175,045,318**

As at June 30, 2012

	Overdraft $	Personal $	Commercial $	Public sector $	Total $
Grades:					
Pass	4,129,865	50,278,033	50,197,392	43,050,242	147,655,532
Special mention	19,361,209	542,953	-	-	19,904,162
Total	**23,491,074**	**50,820,986**	**50,197,392**	**43,050,242**	**167,559,694**

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of 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 amounts of loans and advances by class to customers that were past due but not impaired were as follows:

As at June 30, 2013

	Personal $	Commercial $	Total $
Past due up to 30 days	4,853,676	941,313	5,794,989
Past due 31-60 days	32,629	528,033	560,662
Past due 61-89 days	1,451,008	604,334	2,055,342
Total	**6,337,313**	**2,073,680**	**8,410,993**

As at June 30, 2012

	Personal $	Commercial $	Total $
Past due up to 30 days	4,374,978	2,173,555	6,548,533
Past due 31-60 days	341,041	446,638	787,679
Past due 61-89 days	2,353,239	941,235	3,294,474
Total	**7,069,258**	**3,561,428**	**10,630,686**

(c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security is as follows:

As at June 30, 2013

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Individually impaired loans	1,698,188	12,885,225	11,033,891	-	25,617,304
Fair value of collateral	**1,412,456**	**38,757,002**	**38,471,581**	**-**	**78,641,039**

As at June 30, 2012 (Restated)

	Overdraft $	Personal $	Commercial $	Public Sector $	Total $
Individually impaired loans	694,030	10,086,225	11,316,443	3,598,204	25,694,902
Fair value of collateral	**453,917**	**28,620,285**	**46,911,362**	**-**	**75,985,564**

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances (continued)

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $25,617,304 (2012: $25,694,902).

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferred payments. Following restructuring, a previously overdue account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators of criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled $45,624,299 at June 30, 2013 (2012: $3,037,613). Included in the amount at June 30, 2013 is $44,449,855 attributed to restructured public sector facilities.

4.1.6 Debt securities, treasury bills and other eligible bills

The table below represents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at June 30, 2013 and 2012 based on Standard & Poor's rating or their equivalent:

	Treasury bills $	Bonds and other debt instruments $	Available-for-sale $	Total $
Aa1—Baa3	1,490,876	8,197,428	5,573,777	15,262,081
Lower than—Baa3	1,835,304	-	-	1,835,304
Unrated	52,720,977	2,260,586	18,846,501	73,828,064
As at June 30, 2013	**56,047,157**	**10,458,014**	**24,420,278**	**90,925,449**

	Treasury bills $	Bonds and other debt instruments $	Available-for-sale $	Total $
Aa1—Baa3	-	5,664,770	10,099,972	15,764,742
Unrated	53,957,710	5,522,990	17,870,393	77,351,093
As at June 30, 2012	**53,957,710**	**11,187,760**	**27,970,365**	**93,115,835**

4.1.7 Repossessed collateral

During the year ended June 30, 2013, the Bank took possession of collateral securing facilities with carrying value of $261,072 (2012: $137,965).

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.8 Concentration of risks of financial assets with credit risk exposure

(a) *Geographical sectors*

The following table breaks down the Bank's main credit exposure at their carrying amounts, (without taking into account any collateral held or other credit support) as categorised by geographical region as at June 30, 2013 and 2012. For all classes of assets, the Bank has allocated exposures to regions based on country of domicile of the counterparties.

	St. Christopher & Nevis $	Other Caribbean $	North America $	Europe $	Total $
Credit risk exposures relating to on-statement of financial position assets:					
Deposits with other banks	6,948,278	29,885,977	25,280,537	21,304,580	83,419,372
Deposits with non-bank financial institutions	211,627	21,236,148	6,572,225	-	28,020,000
Investment securities:					
– Treasury bills and other eligible bills	52,720,978	3,326,179	-	-	56,047,157
– Bonds and other debt instruments	7,085,336	3,372,678	-	-	10,458,014
– Available for sale securities-quoted	-	-	5,427,337	-	5,427,337
Loans and advances	188,485,429	5,003,515	8,136,604	2,969,925	204,595,473
Other assets	194,606	1,679	76,208	-	272,493
Pledged assets:					
– Deposits with non-bank financial institutions	808,470	-	-	-	808,470
	256,454,724	**62,826,176**	**45,492,911**	**24,274,505**	**389,048,316**
Credit exposures relating to off statement of financial position items:					
Loan commitments and other credit related facilities	29,731,050	-	593,139	-	30,324,189
As at June 30, 2013	**286,185,774**	**62,826,176**	**46,086,050**	**24,274,505**	**419,372,505**

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.8 Concentration of risks of financial assets with credit risk exposure (continued)

(a) Geographical sectors (continued)

	St. Christopher & Nevis $	Other Caribbean $	North America $	Europe $	Total $
Credit risk exposures relating to on-statement of financial position assets:					
Deposits with other banks	2,071,940	27,372,561	8,783,502	18,867,007	57,095,010
Deposits with non-bank financial institutions	158,536	16,985,262	-	-	17,143,798
Investment securities:					
– Treasury bills and other eligible bills	50,472,378	3,485,332	-	-	53,957,710
– Bonds and other debt instruments	5,726,073	5,461,687	-	-	11,187,760
Loans and advances	186,338,293	3,984,824	7,445,722	2,732,349	200,501,188
Other assets	186,827	5,179	312,509	960	505,475
Pledged assets:					
– Available-for-sale fixed income securities	-	-	9,813,815	-	9,813,815
– Deposits with non-bank financial institutions	808,470	-	2,019,353	-	2,827,823
	245,762,517	**57,294,845**	**28,374,901**	**21,600,316**	**353,032,579**
Credit exposures relating to off statement of financial position items:					
Loan commitments and other credit related facilities	18,936,156	-	871,632	-	19,807,788
As at June 30, 2012 (Restated)	**264,698,673**	**57,294,845**	**29,246,533**	**21,600,316**	**372,840,367**

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.8 Concentration of risks of financial assets with credit risk exposure (continued)

Economic risk concentrations within the customer loan portfolio were as follows:

	2013 $	%	2012 $ (Restated)	%
Personal	**88,847,847**	**42.5**	77,777,426	38.0
Public Sector	**59,134,407**	**28.3**	55,626,392	27,3
Construction and land development	**26,176,778**	**12.5**	34,079,244	16.7
Distributive trades transportation and	**15,291,187**	**7.3**	17,371,076	8.5
Tourism, entertainment, and catering	**8,655,189**	**4.1**	8,116,475	4.0
Professional and other services	**6,985,207**	**3.3**	6,777,691	3.3
Agriculture and manufacturing	**3,983,000**	**2.0**	4,136,978	2.2
Total	**209,073,615**	**100.0**	203,885,282	100.0

4.2 Market risk

The Bank takes on exposure 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, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading portfolios are monitored by the Risk Management Committee and by management. Regular reports are submitted to the Board of Directors and department heads.

4.2.1 Price risk

The Bank is exposed to equity securities price risk because of equity investments held by the Bank and classified in the consolidated statement of financial position as available-for-sale. The Bank's portfolio includes securities that are quoted on the Eastern Caribbean Securities Exchange (ECSE) in addition to mutual funds that are quoted in the United States. Its exposure to equity securities price risk in respect of ECSE traded securities is minimal because the total of these securities is insignificant in relation to its consolidated statement of financial position and because of the limited volatility in this market. The mutual funds' exposure to equity securities price risk is managed by setting maximum exposure limits and the close monitoring of these securities. The Bank is not exposed to commodity price risk.

If market rates at June 30, 2013 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $89,049 (2012: $82,045) lower/ higher as a result of the increase/decrease in the fair value of available-for-sale investment securities.

	2013 $	2012 $
Available-for-sale		
Equity securities quoted at market value	**1,980,617**	2,038,851
Mutual funds quoted at market value	**16,314,418**	14,854,442
	18,295,035	16,893,293

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Most of the Bank's assets and liabilities in foreign currencies are held in United States dollars. The exchange rate of the Eastern Caribbean dollar (XCD$) to the United States dollar (US$) has been formally pegged at XCD$2.7 = US$1.00 since 1974.

The following table summarises the Bank's exposure to foreign currency risk at June 30, 2013. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

4 **Financial risk management (continued)**

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
As at June 30, 2013							
Assets							
Cash and balances with ECCB	16,697,505	1,002,376	141,358	31,052	527	7	17,872,825
Deposits with banks	7,820,782	66,745,238	3,453,252	4,676,389	615,089	119,851	83,430,601
Deposits with non-bank financial institutions	1,211,732	26,808,268	-	-	-	-	28,020,000
Investment securities:							
– Treasury bills and other eligible bills	47,925,844	8,121,313	-	-	-	-	56,047,157
– Bonds and other debt securities	7,064,623	3,393,391	-	-	-	-	10,458,014
– Available-for-sale investments – unquoted	271,806	426,100	-	-	-	-	697,906
– Available-for-sale investments – quoted	1,980,617	21,741,755	-	-	-	-	23,722,372
Loans and advances to customers	154,031,336	50,564,137	-	-	-	-	204,595,473
Other assets	195,961	76,532	-	-	-	-	272,493
Pledged assets:							
– Deposits with non-bank and other financial institutions	-	808,470	-	-	-		808,470
Total financial assets	**237,200,206**	**179,687,580**	**3,594,610**	**4,707,441**	**615,616**	**119,858**	**425,925,311**
Liabilities							
Customer deposits	220,715,445	166,308,468	2,029,801	2,271,070	61,212	-	391,385,996
Other liabilities and accrued expenses	1,656,206	1,653,742	587	8,065	2,434	624	3,321,658
Total financial liabilities	**222,371,651**	**167,962,210**	**2,030,388**	**2,279,135**	**63,646**	**624**	**394,707,654**
Net on-balance sheet position	**14,828,558**	**11,725,370**	**1,564,222**	**2,428,306**	**551,970**	**119,234**	**31,217,657**
Credit and capital commitments	**7,701,159**	**23,273,556**	**-**	**-**	**-**	**-**	**30,974,715**

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

	XCD $	USD $	EUR $	GBP $	CDN $	OTHER $	Total $
As at June 30, 2012 (Restated)							
Assets							
Cash and balances with ECCB	17,040,570	411,891	129,132	21,449	55,577	2,993	17,661,612
Deposits with banks	5,200,258	44,017,159	3,626,588	3,608,677	560,696	81,632	57,095,010
Deposits with non-bank financial institutions	1,169,983	15,973,815	-	-	-	-	17,143,798
Investment securities:							
– Treasury bills and other eligible bills	46,352,915	7,604,795	-	-	-	-	53,957,710
– Bonds and other debt securities	5,705,193	5,482,567	-	-	-	-	11,187,760
– Available-for-sale investments – unquoted	271,806	851,733	-	-	-	-	1,123,539
– Available-for-sale investments – quoted	2,038,851	-	-	-	-	-	2,038,851
Loans and advances to customers	156,815,611	43,685,577	-	-	-	-	200,501,188
Other assets	191,683	311,966	-	960	866	-	505,475
Pledged assets:							
– Available-for-sale investment securities	-	24,668,257	-	-	-	-	24,668,257
– Deposits with non-bank and other financial institutions	-	2,827,823	-	-	-	-	2,827,823
Total financial assets	**234,786,870**	**145,835,583**	**3,755,720**	**3,631,086**	**617,139**	**84,625**	**388,711,023**
Liabilities							
Customer deposits	198,163,016	146,878,500	2,771,117	2,019,442	53,607	-	349,885,682
Debt security	-	7,344,573	-	-	-		7,344,573
Other liabilities and accrued expenses	1,661,711	2,329,775	-	7,292	2,434	827	4,002,039
Total financial liabilities	**199,824,727**	**156,552,848**	**2,771,117**	**2,026,734**	**56,041**	**827**	**361,232,294**
Net on-balance sheet position	**34,962,143**	**(10,717,265)**	**984,603**	**1,604,352**	**561,098**	**83,798**	**27,478,729**
Credit and capital commitments	**9,722,568**	**11,616,236**	**-**	**-**	**-**	**-**	**21,338,804**

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

If at June 30, 2013, the Eastern Caribbean dollar had weakened /strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been $109,592 (2012: $78,729) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro denominated loans and receivables and foreign exchange losses/gains on translation of customer deposits denominated in Euro.

The contribution to profit before taxation of foreign exchange gains/losses on assets and liabilities held in Euro currency in 2013 was a gain of $126,561 (2012: loss of $42,518).

The Bank holds no Euro denominated available-for-sale investment securities. Hence, there would have been no impact on equity if the Eastern Caribbean Dollar had weakened/strengthened against the Euro at June 30, 2013.

If at June 30, 2013, the Eastern Caribbean dollar had weakened/strengthened by 10% against the Pound Sterling with all other variables held constant, post-tax profit for the year would have been $163,520 (2012: $105,503) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Pound Sterling denominated loans and receivables, and foreign exchange losses/gains on translation of customer deposits denominated in Pounds Sterling.

The contribution of profit before taxation of foreign exchange gains/losses is on assets and liabilities held in Pound Sterling in 2013 was a gain of $40,232 (2012: gain of $44,636).

Because the Bank holds no Pound Sterling denominated available-for-sale investment securities, there would have been no impact on equity, if the Eastern Caribbean dollar had weakened/strengthened against the Pound Sterling at June 30, 2013.

If at June 30, 2013, the Eastern Caribbean dollar had weakened /strengthened by 10% against the Canadian dollar with all other variables held constant, post-tax profit for the year would have been $32,196 (2012: $32,985) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Canadian dollar denominated loans and receivables and foreign exchange losses/gains on translation of customer deposits denominated in Canadian dollars.

The contribution to profit before taxation of foreign exchange gains on assets and liabilities held in Canadian currency in 2013 was a gain of $16,476 (2012: loss of $10,473).

Because the Bank holds no Canadian dollar denominated available-for-sale investment securities, there would have been no impact on equity, if the Eastern Caribbean dollar had weakened/strengthened against the Canadian dollar at June 30, 2013.

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 fair 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 level of market interest rates on both its fair value and cash flow risks. Interest margins may increase or decrease as a result of such changes. The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily by The Treasury and Investment Committee.

The following table summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 Interest rate risk (continued)

	Under 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-Interest bearing $	Total $
As at June 30, 2013							
Assets							
Cash and balances with the Central Bank	2,000	-	-	-	-	17,870,825	17,872,825
Deposits with banks	8,530,810	18,848,331	1,349,978	-	-	54,701,482	83,430,601
Deposits with non bank financial institutions	20,049,344	7,774,631	101,222	-	-	94,803	28,020,000
Investment securities:							
– Treasury bills	20,646,670	35,400,487	-	-	-	-	56,047,157
– Bonds and other debt instruments	4,091,335	77,209	-	4,608,918	1,680,552	-	10,458,014
– Available-for-sale investments – unquoted	-	-	-	-	-	697,906	697,906
– Available-for-sale securities – quoted	33,961	23,241	7,899	5,141,244	220,993	18,295,034	23,722,372
Loans and advances to customers	17,644,544	15,192,699	10,079,217	22,630,234	116,425,598	22,623,181	204,595,473
Other assets	-	-	-	-	-	272,493	272,493
Pledged assets:							
– Deposits with bank and other financial Institution	-	-	808,470	-	-	-	808,470
Total financial assets	**70,998,664**	**77,316,598**	**12,346,786**	**32,380,396**	**118,327,143**	**114,555,724**	**425,925,311**
Liabilities							
Customer deposits	172,092,697	18,344,256	113,913,535	22,891,928	-	64,143,580	391,385,996
Other liabilities and accrued expenses	154,537	-	-	-	-	3,167,121	3,321,658
Total financial liabilities	**172,247,234**	**18,344,256**	**113,913,535**	**22,891,928**	**-**	**67,310,701**	**394,707,654**
Total interest repricing gap	**(101,248,570)**	**58,972,342**	**(101,566,749)**	**9,488,468**	**118,327,143**	**47,245,025**	**31,217,660**

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 Interest rate risk (continued)

	Under 1 month $	1 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Non-Interest bearing $	Total $
As at June 30, 2012 (Restated)							
Assets							
Cash and balances with the Central Bank	2,000	-	-	-	-	17,659,612	17,661,612
Deposits with banks	10,202,988	13,595,239	4,981,234	-	-	28,315,549	57,095,010
Deposits with non bank financial institutions	13,288,944	3,711,766	101,222	-	-	41,866	17,143,798
Investment securities:							
– Treasury bills	18,300,800	33,098,111	2,558,799	-	-	-	53,957,710
– Bonds and other debt instruments	79,640	686,470	3,881,454	4,859,644	1,680,552	-	11,187,760
– Available-for-sale investments – unquoted	-	-	-	-	-	1,123,539	1,123,539
– Available-for-sale securities – quoted	-	-	-	-	-	2,038,851	2,038,851
Loans and advances to customers	45,276,121	3,634,431	12,276,943	24,410,549	107,852,509	7,050,635	200,501,188
Other assets	61,247	68,294	10,176	-	-	365,758	505,475
Pledged assets:							
– Available-for-sale investment securities	-	1,354,861	3,073,334	3,649,328	1,736,292	14,854,442	24,668,257
– Deposits with bank and other financial Institution	2,019,353	-	808,470	-	-	-	2,827,823
Total financial assets	**89,231,093**	**56,149,172**	**27,691,632**	**32,919,521**	**111,269,353**	**71,450,252**	**388,711,023**
Liabilities							
Customer deposits	171,103,353	21,163,793	104,007,535	7,175,327	-	46,435,674	349,885,682
Debt security	7,344,573	-	-	-	-	-	7,344,573
Other liabilities and accrued expenses	157,572	-	-	-	-	3,844,467	4,002,039
Total financial liabilities	**178,605,498**	**21,163,793**	**104,007,535**	**7,157,327**	**-**	**50,280,141**	**361,232,294**
Total interest repricing gap	**(89,374,405)**	**34,985,379**	**(76,315,903)**	**25,744,194**	**111,269,353**	**21,170,111**	**27,478,729**

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.3 Interest rate risk (continued)

The Bank's fair value interest rate risk arises from fixed income debt securities classified as available-for-sale. If market rates at June 30, 2013 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $33,075 (2012: $73,053) lower/higher as a result of the increase/decrease in the fair value of available-for-sale securities.

Cash flow interest rate risk arises from loans and advances to customers, and other interest bearing assets at variable rates. If at June 30, 2013, variable interest rates on loans and advances to customers and other interest bearing assets had been 0.5% higher/lower, with all other variables held constant, post tax profit for the year would have been $887,853 higher/lower (2012: $930,550), mainly as a result of higher/lower interest income. Cash flow interest rate risk also arises from customers' deposits, at variable interest rates. If at June 30, 2013 variable interest rates on customers' deposits had been 0.5% higher/lower, with all other variables held constant, net profit for the year would have been $1,181,166 (2012: $1,128,848) lower/higher, mainly as a result of higher/lower interest expense.

4.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the consolidated statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

4.3.1 Liquidity risk management process

The Bank's liquidity management process is carried out within the Bank by the Accounting and Investment Department, and monitored by management. Oversight includes the following:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Monitoring liquidity ratios of the consolidated statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement, and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Accounting and Investment Department also monitors unmatched medium term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

4.3.2 Funding approach

Sources of liquidity are regularly reviewed by management and the Board of Directors and primarily consist of deposits from customers, share capital and lines of credit with other financial institutions.

4 **Financial risk management (continued)**

4.3 Liquidity risk (continued)

4.3.3 Non derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual and undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash flows.

	Under 1 month $	1-3 months $	3-12 months $	1-5 years $	Over 5 years $	Total $
As at June 30, 2013						
Deposits from customers	235,960,425	18,817,523	118,455,610	23,309,258	-	396,542,815
Other liabilities and accrued expenses	3,167,715	153,943	-	-	-	3,321,658
Total financial liabilities (contractual maturity dates)	**239,128,140**	**18,971,466**	**118,455,610**	**23,309,258**	**-**	**399,864,473**
Assets held for managing liquidity risk (contractual maturity dates)	**184,583,988**	**77,316,597**	**11,538,315**	**32,380,396**	**118,327,143**	**424,146,439**
As at June 30, 2012 (Restated)						
Deposits from customers	217,603,173	21,463,366	107,374,806	7,617,726	-	354,059,071
Debt security	7,344,573	-	-	-	-	7,344,573
Other liabilities and accrued expenses	3,842,047	159,992	-	-	-	4,002,039
Total financial liabilities (contractual maturity dates)	**228,789,793**	**21,623,358**	**107,374,806**	**7,617,726**	**-**	**365,405,683**
Assets held for managing liquidity risk (contractual maturity dates)	**150,724,729**	**59,780,428**	**21,906,905**	**34,264,522**	**121,789,436**	**388,466,020**

4 Financial risk management (continued)

4.3 Liquidity risk (continued)

4.3.4 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Loans and advances;
- Cash and balances with central banks;
- Certificates of deposit; and
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks.

4.3.5 Off statement of financial position items

(a) Loan commitments
The dates of the contractual amounts of the Bank's off-statement of financial position financial instruments that commit to extend credit to customers and other facilities are summarised in the table below.

	Up to 1 year $	Total $
As at June 30, 2013		
Loan commitments	30,324,189	30,324,189
Capital commitments	650,526	650,526
	30,974,715	**30,974,715**
As at June 30, 2012		
Loan commitments	19,807,788	19,807,788
Capital commitments	1,531,016	1,531,016
	21,338,804	**21,338,804**

(b) Financial guarantees and other financial facilities
The Bank had financial guarantees of $Nil at June 30, 2013 (2012: $Nil).

(c) Operating Lease Commitments
The Bank had no operating lease commitments as at June 30, 2013 (2012: $Nil).

(d) Capital commitments
The Bank had contractual capital commitments totalling $650,526 as at June 30, 2013 (2012: $1,531,016). These commitments relate to the Bank's building construction and refurbishment project which commenced in June 2010.

4 Financial risk management (continued)

4.4. Fair value of financial assets and liabilities (continued)

(a) The table below summarises the carrying amounts and fair values of the Bank's financial assets and liabilities

	Carrying value		Fair value	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
		(Restated)		**(Restated)**
Financial assets				
Cash and balances with the Central Bank	17,872,825	17,661,612	17,872,825	17,661,612
Deposits with other banks	83,430,601	57,095,010	83,430,601	57,095,010
Deposits with non-bank financial institutions	28,020,000	17,143,798	28,020,000	17,143,798
Investment securities:				
– Treasury bills and other eligible bills	56,047,157	53,957,710	56,047,157	53,957,710
– Bonds and other debt instruments	10,458,014	11,187,760	10,458,014	11,187,760
– Available-for-sale investments – unquoted	697,906	1,123,539	697,906	1,123,539
– Available-for-sale investments – quoted	23,722,372	2,038,851	23,722,373	2,038,851
Loans and advances	204,595,473	200,501,188	203,622,676	199,445,755
Other Assets	272,493	505,475	272,493	505,475
Pledged assets:				
– Available-for-sale investment securities, quoted	-	24,668,257	-	24,668,257
– Deposits with bank and other financial institutions	808,470	2,827,823	808,470	2,827,823
	425,925,311	**388,711,023**	**424,952,514**	**387,655,590**
Financial liabilities				
Customer deposits	391,385,996	349,885,682	391,385,996	349,885,682
Debt security	-	7,344,573	-	7,344,573
Other payables and accrued expenses	3,321,658	4,002,039	3,321,658	4,002,039
	394,707,654	**361,232,294**	**394,707,654**	**361,232,294**

4 Financial risk management (continued)

4.4. Fair value of financial assets and liabilities (continued)

(a) *The table below summarises the carrying amounts and fair values of the Bank's financial assets and liabilities (continued)*

(i) Due from other banks
Due from other banks includes inter-bank placements and items in the course of collection. It is assumed that the fair value of this category of financial assets is a reasonable estimate of the fair value due to the relatively short term maturities.

(ii) Loans and advances to customers
Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine their fair value.

(iii) Investment securities
Investment securities include assets classified as available-for-sale which are measured at fair value based on quoted market prices. For available-for-sale investment securities for which no active market exists, the fair value is estimated at cost, net of any assessed impairment. Loans and receivables are carried at amortised cost using the effective interest rate method.

(iv) Due to other banks and customers, other depositors and other borrowings
The estimated value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The fair value of fixed-interest bearing deposits and other borrowings is assumed to approximate the carrying values.

(v) Loans payable
The fair value of the loan payable is estimated to approximate the carrying value.

4.4.1 Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes debt instruments listed on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

4 **Financial risk management (continued)**

4.4. Fair value of financial assets and liabilities (continued)

4.4.1 Fair value hierarchy *(continued)*

The standard requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

	Level 1 $	Level 3 $	Total $
Financial assets at fair value			
Investment securities			
Fixed income securities, quoted at market value	5,427,337	-	5,427,337
Mutual funds, quoted at market value	16,314,418	-	16,314,418
Equity securities, quoted at market value	1,980,617	697,906	2,678,523
Balance as at June 30, 2013	**23,722,372**	**697,906**	**24,420,278**

	Level 1 $	Level 3 $	Total $
Financial assets at fair value			
Investment securities			
Fixed income securities, quoted at market value	9,813,815	-	9,813,815
Mutual funds, quoted at market value	14,854,442	-	14,854,442
Equity securities, quoted at market value	2,038,851	587,629	2,626,480
Balance as at June 30, 2012	**26,707,108**	**587,629**	**27,294,737**

4.5 Capital management

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

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the ECCB, for supervisory purposes. The required information is filed with the ECCB on a quarterly basis.

The ECCB requires all banks under its jurisdiction to: (a) hold the minimum level of regulatory capital of $5,000,000, and (b) maintain a ratio of total regulatory capital to the risk-weighted assets ('the Basel ratio') at or above the internationally agreed minimum of 8%.

4 Financial risk management (continued)

4.5 Capital management (continued)

The Bank's regulatory capital as managed by the Board of Directors is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of treasury shares), retained earnings and reserves created by appropriations of retained earnings.
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of securities 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 some adjustments to reflect the more contingent nature of the potential losses.

The following table summarises the composition of the regulatory capital and the Basel ratios for the years ended June 30, 2013 and June 30, 2012. During those two years, the Bank and its subsidiaries complied with all the externally imposed capital requirements to which they are subject.

	2013 $	2012 $ (Restated)
Tier 1 capital		
Share capital	**9,347,687**	9,347,687
Statutory reserve	**10,488,590**	10,207,846
Retained earnings	**23,039,538**	18,215,540
Total qualifying tier 1 capital	**42,875,815**	37,771,073
Tier 2 capital		
Revaluation reserve	**12,995,969**	10,346,417
Reserve for loan impairment	**40,123**	547,468
Reserve for items in-transit on correspondent bank accounts	**2,754,458**	1,717,349
Total qualifying tier 2 capital	**15,790,550**	12,611,234
Total regulatory capital	**58,666,365**	50,382,307
Risk weighted assets		
On-statement of financial position	**230,449,057**	208,302,645
Off-statement of financial position	**30,974,715**	21,338,804
Total risk weighted assets	**261,423,772**	233,780,048
Basel ratio	**22.4%**	21.9%

4 Financial risk management (continued)

4.6 Financial assets and liabilities by category

The table below analyses the Bank's financial assets and liabilities by category:

	Loans and receivables $	Available-for-sale $	Total $
As at June 30, 2013			
Assets			
Cash and Balances with the Central Bank	17,872,825	-	17,872,825
Due from banks and other financial institutions	112,259,071	-	112,259,071
Investment securities	66,505,171	24,420,278	90,925,449
Loans and advances	204,595,473	-	204,595,473
Other assets	272,493	-	272,493
Total financial assets	**401,505,033**	**24,420,278**	**425,925,311**
Liabilities			
Customer deposits	391,385,996	-	391,385,996
Other liabilities and accrued expenses	3,321,658	-	3,321,658
Total financial liabilities	**394,707,654**	**-**	**394,707,654**
As at June 30, 2012 (Restated)			
Assets			
Cash and Balances with the Central Bank	17,661,612	-	17,661,612
Due from banks and other financial institutions	77,066,631	-	77,066,631
Investment securities	65,145,470	27,970,365	93,115,835
Loans and advances	200,501,188	-	200,501,188
Other assets	365,757	-	365,757
Total financial assets	**360,740,658**	**27,970,365**	**388,711,023**

Liabilities	Other Liabilities $	Total $
Customer deposits	349,885,682	349,885,682
Debt security	7,344,573	7,344,573
Other liabilities and accrued expenses	4,002,039	4,002,039
Total financial liabilities	**361,232,294**	**361,232,294**

5 Critical accounting estimates, and judgements in applying accounting policies and key sources of estimation uncertainty

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

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Certain accounting policies and management's judgements are especially critical for the Bank's results and financial situation due to their materiality.

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes judgements 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, or local economic conditions that correlate with defaults on assets in the Bank. 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 between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be estimated $177,776 lower or $196,444 higher respectively.

(b) Impairment of available-for-sale investments

The Bank determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate 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.

Had all the declines in fair value below cost been considered significant or prolonged, the Bank would suffer an increase impairment loss of $818,818 in its 2013 consolidated financial statements, which would be included in the transfer of the accumulated fair value declines recognised in equity on the impaired available-for-sale financial assets to the consolidated statement of income. Management's determination of the impairment provision involves the use of assumptions and significant judgement. In making this judgement, the Bank evaluates among other factors, the expected length of time to liquidate investments and any estimated loss on the principle invested.

(c) Impairment of Fixed Deposits

The Bank holds fixed deposits with certain institutions that have been experiencing liquidity challenges, and were therefore unable to fulfil all the Bank's requests to redeem the fixed deposits. The Bank reviews its fixed deposits to assess impairment on a regular and periodic basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from the fixed deposit. Such observable data may indicate that there has been an adverse change in the payment ability and financial condition of the counterparty. Management uses experience, judgment and estimates based on objective evidence of impairment when assessing future cash flows. Were the net present value of estimated cash flows of these fixed deposits to differ by +/-10%, the impairment would remain unchanged.

6 Business segments

Segment reporting by the Bank was prepared in accordance with IFRS 8.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Bank's Board of Directors (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance.

The Bank has three operating segments:

- Retail and Corporate banking – incorporating private banking services, customer current accounts, savings, deposits, consumer loans and mortgages and other credit facilities, overdrafts, debit cards;
- Offshore Banking – incorporating private banking services, customer current accounts, savings, deposits, consumer loans and mortgages and other credit facilities, overdrafts to non-residents of Nevis; and
- Mutual Funds – Open-ended public mutual funds.

As the Bank's segment operations are all financial with a majority of revenues deriving from interest and the Bank's Board of Directors relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis.

There were no changes in the reportable segments during the year.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Bank's Board of Directors is measured in a manner consistent with that in the consolidated statement of income. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

The Bank's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments. As the Bank's Board of Directors Executive Board reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by the Bank's Board of Directors.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated statement of financial position.

Revenue and non-current assets are primarily in the federation of St. Christopher and Nevis.

6 Business segments (continued)

Included in revenues arising from the retail and corporate banking segment are revenues of approximately $4,853,662 or 38.6% (2012: $4,331,024 or 31.5%) which arose from transactions with the Bank's largest customer.

	Retail and corporate banking $	Offshore banking $	Mutual fund $	Total $
At June 30, 2013				
Net interest income from external customers	7,577,279	4,819,200	-	12,396,479
Inter-segment net interest income	(28,621)	(3,527)	32,148	-
Fee and commission income	3,358,255	522,708	-	3,880,963
Dividend income	119,643	664,492	-	784,135
Other income	1,523,246	1,087,241	-	2,610,487
Realised losses from investment securities	-	303,570	-	303,570
Impairment provision on investment securities	(426,100)	-	-	(426,100)
General and administrative expenses	(7,951,797)	(1,795,075)	(22,567)	(9,769,439)
Loan loss provision	(1,163,464)	-	-	(1,163,464)
Depreciation and amortisation expenses	(564,918)	(14,073)	-	(578,991)
Other operating expenses	(905,287)	(340,413)	-	(1,245,700)
Operating profit	**1,538,236**	**5,244,123**	**9,581**	**6,791,640**
Income tax expense	**(134,514)**	**(83,079)**	**(5,071)**	**(222,664)**
Profit the year	**1,403,722**	**5,161,044**	**4,510**	**6,569,276**
Total assets	**331,873,405**	**127,436,650**	**2,048,075**	**461,358,130**
Total liabilities	**284,239,982**	**115,558,046**	**20,214**	**399,818,242**
At June 30, 2012 (Restated)				
Net interest income from external customers	8,591,083	2,921,416	-	11,512,499
Inter-segment net interest income	(31,957)	58	31,899	-
Fee and commission income	3,522,891	540,430	-	4,063,321
Dividend income	152,977	703,442	-	856,419
Other income	1,461,461	130,366	-	1,591,827
Realised losses from investment securities	-	(3,469,447)	-	(3,469,447)
Impairment provision on investment securities	(851,733)	-	-	(851,733)
General and administrative expenses	(8,442,168)	(1,777,831)	(28,841)	(10,248,840)
Loan loss provision	(66,881)	-	-	(66,881)
Depreciation and amortisation expenses	(719,238)	(21,821)	-	(741,059)
Other operating expenses	(801,796)	(316,133)	-	(1,117,929)
Operating profit / (loss)	**2,814,639**	**(1,289,520)**	**3,058**	**1,528,177**
Income tax expense	**(934,282)**	**-**	**(4,346)**	**(938,628)**
Profit / (loss) the year	**1,626,439**	**(1,289,520)**	**(1,288)**	**335,631**
Total assets	**296,188,950**	**121,416,878**	**2,038,495**	**419,644,323**
Total liabilities	**251,401,878**	**114,958,499**	**15,143**	**366,375,520**

6 Business segments (continued)

Reconciliation of segment results of operations to consolidated results of operations:

	Management Reporting $	Consolidation adjustments $	Total $
At June 30, 2013			
Net interest income from external customers	12,396,479	-	12,396,479
Fee and commission income	3,880,963	-	3,880,963
Dividend income	784,135	-	784,135
Other income	2,610,487	(755,336)	1,855,151
Realised losses on investment securities	303,570	-	303,570
Impairment provision on investment securities	(426,100)	-	(426,100)
General and administrative expenses	(9,769,439)	755,336	(9,014,103)
Loan loss provision	(1,163,464)	-	(1,163,464
Depreciation and amortisation expenses	(578,991)	-	(578,991)
Other operating expenses	(1,245,700)	-	(1,245,700)
Operating profit	**6,791,940**	**-**	**6,791,940**
Income tax expense	**(222,664)**	**-**	**(222,664)**
Profit the year	**6,569,276**	**-**	**6,569,276**
Total assets	**461,358,130**	**(5,604,385)**	**455,753,745**
Total liabilities	**399,818,242**	**(2,730,862)**	**397,087,380**

Reconciliation of segment results of operations to consolidated results of operations:

	Management Reporting $	Consolidation adjustments $	Total $
At June 30, 2012 (Restated)			
Net interest income from external customers	11,512,499	-	11,512,499
Fee and commission income	4,063,321	-	4,063,321
Dividend income	856,419	-	856,419
Other income	1,591,827	(538,980)	1,052,847
Realised losses on investment securities	(3,469,447)	-	(3,469,447)
Impairment provision on investment securities	(851,733)	-	(851,733)
General and administrative expenses	(10,248,840)	538,980	(9,709,860)
Loan loss provision	(66,881)	-	(66,881)
Depreciation and amortisation expenses	(741,059)	-	(741,059)
Other operating expenses	(1,117,929)	-	(1,117,929)
Operating profit	**1,528,177**	**-**	**1,528,177**
Income tax expense	**(938,628)**	**-**	**(938,628)**
Profit the year	**589,549**	**-**	**589,549**
Total assets	**419,644,323**	**(5,257,179)**	**414,387,144**
Total liabilities	**366,375,520**	**(2,370,683)**	**364,004,837**

7 Cash and balances due from banks and other financial institutions

	2013 $	2012 $
Cash on hand	**1,877,674**	1,277,813
Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits	**2,000**	2,000
Cash and current accounts with other banks	**52,319,658**	29,309,778
Cheques in the course of collection	**1,861,042**	1,041,770
Short term fixed deposits	**42,679,150**	28,836,991
Included in cash and cash equivalents (note 27)	**98,739,524**	60,468,352
Dormant account reserve	**320,702**	261,235
Mandatory reserve deposits with the ECCB	**15,672,449**	16,120,564
Restricted fixed deposits	**808,470**	808,470
Other restricted deposits	**-**	2,019,353
Fixed deposits	**25,800,617**	26,299,015
	141,341,762	105,976,989
Interest receivable	**533,662**	494,782
Provision for impairment on fixed deposits	**(11,743,528)**	(11,743,528)
Total cash and balances due from banks and other financial institutions	**130,131,896**	94,728,243
Current	**112,516,434**	76,121,289
Non-current	**17,615,462**	18,606,954
	130,131,896	94,728,243

Under the Banking Act of St. Christopher and Nevis No. 4 of 2004, commercial banks are required to transfer to the ECCB balances on accounts which are inactive for a period of over 15 years. The balances transferred to the ECCB are held in a special account and are not available for use in the Bank's day-to-day operations.

Commercial banks doing banking business in member states of the Organisation of the Eastern Caribbean States (OECS) are required to maintain a mandatory non-interest bearing reserve deposit with the ECCB, which when combined with the EC dollar cash on hand should be equivalent to a minimum 6% of their total deposit liabilities (excluding inter-bank deposits). This reserve deposit relates only to The Bank of Nevis Limited (non-consolidated), and is not available for use in its day-to-day operations. At June 30, 2013 the minimum required amount was $15,526,000.

7 Cash and balances due from banks and other financial institutions (continued)

The short term fixed deposits are comprised of fixed deposits held with the following entities:

	2013 $	2012 $
Bank of St. Lucia Limited, maturing on July 08, 2013, August 26, 2013, August 27, 2013 and September 16, 2013 with interest rates of 3.75%, 4.00% and 3.00% per annum (2012: 5.00% and 4.00% per annum)	**9,697,541**	**8,073,538**
First Citizens Investment Services Limited Repurchase Agreements maturing July 05, 2013, and August 07, and August 22, 2013, with interest rates of 2.50% and 3.00% per annum (2012: 2.50% and 2.75% per annum)	**7,420,123**	**7,348,879**
National Bank of Anguilla Limited, maturing on July 11, 2013 with interest rate of 5.50% per annum (2012: 5.50% per annum)	**2,598,468**	**2,694,900**
Caribbean Commercial Bank (Anguilla) Limited, maturing July 2, and July 10, 2013 with interest rates of 3.00% and 4.00% per annum (2012: 5.00% per annum)	**2,619,293**	**1,086,490**
Trinidad and Tobago Unit Trust Corporation call account, with interest rates of 1.00 % per annum (2012: 1.05% per annum)	**9,729,150**	**9,633,184**
Capital & Credit Merchant Bank Limited, maturing August 05, 2013 with interest rates of 5.25% and 4.85% per annum	**4,042,350**	**-**
Morgan Stanley US$ SICAV Liquidity Fund	**6,572,225**	**-**
Total short-term deposits	**42,679,150**	**28,836,991**

During the year, the interest rates on short-term deposits range from 0% to 5.50% per annum (2012: $1.05% to 6.25% per annum).

The restricted fixed deposits comprise deposits held with Caribbean Credit Card Corporation Limited of $808,470 (2012: $808,470) bearing interest of 4.50% per annum. These deposits are not available for use in the Bank's day-to-day operations and are used as security deposits primarily for the credit card operations.

7 Cash and balances due from banks and other financial institutions (continued)

The fixed deposits are comprised of deposits held with the following entities:

	2013 $	2012 $
Caribbean Commercial Bank (Anguilla) Limited, maturing August 01, 2013 with interest rate of 6.0% per annum.	**8,084,700**	8,084,700
Eastern Caribbean Amalgamated Bank Limited, maturing October 09, 2013 with interest rate of 2.0% (2012: 3.0% per annum)	**3,711,098**	3,606,653
Bank of St. Lucia Limited, maturing December 15, 2013, with interest rate of 4.5% (2012: 3.0% per annum)	**1,347,450**	1,347,450
St. Kitts and Nevis Finance Company (FINCO), maturing April 11, 2014 with interest rate of 5.5% per annum	**100,000**	100,000
TCI Bank Limited, see below	**2,411,378**	3,014,221
British American Insurance Company Limited (BAICO), see below	**10,145,991**	10,145,991
	25,800,617	26,299,015

The interest rates on fixed deposits range from 2.0% to 6.0% per annum (2012: 3.0% to 6.25% per annum).

In 2012, the restricted deposit of $2,019,353 was comprised of a money market account at Morgan Stanley Smith Barney which is held as partial security for the line of credit (see note 14).

Fixed deposits held with British American Insurance Company Limited (BAICO)

On July 31, 2009 the local High Court, upon application by the Registrar of Insurance, directed that the business of BAICO carried out in St. Kitts and Nevis be placed under judicial management. Subsequently, Judicial Mangers were appointed to the branches in St. Lucia, St. Vincent and the Grenadines, Antigua and Barbuda, Grenada, Montserrat and an administrator to BAICO'S branch in Anguilla. All of these are branches of BAICO and are not separate legal entities.

The Judicial Manager's report was filed with the local High Court on October 30, 2009. After reviewing the Judicial Manager's report, management determined that the most prudent approach should be adopted, thereby making a provision for impairment of 100% of the value of these deposits (amounting to $10,145,991) in the consolidated financial statements at June 30, 2009.

The above provision for impairment has been maintained in the consolidated financial statements at June 30, 2013 and no income has been recognised in respect of the fixed deposits.

Fixed deposit held with TCI Bank Limited

On April 09, 2010, by petition of the Financial Services Commission (FSC) in the Turks and Caicos Islands to the Supreme Court, TCI Bank Limited was placed in liquidation and joint liquidators were appointed. After consideration of the foregoing, and also considering the present value of future cash flows to be derived from the fixed deposit during a liquidation process based on varying scenarios, Management determined that a prudent approach should be adopted, and an impairment provision of 53% of the value of the fixed deposit (amounting to $1,597,538) was recorded in the financial statements at June 30, 2010 – thereby resulting in a net book value of $1,416,685.

7 Cash and balances due from banks and other financial institutions (continued)

Fixed deposit held with TCI Bank Limited (continued)

On June 13, 2012, the Turks and Caicos Supreme Court approved the payment of the first interim dividend distribution of 20 cents on the dollar to registered creditors of TCI Bank Limited. On September 27, 2012, Bank of Nevis International Limited received a payment in the amount of $602,844 in respect of this distribution.

Management has reviewed the reports of the liquidators and continues to closely monitor the developments in the liquidation process. In light of the foregoing therefore, Management has determined that the impairment provision of $1,597,538 be maintained in the financial statements at June 30, 2013.

8 Investment securities

	2013	2012
Loans and receivables	**$**	**$**
Treasury bills		
Nevis Island Administration maturing July 16, 2013 with interest rate of 6.5% per annum	**16,207,679**	15,699,533
Government of St Vincent & the Grenadines, maturing September 13, 2013 with interest rate of 3.0% per annum (2012: 3.9% and 4.0% per annum)	**1,488,781**	1,980,187
Government of Dominica, maturing September 09, 2013 with interest rate of 2.74% per annum	**1,832,395**	-
Government of Grenada, maturing July 13, 2012 and August 13, 2012 with interest rates of 6.0% per annum	**-**	1,477,561
Included in cash and cash equivalents (note 26)	**19,528,855**	19,157,281

8 Investment securities (continued)

Loans and receivables (continued)	2013 $	2012 $
Treasury bills		
Nevis Island Administration, maturing July 16, 2013 with interest rate of 6.5% per annum	**1,463,212**	1,370,397
Government of St. Christopher and Nevis, maturing August 15, 2013, with interest rate of 6.75% per annum	**28,888,849**	27,512,947
Nevis Island Government maturing October 23, 2013 and June 22, 2013 with interest rates of 7.0% and 6.5% per annum (2012: 6.5% and 6.75% per annum)	**3,904,420**	3,904,420
Bonds and other debt instruments		
Eastern Caribbean Home Mortgage Bank Bonds maturing July 1, 2013, August 26, 2014, September 28, 2016, with interest rates of 4.0%, 4.5% and 6.0% per annum	**5,290,000**	3,945,000
Government of St. Lucia Fixed Rate Bonds, maturing July 20, 2013 and February 16, 2016, with interest rates of 5.0% and 7.25% per annum	**1,347,450**	1,580,535
Caribbean Credit Card Corporation Limited unsecured loan bearing interest at a rate of 10%, with no specific terms of repayment	**150,000**	150,000
Government of Antigua and Barbuda Fixed Rate Bond, maturing November 19, 2014 and bearing interest at 9% per annum	**571,467**	912,194
Government of St. Kitts and Nevis Bond, maturing April 18, 2057, with interest rate if 1.50% per annum	**1,530,552**	1,530,552
Antigua & Barbuda Airport Authority Commercial Paper, maturing September 7, 2009 with interest rate of 9.0% per annum (see below)	**-**	2,694,900
Total loans and receivables	**64,022,255**	62,758,226

The treasury bill with a cost of $1,463,212 acts as a statutory deposit with the Nevis Island Administration and is not available to finance the Bank's day-to-day operations.

8 Investment securities (continued)

	2013 $	2012 $
Available-for-sale		
Fixed income securities, quoted at market value	**5,362,237**	9,813,815
Mutual funds, quoted at market value	**16,314,418**	14,854,442
Equity securities, quoted at market value	**1,980,617**	2,038,851
Equity securities, unquoted	**697,906**	1,123,539
Total available-for-sale	**24,355,178**	27,830,647
Total investment securities before interest receivable	**88,377,433**	90,588,873
Interest receivable	**2,548,016**	2,526,962
Total investment securities	**90,925,449**	93,115,835
Current	**61,625,803**	54,705,090
Non-current	**29,299,646**	38,410,745
	90,925,449	93,115,835

	2013 $	2012 $
Available-for-sale – unquoted		
Caribbean Credit Card Corporation Limited		
275 shares of $1,000 each	**275,000**	275,000
Impairment provision	**(149,644)**	(149,644)
	125,356	125,356
TCI Bank Limited		
500,000 shares of US$1.00 (EC $2.69) each	**1,347,450**	1,347,450
Impairment provision	**(1,347,450)**	(1,347,450)
	-	-
ECIC Holdings Limited		
632,200 ordinary shares of US$1.00 (EC $2.69) each	**1,703,933**	1,703,466
Impairment provision	**(1,277,833)**	(851,733)
	426,100	851,733
Eastern Caribbean Securities Exchange Limited		
7,500 Class ‘C’ shares (7,500 shares with cost of $10 each)	**75,000**	75,000
Impairment provision	**(74,990)**	(74,990)
	10	10
Eastern Caribbean Home Mortgage Bank		
482 shares at cost of $100 each	**48,200**	48,200
shares (2012: 614 shares) at cost of $160 each	**98,240**	98,240
	146,440	146,440
Equity securities – unquoted	**697,906**	1,123,539

8 Investment securities (continued)

	2013 $	2012 $
Available-for-sale – quoted		
St. Kitts-Nevis-Anguilla National Bank 617,409 ordinary shares, at market value of $2.15 per share, (2012: $2.35 per share)	**1,327,429**	1,450,911
St. Kitts Nevis Anguilla Trading and Development Company (TDC) 435,281 ordinary shares, at market value of $1.50 per share (2012: $1.35 per share)	**652,920**	587,628
Cable and Wireless (St Kitts and Nevis) Limited: 63 Ordinary shares, at market value of $4.25 per share, (2012: $5.90 per share)	**268**	312
Equity investments, quoted at market value	**1,980,617**	2,038,851

	2013 $	2012 $
Fixed income securities quoted at market value		
Corporate Bonds		
Bank of America Corporation	**1,433,288**	1,345,060
Goldman Sachs Group, Inc.	**730,870**	707,411
General Electric Capital Corporation	**1,391,660**	1,370,613
Morgan Stanley	**1,442,723**	1,352,632
Federal National Mortgage Association (USA)	**363,696**	609,904
Merrill Lynch & Co.	**-**	1,354,861
Citigroup, Inc.	**-**	1,364,266
Macys Retail Holdings, Inc.	**-**	1,037,925
Barclays Bank, PLC	**-**	671,143
	5,362,237	9,813,815
Mutual Funds quoted at market value		
MFS Meridian Emerging Market Debt Fund	**2,477,273**	2,772,472
MFS Meridian Bond Fund	**2,561,343**	2,515,533
Alliance Bernstein Global High Yield Fund	**1,983,242**	1,939,846
Western Asset Global Bond Fund	**2,570,870**	2,467,830
Investec Global Mutual Fund	**1,801,856**	1,882,385
Templeton Global Bond Fund	**679,282**	645,938
ACM Global Investment Bond Fund	**1,305,682**	677,986
Franklin Mutual Discovery Fund	**1,522,311**	1,274,421
Principal Global Preferred Securities Fund	**1,412,559**	678,031
	16,314,418	14,854,442

8 Investment securities (continued)

Equity Investment in TCI Bank Limited

On April 09, 2010, by petition of the Financial Services Commission (FSC) in the Turks and Caicos Islands to the Supreme Court, TCI Bank Limited was placed in liquidation and joint liquidators were appointed. After consideration of the foregoing, and other details available at that time, a provision for impairment of 100% of the value of the share capital in TCI Bank Limited in the amount of $1,347,450 was made in the financial statements as at June 30, 2010. This provision has been maintained in the financial statements at June 30, 2013.

Equity Investment held in ECIC Holdings Limited

Due to financial difficulties encountered by its major subsidiary, the ECIC Holdings Limited has realised significant declines in its assets, earnings and shareholders' equity, thereby creating uncertainties regarding its going concern ability. The Management of ECIC Holdings Limited are exploring several options aimed at bringing about significant improvements in the Company's financial position. In light of the foregoing, as at June 30, 2012, the Management of the Bank took a decision to record a provision for impairment of 50% of the value (amounting to $851,733). During the financial year ended June 30, 2013, due to continued financial difficulties, a further 25% ($426,100) was recorded as an impairment, thereby resulting in a net book value of $426,100.

The movement in investment securities may be summarised as follows:

	Loans and receivables $	Available-for-sale $	Total $
Balance as of June 30, 2012	**62,758,226**	**27,830,647**	**90,588,873**
Additions	20,552,444	4,082,262	24,634,706
Disposals (sale and redemption)	(19,288,415)	(7,598,362)	(26,886,777)
Unrealised loss from change in fair value, net	-	466,731	466,731
Impairment provision	-	(426,100)	(426,100)
Balance as of June 30, 2013	**64,022,255**	**24,355,178**	**88,377,433**

	Loans and receivables $	Available-for-sale $	Total $
Balance as of June 30, 2011	62,795,855	26,130,208	88,926,063
Additions	19,649,429	3,155,294	22,804,723
Disposals (sale and redemption)	(19,687,058)	(277,850)	(19,964,908)
Unrealised loss from change in fair value, net	-	(325,272)	(325,272)
Impairment provision	-	(851,733)	(851,733)
Balance as of June 30, 2012	62,758,226	27,830,647	90,588,873

Net (losses) gains from investment securities comprise:

	2013 $	2012 $
Losses from derecognition of financial assets classified as loans and receivables	**-**	(3,469,447)
Net realised gains from disposal of available-for-sale financial assets	**303,570**	-

9 Loans and advances

	2013 $	2012 $ (Restated)
Reducing balance loans	**192,527,094**	174,948,994
Overdrafts	**11,573,807**	24,185,108
Credit card advances	**3,578,323**	3,253,237
	207,679,224	202,387,339
Interest receivable	**1,394,391**	1,497,943
	209,073,615	203,885,282
Less: Allowance for loan impairment	**(4,478,142)**	(3,384,094)
Total loans and advances	**204,595,473**	200,501,188
Current	**65,539,643**	89,382,818
Non-current	**139,055,830**	111,118,370
	204,595,473	200,501,188

The movement in allowance for loan impairment is as follows:

	2013 $	2012 $
Balance, beginning of year	**3,384,094**	3,317,213
Provisions for the year	**1,163,464**	66,881
Loans and advances written off during the year	**(69,416)**	-
Balance, end of year	**4,478,142**	3,384,094

According to the Eastern Caribbean Central Bank loan provisioning guidelines, the calculated allowance for loan impairment amounts to $4,518,265 (2012: $3,931,562) (see note 20).

The total value of non-productive loans and advances at the end of the year amounted to $25,617,304 (2012: $25,694,902). The interest accrued on non-productive loans and advances but not recorded in these financial statements is $7,657,458 (2012: $7,961,651).

Included in loans and advances is an amount due from other financial institutions of $4,079,382 (2012: $3,167,174).

10 Other assets

	2013 $	2012 $
Prepaid employee benefit	**973,288**	1,055,924
Prepayments	**392,964**	776,160
Items in-transit	**237,541**	306,174
Credit card and stationery stock	**73,196**	68,826
Other receivables	**5,581**	65,081
Total other assets	**1,682,570**	2,272,165
Current	**636,086**	1,147,415
Non-current	**1,046,484**	1,124,750
	1,682,570	2,272,165

11 Property, plant and equipment

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Capital work in progress $	Total $
Year ended June 30, 2013								
Opening net book amount	13,020,000	7,851,788	555,582	458,224	155,126	-	454,930	22,495,650
Additions	-	433,896	36,297	51,749	3,279	-	963,737	1,488,958
Transfers	-	(206,376)	-	277,382	-	-	(71,006)	-
Revaluation adjustment	1,655,000	802,692	-	-	-	-	-	2,457,692
Disposals	-	-	(1,545)	(61,541)	(25,113)	-	-	(88,199)
Depreciation charge	-	-	(113,584)	(185,934)	(56,197)	-	-	(355,714)
Depreciation eliminated on disposal	-	-	1,545	61,541	25,113	-	-	88,199
Closing net book amount	**14,675,000**	**8,882,000**	**478,296**	**601,421**	**102,208**	**-**	**1,347,661**	**26,086,586**
At June 30, 2013								
Cost/valuation	14,675,000	9,120,000	1,403,271	1,468,671	685,402	178,000	1,347,661	28,878,005
Accumulated depreciation	-	(238,000)	(924,975)	(867,250)	(583,194)	(178,000)	-	(2,791,419)
Net book amount	**14,675,000**	**8,882,000**	**478,296**	**601,421**	**102,208**	**-**	**1,347,661**	**26,086,586**

11 Property, plant and equipment (continued)

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Capital work in progress $	Total $
At June 30, 2011								
Cost	13,020,000	2,883,822	931,384	944,505	821,083	178,000	4,885,618	23,664,412
Accumulated depreciation	–	(210,572)	(854,505)	(793,342)	(692,567)	(178,000)	–	(2,728,986)
Net book amount	**13,020,000**	**2,673,250**	**76,879**	**151,163**	**128,516**	**–**	**4,885,618**	**20,935,426**
Year ended June 30, 2012								
Opening net book amount	13,020,000	2,673,250	76,879	151,163	128,516	-	4,885,618	20,935,426
Additions	-	-	10,850	162,692	101,559	-	1,856,975	2,132,076
Transfers	-	5,385,424	610,844	291,395	-	-	(6,287,663)	-
Disposals	-	-	(184,559)	(197,511)	(215,404)	-	-	(597,474)
Depreciation charge	-	(206,886)	(137,291)	(137,183)	(74,950)	-	-	(556,310)
Depreciation eliminated on disposal	-	-	178,859	187,668	215,405	-	-	581,932
Closing net book amount	**13,020,000**	**7,851,788**	**555,582**	**458,224**	**155,126**	**-**	**454,930**	**22,495,650**
At June 30, 2012								
Cost/valuation	13,020,000	8,269,246	1,368,519	1,201,081	707,236	178,000	454,930	25,199,012
Accumulated depreciation	-	(417,458)	(812,937)	(742,857)	(552,110)	(178,000)	-	(2,703,362)
Net book amount	**13,020,000**	**7,851,788**	**555,582**	**458,224**	**155,126**	**-**	**454,930**	**22,495,650**

11 Property, plant and equipment (continued)

The Bank's land and buildings were revalued at year end by an independent property appraiser. The valuation was made on the basis of recent market transactions on arm's length terms. The revaluation surplus was credited to revaluation reserves in shareholder's equity (note 19).

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of June 30, 2013 and 2012:

	Land $	Buildings $	Total $
Cost	2,307,737	9,751,739	12,059,476
Accumulated Depreciation	-	(1,632,344)	(1,632,344)
Net book values as at June 30, 2013	**2,307,737**	**8,119,395**	**10,427,132**

	Land $	Buildings $	Total $
Cost	2,307,737	9,524,541	11,832,278
Accumulated Depreciation	-	(1,388,551)	(1,388,551)
Net book values as at June 30, 2012	**2,307,737**	**8,135,990**	**10,443,727**

12 Intangible assets

	Computer software $
At June 30, 2011	
Cost	2,792,180
Accumulated amortisation	(2,456,291)
Net book amount	**335,889**
Year ended June 30, 2012	
Opening net book amount	335,889
Additions	164,906
Amortisation charge	(184,749)
Closing net book amount	**316,046**
At June 30, 2012	
Cost	2,957,087
Accumulated amortisation	(2,641,041)
Net book amount	**316,046**
Year ended June 30, 2013	
Opening net book amount	316,048
Additions	519,705
Amortisation charge	(223,277)
Closing net book amount	**612,476**
At June 30, 2013	
Cost	3,476,795
Accumulated amortisation	(2,864,319)
Net book amount	**612,476**

13 Customers' deposits

	2013 $	2012 $
Time deposits	**170,372,406**	151,517,537
Savings accounts	**139,301,113**	127,907,487
Current accounts	**78,135,677**	67,043,667
	387,809,196	346,468,691
Interest payable	**3,576,800**	3,416,991
Total customers' deposits	**391,385,996**	349,885,682
Current	**368,494,068**	342,710,355
Non-current	**22,891,928**	7,175,327
	391,385,996	349,885,682

13 Customers' deposits (continued)

Included in the customers deposits at year end are balances for other financial institutions amounting to $40,867,449 (2012: $46,105,093).

14 Debt security

	2013 $	2012 $
Line of credit	-	5,986,866
Interest Payable	-	1,357,707
Total debt security	-	7,344,573
Current	-	7,344,573

Debt security in 2012 represented a line of credit from Morgan Stanley Smith Barney - one of the Bank's United States investment brokers. The line of credit was fully secured by securities on the Bank's United States based investment portfolio. Interest on the line of credit was payable at 'three-month LIBOR' plus 1.50%.

15 Other liabilities and accrued expenses

	2013 $	2012 $
Items-in-transit	**1,665,526**	2,103,241
Accounts payable and accrued expenses	**1,321,421**	1,563,230
Deferred loan fees	**688,187**	1,107,676
Fair value adjustment on employee loans	**972,797**	1,055,433
Manager's cheques	**260,666**	273,108
Staff bonus payable	**257,627**	168,829
Advance deposits on credit cards	**380,623**	163,547
Government stamp duty	**154,537**	157,572
Total other liabilities and accrued expenses	**5,701,384**	6,592,636
Current	**4,040,400**	4,429,527
Non-current	**1,660,984**	2,163,109
	5,701,384	6,592,636

16 Taxation

	2013 $	2012 $ (Restated)
Deferred income tax asset		
Balance, beginning of year	**958,017**	1,231,095
Deferred tax on depreciation of property, plant and equipment	**37,751**	(483,796)
Deferred tax on revaluation of available-for-sale investment securities	**43,233**	(43,200)
Deferred tax on interest on non-performing loans	**(150,260)**	253,918
Balance at end of year asset	**888,741**	958,017

The deferred income tax on the balance sheet is comprised of the following:

	2013	2012
Deferred tax on depreciation of property, plant and equipment	**(289,212)**	(326,963)
Deferred tax on revaluation of available-for-sale investment securities	**(30,167)**	(73,400)
Deferred tax on interest on non-performing loans	**1,208,120**	1,358,380
Deferred income tax asset	**888,741**	958,017

The deferred tax expense in the consolidated statement of income is comprised of the following:

	2013 $	Restated 2012 $
Deferred tax on depreciation of property, plant and equipment	**(37,751)**	483,796
Deferred tax on interest on non-performing loans	**150,260**	(253,918)
	112,509	229,878

16 Taxation (continued)

	2013 $	2012 $
Income tax (receivable) / payable		
Income tax payable net, beginning of year	**181,946**	869,066
Payments made during year, net of refunds	**(1,122,655)**	(1,395,870)
Current tax expense	**110,155**	686,298
Prior year tax expense	**-**	22,452
Income tax (recoverable) / payable, at end of year	**(830,554)**	181,946
Income tax expense		
Operating profit for the year before taxation	**6,791,940**	2,253,658
Income tax expense at standard rate of 35% (2011: 35%)	**2,377,179**	788,780
Non-deductible expenses	**527,778**	822,706
Untaxed interest income	**(1,060,196)**	(680,166)
Untaxed dividend income	**(42,228)**	(53,542)
Effect of lower tax rate in subsidiary bank	**(1,700,598)**	-
Prior year income tax adjustment	**-**	22,452
Effect of operating loss incurred in subsidiary bank	**-**	424,388
Effect of movement in deferred taxes	**112,509**	483,796
Effect of tax losses and capital cost allowances (utilised) and carried forward (net)	**(49,678)**	(615,868)
Effect of withholding taxes paid	**57,898**	-
Actual income tax expense	**222,664**	1,192,546

The Bank's subsidiary Bank of Nevis International Limited has carried forward income tax losses of $9,829,780 at June 30, 2013 (2012: $10,759,324). The tax losses have not been confirmed by the tax authorities. Losses may be carried forward and deducted against future taxable income within six years following the year which the losses were incurred. Losses are restricted to 50% of the taxable income in any one year. The tax loss may result in a deferred tax asset of $245,745 (2012: $268,983) which has not been recognised in the consolidated financial statements due to the uncertainty of its recovery. The losses incurred were as follows:

Year of loss	2013 $	2012 $
2011	**2,724,056**	2,724,057
2009	**7,105,732**	8,035,267
Total	**9,829,788**	10,759,324

16 Taxation (continued)

Capital cost allowances

The Bank has carry-forward capital cost allowances of $975,646. The additions and claims for capital cost allowances during the current year have not been confirmed by the tax authorities. Unclaimed capital cost allowances may be carried forward indefinitely and deducted against future taxable income. The amount claimed is restricted to 50% of the taxable income in any one year.

	2013 $	2012 $
Balance at beginning of year	**192,511**	-
Additions during the year	**870,373**	2,140,947
Claims during the year	**(87,238)**	(1,948,436)
Balance at end of year	**975,646**	192,511

17 Share capital

	2013 $	2012 $
Authorised share capital		
50,000,000 shares at $1 each	**50,000,000**	50,000,000
Issued and fully paid		
9,347,687 shares (2011: 9,347,687 shares) of $1 each	**9,347,687**	9,347,687

18 Statutory reserves

Section 14 (1) of the St. Christopher and Nevis Banking Act No. 4 of 2004 provides that not less than 20% of each year's net earnings shall be set aside to a reserve fund whenever the fund is less than the paid-up capital of the Bank.

Section 23 (1) of the Nevis Offshore Banking Ordinance 1996 provides that the Bank is to maintain a reserve fund and shall out of its net profits of each year and before any dividend is paid, transfer to the said fund a sum equal to not less than 25% of those profits whenever the amount of the reserve fund is less than the paid-up capital of the Bank.

During the year, $280,744 was transferred to the statutory reserves (2012: $470,384)

19 Revaluation reserves

	2013 $	2012 $
Balance, beginning of year	**10,346,417**	10,746,510
Transfer net gains/losses on investment securities to income, (net of tax)	**-**	-
Appreciation/(depreciation) in market value of investment securities, (net of tax)	**191,860**	(400,093)
Revaluation adjustment for lands and buildings	**2,457,692**	-
Balance, end of year	**12,995,969**	10,346,417
Represented by revaluation reserves attributable to:		
Available-for-sale investment securities	**(117,051)**	(308,911)
Property	**13,113,020**	10,655,328
	12,995,969	10,346,417

19 Revaluation reserves (continued)

This reserve is unrealised and hence not available for distribution to shareholders.

The deferred tax impact on the appreciation/(depreciation) in market values of investment securities is shown below:

	2013 $	2012 $
Appreciation in market value	**(123,525)**	123,432
Less: deferred tax	**43,232**	(43,202)
	(80,293)	80,230

20 Other reserves

	2013 $	2012 $ (Restated)
Other reserves:		
Balance at beginning of year	**2,264,817**	2,950,934
Reserve for loan impairment	**(507,347)**	(813,718)
Transfer to reserve fund	**1,037,111**	127,601
Total other reserves	**2,794,581**	2,264,817
Other reserves is represented by:		
Reserve for loan impairment	**40,123**	547,468
Reserve for items in-transit on correspondent bank accounts	**2,754,458**	1,717,349
	2,794,581	2,264,817

Reserve for loan impairment

This reserve is created to set aside the amount by which the loan loss provision calculated under the Prudential Guidelines of the Eastern Caribbean Central Bank exceeds the loan loss provision calculated in accordance with IAS 39.

Reserve for items in-transit on correspondent bank accounts

This reserve is created to set aside the amount for items in-transit on correspondent bank account which have been statute barred and have been recognised in the profit and loss account but is not available for distribution to shareholders.

21 Interest income

	2013 $	2012 $ (Restated)
Loans and advances	**18,552,875**	17,627,820
Deposits with banks and other financial institutions	**1,637,164**	1,591,189
Treasury bills	**3,649,346**	3,407,057
Other investment securities	**1,024,406**	1,209,548
Total interest income	**24,863,791**	23,835,614

22 Interest expense

	2013 $	2012 $
Time deposits	**8,920,780**	8,520,939
Savings deposits	**3,218,728**	2,951,548
Demand deposits	**293,140**	566,067
Other	**34,664**	284,560
Total interest expense	**12,467,312**	12,323,114

23 Other operating income

	2013 $	2012 $
Fees and commissions	**2,668,456**	2,903,467
Foreign exchange gain	**777,445**	784,304
Card services fees and commissions	**1,185,806**	1,159,853
Dividend income on available-for-sale investments	**784,135**	856,419
Bad debts recovered	**8,331**	11,047
Miscellaneous revenue	**32,185**	129,895
Write-back of items in-transit	**1,037,111**	127,601
Gain on disposal of assets	**26,781**	-
Total other operating income	**6,520,250**	5,972,586

24 Related party transactions

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

A number of banking transactions were entered into with related parties. These include loans, deposits and other transactions. The details of related party transactions, outstanding balances at the year end and relating expenses and income for the year are as follows:

24 Related party transactions (continued)

Directors key management personnel, and related entities

	2013 $	2012 $
Balances at June 30, 2013		
Loans and advances outstanding	**10,616,173**	13,603,994
Undrawn credit commitments	**1,117,750**	995,554
Collateral held on balances outstanding	**26,474,891**	33,526,816
Deposits held	**40,204,890**	37,079,328

	2013 $	2012 $
Transactions for the year ended June 30, 2013		
Net loans and advances extended	**3,013,326**	3,833,284
Net deposits received	**2,099,218**	2,769,966
Interest income earned on loans and advances	**960,954**	1,234,281
Interest expense incurred on deposits held	**2,376,405**	2,150,318
Interest rates on loans and advances	**5.0% - 19.5%**	5.0% - 19.5%
Interest rates on deposits held	**0.0% - 6.5%**	0.0% - 6.5%

Loans and advances to directors are granted on commercial terms and are secured by cash and/or mortgages over real estate.

Loans and advances to key management personnel are granted on terms outlined in the Bank's Staff Advances Policy, which provides for the application of certain preferential terms, including interest rates and collateral arrangements. Collateral arrangements for loans and advances to key management personnel include cash and/or mortgages over properties.

During the year, salaries and related benefits of $1,764,520 (2012: $2,257,083) were paid to key members of management and were allocated as follows:

	2013 $	2012 $
Salaries and wages	**1,404,519**	1,857,090
Other staff costs	**160,180**	202,345
Social security costs	**92,607**	114,644
Pension costs	**65,922**	83,004
Gratuity	**41,291**	-
	1,764,519	2,257,083

25 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2013 $	2012 $ (Restated)
Net profit attributable to shareholders	**6,569,276**	589,549
Weighted average number of ordinary shares in issue	**9,347,687**	9,347,687
Basic earnings per share	**0.70**	0.06

26 Contingencies and commitments

Credit related and capital commitments

The following table indicates the contractual amounts of the Banks' off-statement of financial position financial instruments:

	2013 $	2012 $
Undrawn commitments to extend advances	**30,324,189**	19,807,788
Capital commitments	**650,526**	1,531,016
Financial guarantees	**-**	-
	30,974,715	21,338,804

Included in the amount of undrawn commitments to extend advances above are credit card commitments totalling $5,002,103 (2012: $5,318,801) at the year end.

27 Dividends

During the year, a cash dividend of $0.10 per share amounting to $934,770 was paid. (2012: $934,770).

28 Cash and cash equivalents

	2013 $	2012 $
Cash and balances due from banks and other financial institutions (note 7)	**98,739,524**	60,468,352
Investment securities (note 8)	**19,528,855**	19,157,281
Total cash and cash equivalents	**118,268,379**	79,625,633

29 General and administrative expenses

	2013 $	2012 $
Salaries and related costs (note 30)	**5,392,995**	5,901,323
Card processing expenses	**964,317**	991,107
Equipment repairs	**464,568**	513,471
Stationery and supplies	**348,763**	397,325
Advertisement and promotion	**329,143**	235,553
Professional fees	**253,645**	224,753
Utilities	**240,191**	274,364
Insurance expense	**170,059**	212,861
Telephone, telex and cables	**168,493**	177,878
Security services	**114,963**	78,534
Rent	**84,240**	78,120
Taxes and licences	**73,326**	78,136
Repairs and maintenance	**64,794**	33,584
Subscriptions and fees	**57,171**	42,508
Travel and entertainment	**56,035**	34,872
ECSE fees and expenses	**38,385**	41,228
Stamps and postage	**37,773**	36,765
Annual report expense	**34,879**	44,613
Miscellaneous expenses	**31,633**	90,304
Administrative fees	**24,068**	41,146
Cleaning	**22,523**	27,501
Credit card chargeback losses	**17,780**	43,912
Legal fees	**15,969**	87,362
Secretarial fees	**6,468**	6,468
Cash shorts	**1,922**	3,264
Net loss on disposal of fixed assets	**-**	12,908
Total general and administrative expenses	**9,014,103**	9,709,860

30 Salaries and related costs

	2013 $	2012 $
Salaries and wages	**3,858,460**	4,145,039
Other staff costs	**928,361**	1,194,845
Social security costs	**343,427**	359,382
Gratuity	**41,291**	-
Pension costs	**221,456**	202,057
Total salaries and related costs	**5,392,995**	5,901,323

In 2003 the Bank introduced a pension plan for its employees. Contributions to the pension plan for the year ended June 30, 2013 amounted to $221,456 (2012: $202,057).

31 Change in Accounting Policy

Prior to July 1, 2012, the Bank recognised interest income on non-performing loans and advances to the extent that the present value of estimated future cash flows exceeded the carrying amounts. The interest income was recognised in the statement of income and a receivable recorded in loans and advances. The total, amount of interest recorded was then transferred to a non-distributable reserve account. This practice though compliant with IFRS, was not in accordance with the guidelines issued by the Bank's regulators the Eastern Caribbean Central Bank (ECCB).

On July 1, 2012, the Bank took the decision to change its accounting policy to discontinue the practice of recognising interest income on non-performing loans and advances. This decision was due to the Bank adopting a more conservative approach and also to ensure full compliance with the ECCB's guidelines. The change in accounting policy has been accounted for retrospectively, and the comparative information has been restated.

The interest recognised in prior years on non-performing loans and advances was included in the Bank's chargeable income for assessment of corporate income taxes. The change in accounting policy and the restatement of the financial statements have resulted in a temporary difference related to the tax paid on the income now derecognised, consequently, a deferred tax asset has been recorded to reflect this temporary difference. The Bank is awaiting confirmation from the tax authorities regarding the possibility of recovery of the associated taxes paid (up to June 30, 2012).

The impact of the change on the Bank's statement of financial position is as follows:

	Loans and advances $	Deferred tax assets $	Other reserves $	Retained earnings $
Balance, as at June 30, 2011 as previously reported	**203,744,099**	**126,633**	7,322,069	17,240,566
Cumulative impact – (decrease)/increase	**(4,371,135)**	**1,104,462**	(4,371,135)	1,104,462
Balance, at June 30, 2011 as restated	**199,372,964**	**1,231,095**	2,950,934	18,345,028
Balance, as at June 30, 2012 as previously reported	**205,597,804**	**(400,363)**	7,361,433	16,857,160
Cumulative impact – (decrease)/increase	**(5,096,616)**	**1,358,380**	(5,096,616)	1,358,380
Balance, at June 30, 2012 as restated	**200,501,188**	**958,017**	2,264,817	18,215,540

The impact of the change on the Bank's statement of income for the year ended 30 June 2012 is as follows:

	As previously reported	Decrease	As restated
Interest Income	24,561,095	(725,481)	**23,835,614**
Deferred tax expense	483,796	(253,918)	**229,878**
Net profit for the year	1,061,112	(471,563)	**589,549**
Earnings per share	0.11	(0.07)	**0.04**

THE BANK OF NEVIS LIMITED

NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2013

Expressed in Eastern Caribbean Dollars

THE BANK OF NEVIS LIMITED
Non-Consolidated Financial Statements
As at June 30, 2013
(Expressed in Eastern Caribbean dollars)

CONTENTS

Independent auditors' report

To the shareholders of The Bank of Nevis Limited

The accompanying summary financial statements, which comprise the non-consolidated statement of financial position as at June 30, 2013, the non-consolidated statement of comprehensive income, non-consolidated statement of income, non-consolidated statement of changes in equity and non-consolidated statement of cash flows for the year then ended, are derived from the audited financial statements of The Bank of Nevis Limited for the year ended June 30, 2013. We expressed an unmodified audit opinion on those non-consolidated financial statements in our report dated December 6, 2013.

The summary non-consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards applied in the preparation of the audited non-consolidated financial statements of The Bank of Nevis Limited. Reading the summary financial statements, therefore, is not a substitute for reading the audited non-consolidated financial statements of The Bank of Nevis Limited.

Management's responsibility for the summary financial statements

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

Auditors' responsibility

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

Opinion

In our opinion, the summary non-consolidated financial statements are consistent, in all material respects, with the audited non-consolidated financial statements of The Bank of Nevis Limited for the year ended June 30, 2013, prepared in accordance with International Financial Reporting Standards.

Deloitte & Touche

3rd Floor
The Goddard Building
Haggatt Hall
St Michael, BB11059
Barbados

PKF

Independence House
North Independence Square
Basseterre
St Kitts

February 7, 2014

THE BANK OF NEVIS LIMITED
Non-Consolidated Statement of Financial Position
As at June 30, 2013

(Expressed in Eastern Caribbean dollars)

	2013 $	2012 $ (Restated)	2011 $ (Restated)
Assets			
Cash and balances with the Central Bank	**17,872,825**	17,661,612	15,653,749
Due from other banks and other financial institutions	**59,867,313**	32,215,151	37,435,971
Investment securities	**32,669,336**	36,120,538	33,176,476
Loans and advances	**188,860,890**	182,112,263	185,166,782
Other assets	**1,623,156**	2,018,664	1,705,231
Investment in subsidiaries	**2,350,000**	2,350,000	2,350,000
Property, plant and equipment	**26,085,054**	22,490,725	20,919,361
Intangible assets	**601,815**	294,707	303,870
Deferred tax asset	**888,741**	925,290	1,198,368
Income tax receivable	**833,021**	-	-
Due from related parties	**221,254**	-	2,712,246
Total assets	**331,873,405**	296,188,950	300,622,054
Liabilities			
Customers' deposits	**279,314,479**	246,528,413	250,721,468
Other liabilities and accrued expenses	**4,925,503**	4,611,120	5,281,188
Income tax payable	**-**	203,762	858,143
Due to related parties	**-**	58,583	-
Total liabilities	**284,239,982**	251,401,878	256,860,799
Shareholders' Equity			
Share capital	**9,347,687**	9,347,687	9,347,687
Statutory reserve	**9,288,591**	9,007,847	8,537,463
Revaluation reserve	**13,169,044**	10,791,645	10,711,415
Other reserves	**952,870**	1,090,461	1,979,221
Retained earnings	**14,875,231**	14,549,432	13,185,469
Total shareholders' equity	**47,633,423**	44,787,072	43,761,255
Total liabilities and shareholders' equity	**331,873,405**	296,188,950	300,622,054

Approved for issue by the Board of Directors on November 27, 2013

Chairman

Director

THE BANK OF NEVIS LIMITED
Non-Consolidated Statement of Income
For the year ended June 30, 2013

(Expressed in Eastern Caribbean dollars)

	2013 $	2012 $ (Restated)
Interest income	**18,452,914**	19,009,711
Interest expense	**(10,904,256)**	(10,450,585)
Net interest income	**7,548,658**	8,559,126
Impairment provision on investment securities	**(426,100)**	(851,733)
Other operating income	**5,001,144**	5,137,329
	12,123,702	12,844,722
Operating expenses		
General and administrative expenses	**7,951,797**	8,442,168
Depreciation	**352,321**	545,169
Amortisation	**212,597**	174,069
Directors' fees and expenses	**306,643**	263,852
Audit fees	**327,600**	327,600
Provision for loan impairment	**1,163,464**	66,881
Correspondent bank charges	**271,044**	210,344
	10,585,466	10,030,083
Operating profit before tax for the year	**1,538,236**	2,814,639
Taxation		
Current tax expense	**54,732**	681,952
Prior year tax expense	**-**	22,452
Deferred tax expense	**79,782**	229,878
	134,514	934,282
Net profit for the year	**1,403,722**	1,880,357
Net profit attributable to shareholders of the company	**1,403,722**	1,880,357
Earnings per share	**0.15**	0.20

THE BANK OF NEVIS LIMITED
Non-Consolidated Statement of Comprehensive Income
For the year ended June 30, 2013

(Expressed in Eastern Caribbean dollars)

	2013 $	2012 $ (Restated)
Net profit for the year	**1,403,722**	1,880,357
Other comprehensive income for the year:		
Net change in market value of investment securities, net of tax	**(80,293)**	80,230
Revaluation adjustment: land and building	**2,457,692**	-
Total comprehensive income for the year	**3,781,121**	1,960,587

THE BANK OF NEVIS LIMITED
Non-Consolidated Statement of Changes in Equity
For the year ended June 30, 2013

(Expressed in Eastern Caribbean dollars)

	Share capital $	Statutory reserves $	Revaluation reserve $	Other reserves $	Retained earnings $	Total $
Balance June 30, 2011 as previously reported	9,347,687	8,537,463	10,711,415	5,041,322	12,113,734	45,751,621
Effect of change in accounting policy	-	-	-	(3,062,101)	1,071,735	(1,990,366)
Balance June 30, 2011 as restated	**9,347,687**	**8,537,463**	**10,711,415**	**1,979,221**	**13,185,469**	**43,761,255**
Total comprehensive income for the year as restated	-	-	80,230	-	1,880,357	1,960,587
Transfers to reserves	-	470,384	-	(888,760)	418,376	-
Dividends	-	-	-	-	(934,770)	(934,770)
Balance June 30, 2012 as restated	**9,347,687**	**9,007,847**	**10,791,645**	**1,090,461**	**14,549,432**	**44,787,072**
Total comprehensive income for the year	-	-	2,377,399	-	1,403,722	3,781,121
Transfers to reserves	-	280,744	-	(137,591)	(143,153)	-
Dividends	-	-	-	-	(934,770)	(934,770)
Balance June 30, 2013	**9,347,687**	**9,288,591**	**13,169,044**	**952,870**	**14,875,231**	**47,633,423**

THE BANK OF NEVIS LIMITED
Non-Consolidated Statement of Cash Flows
For the year ended June 30, 2013

(Expressed in Eastern Caribbean dollars)

	2013 $	2012 $ (Restated)
Cash flows from operating activities		
Operating profit before tax for the year	**1,538,236**	2,814,639
Items not affecting cash		
Provision for loan impairment	**1,163,464**	66,881
Depreciation	**352,321**	545,169
Amortisation	**212,597**	174,069
Impairment provision on investment securities	**426,100**	851,733
Net loss on disposal of fixed assets	**(80)**	12,908
Interest income	**(18,452,914)**	(19,009,711)
Interest expense	**10,904,256**	10,450,585
Cash flows from operating income before changes in operating assets and liabilities	**(3,856,020)**	(4,093,727)
Changes in operating assets and liabilities		
Decrease / (increase) in mandatory and restricted deposits held with Central Bank	**388,648**	(2,149,790)
Decrease / (increase) in other assets	**395,508**	(313,433)
(Increase) / decrease in loans and advances, net of repayments received	**(8,180,730)**	3,101,892
Increase / (decrease) in customers' deposits	**32,590,302**	(4,301,315)
Increase/(decrease) in other liabilities and accrued expenses	**314,383**	(670,068)
Cash from / (used in) operations before interest and tax	**21,652,091**	(8,426,441)
Interest paid	**(10,708,492)**	(10,342,325)
Interest received	**18,923,915**	18,169,964
Income tax paid	**(1,091,515)**	(1,358,785)
Net cash from / (used in) operating activities	**28,775,999**	(1,957,587)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(1,488,958)**	(2,132,076)
Sale of property, plant and equipment	**80**	2,635
Purchase of intangible assets	**(519,705)**	(164,906)
Decrease / (increase) in investment securities	**2,694,433**	(9,849,273)
Decrease in fixed deposits	**-**	345,455
Net cash from / (used in) investing activities	**685,850**	(11,798,165)
Cash flows from financing activities		
Dividends paid	**(934,770)**	(934,770)
Advances to related parties	**(279,837)**	2,770,829
Net cash (used in) / from financing activities	**(1,214,607)**	1,836,059
Increase / (decrease) in cash and cash equivalents	**28,247,242**	(11,919,693)
Cash and cash equivalents, beginning of year	**49,759,317**	61,679,010
Cash and cash equivalents, end of year	**78,006,559**	49,759,317

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THE BANK OF NEVIS LIMITED

Improving the Quality of Life

P.O. Box 450
Main Street
Charlestown
Nevis
West Indies
Tel: (869) 469-5564
Fax: (869) 469-1039
info@thebankofnevis.com
www.thebankofnevis.com