
A COLLECTIVE APPROACH FOR LONG TERM PERFORMANCE

# THE BANK OF NEVIS LIMITED

*Improving the Quality of Life*

Annual Report 2016

# A COLLECTIVE APPROACH FOR LONG TERM PERFORMANCE

The BON annual report focuses on a renewed commitment of all to the long term success of the institution. Through diligent application of sound practice of lending and governance, the bank will continue to emerge from difficult economic times. The report recognizes all Directors and Staff challenges still ahead and assures of the unwavering passion of all staff toward success. Like the balanced movement of the most timeless timepieces, the Bank's many parts must work in synchronised union to ensure that time will tell of this period of global economic uncertainty, that BON successfully stood the test of time

## 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 realise 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 recognised 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 Line

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

Notice is hereby given that the thirtieth 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 Thursday, December 15, 2016 at 5:00 p.m.

## AGENDA

1. To approve the Minutes of the twenty-ninth Annual General Meeting held on February 18, 2016
2. To receive the report of the Board of Directors
3. To receive the report of the Auditors
4. To receive and consider the accounts for the year ended June 30, 2016
5. To elect one non-independent director; Janice Daniel-Hodge retires by rotation and does not offer herself for re-election
6. To elect one independent director; Telbert Glasgow retires by rotation and does not offer himself for re-election
7. To declare a dividend of 15 cents per share
8. To appoint Deloitte and Touche, Chartered Accountants, as auditors for the year ending June 30, 2017
9. Any other business

BY ORDER OF THE BOARD

CINDY C.T  HERBERT (MRS)
Secretary

## 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. Shareholders are directed to clause 4.4.1 of the Company's By-Laws in relation eligibility for directorship. Clause 4.4.1 reads:

   ***Eligibility: No person shall be eligible for election as a director of the Company if:***

   ***a.*** ***he is prohibited from being a director by reason of any provision in or any order made under, the Ordinance, the Banking Act or any other applicable legislation; or***

   ***b.*** ***he does not satisfy qualifying criteria/guidelines of the Eastern Caribbean Central Bank;***

   ***c.*** ***he does not hold at least five hundred (500) shares in the Company.***

   ***d.*** ***unless he or some other shareholder intending to propose him, at least seven clear days before the meeting, leaves at the registered address of the Company a notice in writing duly signed, specifying his candidature for the office and the intention of such shareholder to propose him.***

5. 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 or 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***

6. In proposing candidates for nomination to directorship generally, shareholders are asked to have regard to the following section of the **Banking Act, No.1 of 2015:**

   ***97.(1) Every person who is, or is likely to be a director, significant shareholder, or officer of a licensed financial institution or licensed financial holding company must 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) the person’s probity, competence and soundness of judgment for fulfilling the responsibilities of that position;***

   ***(b) the academic or professional qualifications or effective experience in banking, finance, business or administration or any other relevant discipline of the person concerned;***

   ***(c) the diligence with which the person is fulfilling or likely to fulfill the responsibilities of that position;***

   ***(d) whether the interests of depositors or potential depositors of the licensed financial institution are, or are likely to be, in any way threatened by that person holding the position;***

*(e) whether the person is a significant shareholder, director or officer or holds any position of authority in any licensed financial institution locally or elsewhere whose licence has been suspended, or revoked otherwise than as a result of an amalgamation or voluntary liquidation or which has been or is being wound up or compulsorily liquidated;*

*(f) whether the person has failed to satisfy any judgment or order of a court locally or abroad including the repayment of a debt;*

*(g) whether the person is an un-discharged bankrupt or has been declared a bankrupt locally or abroad; and*

*(h) whether the person has been removed or suspended by a regulatory authority from serving as a director or officer in a licensed financial institution or any body corporate locally or abroad.*

*(3) Without prejudice to the generality of the foregoing provisions, regard may be had to the previous conduct and activities in business or financial matters of the person in question and, in particular, to any evidence that the person has:*

*(a) committed an offence involving fraud or other dishonesty or violence;*

*(b) contravened any provision made by or under an enactment designed for protecting members of the public against financial loss due to dishonesty, incompetence or malpractice by persons concerned in the provision of banking, insurance, investment or other financial services or the management of companies or against financial loss due to the conduct of a discharged or undischarged bankrupt;*

*(c) engaged in any business practices appearing to the board to be deceitful or oppressive or otherwise improper (whether unlawful or not) or which otherwise reflect discredit on the person's method of conducting business;*

*(d) an employment record which leads the board to believe that the person carried out an act of impropriety in the handling of his employer's business; or*

*(e) engaged in or been associated with any other business practices or otherwise conducted himself in a manner as to cast doubt on his competence and soundness of judgment.*

# CORPORATE INFORMATION

## DIRECTORS

**Kevin M. Huggins (Chairman)**
Businessman

**Janice Daniel-Hodge**
Businesswoman

**Spencer W. Hanley**
Businessman

**Jacqueline Lawrence**
Certified Accountant

**Vernel Powell**
Businessman

**Dr. Telbert Glasgow**
Engineer

**H. Ron Daniel II**
Businessman

**P. Andrew Merchant**
Businessman

## SECRETARY

Cindy Herbert

## REGISTERED OFFICE

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

## AUDITORS

**Deloitte & Touche**
3rd Floor, The Goddard Building
Haggatt Hall, St. Michael, BB11059
Barbados, W. I

## IN-HOUSE COUNSEL

Cindy Herbert, LLM (Merit), LEC, LLB (Hons), NP
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 | Antigua Commercial Bank |
| Barbados | Republic Bank (Barbados) Ltd |
| Canada | Bank of America Merrill Lynch |
| | Royal Bank of Canada |
| St. Kitts | SKNA National Bank |
| | CIBC/First Caribbean International Bank |
| | RBC Royal Bank of Canada |
| St. Lucia | Bank of St. Lucia Limited |
| St. Maarten | The Windward Island Bank Ltd |
| St. Vincent & the Grenadines | Bank of St. Vincent and the Grenadines Ltd. |
| United Kingdom | Lloyds TSB Bank PLC |
| United States | Bank of America Merrill Lynch |
| | Deutsche Bank Trust Company Americas |

## INVESTMENT BROKERS

First Citizens Investment Services Ltd.
MorganStanley
Raymond James and Associates

## BOARD COMMITTEES

Audit and Compliance
Business and Product Development
Credit
Human Resources and Compensation
Investment
Risk Management

# BOARD OF DIRECTORS

**FROM LEFT TO RIGHT**
Vernel Powell, Spencer W. Hanley, Kevin Michael Huggins, Jacqueline Lawrence, Ron Daniel, P. Andrew Merchant. Missing Directors - Janice Daniel- Hodge; Telbert Glasgow.

# DIRECTORS' PROFILES

## KEVIN HUGGINS (CHAIRMAN) | BBA; ACC. DIR

Mr. Kevin Huggins has over 20 years of experience in the banking and financial services industry. He holds a Bachelor of Business Administration degree with honors in Finance and Investments from Baruch College, Zicklin School of Business, City University of New York.

He previously held the position as Manager of Investments, Treasury and Brokerage at the Bank of Nevis Limited.

Mr. Huggins is the owner and Managing Director of The Huggins Group Limited.

## JANICE DANIEL-HODGE | MSC; ACC. DIR.

Ms. Janice Daniel-Hodge holds a Bachelor of Science degree from St. Francis College in New York and a Master of Science degree from Alabama A&M University in Alabama, United States of America. 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.

## H. RON DANIEL II | BSC. ; ACC. DIR.

Mr. H. Ron Daniel II graduated from the University of the West Indies (Cave Hill Campus) with a Bachelor of Science degree in Sociology and Law and is the part owner/Chief Executive Officer (CEO) of Hamoron Services Ltd - a company which specializes in real estate transactions and offshore financial services.

He serves as Pastor of the Wesleyan Holiness Church in Newcastle. Mr. Daniel has served as a Founding Director of HOPE Nevis Inc and Deputy Chairman of The Nevis Solid Waste Management Authority. He has also served as a member of the District Board of Administration for the Wesleyan Holiness Church and a Director for the Caribbean Credit Card Corporation.

## VERNEL POWELL | MSC.

Mr. Vernel 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.

## DR. TELBERT GLASGOW (INDEPENDENT DIRECTOR) | PHD

Dr. Telbert 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 Spectrum Management and Consulting Ltd.

## SPENCER W. HANLEY | BSC; MASTERS - PUBLIC ADMINISTRATION

Mr. Spencer W. Hanley is a Businessman and Personal Financial Consultant. He holds an Associate Degree in Accounting, a Bachelor degree in Business Administration, and a Master Degree in Public Administration from Florida International University.

His work experience includes 19 years as an internal auditor for Liberty Mutual Insurance Co of Boston and Miami Dade County; five (5) years as Loans Manager at the Bank of Nevis Ltd; two (2) years as Branch Manager of St. Kitts-Nevis-Anguilla National Bank; six (6) years as CEO/General Manager of Nevis Air and Sea Ports Authority; and six (6) years as a Director at Nevis Tourism Authority. He's the current President of St. Kitts and Nevis Red Cross Society and owner/operator of Lindbergh Landing, an eco-tourism product in Nevis consisting of B&B, self-catering cottages, bar, and restaurant.

## JACQUELINE LAWRENCE | BSC.; CERTIFIED PUBLIC ACCOUNTANT (CPA); CHARTERED DIRECTOR

Mrs. Jacqueline Lawrence has served in the banking industry for over 20 years. She was employed by The Eastern Caribbean Central Bank from 1994 to 2014, where she held several positions including Deputy Director and Director. Presently, Mrs. Lawrence is the General Manager at Lawrence Associates Ltd and Chief Executive Officer and Principal at CaribTrust Ltd.

Mrs Lawrence is a Certified Public Accountant. She holds a Bachelor of Science degree in Accounting from Eastern Connecticut State University, USA.

## P. ANDREW MERCHANT | BA; MBA

Mr. P. Andrew Merchant holds a Master in Business Administration (MBA) from the University of Pheonix, Arizona as well as a Bachelor of Arts Degree and an Associate of Arts Degree from the University of the Virgin Islands, St. Thomas, United States Virgin Islands.

Mr. Merchant has had an extensive career, spanning almost two decades, within the financial services industry. He previously served in the capacity of Director and General Manager of both TDC Home and Building Depot and St. Kitts-Nevis-Insurance Company Limited (now called TDC Insurance Company Limited). He also served as a Director of St. Kitts Masonry Products Limited. Mr. Merchant is currently employed as the Operations Manager for the Cable Bay Hotel Development Co. Ltd.

## GROUP FINANCIAL HIGHLIGHTS*

Expressed in Eastern Caribbean Dollars

| | 2016 (000) | 2015 (000) | 2014 (000) | 2013 (000) | Restated 2012 (000) |
|---|---|---|---|---|---|
| Total assets | 605,173 | 575,909 | 525,658 | 455,754 | 414,387 |
| Due from banks and other financial institutions | 207,376 | 224,094 | 190,278 | 130,132 | 94,728 |
| Investment securities | 155,450 | 122,965 | 100,834 | 90,925 | 93,116 |
| Loans & advances | 211,327 | 197,361 | 203,180 | 204,595 | 200,501 |
| Customers' deposits | 539,170 | 515,550 | 441,632 | 391,386 | 349,886 |
| Paid-up share capital | 9,348 | 9,348 | 9,348 | 9,348 | 9,348 |
| Shareholders' equity | 57,985 | 54,654 | 58,771 | 58,666 | 50,382 |
| Gross operating income | 24,641 | 21,030 | 24,490 | 31,688 | 29,808 |
| Total expenses & provisions (excl. tax) | 19,121 | 23,168 | 23,248 | 24,896 | 28,280 |
| Interest income | 19,933 | 16,559 | 19,211 | 24,864 | 23,836 |
| Interest expense | 8,702 | 10,496 | 11,618 | 12,467 | 12,323 |
| Staff costs | 5,350 | 5,547 | 5,343 | 5,393 | 5,901 |
| Operating income / (loss) before tax | 5,520 | (2,138) | 1,242 | 6,792 | 1,528 |
| Income tax expense | 1,834 | 365 | 154 | 223 | 939 |
| Net profit / (loss) | 3,686 | (2,504) | 1,088 | 6,569 | 590 |
| Earnings / (loss) per share ($) | 0.39 | (0.27) | 0.12 | 0.70 | 0.06 |
| Dividend per share (cents) | 15.00 | - | 7.50 | 15.00 | 10.00 |
| Return on average assets (%) | 0.62 | (0.45) | 0.22 | 1.51 | 0.14 |
| Return on average equity (%) | 6.54 | (4.42) | 1.85 | 12.05 | 1.16 |
| Number of employees | 63 | 61 | 59 | 57 | 60 |

*The above amounts reflect the financial position and results of the Group which comprises The Bank of Nevis Limited and its subsidiaries including Bank of Nevis International Limited. For the year ended June 30, 2016, the amounts described in the above highlights may vary with the enclosed audited financial statements, since in some instances they do not include the "held-for-sale" adjustment for BONI.

**"Our clients rely on us even more in troubling times to be their measuring stick of the risk they are contemplating. If the bank is not confident in a venture, our clients are confident in our opinion and balanced risk assessment"**

"we intend to rise above all obstacles and continue the vision that was set forth by our founding fathers...."

Kevin Huggins
**Chairman**

# CHAIRMAN'S REMARKS

The post-independence period in the Federation of St. Christopher and Nevis brought about a new sense of freedom and created an era of foresight in economic development for the people. The Bank of Nevis Limited was no stranger to this movement, and in 1985, the bank was created with a vision to assist in fostering the economic development and "Improving the Quality of Life" for the citizens of this proud Federation.

## A BRIEF LOOK BACK

A glance at our past indicated that only twice within the past ten years, as a Group, your bank failed to turn a profit as evidenced in our 2009 and 2015 financials. We would have sustained some challenges throughout the 2015 financial year which led to a less than stellar performance, and thereby resulted in a (EC$2.5 million) loss. Accordingly, we were unable to reward you with dividends for your loyalty, your commitment, and your steadfast belief in us. While we must be mindful of the reasons we came into existence, we are committed to act in the best interest of you our shareholders, which is to maximize your return on investments.

## GLOBAL ECONOMIC RECAP

**International Economy**

Slower growth in some of the major advanced economies along with structural weaknesses in large emerging economies resulted in a less than expected favourably performance in the global economy for 2015. According to the International Monetary Fund (Economic Outlook), global growth was projected at 3.1% for 2015. However, global growth which was originally forecasted at 3.4% for 2016 is now anticipated to be more subdued at 3.1% but recovering to 3.4% in 2017. The revised forecast is a reflection of the downside risks now affecting advanced economies following the June 2016 United Kingdom Brexit vote and a slower economic performance in the United States. These events have resulted in downward pressure on global interest rates and monetary policy initiatives are therefore likely to keep interest rates at the same levels for a longer period.

Concerns regarding emerging market and developing economies have improved and past negative sentiment relating to China's growth prospects have declined. However, concerns still remain regarding macroeconomic outcomes in Europe following the Brexit referendum. Global growth is projected to trend upward from 2017 onwards mainly associated with developments in emerging and developing economies as macroeconomic conditions are expected to stabilise in a number of countries experiencing deep recessions.

Meanwhile, economic activity in our main trading partner, the United States, has lost momentum and the improved activity in the second quarter was not achieved with growth projected at 1.1%. Notwithstanding, consumption growth which averaged around 3.0% in the first half has remained strong underpinned by a strong labour market and increasing payrolls.

**Regional Economy**

The regional economy continued to face challenges on the back of weaker than expected growth in the international economy. According to the Caribbean Development Bank (Economic Review 2016), during 2015 commodity producing countries experienced a sharp fall in growth but tourism reliant countries recorded improved results.

Falling commodity prices negatively impacted the fortunes of the Region's commodity exporters in 2015, all of which grew less than in 2014. Trinidad and Tobago grew by just 0.2% as output in the petroleum industry declined while in Guyana gold and bauxite production contracted primarily in the first half of 2015. Dominica and Bahamas were affected by hurricanes in 2015 which resulted in losses of US$483 million (90.0% of Gross Domestic Product (GDP) and US$103 million (1.2% of GDP) respectively, causing decline in the productive sectors of agriculture and tourism in these countries. Jamaica also suffered from drought which affected agriculture but was able to record overall growth from agriculture, manufacturing, petroleum refinery production, food and beverages.

Tourism destinations experienced continued growth in visitor arrivals with Grenada, St. Kitts and Nevis and Turk and Caicos recording growth of 4.0% in tourism activities. However, the Barbados economy only experienced a growth rate of 0.5% although visitor arrivals grew by 15.0% overall. The International Monetary Fund (Latin America and the Caribbean: Managing Transitions April 2016) is forecasting an overall growth of 3.1% for the Caribbean region both in 2016 and 2017. However, concerns remain regarding the negative impact of real effective exchange appreciation, further monetary policy tightening by the United States Federal Reserve, failure to contain the Zika virus, potential diversion of tourists to Cuba and natural disasters.

Meanwhile, the region's banking system continues to suffer from the impact of de-risking by some international banks which may impede trade and general global transactions.

### St. Kitts and Nevis Economy

The St. Kitts and Nevis economy continues to perform strongly with a growth rate of 5.0% in 2015 (International Monetary Fund Article IV Consultation July 2016) supported primarily by the construction and tourism sectors and related activity on the rest of the economy. Despite a tapering off in the Citizenship-by-Investment (CBI) programme, inflows from the programme continue to support economic activity. Consumer price inflation has declined significantly associated with lower global commodity prices and the removal of VAT on certain food items.

The fiscal position of the government continues to reflect a surplus, although less than prior years due to a decrease from inflows from the CBI programme and VAT. Notwithstanding, the debt is expected to continue declining and achieve the Eastern Caribbean Currency Union's (ECCU) 60.0% of GDP target by 2017.

The banking system remained largely stable with comfortable capital and liquidity buffers. However, the high non-performing loans, low profitability and the slow progress in the land for debt swap may pose some challenges for the banks in St. Kitts and Nevis.

The outlook for St. Kitts and Nevis remains positive with a growth rate of 3.5% in 2016 and 3.0% over the next few years as a result of forecasted reduction in CBI related activity.

## 2016 FINANCIAL YEAR END REVIEW

Fellow Shareholders, on behalf of The Bank of Nevis Limited, the Board of Directors, Management, and Staff, I am pleased to present to you, the results of the 2016 financial year.

Over the past ten years, the Group has seen its total assets rise from $305.8 million in 2007, to $603.9 million in 2016. This represents a growth of 97.5% over that time period. The path for growth has stemmed from our loans and advances to customers. As we measure this metric, evidence shows that over the last ten years the loans portfolio grew from $137.5 million to $211.3 million or 53.7% despite tough economic times associated with the global financial crisis. The 2016 financial year, saw a dramatic increase in our loans and advances to customers as we recorded a growth of 7.1% from $197.3 million in 2015 to $211.3 million in 2016. We showed a resounding comeback; as your Bank renewed focus on growth driven initiatives.

What provided this change? We have focused on providing you the Shareholders and our Customers with incentive driven promotions throughout the year that have given a true sense of confidence that has stimulated borrowings while also stimulating growth within our Federation.

With this view in mind, your bank has taken strategic mitigating and aggressive measures to ensure that our targets are achieved, and that management be held accountable where performance is concerned. If we are to compete, there has to be standards by which we must adhere to. We must strive to be most paramount, as the number one financial services institution within the markets that we serve. The results of those measures have reduced our non-performing loans (NPL) to a current level of 15.0% for the Group and 13.7% for the domestic bank, with a projected reduction at 8.0% by the end of the 2017 financial year. With this progress, we have seen a remarkable turnaround to our bottom line from a loss of (EC$2.5million) last financial year to an EC$3.7 million profit as currently recorded in our 2016 audited financial statements.

## 2016 GOVERNANCE

### Board of Directors Changes

2016 brought about a series of changes in the overall governance of the Group.

- Chairperson Ms. Janice Daniel-Hodge was replaced by Mr. Kevin Huggins as Chairman of the Board of Directors. As Chairperson, Ms. Daniel-Hodge's contributions were profound, propitious and profitable. We express our gratitude for her contributions both as a Director and Chairperson.
- Mr. Richard Lupinacci Sr. ceased to be a Director effective February 17th, 2016 having served as a Director from the inception of The Bank of Nevis Limited. He understood the importance of an indigenous bank and its role to the people of this Federation. Throughout his formidable years, he served as either Chairman of the Board of Directors or as Director.
- Mr. Rawlinson Isaac retired by rotation and was not re-elected as a Director at the Annual General Meeting on February 18th, 2016. He served the bank in three different capacities. He first served as the General Manager, which was subsequently followed by his elevation to the Board of Directors, first as a Director and also as Chairman.

As Chairman of the Board of Directors, I want to thank both Mr. Lupinacci Sr. and Mr. Isaac for their efforts that have spanned over two decades and who both have left an indelible impression on the bank. On February 18th, 2016 Mrs. Jacqueline Lawrence and Mr. Spencer Hanley were elected to the Board. In April of 2016, the Board of Directors appointed Mr. P. Andrew Merchant to fill the vacancy created by Mr. Richard Lupinacci Sr.'s departure.

The new leadership will focus on the overall health of the Group. Our focus going forward will be centred on you the shareholders, and our commitment to you is on par with the commitment you have shown to us over the years.

## BANK OF NEVIS INTERNATIONAL LIMITED (BONI)

During the review period, Bank of Nevis International Limited renewed its focus on the activation of its wholly owned subsidiary, Bank of Nevis International Trust Services Inc. (BONITS). Accordingly, a Manager was recruited and significant progress has been made in advancing the launch of the entity. This is a strategic move to capitalize on further international business as it relates to trust and management accounts.

Additionally, during the year, a Business Development Manager and a new Senior Manager were appointed to help strengthen the management capability of BONI and to lead its strategic direction. We look forward to the contribution of the new team.

Section 54 (2) of the 2015 Banking Act stipulates that ***"The investment of a licensed financial institution in a permitted subsidiary shall not exceed ten per cent of the capital base."*** BONI is a wholly owned subsidiary of The Bank of Nevis Limited (BON). The Nevis International Banking Ordinance, 2014 now requires a minimum capital of US$2 million (EC$5.4 million; an increase from EC$1 million). Considering the current capital base of The Bank of Nevis Limited, US$2 million would place the Bank's investment in BONI over the stipulated ten percent. While BON is seeking to increase its minimum capital and by extension its capital base, the shareholders of BON at the Annual General Meeting in February 2016, authorized the Board to sell a partial amount or 100 percent of the shares in BONI. The Board of Directors has decided to sell 60 percent of BON's shareholding in BONI and subsequent to the end of the financial year on 30 September 2016, signed a share sale and purchase agreement with an interested party.

Significant BONI Board of Directors decisions during the year included:

1. Establishing guidelines for strategic sustainable growth over the next three years.
2. Initiating a CBI Mortgage Programme aimed at benefiting from the opportunities in the market.
3. Electing a new Chairman.
4. Approving the outsourcing of the US Portfolio Investment functions for best effectiveness and efficiencies.

## THE FUTURE

As we move forward, the Board as a cohesive unit has set strategic policies that management will implement for best financial practice and ultimate performance. Our projected 2017 profits are on target to continue the fruitful years, with forecasted profit above that of 2016.

The Board has worked extremely hard and has developed policies to ensure that the way forward will be one that is recognized by you the Shareholders and that your continued support and belief in us will remain steadfast.

So what have we done differently thus far? Under the leadership of the Board, we have swiftly reduced our NPL. Coupled with this, we have put other mitigating factors in place to further reduce the NPL by the end of the 2017 financial year. While we recognize our success over this financial year, we continue to be impacted by several challenges. Two of these challenges are:

1. **Finding a new correspondent banking relationship:** As you may be aware, some of the international correspondent banks have undertaken a de-risking initiative, which has seen the end of business banking relationships with some Caribbean banks, in particular indigenous banks. One of our two correspondent banks in the United States, Bank of America, has informed your bank that it will discontinue its correspondent relationship. To move forward we have engaged an international consultant who is acting on our behalf as we seek to replace this correspondent banking relationship.
2. **Changes to the Banking Act:** As we strive to comply with the new Banking Act, we are required to increase our capital base to EC$20.0M. We are reminded that the legislative requirement of this Act is to be implemented 450 days after it took effect in May of 2016. The process to raise capital includes;
    a. December 1st 2016 to January 31st 2017, a rights offering at $1 per share.
    b. March 1st to April 30th 2017, the issue of an additional public offering (APO) with a share price of $3.00.

As we continue to embrace the coming year, I want to thank our Customers, our Shareholders, and the Community in which we serve, for the great support, not only over the last financial year, but over the past thirty years. It is abundantly clear that you believe in us. It is evident, that you have embraced us as seen in your unblemished trust in us.

With your continued support we intend to rise above all obstacles, and to continue the vision that was set forth by our founding fathers, as we continue to serve and expand within this proud Federation of ours.

Kevin Huggins
CHAIRMAN

# DIRECTORS' REPORT

Dear Shareholders,

We are pleased to present to you our report on The Bank of Nevis Limited and its subsidiaries for the financial year ended June 30, 2016.

The theme for this year's annual report, ***A Collective Approach for Long Term Performance***, focuses on a renewed commitment of all stakeholders to the long term success of the institution having achieved the landmark of 30 years of operation. Although we continue to operate in an unpredictable economic environment, the unwavering passion and united aspirations of the Board, staff, customers and shareholders will ensure the continued success of our institution.

## CORPORATE GOVERNANCE

The Bank of Nevis Limited (the "Bank") which was established under the Companies Ordinance, Chapter 7.06 of the Laws of the Federation of Saint Christopher and Nevis, is a licensed deposit taking institution under the Banking Act, No.1 of 2015 of the Laws of the Federation of Saint 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 eight (8) elected directors, six (6) non-independent directors and two (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:

- oversight of the Bank, including its control and accountability systems;
- appointing and removing members of senior management;
- formulation of policy;
- input into, 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, implementing strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major 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 with the input of the institution's management team and staff formulated and approved the Bank's 2013-2016 Strategic Plan.

### Committees of the Board

The standing committees of the Board are the Audit & Compliance Committee, Building Committee, Business and Product Development Committee, Credit Committee, Human Resource & Compensation 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 chairpersons are appointed by the Board. Committee chairpersons 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 & Compliance Committee

The Audit & Compliance Committee is chaired by Jacqueline Lawrence. Other members include Kevin Huggins, Telbert Glasgow, P. Andrew Merchant, and Hanzel Manners (Independent Member).

The Audit & Compliance Committee of the Board meets at least quarterly and has oversight of the following duties:

- the integrity of the Bank's financial reporting;
- the Bank's internal controls over financial reporting and disclosure controls;
- the performance of the Bank's internal audit function and the qualifications and independence of the Bank's Internal Auditor;
- the qualifications, independence and performance of the External Auditors;
- the Bank's compliance with legal and regulatory requirements; and
- such other duties as the Board may from time to time delegate to it.

### Credit Committee

The Credit Committee is chaired by Spencer Hanley. Other members include Kevin Huggins. H. Ron Daniel II, Jacqueline Lawrence and Janice Daniel-Hodge.

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, reviewing the quality and performance of the Bank's credit portfolio and such other duties as the Board may from time to time delegate to it.

### Business and Product Development Committee

The Business and Product Development Committee is chaired by H. Ron Daniel II. Other members include Janice Daniel-Hodge and Spencer Hanley.

The Business and Product Development Committee meets at least quarterly and at such other times as may be necessary. The Committee is responsible for formulating 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.

### Human Resource & Compensation Committee

The Human Resource & Compensation Committee is chaired by Janice Daniel-Hodge. Other members include Kevin Huggins, H. Ron Daniel II and Vernel Powell. The Committee meets at least quarterly and at such other times as may be necessary.

The mandate of the Human Resources & Compensation Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing the management of human resources within the Bank, and to provide recommendations and advice to the Board on the Bank's human resources management strategies, initiatives, and policies.

### Investment Committee

The Investment Committee is chaired by Kevin Huggins, with other members being Telbert Glasgow, Vernel Powell, Jacqueline Lawrence and P. Andrew Merchant. The Investment Committee meets monthly and at such other times as may be necessary.

The Investment Committee is responsible for formulating the overall investment policies of the Bank, subject to approval of the Board, and establishing investment guidelines in furtherance of those policies. The Committee monitors the management of the portfolio for compliance with the investment policies and guidelines and for meeting performance objectives over time.

**Risk Management Committee**

Members of the Risk Management Committee include Vernel Powell (Chairperson), P. Andrew Merchant, Spencer Hanley and Telbert Glasgow. The Risk Management Committee meets at least quarterly and at such other times as may be necessary. The following are the duties and responsibilities of the Risk Management Committee:

- recommending the risk profile and risk appetite of the Bank, for approval by the Board;
- receiving and reviewing reports from management concerning the Bank's risk management strategies;
- recommending and overseeing the process developed by management to identify principal risks, evaluating their potential impact, and implementing appropriate strategies to manage those risks;
- recommending principles, strategies, policies and processes for managing risk;
- receiving and reviewing reports from management regarding resolution of significant risk exposures and risk events;
- reviewing and monitoring the risk implications of new and emerging risks, organizational change, regulatory change and major initiatives;
- providing a formal forum for communication between the Board and senior management; and
- such other duties as the Board may from time to time delegate to it.

## DIRECTORS' OWNERSHIP INTERESTS

The Directors' ownership interests in the ordinary shares of the Bank as at June 30 2016 are as follows:

**Shareholdings of Directors**

**June 30, 2016**

| Director | Number of Shares Held |
|---|---|
| H. Ron Daniel II | 2,600 |
| Telbert Glasgow | 2,962 |
| Janice Daniel-Hodge | 25,000 |
| Spencer Hanley | 900 |
| Kevin Huggins | 11,250 |
| Jacqueline Lawrence | 2,000 |
| P. Andrew Merchant | 500 |
| Vernel Powell | 681 |
| **Total** | **45,893** |

During the year under review, there were no instances wherein the Directors had any material interest in any contract or other arrangement in relation to the business affairs of the Bank.

## DIVIDENDS

The Directors are mindful of the need to maintain adequate capital to achieve the strategic objectives of the institution and to comply with the capital adequacy requirements as stipulated in the Banking Act. Additionally, we are aware that dividend payments reduce the level of profits retained in the company and accordingly the level of capital. However, your Directors recognize the importance of dividends to shareholders and investors. In the circumstances, a cash dividend of 15 cents per share is being recommended by the Directors for the year ended June 30 2016. If approved by the shareholders, this dividend rate will result in a total payment of EC$1,402,153 – a payout ratio of 38.04%.

## CORRESPONDENT BANKING

The issue of correspondent banking has become a major issue over the last several months with a number of international banks terminating or restricting the activities on the correspondent accounts of banks across the Caribbean. The issue of "de-risking" is yet another challenge for the Caribbean banking industry given the importance of this service for customers to access global banking and conduct trade. During the review period, The Bank of Nevis Limited was informed by one of its two correspondent banks in the United States that it intended to terminate the Bank's correspondent account. Accordingly, the Bank has been working assiduously to ensure that it replaces this correspondent account and maintains two correspondent banking relationships in the United States.

## BANK OF NEVIS INTERNATIONAL LIMITED (BONI)

The shareholders of BON at the Annual General Meeting in February 2016 authorized the Board to sell a partial amount or 100 percent of the shares in BONI. The Board of Directors has decided to sell 60 percent of BON's shareholding in BONI and subsequent to the financial year on 30 September 2016, signed a share purchase agreement with an interested party. Additionally, the submissions for the requisite approvals were forwarded to the regulatory authorities and we continue to engage them to obtain the approvals.

## CORPORATE SOCIAL RESPONSIBILITY

During the 2016 financial year, The Bank of Nevis Limited remained committed to its mandate as a corporate social partner. Accordingly, the Bank contributed to several initiatives in the areas of Education, Sports, Health, Culture and other social endeavours.

**Education**

The Bank continued its sponsorship of the Tourism Youth Congress in conjunction with the local Ministry of Tourism for the fifth consecutive year. The Bank views this sponsorship as critical to the development of the tourism industry as it provides an opportunity for the youth to contribute to the vision of the sector. The Bank congratulates the winner and pledges its continued support to this endeavour.


BON Officers, Bronte Swanston Hendrickson and Zadia Browne with participants of the Tourism Youth Congress

The Bank continued to provide educational assistance through The Bank of Nevis Limited Dr. Simeon Daniel Scholarships. Four students, three from the Gingerland Secondary School and the other from the Charlestown Secondary School were awarded The Bank of Nevis Limited Dr. Simeon Daniel Scholarship for 2015. Also, the Bank rewarded the top students in CAPE and CSEC examinations through its Academic Excellence Awards.

Mr. Adrian Daniel, son of the late Dr. Simeon Daniel and Mrs. Lisa Herbert, CFO with Scholarship Winners for 2015

General Manager with 2015 Academic Excellence Awardees, Nekhaila Tyson, CSEC and Tyler Martin, CAPE

The Bank also provided assistance to the Nevis Sixth Form College to facilitate participation in the 2016 Leeward Islands Debating Competition, the Eastern Caribbean Institute of Banking and Financial Services YES Programme and delegates to the Commonwealth Youth Parliament.

## Sports

The Bank of Nevis Limited recognizes the importance of Sports in the development of our Nation's youth. During the 2015 financial year the Bank contributed to the Annual Emmanuel Richards Summer Football Programme. This programme is conducted every year for children under the age of 12 years.

General Manager handing over cheque to Emmanuel Richards

## Health

The Bank continued to provide support to charitable organizations geared towards the health of our people. In particular, the Bank provided support to the Pink Lily Cancer Foundation which focuses on breast cancer prevention. Additionally, the Bank supported several persons with medical expenses to travel overseas for treatment.

## Culture

In the area of culture, The Bank of Nevis Limited contributed to the cultural festival, Culturama by sponsoring representatives of the Mr. and Miss Talented Youth Pageant. Also, the Bank supported the Shekinah Dance Theatre Annual Production and the Christmas festival Miracle on Main Street.

**Social Services**

During 2015, The Bank of Nevis continued to ensure that we focus on our young people who are at risk. Accordingly, the Bank contributed to the Teen Mothers Programme conducted by the Nevis Island Administration's Social Services.

General Manager handing over cheque to Ivorcia Browne

## ACKNOWLEDGEMENTS

We express appreciation to our staff members who continue to ensure the viability of this institution. We thank those staff members who have decided to pursue other endeavours and have contributed significantly over the years including Mr. Trevor Hendrickson for his sterling contribution to The Bank of Nevis Limited for over 25 years, Mrs. Lisa Herbert (Chief Financial Officer) whose financial acumen will be missed, Ms. Aiandra Knights (General Counsel), Mrs. Rosebud Lander Abraham (Internal Auditor) and Ms. Kelva Merchant (Investment and Treasury Manager). The Bank has replaced some of these staff members from internal resources and is also in the process of recruiting persons externally. The Directors thank all the staff members who are departing, congratulate those who have been promoted and welcome the new recruits.

Finally, we thank our customers, shareholders and other stakeholders for your continued patronage and look forward to your support as we seek to ensure the continued success of The Bank of Nevis Limited.

BY ORDER OF THE BOARD

CHerbert

CINDY HERBERT

Corporate Secretary

# MANAGEMENT TEAM

**Name of Managers Left to Right:** Back Row - Fletcher St. Jean, Business Development Manager BONI; Kelva Merchant, Investment and Treasury Manager; Lisa Herbert, CFO; Denrick Liburd, Loans Manager; Shirletta Byron, HR Manager; Cheryl Moses, Manager, BONITS; Kamilah Anderson-Rodgers, Risk and Compliance Manager; Regis Wiltshire, IT Manager.

Front Row - Patricia Lescott, Credit Administration Manager; Everette Martin, General Manager; Cindy Herbert, General Counsel.

Missing Managers – Sonia Bowen-Tuckett, Operations Manager; Lyndis Wattley, Senior Manager, BONI.

# MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP'S FINANCIAL PERFORMANCE

*The ensuing discussion and analysis is provided to enable stakeholders to obtain a clearer understanding of the consolidated financial position and results of operations of The Bank of Nevis Limited and its subsidiaries (the 'Group') in respect of the financial year ended June 30, 2016 (as compared to the previous financial year ended June 30, 2015). The discussion and analysis reflects the financial position and results of the Group which comprises The Bank of Nevis Limited and its subsidiaries including Bank of Nevis International Limited. For the year ended June 30, 2016, the amounts and presentations described in the below analysis may vary with amounts included in the enclosed audited consolidated financial statements, since in some instances they do not include the "held-for-sale" adjustment for BONI.*

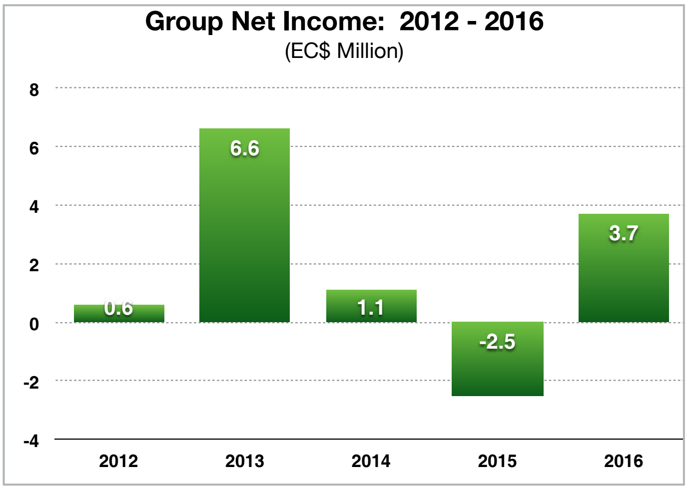
## OVERVIEW

The Bank of Nevis Limited continues to outperform expectations despite ongoing challenges and persistently sluggish economic activity. During the 2016 financial year, the performance of the Bank continued to be underpinned by the three broad pillars of its strategic framework of Innovation, Competency and Stability. Accordingly, the Bank focused on enhancing the customer experience and operational efficiency through the introduction of innovative payment solutions, strengthening the human resources capacity with strategic talent acquisition and management, expanding profitability via lending expansion while escalating our efforts to reduce bad debts and refocusing on risk management.

## RESULTS OF OPERATIONS

For the 2016 financial year, the Group recorded a profit of EC$3.7 million, a significant improvement over the loss of EC$2.5 million experienced in 2015.

The main contributing factor to this turnaround in profitability was the rise in net interest income of EC$5.2 million or 85.3% associated with an EC$3.4 million or 20.4% increase in interest income. The growth in interest income was driven primarily by the interest income on the loan portfolio which increased by EC$2.8 million or 24.2% as total loans and advances expanded significantly over the review period. Also important, was a recovery of EC$0.8 million on impaired loans. This performance was positively impacted by several loan campaigns conducted by the Bank during the financial year and the implementation of a new strategic plan to reduce non-performing loans.



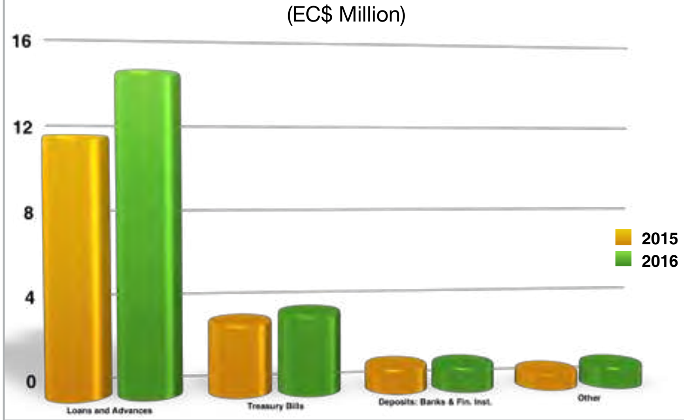

Also of note, is the Bank's continuing efforts to reduce interest expense. During the 2016 financial year, interest expense declined by EC$1.8 million or 17.1%. This decrease in interest expense was influenced by management's decision to reduce the interest rates paid on the fixed deposits portfolio which resulted in a decline of EC$1.3 million or 18.6% in interest expense on this type of deposit. Additionally, interest expense on savings continues to reduce with the implementation in 2015 by the Eastern Caribbean Currency Union (ECCU) Monetary Council of a cut on the interest rate paid on savings from 3% to 2%.

The domestic bank, The Bank of Nevis Limited, was the main contributor to the growth in profits for the 2016 financial year, contributing EC$2.5 million compared to a loss of EC$3.0 million last year. The institution's primary subsidiary, Bank of Nevis International (BONI) also reported improved profits contributing EC$1.2 million compared to a marginal profit of EC$0.5 in 2015 as the institution reduced the impairment on investments and adopted a more prudent overall management approach.

## INTEREST INCOME

The Group's total interest income recorded a growth of EC$3.4 million or 20.4% to EC$19.9 million. This growth in interest income was boosted largely by interest income on loans and advances as depicted in the chart below. Interest income on loan and advances increased by EC$2.8 million or 24.2% to EC$14.2 million as management implemented aggressive loan campaigns on all loan types during the 2016 financial year. These loan campaigns yielded an increase of EC$14.0 million or 7.1% in the loan portfolio.

All of the other sources of interest income increased over the review period although marginally. There was an uptick in interest income on Treasury Bills which grew by EC$375,129 or 11.5% to EC$3.6 million as the Group diversified its holdings in Treasury Bills across several ECCU Governments. The domestic Bank was also able to access Treasury Bills offered by some Governments through the Eastern Caribbean Central Bank (ECCB). While the interest income on deposits with banks and other financial institutions remained relatively flat at EC$1.1 million, interest income on other investment securities and available-for-sale investment securities expanded by EC$156,842 or 36.3% to EC$0.6 million and EC$75,279 or 23.2% to EC$0.4 million respectively.

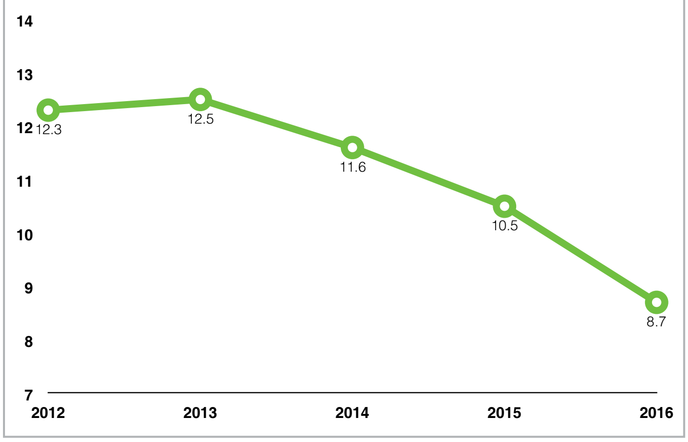


**Group Sources of Interest Income - 2015 vs. 2016**
(EC$ Million)

## INTEREST EXPENSE

As illustrated in the graph below, the Group's interest expense continued its downward trajectory over the 2016 financial year as interest expense declined by EC$1.8 million or 17.1% to EC$8.7 million. The decline in interest expense was mainly associated with the Group's interest rate reduction programme on fixed (time) deposits. The implementation of this reduction strategy resulted in a decrease in interest expense on fixed deposits of EC$1.3 million or 18.6% as management gradually adjusted interest rates on the larger fixed deposits over the review period.

Additionally, contrary to the reported EC$136,255 or 4.3% increase in interest expense on savings account in the 2015 financial year when the ECCU Monetary Council reduced interest rates on savings, interest expense on savings contracted by EC$0.5 million or 15.5% to EC$2.8 million during the 2016 financial year.



**Interest Expense: 2012-2016**
(EC$ Million)

## OTHER OPERATING INCOME

During the year under review, other operating income increased by EC$0.4 million or 10.1% to EC$4.6 million. The main contributor to this increase was an EC$0.3 million or 40.6% growth to EC$1.2 million in net foreign exchange gains. This was primarily associated with the strength of the currencies in the Eurozone and the United Kingdom although there was a marginal fall off in the pound sterling following the Brexit referendum in June 2016. Fees and commissions recorded an uptick of EC$0.2 million or 9.4% to EC$2.5 million compared to 2015.

## OPERATING EXPENSES

Management's implementation of a new strategic plan to reduce non-performing loans successfully resulted in improved collections which positively impacted operating expenses during the review period. Total operating expenses contracted by EC$1.5 million or 13.0% to EC$10.1 million. The main contributing factor to this contraction was recoveries on impaired debt of EC$0.8 million compared to a provision of EC$1.2 million in 2015.

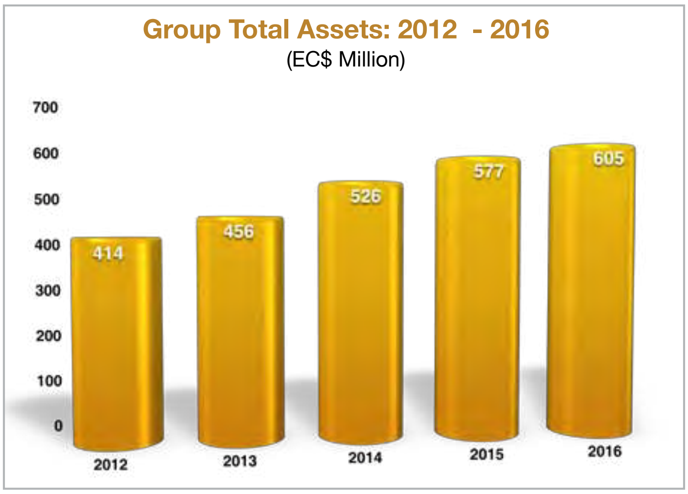
However, this reduction was partially offset by a marginal increase of EC$135,555 or 1.7% to EC$8.2 million in general and administrative expenses. Of note is that this increase was associated with an EC$141,602 or 22.7% growth to EC$0.8 million in building and equipment maintenance and repairs. By comparison, salaries and related costs decreased by EC$196,988 or 3.6% to EC$5.3 million. This decrease was associated with the delay in the replacement of some management staff and the appointment of the replacements at lower grade levels.

Correspondent bank charges grew by EC$156,123 or 33.6% to EC$0.6 million as the Group's correspondent banking activities increased over the period. As part of the strategic plan, management continues to adopt initiatives geared at sustained reduction in expenses.

# FINANCIAL POSITION

## Total Assets

At the end of the 2016 financial year, the Group's assets totaled EC$605.2 million, an increase of EC$28.2 million or 4.9%. The graph below shows a steady growth in the Group's assets over the last five years.




The Group's asset growth was mainly associated with an increase of EC$32.5 million or 26.4% in investment securities and a growth of $14.0 million or 7.1% in loans and advances. The asset growth was funded primarily by deposits and cash and balances due from banks and other financial institutions which were drawn down to fuel the growth in investment securities.

Bank of Nevis International maintained total assets of EC$168.0 million (US$62.3 million) at June 30, 2016, recording a marginal growth of EC$3.0 million or 1.8%. This growth was primarily driven by an increase in the investment securities which were mainly funded by customers' deposits.

## Cash, Bank Balances And Investment Securities

At the end of the review period, The Bank of Nevis Limited Group recorded a decline of EC$16.7 million or 7.5% in total cash and balances due from banks and other financial institutions. At EC$207.4 million, cash and balances due from banks and other financial institutions represented 34.3% of the Group's asset base. The Group continues to operate in a high liquidity environment mainly underpinned by funds flowing into the banking system from the Citizenship by Investment (CBI) Programme. These funds remain fairly volatile and accordingly a significant portion of the funds are held in regional and international correspondent accounts and highly liquid placements with local and regional financial institutions.

Included in this category of assets are the reserve deposits maintained with the Eastern Caribbean Central Bank (ECCB). Commercial banks operating in the ECCU region are mandated to hold 6% of their deposits with the ECCU. At June 30, 2016, the reserves held at the ECCB were compliant with the ECCB guidelines totaling EC$29.6 million, an increase of EC$7.6 million or 34.5% over the financial year.

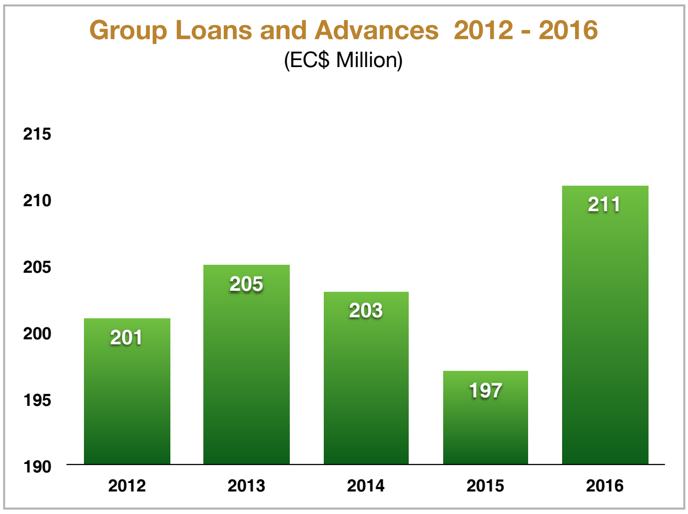
During the 2016 financial year, the Board decided to pursue a more active investment management strategy for the Group. The investment management framework was restructured with a comprehensive review of the investment policies for both BON and BONI. Accordingly, the investment portfolio increased by EC$32.5 million or 26.4% as balances held with financial institutions were drawn down and invested in securities. A fundamental part of this strategy was the establishment of a partnership with a US investment firm, Raymond James, to exclusively manage a portion of the investment portfolio for BONI.

Accordingly, investment securities available for sale recorded an increase of EC$11.2 million or 19.9% to EC$67.7 million. Investment in Treasury Bills, bonds and other debt instruments amounted to EC$87.3 million representing an increase of EC$19.3 million or 28.5%. BONI's investment portfolio expanded by EC$7.7 million or 10.8% increasing from EC$71.7 million (US$26.6 million) in 2015 to EC$79.4 million (US$29.5 million) in 2016.

## Loans And Advances

Although economic activity remained sluggish within the local economy, the Group's loan portfolio achieved a growth of EC$14.0 million or 7.1% during the 2016 financial year amounting to EC$211.3 million at June 30 2016. This growth was boosted by Management's implementation of an intensified loan's campaign throughout the entire financial year. The majority of the increase in the loan portfolio was through the "Easy Mortgage" Loan promotion for residential mortgages.

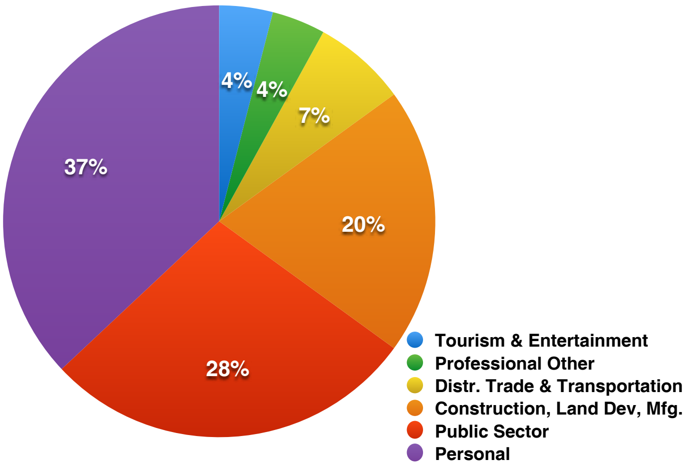
The graph below outlines the improvement in the Bank's loan portfolio over the 2016 financial year for the Group.



On a sectorial basis for the Group, the allocations within the loans and advances portfolio remained relatively unchanged. The Household (Personal) sector remained the lead sector with EC$80.6 million (37.0%), a growth of EC$9.1 million from EC$71.5 million (35.0%) in 2015, as residential mortgages and vehicle loans increased due to targeted loan campaigns. Although Public Sector debt increased marginally by EC$0.7 million or 1.2% to EC$60.9 million, it declined from 29.4% of the loan portfolio to 28% as efforts continue to ensure that loans to the Public Sector remain within the institution's benchmark of 30% of the total loan portfolio.

Over the financial year, borrowings by the construction and land development sector increased by EC$0.6 million or 1.5% to EC$38.5 million but declined from 18.6% of the loan portfolio to 17.7%. Lending to this sector was adversely affected as real estate developers affiliated with the local Citizenship by Investment (CBI) Programme reduced construction as CBI investments slowed down while the Government sought to reform the programme and other countries introduced competing programmes.

**Loans and Advances Portfolio Allocation: 2016**




The implementation of the new strategic plan for the reduction of the non-performing loan (NPL) portfolio during the year, resulted in a decrease in total non-performing loans of EC$8.0 million or 19.7%. At June 30, 2016 total non-performing loans for the Group amounted to EC$32.3 million. Accordingly, the NPL ratio contracted from 20.4% in 2015 to 15.3% in 2016 well below the regional and country average. Notwithstanding, the ratio remains above the Eastern Caribbean Central Bank's guideline of 5% and management is committed to ensuring that the institution becomes compliant within the next 18 – 24 months.

### Customers' Deposits

The Group's customers' deposits continue to trend upward and at June 30, 2016 stood at EC$539.2 million, a growth of EC$23.6 million or 4.6%. This growth was reflected in deposits mainly associated with the CBI programme at the parent Bank. Customers' deposits in BON stood at EC$387.1 million at the end of the financial year, recording a growth of EC$20.7 million or 6.7%.

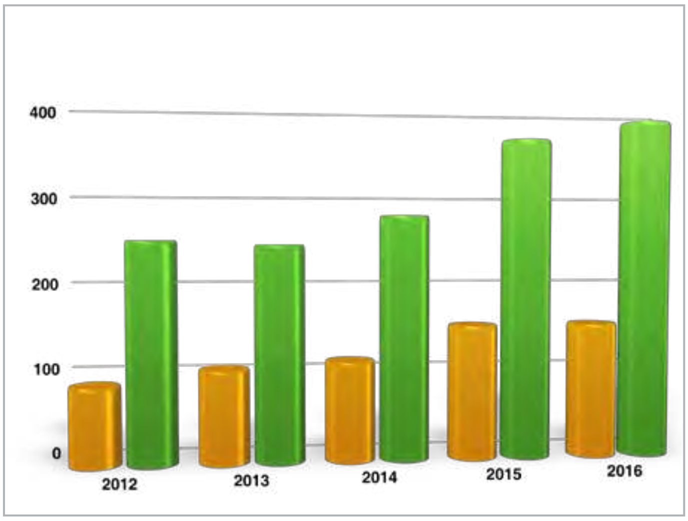
Noticeable, is the continuing shift in the structure of the Group's deposit base. Fixed (time) deposits continued to decline and at June 30, 2016 stood at EC$137.8 million and represented 25.6% (31.4% in 2015) of total deposits. During the 2016 financial year, the Group fixed deposits declined by EC$23.9 million or 14.8%. By comparison, current accounts recorded an increase of EC$35.1 million or 20.8% expanding to EC$203.5 million and represented 37.7% of the deposit portfolio. Most of the funds received under the CBI programme were placed in current accounts for escrow purposes. Savings deposits customers held 36.3% of total customers' deposits at EC$195.9 million, an increase of EC$12.9 million or 7.0% over the financial year.

Customers' deposits in the international bank (BONI) recorded a slight uptick of EC$1.6 million or 1.0% to EC$154.7 million (US$57.4 million). The growth in the customers' deposit base was associated with increases in current and savings accounts. The funds in BONI continue be relatively volatile and Management is reviewing strategies to retain more of the funds in the entity.

The graph below illustrates the trend in customers' deposits growth in BON and BONI.

**Group Customers' Deposits: 2012 - 2016**

(EC$ Million)



## Capital

The Group's shareholders' equity grew to EC$58.0 million, recording an increase of EC$3.3 million or 6.1%. This increase was largely driven by a similar growth of EC$3.3 million or 18.0% to EC$21.4 million in retained earnings.

During the review period, capital requirements have largely dominated the focus of the Board and Management. With the 2015 Banking Act becoming effective in May 2016 in St. Kitts and Nevis, the Parent Bank (BON) will now be required to increase its minimum paid up capital from EC$9.3 million to EC$20 million by August 2017. The shareholders have approved a rights issue and an additional public offering geared towards achieving the capital requirements. Management anticipates that these share offerings should be concluded prior to the end of the financial year in June 2017.

Meanwhile, the 2014 Nevis International Banking Ordinance (the 'Ordinance') which governs the operations of BONI now requires international banks licensed under the Ordinance to maintain minimum paid up capital of US$2.0 million. The regulator has granted BONI until 31 December 2016 to comply with the minimum capital requirements. Management expects this matter to be resolved prior to the deadline with the sale of the majority shareholding in BONI.

# AUDITED FINANCIAL STATEMENTS

Deloitte & Touche
3rd Floor
The Goddard Building
Haggatt Hall
St. Michael, BB11059
Barbados, W.I.

Tel: +246 430 6400
Fax: +246 430 6451
www.deloitte.com

# 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, 2016, and the consolidated statements of income (loss), comprehensive income (loss), 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 consolidated financial statements

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

## Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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.

Deloitte.

# 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, 2016 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

September 28, 2016

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2016
*(expressed in Eastern Caribbean dollars)*

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Assets** | | |
| Cash and balances due from banks and other financial institutions (note 7) | **133,217,100** | 224,093,676 |
| Investment securities (note 8) | **76,062,973** | 122,965,384 |
| Assets of subsidiary classified as held for sale (note 30) | **161,900,998** | - |
| Loans and advances (note 9) | **203,804,139** | 198,166,893 |
| Other assets (note10) | **592,922** | 1,061,865 |
| Property, plant and equipment (note 11) | **27,915,836** | 28,304,072 |
| Intangible assets (note 12) | **470,463** | 348,867 |
| Deferred tax asset (note 15) | **1,208,120** | 1,208,120 |
| Income tax receivable (note 15) | **-** | 851,160 |
| **Total assets** | **605,172,551** | 577,000,037 |
| **Liabilities** | | |
| Customers' deposits (note 13) | **384,753,219** | 515,550,492 |
| Liabilities of subsidiary classified as held for sale (note 30) | **155,839,626** | - |
| Other liabilities and accrued expenses (note 14) | **5,017,069** | 5,703,813 |
| Income tax payable (note 15) | **480,678** | - |
| Deferred tax liability (note 15) | **1,097,078** | 1,091,495 |
| **Total liabilities** | **547,187,670** | 522,345,800 |
| **Shareholders' Equity** | | |
| Share capital (note 16) | **9,347,687** | 9,347,687 |
| Statutory reserves (note 17) | **10,934,354** | 10,934,354 |
| Revaluation reserves (note 18) | **13,013,771** | 12,502,865 |
| Other reserves (note 19) | **4,147,221** | 3,721,643 |
| Amounts recognised directly in equity relating to assets of subsidiary classified as held for sale (note 30) | **(865,998)** | - |
| Retained earnings | **21,407,846** | 18,147,688 |
| **Total shareholders' equity** | **57,984,881** | 54,654,237 |
| **Total liabilities and shareholders' equity** | **605,172,551** | 577,000,037 |

**Approved by the Board of Directors on September 28, 2016**

Chairman

Chief Financial Officer

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

# CONSOLIDATED STATEMENT OF INCOME / (LOSS)

As of June 30, 2016
*(expressed in Eastern Caribbean dollars)*

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Continuing operations | | |
| Interest income (note 20) | 17,169,787 | 13,710,161 |
| Interest expense (note 21) | (7,789,983) | (9,501,315) |
| Net interest income | 9,379,804 | 4,208,846 |
| Impairment losses on investment securities (note 8) | - | (426,100) |
| Other operating income (note 22) | 2,775,826 | 2,614,118 |
| Operating income | 12,155,630 | 6,396,864 |
| Operating expenses | | |
| General and administrative expenses (note 28) | 6,921,626 | 6,681,819 |
| (Recovery) / provision for loan impairment, net of recoveries (note 9) | (902,437) | 960,135 |
| Directors' fees and expenses | 428,337 | 444,589 |
| Audit fees | 278,701 | 271,750 |
| Depreciation (note 11) | 793,567 | 747,175 |
| Amortisation (note 12) | 236,760 | 201,497 |
| Correspondent bank charges | 445,762 | 377,884 |
| | 8,202,316 | 9,684,849 |
| Operating profit/(loss) for the year before taxation from continuing operations | 3,953,314 | (3,287,985) |
| Taxation (note 15) | | |
| Current tax expense: - Current year | 869,569 | 25,908 |
| - Prior year | 946,667 | - |
| Deferred tax (credit) / expense | (15,691) | 324,967 |
| Tax expense | 1,800,545 | 350,875 |
| Net profit/(loss) for the year from continuing operations | 2,152,769 | (3,638,860) |
| Discontinued operations | | |
| Net profit for the year from discontinued operations (note 31) | 1,532,967 | 1,135,115 |
| Net profit/(loss) for the year | 3,685,736 | (2,503,745) |
| Earnings/(loss) per share (note 24) | | |
| From continuing and discontinued operations | 0.39 | (0.27) |
| From continuing operations | 0.23 | (0.40) |

The attached notes an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME / (LOSS)

For the year ended June 30, 2016
*(expressed in Eastern Caribbean dollars)*

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Net profit / (loss) for the year | 3,685,736 | (2,503,745) |
| Other comprehensive income / (loss) for the year: | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Realised gains and losses on investment securities, transferred to the statement of income | (122,090) | (353,606) |
| Impairment loss reclassified to profit | - | 589,221 |
| Movement in market value of available-for-sale investments | (514,223) | (1,197,707) |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Correcting adjustment: land and building | - | 50,374 |
| Total other comprehensive loss for the year | (636,313) | (911,718) |
| Total comprehensive income / (loss) for the year | 3,049,423 | (3,415,463) |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2016
*(expressed in Eastern Caribbean dollars)*

| | Share capital $ | Statutory reserves $ | Revaluation reserve $ | Other reserves $ | Retained earnings $ | Total $ |
|---|---|---|---|---|---|---|
| Balance June 30, 2014 | 9,347,687 | 10,934,354 | 13,414,583 | 2,890,216 | 22,183,937 | 58,770,777 |
| Total comprehensive loss for the year | - | - | (911,718) | - | (2,503,745) | (3,415,463) |
| Transfers to reserves (notes 17 and 19) | - | - | - | 831,427 | (831,427) | - |
| Dividends | - | - | - | - | (701,077) | (701,077) |
| Balance at June 30, 2015 | 9,347,687 | 10,934,354 | 12,502,865 | 3,721,643 | 18,147,688 | 54,654,237 |
| Total comprehensive income for the year | - | - | (355,092) | - | 3,685,736 | 3,330,644 |
| Transfers to reserves (notes 17 and 19) | - | - | - | 425,578 | (425,578) | - |
| Balance at June 30, 2016 | 9,347,687 | 10,934,354 | 12,147,773 | 4,147,221 | 21,407,846 | 57,984,881 |

The attached notes are an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2016
*(expressed in Eastern Caribbean dollars)*

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Cash flows from operating activities | | |
| Operating profit/(loss) for the year before taxation, and including continued and discontinued operations | 5,519,806 | (2,138,283) |
| Items not affecting cash: | | |
| Provision for loan impairment | (804,135) | 1,191,411 |
| Depreciation | 826,636 | 768,044 |
| Amortisation | 307,970 | 202,521 |
| Realised gains from investment securities | (122,090) | (304,481) |
| Impairment losses on investment securities | 281,221 | 1,015,321 |
| Losses from movement in foreign currency exchange rates | 227,323 | 497,464 |
| Net gain on disposal of plant and equipment | (33,000) | (2,174) |
| Interest income | (19,932,933) | (16,558,805) |
| Interest expense | 8,701,746 | 10,496,297 |
| Cash flows used in operating income before changes in operating assets and liabilities | (5,027,456) | (4,832,685) |
| Changes in operating assets and liabilities | | |
| Increase in deposits held for regulatory purposes | (7,781,622) | (574,863) |
| (Increase)/decrease in loans and advances | (12,108,585) | 4,148,248 |
| Decrease/(Increase) in other assets | 145,781 | (91,722) |
| Increase in customers' deposits | 24,781,655 | 75,569,676 |
| Increase/(Decrease) in other liabilities and accrued expenses | 735,236 | (19,551,269) |
| Net cash from operations | 745,009 | 54,667,385 |
| Interest paid | (9,186,469) | (10,842,455) |
| Interest received | 19,314,092 | 17,784,705 |
| Income tax paid | (627,249) | (39,119) |
| Net cash from operating activities | 10,245,383 | 61,570,516 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (542,754) | (1,248,558) |
| Sale of plant and equipment | 33,000 | 2,174 |
| Purchase of intangible assets | (713,379) | (92,060) |
| Purchase of investment securities | (48,732,710) | (53,628,705) |
| Disposals of investment securities | 27,772,500 | 27,589,566 |
| Increase in fixed deposits | (9,565,929) | (4,726,638) |
| Increase in other deposits | (2,978,552) | - |
| Net cash used in investing activities | (34,727,824) | (32,104,221) |

The attached notes are an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS … CONTINUED

For the year ended June 30, 2016
*(expressed in Eastern Caribbean dollars)*

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Cash flows from financing activities | | |
| Dividends paid | - | (701,077) |
| Net cash used in financing activities | - | (701,077) |
| Decrease in cash and cash equivalents | (24,482,441) | 28,765,218 |
| Net foreign currency rate movements on amounts from banks | (864,672) | (1,802,268) |
| Cash and cash equivalents, beginning of year | 200,382,976 | 173,420,024 |
| Cash and cash equivalents, end of year (note 27) | 175,035,863 | 200,382,974 |

The attached notes are an integral part of these consolidated financial statements

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

*(expressed in Eastern Caribbean dollars)*

## 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. BON is subject to the provisions of the Banking Act No. 1 of 2015 of St. Christopher and Nevis and its principal activity is the provision of financial services. 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 International Banking as contemplated by the Nevis International Banking Ordinance of 2014.

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 July 01, 2015***

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:

- IFRS 7 – Financial Instruments: Disclosures – Amendments: Annual improvements (effective January 01, 2016)
- IFRS 10 – Consolidated Financial Statements – Amendments: Application of the Consolidation Exception (effective January 01, 2016)
- IFRS 12 – Disclosure of Interests in Other Entities – Amendments: Application of Consolidation Exception (effective January 01, 2016)
- IAS 1 – Presentation of Financial Statements – Amendments resulting from the disclosure initiative (effective January 01, 2016)
- IAS 16 – Property, Plant, and Equipment – Amendments: Clarification of Acceptable Methods of Depreciation and Amortisation (effective January 01, 2016)
- IAS 27 – Separate Financial Statements – Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures, and associates in an entity's separate financial statements (effective January 01, 2016)

2 Adoption and amendments of published accounting standards and interpretations (continued)

***Standards, amendments and interpretations effective on or after July 01, 2015***

- IAS 38 – Intangible Assets – Amendments: Clarification of Acceptable Methods of Depreciation and Amortisation (effective January 01, 2016)

***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. With the exception of IFRS 9, as highlighted below, these standards are not expected to have a material impact on the Bank's financial statements.

- IFRS 9 – Financial Instruments Classification and Measurement, Impairment, General Hedge Accounting, and Derecognition (effective January 01, 2018). The standard is expected to have a significant impact on the Bank's financial statements. The standard includes revised guidance for the classification and measurement of financial assets and financial liabilities, whereby all recognised financial instruments currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value. Also, the impairment model under IFRS 9 reflects ***expected*** credit losses, as opposed to ***incurred*** credit losses currently applied under IAS 39. Under IFRS 9, it will no longer be necessary for a credit event to have occurred before credit losses are recognised, as the Bank will be required to account for expected credit losses and changes in those expected losses at each reporting date.
- IFRS 15 – Revenue from contracts with customers (effective January 01, 2017)
- IFRS 16 - Leases (effective January 01, 2019)

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 of Nevis Limited comprise the financial statements of the parent entity and all subsidiaries (the "Bank") as of June 30, 2016.

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

3 Significant accounting policies (continued)

3.2 Basis of preparation (continued)

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.

3.4 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 balances due from banks and other financial institutions, 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.

3 Significant accounting policies ***(continued)***

3.4 Financial Assets (continued)

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.

*(a) Assets classified as available-for-sale*

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:

1. significant financial difficulty of the issuer or counterparty; or
2. breach of contract, such as a default or delinquency in interest or principal payments; or
3. 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
4. it becoming probable that the borrower will enter bankruptcy or financial re-organisation;
5. the disappearance of an active market for that financial asset because of financial difficulties; or
6. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group including:
   i. Adverse changes in the payment status of borrowers in the group
   ii. National or local economic conditions that correlate with defaults on the assets in the group

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

3 Significant accounting policies ***(continued)***

3.4 Financial Assets ***(continued)***

3.4.1 Impairment of financial assets ***(continued)***

(b) *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 an 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.

(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.

3.4.2 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 Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all 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.

3 Significant accounting policies (continued)

3.4 Financial Assets ***(continued)***

3.4.2 Derecognition of financial assets

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 and equity instruments

Debt and equity instruments issued by the Bank are classified as either financial liabilities or as equity in accordance with the substance of the contractual agreements and the definitions of financial liability and on equity instrument.

3.5.1 Equity Instruments

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

3.5.1.1 Ordinary Shares

Ordinary shares are classified in the financial statements as equity.

3.5.1.2 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.

***3.5.2 Other financial liabilities***

Financial liabilities are classified as 'other financial liabilities', and are initially recognised at cost. Other financial liabilities (including customers' deposits and amounts due from subsidiaries) are subsequently recognised at amortised cost using the effective interest method.

3.5.3 Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged or 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

## 3 Significant accounting policies (continued)

### 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.

### 3.7 Fees and commissions

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.

3 Significant accounting policies (continued)

3.9 Property, plant and equipment and depreciation (continued)

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% |

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

*(expressed in Eastern Caribbean dollars)*

## 3 Significant accounting policies (continued)

### 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 Pension costs

The Bank maintains a defined contribution pension plan for its eligible employees.

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.

### 3.15 Taxation

a) *Current income tax*

Income tax receivable/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.

### 3.16 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Bank is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Bank will retain a non-controlling interest in its former subsidiary after the sale.

When the Bank is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Bank discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Bank discontinues the use of the equity method at the time of disposal when the disposal results in the Bank losing significant influence over the associate or joint venture.

3 Significant accounting policies (continued)

3.16 Non-current assets held for sale (continued)

After the disposal takes place, the Bank accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Bank uses the equity method (see the accounting policy regarding investments in associates or joint ventures above).

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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 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.

4.1 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, 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

4 Financial risk management (continued)

4.1.1 Credit risk management (continued)

*(a) Loans and advances (continued)*

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.

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:

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.2 Risk limit control and mitigation policies (continued)

*(a) Collateral*

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds 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.

4.1.3 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.

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.3 Impairment and provisioning policies (continued)

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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| Bank's rating | Loans and advances (%) | Impairment Provision (%) | Loans and advances (%) | Impairment provision (%) |
| Pass | 78.1 | 22.7 | 77.0 | 15.7 |
| Special mention | 8.6 | 3.8 | 3.0 | 0.8 |
| Sub-standard | 9.0 | 7.9 | 15.8 | 43.2 |
| Doubtful | 4.2 | 61.0 | 4.2 | 40.3 |
| Loss | 0.1 | 4.6 | - | - |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

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

| | 2016 $ | 2015 $ |
|---|---|---|
| Credit risk exposures relating to on-statement of financial position assets: | | |
| Deposits with other banks | 85,672,203 | 168,135,698 |
| Deposits with non-bank financial institutions | 14,553,350 | 30,549,158 |
| Restricted deposits with non-bank financial institutions | 808,470 | 808,470 |
| Investment securities: | | |
| – Treasury bills and other eligible bills | 45,008,046 | 61,239,148 |
| – Bonds and other debt instruments | 8,356,149 | 8,511,886 |
| – Available-for-sale investments quoted | 20,399,884 | 26,563,595 |
| Loans and advances | 203,804,139 | 198,166,893 |
| Other assets | 99,859 | 117,485 |
| | 378,702,100 | 494,092,333 |
| Credit exposures relating to off-statement of financial position items: | | |
| – Loan commitments and other credit related facilities | 28,851,498 | 19,688,892 |
| Total | 407,553,598 | 513,781,225 |

The above table represents a worst case scenario of credit exposure to the Bank at June 30, 2016 and 2015, 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.

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 (continued)

- 50.0% of the total maximum exposure is derived from loans and advances (2015: 38.6%) and
  18.1% represents investment in securities (2015: 22.5%).

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:

- 86.7% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2015: 80.0%).
- 83.0% of the loans and advances portfolio are considered to be neither past due nor impaired (2015: 78.3%).
- 13.3% of loans and advances are considered impaired (2015: 19.7%).
- The impairment provision on the balance sheet decreased during the year to $5.8 million (2015: $7.1 million).

4.1.5 Credit quality of loans and advances

Loans and advances are summarised as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | 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 | 174,008,396 | 24,422 | 160,661,910 | 321,010 |
| Past due but not impaired | 7,811,975 | - | 4,021,187 | - |
| Impaired | 27,819,107 | - | 40,245,827 | - |
| Gross | 209,639,478 | 24,422 | 204,928,924 | 321,010 |
| Less: allowance for impairment | (5,859,700) | (61) | (7,082,238) | (803) |
| Net | 203,779,778 | 24,361 | 197,846,686 | 320,207 |

The total impairment provision for loans and advances is $5,859,761 (2015: $7,083,041) of which $4,302,091 (2015: $5,904,551) represents the individually impaired loans, and the remaining amount of $1,557,670 (2015: $1,178,490) represents the portfolio provision. Further information on the impairment provision for loans and advances to banks and to customers is provided in Note 10.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

*(expressed in Eastern Caribbean dollars)*

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances (continued)

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

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

As at June 30, 2016

| | Overdraft $ | Personal $ | Commercial $ | Public sector $ | Total $ |
|---|---|---|---|---|---|
| Grades: | | | | | |
| Pass | 7,864,169 | 58,932,422 | 49,244,182 | 56,235,307 | 172,276,080 |
| Special mention | 1,240,055 | 516,683 | - | - | 1,756,738 |
| Total | 9,104,224 | 59,449,105 | 49,244,182 | 56,235,307 | 174,032,818 |

As at June 30, 2015

| | Overdraft $ | Personal $ | Commercial $ | Public sector $ | Total $ |
|---|---|---|---|---|---|
| Grades: | | | | | |
| Pass | 3,169,773 | 45,860,311 | 49,942,229 | 58,561,711 | 157,534,024 |
| Special mention | 2,637,128 | 96,477 | - | - | 2,733,605 |
| Substandard | 689,832 | - | - | 25,459 | 715,291 |
| Total | 6,496,733 | 45,956,788 | 49,942,229 | 58,587,170 | 160,982,920 |

*(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, 2016

| | Personal $ | Commercial $ | Total $ |
|---|---|---|---|
| Past due up to 30 days | 2,103,950 | 2,044,528 | 4,148,478 |
| Past due 31-60 days | 221,605 | - | 221,605 |
| Past due 61-89 days | 727,039 | 2,714,853 | 3,441,892 |
| Total | 3,052,594 | 4,759,381 | 7,811,975 |

As at June 30, 2015

| | Personal $ | Commercial $ | Total $ |
|---|---|---|---|
| Past due up to 30 days | 2,540,820 | - | 2,540,820 |
| Past due 31-60 days | 1,282,726 | - | 1,282,726 |
| Past due 61-89 days | 197,641 | - | 197,641 |
| Total | 4,021,187 | - | 4,021,187 |

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.5 Credit quality of loans and advances (continued)

*(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, 2016

| | Overdraft | Personal | Commercial | Public Sector | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Individually impaired loans | 1,830,903 | 10,632,272 | 15,355,932 | - | 27,819,107 |
| Fair value of collateral | 5,068,343 | 26,655,284 | 40,328,858 | - | 72,052,485 |

As at June 30, 2015

| | Overdraft | Personal | Commercial | Public Sector | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Individually impaired loans | 3,483,003 | 16,754,985 | 20,007,839 | - | 40,245,827 |
| Fair value of collateral | 8,407,651 | 44,792,301 | 56,117,402 | - | 109,317,354 |

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $27,819,107 (2015: $40,245,827).

*(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 $8,571,046 at June 30, 2016 (2015: $189,056).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

4 Financial risk management (continued)

4.1 Credit risk (continued)

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, 2016 and 2015 based on Standard & Poor's rating or their equivalent:

| | Treasury bills<br>$ | Bonds and other debt instruments<br>$ | Available-for-sale<br>$ | Total<br>$ |
|---|---|---|---|---|
| Aa1—Baa3 | 5,066,106 | 8,206,149 | 271,177 | 13,543,432 |
| Lower than Baa3 | - | - | 1,060,579 | 1,060,579 |
| Unrated | 39,941,940 | 150,000 | 19,068,128 | 59,160,068 |
| As at June 30, 2016 | 45,008,046 | 8,356,149 | 20,399,884 | 73,764,079 |

| | Treasury bills<br>$ | Bonds and other debt instruments<br>$ | Available-for-sale<br>$ | Total<br>$ |
|---|---|---|---|---|
| Aa1—Baa3 | 9,831,865 | 6,828,626 | 130,611 | 16,791,102 |
| Unrated | 51,407,283 | 1,683,260 | 26,432,984 | 79,523,527 |
| As at June 30, 2015 | 61,239,148 | 8,511,886 | 26,563,595 | 96,314,629 |

4.1.7 Repossessed collateral

During the year ended June 30, 2016, the Bank took possession of collateral held as security for credit facilities with carrying value of $881,275 (2015: $ Nil).

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, 2016 and 2015. 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 | 4,881,633 | 13,105,455 | 46,849,020 | 20,836,095 | 85,672,203 |
| Deposits with non-bank financial institutions | 334,163 | 14,217,082 | 2,105 | - | 14,553,350 |
| Restricted deposits with non-bank financial institutions | 808,470 | - | - | - | 808,470 |
| *Investment securities:* | | | | | |
| – Treasury bills and other eligible bills | 39,941,940 | 5,066,106 | - | - | 45,008,046 |
| – Bonds and other debt instruments | 6,220,562 | 2,135,587 | - | - | 8,356,149 |
| – Available for sale securities-quoted | - | - | 20,399,884 | - | 20,399,884 |
| Loans and advances | 193,628,092 | 3,790,646 | 4,756,792 | 1,628,609 | 203,804,139 |
| Other assets | 99,859 | - | | - | 99,859 |
| | 245,914,719 | 38,314,876 | 72,007,801 | 22,464,704 | 378,702,100 |
| Credit exposures relating to off statement of financial position items: | | | | | |
| Loan commitments and other credit related facilities | 28,607,707 | 154,156 | 59,756 | 29,879 | 28,851,498 |
| As at June 30, 2016 | 274,522,426 | 38,469,032 | 72,067,557 | 22,494,583 | 407,553,598 |

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

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 | 6,045,789 | 29,776,308 | 94,663,705 | 37,649,896 | 168,135,698 |
| Deposits with non-bank financial institutions | 228,145 | 22,602,745 | 7,718,268 | - | 30,549,158 |
| Restricted deposits with non-bank financial institutions | 808,470 | - | - | - | 808,470 |
| *Investment securities:* | | | | | |
| – Treasury bills and other eligible bills | 51,407,283 | 9,831,865 | - | - | 61,239,148 |
| – Bonds and other debt instruments | 4,098,052 | 4,413,834 | - | - | 8,511,886 |
| – Available for sale securities-quoted | - | - | 26,563,595 | - | 26,563,595 |
| Loans and advances | 184,908,451 | 3,961,445 | 7,086,010 | 2,210,987 | 198,166,893 |
| Other assets | 117,485 | - | - | - | 117,485 |
| | 247,613,675 | 70,586,197 | 136,031,578 | 39,860,883 | 494,092,333 |
| Credit exposures relating to off statement of financial position items: | | | | | |
| Loan commitments and other credit related facilities | 19,688,892 | - | - | - | 19,688,892 |
| As at June 30, 2015 | 267,302,567 | 70,586,197 | 136,031,578 | 39,860,883 | 513,781,225 |

## 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:

| | 2016 $ | % | 2015 $ | % |
|---|---|---|---|---|
| Personal | 79,947,782 | 38.1 | 72,288,843 | 35.3 |
| Public Sector | 60,877,626 | 29.0 | 60,140,568 | 29.3 |
| Construction and land development | 34,043,870 | 16.2 | 37,959,053 | 18.5 |
| Distributive trades, transportation and storage | 13,736,004 | 6.6 | 13,846,281 | 6.7 |
| Tourism, entertainment, and catering | 7,091,936 | 3.4 | 9,847,781 | 4.8 |
| Professional and other services | 8,093,096 | 3.9 | 7,227,275 | 3.5 |
| Agriculture and manufacturing | 5,873,586 | 2.8 | 3,940,133 | 1.9 |
| Total | 209,663,900 | 100.0 | 205,249,934 | 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, 2016 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $136,405 (2015: $129,500) lower/ higher as a result of the increase/decrease in the fair value of available-for-sale investment securities.

| | 2016 $ | 2015 $ |
|---|---|---|
| Available-for-sale | | |
| Equity securities quoted at market value | 2,027,087 | 2,060,561 |
| Mutual funds quoted at market value | - | 24,318,387 |
| | 2,027,087 | 26,378,948 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

*(expressed in Eastern Caribbean dollars)*

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, 2016. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

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, 2016 | | | | | | | |
| Assets | | | | | | | |
| Cash and balances with ECCB | 31,944,985 | 178,739 | 24,662 | 28,826 | 2,548 | 3,317 | 32,183,077 |
| Deposits with banks | 9,760,698 | 73,583,841 | 321,903 | 977,717 | 951,070 | 76,974 | 85,672,203 |
| Deposits with non-bank financial institutions | 2,294,470 | 12,258,880 | - | - | - | - | 14,553,350 |
| Restricted deposits with non-bank financial Institutions | - | 808,470 | - | - | - | - | 808,470 |
| Investment securities: | | | | | | | |
| – Treasury bills and other eligible bills | 34,018,362 | 10,989,684 | - | - | - | - | 45,008,046 |
| – Bonds and other debt securities | 7,250,312 | 1,105,837 | - | - | - | - | 8,356,149 |
| – Available-for-sale investments – unquoted | 271,806 | - | - | - | - | - | 271,806 |
| – Available-for-sale investments – quoted | 2,027,087 | 20,399,884 | - | - | - | - | 22,426,971 |
| Loans and advances to customers | 159,253,958 | 44,550,181 | - | - | - | - | 203,804,139 |
| Other assets | 99,859 | - | - | - | - | - | 99,859 |
| Total financial assets | 246,921,537 | 163,875,516 | 346,565 | 1,006,543 | 953,618 | 80,291 | 413,184,070 |
| Liabilities | | | | | | | |
| Customer deposits | 256,427,149 | 130,659,322 | - | - | - | - | 387,086,471 |
| Other liabilities | 2,714,291 | 448,859 | - | - | - | - | 3,163,150 |
| Total financial liabilities | 259,141,440 | 131,108,181 | - | - | - | - | 390,249,621 |
| Net on-balance sheet position | (12,219,903) | 32,767,335 | 346,565 | 1,006,543 | 953,618 | 80,291 | 22,934,449 |
| Credit and capital commitments | 12,972,064 | 15,879,434 | - | - | - | - | 28,851,498 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

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, 2015 | | | | | | | |
| Assets | | | | | | | |
| Cash and balances with ECCB | 24,155,653 | 403,858 | 378 | 40,407 | 18 | 36 | 24,600,350 |
| Deposits with banks | 10,628,612 | 141,388,651 | 8,546,399 | 6,712,251 | 757,261 | 102,524 | 168,135,698 |
| Deposits with non-bank financial institutions | 1,225,393 | 29,323,765 | - | - | - | - | 30,549,158 |
| Restricted deposits with non-bank financial institutions | - | 808,470 | - | - | - | - | 808,470 |
| Investment securities: | | | | | | | |
| – Treasury bills and other eligible bills | 50,097,577 | 11,141,571 | - | - | - | - | 61,239,148 |
| – Bonds and other debt securities | 7,127,802 | 1,384,084 | - | - | - | - | 8,511,886 |
| – Available-for-sale investments – unquoted | 271,806 | - | - | - | - | - | 271,806 |
| – Available-for-sale investments – quoted | 2,060,561 | 50,881,983 | - | - | - | - | 52,942,544 |
| Loans and advances to customers | 146,541,861 | 51,625,032 | - | - | - | - | 198,166,893 |
| Other assets | 117,485 | - | - | - | - | - | 117,485 |
| Total financial assets | 242,226,750 | 286,957,414 | 8,546,777 | 6,752,658 | 757,279 | 102,560 | 545,343,438 |
| Liabilities | | | | | | | |
| Customer deposits | 263,141,170 | 239,301,673 | 7,961,600 | 5,078,817 | 67,232 | - | 515,550,492 |
| Other liabilities | 2,945,758 | 839,464 | - | - | - | - | 3,785,222 |
| Total financial liabilities | 266,086,928 | 240,141,137 | 7,961,600 | 5,078,817 | 67,232 | - | 519,335,714 |
| Net on-balance sheet position | (23,860,178) | 46,816,277 | 585,177 | 1,673,841 | 690,047 | 102,560 | 26,007,724 |
| Credit and capital commitments | 10,666,615 | 9,022,277 | - | - | - | - | 19,688,892 |

4 Financial risk management (continued)

4.2 Market risk (continued)

4.2.2 Foreign currency risk (continued)

If at June 30, 2016, 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 $93,688 (2015: $47,688) 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 2016 was a gain of $53,201 (2015: loss of $390,055).

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, 2016.

If at June 30, 2016, 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 $68,101 (2015: $129,615) 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 2016 was a loss of $59,779 (2015: loss of $160,863).

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, 2016.

If at June 30, 2016, 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 $56,857 (2015: $42,439) 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 2016 was a loss of $12,611 (2015: loss of $92,740).

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, 2016.

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 by the Assets and Liabilities Management 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.

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

## 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, 2016 | | | | | | | |
| Assets | | | | | | | |
| Cash and balances with the Central Bank | 44,350 | - | - | - | - | 32,138,727 | 32,183,077 |
| Deposits with banks | 4,560,766 | 1,353,717 | 6,537,074 | - | - | 73,220,646 | 85,672,203 |
| Deposits with non-bank financial institutions | 9,795,792 | 3,654,258 | 1,103,300 | - | - | - | 14,553,350 |
| Restricted deposits with non-bank financial institutions | - | - | 808,470 | - | - | - | 808,470 |
| Investment securities: | | | | | | | |
| – Treasury bills | 18,190,168 | 22,387,015 | 4,430,863 | - | - | - | 45,008,046 |
| – Bonds and other debt instruments | 3,085,846 | - | 3,042,343 | 1,000,000 | 1,227,960 | - | 8,356,149 |
| – Available-for-sale investments – unquoted | - | - | - | - | - | 271,806 | 271,806 |
| – Available-for-sale securities – quoted | 4,077,618 | 694,095 | 7,538,198 | 6,771,555 | 1,318,418 | 2,027,087 | 22,426,971 |
| Loans and advances to customers | 15,436,652 | 513,100 | 12,941,920 | 20,769,441 | 130,348,265 | 23,794,761 | 203,804,139 |
| Other assets | - | - | - | - | - | 99,859 | 99,859 |
| Total financial assets | 55,191,192 | 28,602,185 | 36,402,168 | 28,540,996 | 132,894,643 | 131,552,886 | 413,184,070 |
| Liabilities | | | | | | | |
| Customer deposits | 143,972,120 | 13,063,996 | 101,294,314 | 8,019,874 | - | 120,736,167 | 387,086,471 |
| Other liabilities | - | - | - | - | - | 3,163,150 | 3,163,150 |
| Total financial liabilities | 143,972,120 | 13,063,996 | 101,294,314 | 8,019,874 | - | 123,899,317 | 390,249,621 |
| Total interest repricing gap | (88,780,928) | 15,538,189 | (64,892,146) | 20,521,122 | 132,894,643 | 7,653,569 | 22,934,449 |

June 30, 2016

*(expressed in Eastern Caribbean dollars)*

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, 2015 | | | | | | | |
| Assets | | | | | | | |
| Cash and balances with the Central Bank | 2,000 | - | - | - | - | 24,598,350 | 24,600,350 |
| Deposits with banks | 28,800,368 | 9,339,716 | 12,173,862 | - | - | 117,821,752 | 168,135,698 |
| Deposits with non-bank financial institutions | 17,642,732 | 12,691,140 | 100,000 | - | - | 115,286 | 30,549,158 |
| Restricted deposits with non-bank financial institutions | - | - | 808,470 | - | - | - | 808,470 |
| Investment securities: | | | | | | | |
| – Treasury bills | 19,266,663 | 34,783,110 | 7,189,375 | - | - | - | 61,239,148 |
| – Bonds and other debt instruments | 88,246 | 14,003 | 1,384,084 | 5,345,001 | 1,680,552 | - | 8,511,886 |
| – Available-for-sale investments – unquoted | - | - | - | - | - | 271,806 | 271,806 |
| – Available-for-sale securities – quoted | 1,350,355 | - | 4,796,149 | 20,286,480 | 130,611 | 26,378,949 | 52,942,544 |
| Loans and advances to customers | 8,570,035 | 446,143 | 8,369,455 | 24,545,667 | 122,488,727 | 33,746,866 | 198,166,893 |
| Other assets | - | - | - | - | - | 117,485 | 117,485 |
| Total financial assets | 75,720,399 | 57,274,112 | 34,821,395 | 50,177,148 | 124,299,890 | 203,050,494 | 545,343,438 |
| Liabilities | | | | | | | |
| Customer deposits | 218,644,166 | 18,017,225 | 122,647,238 | 9,409,770 | - | 146,832,093 | 515,550,492 |
| Other liabilities | - | - | - | - | - | 3,785,222 | 3,785,222 |
| Total financial liabilities | 218,644,166 | 18,017,225 | 122,647,238 | 9,409,770 | - | 150,617,315 | 519,335,714 |
| Total interest repricing gap | (142,923,767) | 39,256,887 | (87,825,843) | 40,767,378 | 124,299,890 | 52,433,179 | 26,007,724 |

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, 2016 had been 0.5% higher/lower with all other variables held constant, equity for the year would have been $277,367 (2015: $14,819) 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, 2016, 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 $969,274 higher/lower (2015: $932,070), 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, 2016 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 $1,375,547 (2015: $1,383,108) 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. 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, 2016 | | | | | | |
| Deposits from customers | 264,726,494 | 13,268,650 | 103,549,096 | 8,416,232 | - | 389,960,472 |
| Other liabilities | 2,929,774 | 233,376 | - | - | - | 3,163,150 |
| Total financial liabilities (contractual maturity dates) | 267,656,268 | 13,502,026 | 103,549,096 | 8,416,232 | - | 393,123,622 |
| Assets held for managing liquidity risk (contractual maturity dates) | 160,720,558 | 28,602,185 | 35,593,698 | 28,540,996 | 158,612,238 | 412,069,675 |
| As at June 30, 2015 | | | | | | |
| Deposits from customers | 365,544,446 | 18,321,987 | 125,673,316 | 9,833,472 | - | 519,373,221 |
| Other liabilities | 3,437,058 | 348,164 | - | - | - | 3,785,222 |
| Total financial liabilities (contractual maturity dates) | 368,981,504 | 18,670,151 | 125,673,316 | 9,833,472 | - | 523,158,443 |
| Assets held for managing liquidity risk (contractual maturity dates) | 240,192,369 | 58,725,280 | 38,274,034 | 50,177,148 | 152,980,021 | 540,348,852 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

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<br>$ | Total<br>$ |
|---|---|---|
| As at June 30, 2016 | | |
| Loan commitments | 28,851,498 | 28,851,498 |
| | 28,851,498 | 28,851,498 |
| As at June 30, 2015 | | |
| Loan commitments | 19,688,892 | 19,688,892 |
| | 19,688,892 | 19,688,892 |

*(b) Financial guarantees and other financial facilities*
The Bank had financial guarantees of $Nil at June 30, 2016 (2015: $Nil).

*(c) Operating Lease Commitments*
The Bank had no operating lease commitments as at June 30, 2016 (2015: $Nil).

*(d) Capital commitments*
The Bank had contractual capital commitments totalling $Nil as at June 30, 2016 (2015: $Nil).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

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 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $ | $ | $ | $ |
| Financial assets | | | | |
| Cash and balances with the Central Bank | 32,183,077 | 24,600,350 | 32,183,077 | 24,600,350 |
| Deposits with other banks | 85,672,203 | 168,135,698 | 85,672,203 | 168,135,698 |
| Deposits with non-bank financial institutions | 14,553,350 | 30,549,158 | 14,553,350 | 30,549,158 |
| Restricted deposits with non-bank financial institutions | 808,470 | 808,470 | 808,470 | 808,470 |
| Investment securities: | | | | |
| – Treasury bills and other eligible bills | 45,008,046 | 61,239,148 | 45,008,046 | 61,239,148 |
| – Bonds and other debt instruments | 8,356,149 | 8,511,886 | 8,356,149 | 8,511,886 |
| – Available-for-sale investments – unquoted | 271,806 | 271,806 | 271,806 | 271,806 |
| – Available-for-sale investments – quoted | 22,426,971 | 52,942,544 | 22,426,971 | 52,942,544 |
| Loans and advances | 203,428,080 | 198,166,893 | 203,428,080 | 198,166,893 |
| Other Assets | 99,859 | 117,485 | 99,859 | 117,485 |
| | 412,808,011 | 545,343,438 | 412,808,011 | 545,343,438 |
| Financial liabilities | | | | |
| Customer deposits | 387,086,471 | 515,550,492 | 387,086,471 | 515,550,492 |
| Other liabilities | - | 3,785,222 | - | 3,785,222 |
| | 387,086,471 | 519,335,714 | 387,086,471 | 519,335,714 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

4 Financial risk management (continued)

4.4. Fair value of 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).
- Level 3 – 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<br>$ | Total<br>$ |
|---|---|---|
| Financial assets at fair value | | |
| *Investment securities* | | |
| Fixed income securities, quoted at market value | 20,334,213 | 20,334,213 |
| Equity securities | 2,027,087 | 2,027,087 |
| Balance as at June 30, 2016 | 22,361,300 | 22,361,300 |

| | Level 1<br>$ | Total<br>$ |
|---|---|---|
| Financial assets at fair value | | |
| *Investment securities* | | |
| Fixed income securities, quoted at market value | 26,563,595 | 26,563,595 |
| Mutual funds, quoted at market value | 24,318,388 | 24,318,388 |
| Equity securities | 2,060,561 | 2,060,561 |
| Balance as at June 30, 2015 | 52,942,544 | 52,942,544 |

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 Banking Act No. 1 of 2015 ("the Act") which regulates the activities of the Parent Company ("BON") came into effect on May 20, 2016. The Act has increased the minimum capital requirement for licensees from EC$5 million to EC$20 million, with an allowance of 450 days from the Act's effective date to achieve compliance. BON's paid up capital at June 30, 2016 is $9,347,687. As part of the strategy to ensure compliance with the Act, the Board of Directors of BON sought and received approval from its shareholders to raise additional share capital via a rights issue and immediately thereafter, an additional public offering ("APO"). The rights issue is scheduled to take place during the second quarter of the 2017 financial year, and the combined amount targeted to be raised from both issues is $20 million.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

*(expressed in Eastern Caribbean dollars)*

4 Financial risk management (continued)

4.5 Capital management (continued)

The Nevis International Banking Ordinance 2014, No.1 of 2014 ("NIBO 2014") which governs the operations of the subsidiary Bank of Nevis International ("BONI") came into effect on August 1, 2014. NIBO 2014 repealed the Nevis Offshore Banking Ordinance Cap. 7.05. Section 11(1) (b) of 1996. NIBO 2014 stipulates that a licensee shall maintain not less than US$2,000,000 (EC$5,400,000) in fully paid up capital. At June 30, 2016, BONI held fully paid up capital of US$371,071 (EC$1,000,000) which was the minimum capital requirement under the 1996 Ordinance. The regulatory authorities have granted an extension to December 31, 2016 for BONI to comply the capital requirements of NIBO 2014.

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, 2016 and June 30, 2015.

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Tier 1 capital | | |
| Share capital | 9,347,687 | 9,347,687 |
| Statutory reserve | 10,934,354 | 10,934,354 |
| Retained earnings | 21,407,846 | 18,147,688 |
| Total qualifying tier 1 capital | 41,689,887 | 38,429,729 |
| Tier 2 capital | | |
| Revaluation reserve | 12,147,773 | 12,502,865 |
| Reserve for loan impairment | 1,257,005 | 831,427 |
| Reserve for items in-transit on correspondent bank accounts | 2,890,216 | 2,890,216 |
| Total qualifying tier 2 capital | 16,294,994 | 16,224,508 |
| Total regulatory capital | 57,984,881 | 54,654,237 |
| Risk weighted assets | | |
| On-statement of financial position | 275,628,909 | 259,147,420 |
| Off-statement of financial position | 28,851,498 | 19,688,892 |
| Total risk weighted assets | 304,480,407 | 278,836,312 |
| Basel ratio | 19.0% | 19.6% |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

*(expressed in Eastern Caribbean dollars)*

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, 2016 | | | |
| Assets | | | |
| Cash and Balances with the Central Bank | 32,183,077 | - | 32,183,077 |
| Due from banks and other financial institutions | 101,034,023 | - | 101,034,023 |
| Investment securities | 53,364,196 | 22,698,777 | 76,062,973 |
| Loans and advances | 203,804,139 | - | 203,804,139 |
| Other assets | 99,859 | - | 99,859 |
| Total financial assets | 390,485,294 | 22,698,777 | 413,184,071 |
| Liabilities | | | |
| Customer deposits | 384,753,219 | - | 384,753,219 |
| Other liabilities | 3,163,150 | - | 3,163,150 |
| Total financial liabilities | 387,916,369 | - | 387,916,369 |
| As at June 30, 2015 | | | |
| Assets | | | |
| Cash and Balances with the Central Bank | 24,600,350 | - | 24,600,350 |
| Due from banks and other financial institutions | 199,493,326 | - | 199,493,326 |
| Investment securities | 69,751,034 | 53,214,350 | 122,965,384 |
| Loans and advances | 198,166,893 | - | 198,166,893 |
| Other assets | 177,485 | - | 177,485 |
| Total financial assets | 492,189,088 | 53,214,350 | 545,403,438 |
| Liabilities | | | |
| Customer deposits | 515,550,492 | - | 515,550,492 |
| Other liabilities | 3,785,222 | - | 3,785,222 |
| Total financial liabilities | 519,335,714 | - | 519,335,714 |

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.

Loans and advances which are more than 90 days in arrears are assessed for impairment on an individual basis. The impairment losses on the individually impaired loans and advances within the portfolio are based upon the Bank's estimate of the present value of the expected cash flows, using the value of the underlying collateral held as a base. 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 $564,204 lower or $611,392 higher respectively.

For loans and advances which are not considered to be individually impaired, general allowance for impairment is assessed on a percentage basis, based on several factors including facility type and economic sector. In estimating the percentage allowance, Management makes assumptions based on historical performance of the respective categories as well as current economic conditions and forecasts.

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

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in fair value below cost. This determination of what is significant or prolonged requires judgement, and in making this judgement, the Bank evaluates among other factors, historical market and industry trends, the investments' historical performance against benchmarks, as well as the short term performance outlook. 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.

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

*(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

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;
- International 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.

The mutual funds segment is not a material operation. As detailed in note 30, the Bank is in the process of disposing of its interest in its wholly-owned subsidiary, which operates the international banking segment. The results of this segment is presented in the consolidated statement of comprehensive income / (loss) as net profit from discontinued operations with supporting note 31. The assets and liabilities are presented in the consolidated statement of financial position as assets and liabilities of subsidiary classified as held for sale. Consequently, separate business segment disclosures have not been presented.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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*(expressed in Eastern Caribbean dollars)*

7 Cash and balances due from banks and other financial institutions

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Cash on hand | 1,444,189 | 1,685,434 |
| Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits | 44,350 | 2,000 |
| Cash and current accounts with other banks | 71,931,324 | 135,396,988 |
| Cheques in the course of collection | 1,543,131 | 3,673,413 |
| Short term fixed deposits | 15,905,520 | 38,310,544 |
| Included in cash and cash equivalents (note 27) | 90,868,514 | 179,068,379 |
| Dormant account reserve | 455,212 | 359,532 |
| Mandatory reserve deposits with the ECCB | 29,551,870 | 21,970,328 |
| ACH reserve with the ECCB | 687,456 | 583,056 |
| Restricted fixed deposits | 808,470 | 808,470 |
| Fixed deposits | 10,732,672 | 32,899,587 |
| | 133,104,194 | 235,689,352 |
| Interest receivable | 112,906 | 147,852 |
| | 133,217,100 | 235,837,204 |
| Provision for impairment on fixed deposits | - | (11,743,528) |
| Total cash and balances due from banks and other financial institutions | 133,217,100 | 224,093,676 |
| Current | 101,714,092 | 199,558,449 |
| Non-current | 31,503,008 | 24,535,227 |
| | 133,217,100 | 224,093,676 |

Allowance for impairment on fixed deposits

The movement in allowance for impairment on fixed deposits is as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Balance, beginning of year | 11,743,528 | 11,743,528 |
| Amount reclassified with assets in subsidiary held for sale | (11,743,528) | - |
| Balance, end of year | - | 11,743,528 |

The interest rates on balances due from banks and other financial institutions range from 0.0% to 4.85% per annum (2015: 0.0% to 4.0% per annum).

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

Under the Banking Act, 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, 2016 the minimum required amount was $22,764,000.

The restricted fixed deposits comprise deposits held with Caribbean Credit Card Corporation Limited of $808,470 (2015: $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.

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

The subsidiary Bank of Nevis International holds fixed deposits with British American Insurance Company Limited (BAICO) in the amount of $10,145,991.

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 financial statements for Bank of Nevis International Limited at June 30, 2016 and no income has been recognised in respect of the fixed deposits.

Fixed deposit held with TCI Bank Limited

The Bank holds a fixed deposit with TCI Bank Limited, incorporated and operating in the Turks and Caicos Islands, in the amount of $2,411,378 (originally $3,014,221).

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 $1,597,537) was recorded in the financial statements at June 30, 2010.

In 2012, the Turks and Caicos Supreme Court approved an interim dividend distribution of 20 cents on the dollar. This payment in the amount of $602,843 was received by the Bank on September 27, 2012. This dividend distribution resulted in a net carrying value of $813,841for the fixed deposit.

On August 06, 2015, a second dividend distribution payment, also in the amount of $602,843 was received by the Bank. This dividend distribution further reduced the carrying value of the fixed deposit to $210,998.

Having reviewed the reports of the liquidators, and considering the payment made by the liquidators, Management has determined that the impairment provision of $1,597,537 (i.e. carrying value of $210,998) should be maintained in the financial statements at June 30, 2016. The aforementioned amount has been reclassified with the assets held for sale in the subsidiary.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

8 Investment securities

| Loans and receivables | 2016 $ | 2015 $ |
|---|---|---|
| Treasury bills, included in cash and cash equivalents (note 27) | 31,208,010 | 21,314,595 |
| Treasury bills | 13,057,143 | 38,227,539 |
| Bonds and other debt instruments | 8,227,960 | 8,373,002 |
| Total loans and receivables | 52,493,113 | 67,915,136 |
| Available-for-sale | | |
| Fixed income securities, quoted at market value | 20,334,213 | 26,482,888 |
| Mutual funds, quoted at market value | - | 24,318,387 |
| Equity securities, unquoted | 1,843,890 | 3,547,823 |
| Equity securities, quoted at market value | 2,027,087 | 2,060,561 |
| Total available-for-sale | 24,205,190 | 56,409,659 |
| Total investment securities before interest receivable | 76,698,303 | 124,324,795 |
| Interest receivable | 936,754 | 1,916,606 |
| | 77,635,057 | 126,241,401 |
| Allowance for impairment | (1,572,084) | (3,276,017) |
| Total investment securities | 76,062,973 | 122,965,384 |
| Current | 63,446,147 | 68,871,986 |
| Non-current | 12,616,826 | 54,093,398 |
| | 76,062,973 | 122,965,384 |

Allowance for impairment on investment securities

The movement in allowance for impairment on investment securities is as follows:

| | 2016 $ | 2015 $ |
|---|---|---|
| Balance, beginning of year | 3,276,017 | 2,849,917 |
| Investments written off as collectible | (1,693,936) | - |
| Recovery for the year | (9,997) | - |
| Provision for the year | - | 426,100 |
| Balance, end of year | 1,572,084 | 3,276,017 |

8 Investment securities (continued)

Treasury Bills
Included in the amounts for treasury bills are treasury bills issued by the Government of St. Christopher and Nevis in the amount of $8,658,775 (2015: $29,431,000) earning interest at 5.0% per annum (2015: 5.0% per annum).

Also included in the amounts for treasury bills are treasury bills issued by The Nevis Island Administration in the amount of $19,298,099 (2015: $20,347,683).

Equity Investment in TCI Bank Limited
The Bank holds an equity investment in TCI Bank Limited in the amount of $1,347,450 (2015: $1,347,450).

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, 2016.

Equity Investment held in ECIC Holdings Limited
The Bank holds an equity investment in ECIC Holdings Limited (“ECIC”), incorporated and operating in St. Kitts and Nevis, in the amount of $1,703,933. Due to financial difficulties encountered by its major subsidiary, the ECIC realised significant declines in its assets, earnings and shareholders’ equity, thereby creating uncertainties regarding its going concern ability. Accordingly, the Bank took the decision to record impairment provisions in respect of this investment, in tranches over the period 2012 – 2015, with the final amount of $426,100 recorded in the financial statements for the year ended June 30, 2015. During the year ended June 30, 2016, the shareholder banks of ECIC resolved that the shares of ECIC be sold. Consequently, the Bank received an amount of $9,997 as final payment for the sale of its shares held in ECIC.

Net gains from investment securities comprise:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Net realised gains from disposal of available-for-sale financial assets | 122,090 | 304,481 |

During the year, due to significant and prolonged declines in market values, impairment losses of $281,221 (2015: $ 1,015,321) were recorded with respect to the mutual fund investments.

The movement in investment securities, net, excluding interest receivable may be summarised as follows:

| | Loans and receivables<br>$ | Available-for-sale<br>$ | Total<br>$ |
|---|---|---|---|
| Balance as of June 30, 2015 | 67,915,136 | 53,133,642 | 121,048,778 |
| Additions | 60,509,908 | 41,376,791 | 101,886,699 |
| Disposals (sale and redemption) | (41,160,711) | (28,025,186) | (69,185,897) |
| Losses from changes in fair value, net | - | (406,677) | (406,677) |
| Reclassified to assets of subsidiary classified as held for sale | (34,771,220) | (43,445,464) | (78,216,684) |
| Balance as of June 30, 2016 | 52,493,113 | 22,633,106 | 75,126,219 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

*(expressed in Eastern Caribbean dollars)*

8 Investment securities (continued)

| | Loans and receivables $ | Available-for-sale $ | Total $ |
|---|---|---|---|
| Balance as of June 30, 2014 | 65,745,840 | 32,738,821 | 98,484,661 |
| Additions | 20,009,827 | 33,618,878 | 53,628,705 |
| Disposals (sale and redemption) | (17,840,531) | (11,637,387) | (29,477,918) |
| Losses from changes in fair value, net | - | (1,160,570) | (1,160,570) |
| Impairment provision | - | (426,100) | (426,100) |
| Balance as of June 30, 2015 | 67,915,136 | 53,133,642 | 121,048,778 |

9 Loans and advances

| | 2016 $ | 2015 $ |
|---|---|---|
| Reducing balance loans | 193,921,666 | 191,289,936 |
| Overdrafts | 11,181,563 | 9,994,199 |
| Credit card advances | 3,812,805 | 3,462,686 |
| | 208,916,034 | 204,746,821 |
| Interest receivable | 747,866 | 503,113 |
| | 209,663,900 | 205,249,934 |
| Less: Allowance for loan impairment | (5,859,761) | (7,083,041) |
| Total loans and advances | 203,804,139 | 198,166,893 |
| Current | 52,310,374 | 51,132,499 |
| Non-current | 151,493,765 | 147,034,394 |
| | 203,804,139 | 198,166,893 |

| | 2016 $ | 2015 $ |
|---|---|---|
| The movement in allowance for loan impairment is as follows: | | |
| Balance, beginning of year | 7,083,041 | 5,956,245 |
| (Recovery) / provisions for the year – continuing operations | (902,437) | 960,135 |
| Provision for the year – discontinued operations | 98,302 | 231,276 |
| Loans and advances written off during the year | (89,567) | (64,615) |
| Loan impairment transferred to assets of subsidiary classified as held for sale | (329,578) | - |
| Balance, end of year | 5,859,761 | 7,083,041 |

According to the Eastern Caribbean Central Bank loan provisioning guidelines, the calculated allowance for loan impairment amounts to $7,116,766 (2015: $7,683,192) The additional reserve of $1,257,005 (2015: $831,427) is recognised through a reserve for loan impairment (see note 19).

9 Loans and advances (continued)

The total value of non-productive loans and advances at the end of the year amounted to $27,819,107 (2015: $40,285,949). The interest accrued on non-productive loans and advances but not recorded in these financial statements is $11,506,889 (2015: $11,852,974).

Included in loans and advances is an amount due from other financial institutions of $24,422 (2015: $321,010).

10 Other assets

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Prepayments | 193,338 | 830,191 |
| Items in-transit | 399,584 | 130,477 |
| Credit card and stationery stock | - | 81,328 |
| Other receivables | - | 19,869 |
| Total other assets | 592,922 | 1,061,865 |
| Current | 592,922 | 980,537 |
| Non-current | - | 81,328 |
| | 592,922 | 1,061,865 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

*(expressed in Eastern Caribbean dollars)*

## 11 Property, plant and equipment

| | Land and Buildings $ | Furniture & fixtures $ | Equipment $ | Computer equipment $ | Motor vehicle $ | Capital work in progress $ | Total $ |
|---|---|---|---|---|---|---|---|
| Year ended June 30, 2016 | | | | | | | |
| Opening net book amount | 26,904,674 | 348,403 | 902,570 | 90,509 | 57,916 | - | 28,304,072 |
| Additions | 41,742 | 84,554 | 250,088 | 166,370 | - | - | 542,754 |
| Disposals | - | (202,547) | (402,456) | (15,852) | (107,000) | - | (727,855) |
| Depreciation charge | (325,048) | (117,164) | (277,458) | (73,897) | - | - | (793,567) |
| Depreciation eliminated on disposal | - | 202,547 | 402,456 | 15,852 | 107,000 | - | 727,855 |
| Eliminations on reclassification as discontinued operation | - | (67,501) | (3,461) | (8,545) | (57,916) | | (137,423) |
| Closing net book amount | 26,621,368 | 248,292 | 871,739 | 174,437 | - | - | 27,915,836 |
| At June 30, 2016 | | | | | | | |
| Cost/valuation | 27,676,920 | 1,302,449 | 2,089,564 | 895,428 | 71,002 | - | 32,035,363 |
| Accumulated depreciation | (1,055,552) | (1,054,157) | (1,217,825) | (720,991) | (71,002) | - | (4,119,527) |
| Net book amount | 26,621,368 | 248,292 | 871,739 | 174,437 | - | - | 27,915,836 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

11 Property, plant and equipment (continued)

| | Land and Buildings $ | Furniture & fixtures $ | Equipment $ | Computer equipment $ | Motor vehicle $ | Capital work in progress $ | Total $ |
|---|---|---|---|---|---|---|---|
| Year ended June 30, 2015 | | | | | | | |
| Opening net book amount | 23,388,500 | 375,329 | 674,742 | 100,638 | 77,220 | 3,207,129 | 27,823,558 |
| Additions | 969,271 | 51,643 | 175,764 | 51,880 | - | - | 1,248,558 |
| Transfers | 2,870,907 | 37,797 | 298,425 | - | - | (3,207,129) | - |
| Disposals | - | - | (2,715) | - | - | - | (2,715) |
| Depreciation charge – continuing operations | (324,004) | (116,366) | (246,165) | (60,640) | - | - | (747,175) |
| Depreciation charge – discontinued operations | - | - | (196) | (1,369) | (19,304) | - | (20,869) |
| Depreciation eliminated on disposal | - | - | 2,715 | - | - | - | 2,715 |
| Closing net book amount | 26,904,674 | 348,403 | 902,570 | 90,509 | 57,916 | - | 28,304,072 |
| At June 30, 2015 | | | | | | | |
| Cost/valuation | 27,635,178 | 1,498,218 | 2,263,100 | 793,548 | 274,526 | - | 32,464,570 |
| Accumulated depreciation | (730,504) | (1,149,815) | (1,360,530) | (703,039) | (216,610) | - | (4,160,498) |
| Net book amount | 26,904,674 | 348,403 | 902,570 | 90,509 | 57,916 | - | 28,304,072 |

11 Property, plant and equipment (continued)

The land and buildings were revalued in June 2013 by an independent property appraiser. The valuation was based on the current replacement cost method based on the values and market conditions at the time of the valuation. The Bank has determined that there have been no significant changes in the market conditions since the valuation, and therefore considers the revalued amounts as being a reasonable assessment of the fair values at reporting date.

The fair value hierarchy for land and buildings is assessed at Level 2, which includes direct and indirect observable inputs.

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of June 30, 2016 and 2015:

| | Land and Buildings $ | Total $ |
|---|---|---|
| Cost | 15,941,396 | 15,941,396 |
| Accumulated Depreciation | (2,556,776) | (2,556,776) |
| Net book values as at June 30, 2016 | 13,384,620 | 13,384,620 |

| | Land and Buildings $ | Total $ |
|---|---|---|
| Cost | 15,899,564 | 15,899,564 |
| Accumulated Depreciation | (2,215,935) | (2,215,935) |
| Net book values as at June 30, 2015 | 13,683,629 | 13,683,629 |

## 12 Intangible assets

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Computer Software: | | |
| Year ended June 30, | | |
| Opening net book amount | 348,867 | 459,328 |
| Additions | 713,379 | 92,060 |
| Amortisation charge – continuing operations | (236,760) | (201,497) |
| Amortisation charge – discontinued operations | (71,210) | (1,024) |
| Eliminations on classification as held for sale | (283,813) | - |
| Closing net book amount | 470,463 | 348,867 |
| At June 30, | | |
| Cost | 3,769,289 | 3,617,330 |
| Accumulated amortisation | (3,298,826) | (3,268,463) |
| Net book amount | 470,463 | 348,867 |

## 13 Customers' deposits

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Time deposits | 131,057,428 | 161,682,209 |
| Savings accounts | 128,967,802 | 182,970,724 |
| Current accounts | 122,943,830 | 168,431,844 |
| | 382,969,060 | 513,084,777 |
| Interest payable | 1,784,159 | 2,465,715 |
| Total customers' deposits | 384,753,219 | 515,550,492 |
| Current | 376,733,345 | 506,140,722 |
| Non-current | 8,019,874 | 9,409,770 |
| | 384,753,219 | 515,550,492 |

Included in the customers deposits at year end are balances for other financial institutions amounting to $34,703,145 (2015: $45,185,826).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

## 14 Other liabilities and accrued expenses

| | 2016 $ | 2015 $ |
|---|---|---|
| Accounts payable and accrued expenses | 1,790,535 | 2,171,253 |
| Items-in-transit | 937,380 | 870,868 |
| Deferred loan fees | 846,199 | 858,114 |
| Fair value adjustment on employee loans | 375,569 | 805,136 |
| Manager's cheques | 649,009 | 662,810 |
| Advance deposits on credit cards | 177,483 | 221,222 |
| Government stamp duty | 169,674 | 110,788 |
| Staff bonus payable | 71,220 | 3,622 |
| Total other liabilities and accrued expenses | 5,017,069 | 5,703,813 |
| Current | 3,807,574 | 4,089,641 |
| Non-current | 1,209,495 | 1,614,172 |
| | 5,017,069 | 5,703,813 |

## 15 Taxation

| The deferred income tax asset and liability on the statement of financial position is related to the following: | 2016 $ | 2015 $ |
|---|---|---|
| Property, plant and equipment | (992,316) | (1,008,007) |
| Available-for-sale investment securities | (104,762) | (83,488) |
| Deferred tax liability | (1,097,078) | (1,091,495) |
| Interest on non-performing loans | 1,208,120 | 1,208,120 |
| Deferred income tax asset | 1,208,120 | 1,208,120 |

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

| | 2016 $ | 2015 $ |
|---|---|---|
| Deferred tax on depreciation of property, plant and equipment | (15,691) | 324,967 |

The deferred tax income recognised in other comprehensive income is comprised of the following:

| | 2016 $ | 2015 $ |
|---|---|---|
| Deferred tax on movement in market value of available-for-sale-investment securities | 21,274 | 63,511 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

## 15 Taxation (continued)

| | 2016 $ | 2015 $ |
|---|---|---|
| **Income tax receivable** | | |
| Income tax payable net, beginning of year | 851,160 | 852,536 |
| Payments made during year, net of refunds | 627,249 | 39,119 |
| Current tax expense | (903,094) | (40,495) |
| Prior year tax expense | (946,667) | - |
| Transferred to assets of subsidiary classified as held for sale | (109,326) | - |
| Income tax (payable)/recoverable, at end of year | (480,678) | 851,160 |

| | 2016 $ | 2015 $ |
|---|---|---|
| **Income tax expense** | | |
| Operating profit from continuing operations before taxation | 3,953,314 | (3,287,985) |
| Income tax (credit) expense at standard rate of 33% (2015: 33%) | 1,304,594 | (1,085,035) |
| Tax effect of: | | |
| Non-deductible expenses | 1,683,456 | 610,169 |
| Untaxed interest income | (1,286,363) | (1,228,828) |
| Untaxed dividend income | (32,066) | (28,604) |
| Under-accrual for prior year current tax | 946,667 | - |
| Effect of movement in deferred taxes | (15,691) | 324,967 |
| Effect of tax losses and capital cost allowances (utilised) and carried forward (net) | (812,533) | 1,736,662 |
| Effect of withholding taxes paid | 12,481 | 21,544 |
| Actual income tax expense | 1,800,545 | 350,875 |

### Tax Losses

The Bank has carried forward income tax losses of $Nil (2015: $176,869). The tax losses have not been confirmed by the tax authorities. Losses may be carried forward and deducted against future taxable income within five 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 $Nil (2015: $58,367) which has not been recognised in the consolidated financial statements due to the uncertainty of its recovery. The losses incurred will expire as follows:

| Year of loss | 2016 $ | 2015 $ |
|---|---|---|
| 2015 (expires June 30, 2020) | - | 176,869 |
| Total | - | 176,869 |

### Capital cost allowances

The Bank has carry-forward capital cost allowances of $Nil (2015: 1,709,170). The additions and claims for capital cost allowances during the current year have not been confirmed by the tax authorities.

**15 Taxation (continued)**

**Capital cost allowances (continued)**

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.

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Balance at beginning of year | **1,709,170** | - |
| Additions during the year | **949,889** | 1,709,170 |
| Claims during the year | **(2,659,059)** | - |
| **Balance at end of year** | **-** | 1,709,170 |

**16 Share capital**

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Authorised share capital<br>50,000,000 shares at $1 each | **50,000,000** | 50,000,000 |
| Issued and fully paid<br>9,347,687 shares (2015: 9,347,687 shares) of $1 each | **9,347,687** | 9,347,687 |

**17 Statutory reserves**

Section 45 (1) of the St. Christopher and Nevis Banking Act No. 1 of 2015 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 12 (1) of the Nevis International Banking Ordinance 2014 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.

There were no transfers to the statutory reserves for 2015 and 2016.

**18 Revaluation reserves**

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Balance, beginning of year | **12,502,865** | 13,414,583 |
| Depreciation/appreciation in market value of investment securities, (net of tax) | **(355,092)** | (962,092) |
| Correcting adjustment for lands and buildings | **-** | 50,374 |
| | **12,147,773** | 12,502,865 |
| Amounts relating to assets classified as held for sale | **865,998** | - |
| Balance, end of year | **13,013,771** | 12,502,865 |
| **Represented by revaluation reserves attributable to:** | | |
| Available-for-sale investment securities | **209,944** | 300,962 |
| Property | **12,803,827** | 12,803,827 |
| | **13,013,771** | 12,502,865 |

18 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:

| | 2016 $ | 2015 $ |
|---|---|---|
| Appreciation in market value | (333,818) | (898,581) |
| Less: deferred tax | (21,274) | (63,511) |
| | (355,092) | (962,092) |

19 Other reserves

| | 2016 $ | 2015 $ |
|---|---|---|
| Other reserves: | | |
| Balance at beginning of year | 3,721,643 | 2,890,216 |
| Reserve for loan impairment | 425,578 | 831,427 |
| Total other reserves | 4,147,221 | 3,721,643 |
| Other reserves is represented by: | | |
| Reserve for loan impairment | 1,257,005 | 831,427 |
| Reserve for items in-transit on correspondent bank accounts | 2,890,216 | 2,890,216 |
| | 4,147,221 | 3,721,643 |

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.

20 Interest income

| | 2016 $ | 2015 $ |
|---|---|---|
| Interest income on loans and receivables | | |
| Loans and advances | 13,968,218 | 11,080,655 |
| Treasury bills | 2,238,994 | 1,831,615 |
| Deposits with banks and other financial institutions | 531,605 | 559,099 |
| Other investment securities | 298,632 | 191,500 |
| Total interest income on loans and receivables | 17,037,449 | 13,662,869 |
| Interest income on available-for-sale investment securities | 132,338 | 47,292 |
| Total interest income | 17,169,787 | 13,710,161 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

## 21 Interest expense

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Time deposits | 5,445,698 | 6,614,582 |
| Savings deposits | 2,202,112 | 2,741,894 |
| Demand deposits | 142,173 | 144,839 |
| Total interest expense on other financial liabilities | 7,789,983 | 9,501,315 |

## 22 Other operating income

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Fees and commissions | 1,706,531 | 1,649,151 |
| Foreign exchange gains (net) | 882,912 | 610,382 |
| Dividend income on available-for-sale investments | 97,169 | 86,678 |
| Net Card services commissions and fees | 45,116 | 247,648 |
| Gain on disposal of assets | 33,000 | 2,174 |
| Miscellaneous revenue | 9,998 | 16,085 |
| Bad debts recovered | 1,100 | 2,000 |
| Total other operating income | 2,775,826 | 2,614,118 |

## 23 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:

Directors key management personnel, and related entities

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Balances at June 30, 2016 | | |
| Loans and advances outstanding | 8,066,126 | 9,725,130 |
| Undrawn credit commitments | 497,089 | 259,576 |
| Collateral held on balances outstanding | 24,506,282 | 22,341,282 |
| Deposits held | 43,678,972 | 44,582,724 |
| Transactions for the year ended June 30, 2016 | | |
| Interest income earned on loans and advances | 631,427 | 757,664 |
| Interest expense incurred on deposits held | 2,068,412 | 2,017,037 |
| Interest rates on loans and advances | 5.0% - 19.5% | 5.0% - 19.5% |
| Interest rates on deposits held | 0.0% - 5.25% | 0.0% - 5.25% |

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

## 23 Related party transactions (continued)

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 $1,886,553 (2015: $1,927,379) were paid to key members of management and were allocated as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Salaries and short term benefits | 1,813,073 | 1,861,860 |
| Pension and post-employment benefits | 73,480 | 65,519 |
| | 1,886,553 | 1,927,379 |

## 24 Earnings / (loss) per share

### Basic earnings / (loss) per share from continuing and discontinued operations

This is calculated by dividing the net profit / (loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year as follows.

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Net profit / (loss) attributable to shareholders | 3,685,736 | (2,503,745) |
| Weighted average number of ordinary shares in issue | 9,347,687 | 9,347,687 |
| | 0.39 | (0.27) |

### Basic earnings / (loss) per share from continuing operations

This is calculated by dividing the net profit / (loss) from continuing operations attributable to shareholders by the weighted average number of ordinary shares in issue during the year as follows.

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Net profit / (loss) from continuing operations attributable to shareholders | 2,152,669 | (3,638,860) |
| Weighted average number of ordinary shares in issue | 9,347,687 | 9,347,687 |
| | 0.23 | (0.40) |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016
*(expressed in Eastern Caribbean dollars)*

25 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:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Undrawn commitments to extend advances | 28,851,498 | 19,688,892 |
| | 28,851,498 | 19,688,892 |

Included in the amount of undrawn commitments to extend advances above are credit card commitments totalling $6,323,345 (2015: $5,223,768) at the year end.

26 Dividends

During the year, a cash dividend of $Nil per share (2015: $0.075 per share) amounting to $Nil was paid (2015: $701,077).

27 Cash and cash equivalents

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Cash and balances due from banks and other financial institutions (note 7) | 90,868,514 | 179,068,379 |
| Investment securities (note 8) | 31,208,010 | 21,314,595 |
| Cash and cash equivalents classified as assets of subsidiary held for sale | 52,959,339 | - |
| Total cash and cash equivalents | 175,035,863 | 200,382,974 |

28 General and administrative expenses

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Salaries and related costs (note 29) | 4,567,225 | 4,720,028 |
| Building and equipment maintenance and repairs | 572,704 | 425,098 |
| Stationery, printing and postage | 376,580 | 264,928 |
| Other general and administrative expenses | 223,651 | 242,008 |
| Advertisement and promotion | 210,172 | 119,985 |
| Insurance expense | 269,276 | 192,289 |
| Professional fees | 193,236 | 222,869 |
| Utilities | 204,075 | 221,167 |
| Telephone, telex and cables | 143,716 | 128,077 |
| Security services | 95,544 | 96,271 |
| Taxes and licences | 50,695 | 49,099 |
| Legal Fees | 14,752 | - |
| Total general and administrative expenses | 6,921,626 | 6,681,819 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

*(expressed in Eastern Caribbean dollars)*

## 29 Salaries and related costs

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Salaries and wages | 3,361,198 | 3,437,193 |
| Other staff costs | 777,067 | 791,763 |
| Social security costs | 311,293 | 314,845 |
| Pension costs | 117,667 | 176,227 |
| Total salaries and related costs | 4,567,225 | 4,720,028 |

Contributions to the pension plan for the year ended June 30, 2016 amounted to $117,667 (2015: $176,227).

## 30 Assets and liabilities of subsidiary classified as held for sale

| | 2016<br>$ |
|---|---|
| Assets related to Subsidiary | 161,900,998 |
| Liabilities Associated with Assets held for Sale | 155,839,626 |

During a special meeting held on February 18, 2016, the shareholders of the Bank of Nevis Limited (“BON”) resolved that the Directors of BON be authorised to dispose of BON’s interest in its wholly owned subsidiary Bank of Nevis International Limited (“BONI”) by way of the sale of the majority or full (100%) shareholding in BONI, such authority being granted up to September 30th, 2016 failing which, the Directors of BON be authorised to proceed with a spin-off whereby each shareholder of BON will be allotted an interest in BONI proportionate to their existing shareholding.

Following the passing of the aforementioned resolution and the establishment of the criteria and process for selecting a potential investor, the Directors of BON received and considered several inquiries and offers from external parties in relation thereto. Subsequently to the end of the financial year, BON entered into a Memorandum of Understanding for the sale of Majority Shareholding in BONI (“MOU”) with one of the aforementioned parties.

It is anticipated that a sale and purchase agreement will be executed between the parties to the MOU on or before September 30, 2016 – the finalisation of the sale being subject to the approvals of the requisite regulatory authorities. It is also anticipated that the fair value less costs to sell of BON’s shareholding in BONI will be higher than the aggregated carrying amount of the related assets and liabilities, therefore, no impairment loss was recognised on reclassification of the assets and liabilities as held for sale as at 30 June 2016. The major classes of assets and liabilities of the subsidiary BONI at the end of the reporting period are as follows:

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

*(expressed in Eastern Caribbean dollars)*

## 30 Assets and liabilities of subsidiary classified as held for sale (continued)

| | 2016<br>$ |
|---|---|
| Cash and current accounts with other banks | 39,650,484 |
| Short term fixed deposits | 11,327,319 |
| Treasury bills included in cash equivalents | 1,981,536 |
| Included in cash and cash equivalents (note 27) | 52,959,339 |
| Balances due from banks and other financial institutions | 28,495,154 |
| Investment securities | 72,091,374 |
| Loans and advances | 7,522,601 |
| Income tax receivable | 110,116 |
| Other assets | 326,162 |
| Property, plant and equipment | 112,439 |
| Intangible assets | 283,813 |
| Assets of Subsidiary Classified as Held for Sale | 161,900,998 |
| | |
| Customers' deposits | 154,416,856 |
| Other liabilities and accrued expenses | 1,421,980 |
| Income tax payable | 790 |
| Liabilities of subsidiary business associated with assets classified as held for sale | 155,839,626 |
| Net assets of subsidiary classified as held for sale | 6,061,372 |

## 31 Discontinued operations

### Plan to dispose of subsidiary

As described in note 30, the Bank plans to dispose of BON's interest in its wholly owned subsidiary Bank of Nevis International Limited. The Bank has not recognised any impairment loss on reclassification of the assets and liabilities as held for sale as at 30 June 2016.

### Analysis of profit for the year from discontinued operations

The results of the discontinued operations included in the profit for the year are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

31 Discontinued operations (continued)

Profit for the year from discontinued operations

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Net interest income | 1,851,383 | 1,853,662 |
| Other operating income | 1,650,915 | 1,268,064 |
| | 3,502,298 | 3,121,726 |
| Operating expenses | (1,935,806) | (1,972,024) |
| Operating profit for the year before taxation | 1,566,492 | 1,149,702 |
| Attributable taxation | (33,525) | (14,587) |
| Profit for the year from discontinued operations | 1,532,967 | 1,135,115 |

Cash flows from discontinued operations

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Net cash flows from operating activities | 4,302,225 | 38,857,148 |
| Net cash flows used in investing activities | (12,972,658) | (14,772,321) |
| Net cash flows | 8,670,433 | 24,084,827 |

# AUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS SUMMARY

Deloitte & Touche
3rd Floor
The Goddard Building
Haggatt Hall
St. Michael, BB11059
Barbados, W.I.

Tel: +246 430 6400
Fax: +246 430 6451
www.deloitte.com

# Independent auditors' report

To the shareholders of The Bank of Nevis Limited

The accompanying summary financial statements, which comprise the summary non-consolidated statement of financial position as at June 30, 2016, the summary non-consolidated statement of income/(loss), summary non-consolidated statement of comprehensive income/(loss), summary non-consolidated statement of changes in equity and summary non-consolidated statement of cash flows for the year then ended, are derived from the audited non-consolidated financial statements of The Bank of Nevis Limited for the year ended June 30, 2016. We expressed an unmodified audit opinion on those non-consolidated financial statements in our report dated September 28, 2016.

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 derived from the audited non-consolidated financial statements of The Bank of Nevis Limited for the year ended June 30, 2016 are consistent, in all material respects, with those non-consolidated financial statements, in accordance with International Financial Reporting Standards.

Deloitte & Touche

September 28, 2016

# SUMMARY NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2016
*(expressed in Eastern Caribbean dollars)*

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Assets** | | |
| Cash and balances with the Central Bank (note 6) | 32,183,077 | 24,600,350 |
| Due from other banks and other financial institutions (note 7) | 101,034,023 | 116,687,090 |
| Investment securities (note 8) | 76,062,972 | 51,305,715 |
| Disposal group held for sale (note (note 32) | 1,000,000 | - |
| Loans and advances (note 9) | 203,804,139 | 190,229,078 |
| Other assets (note 10) | 592,923 | 966,555 |
| Investment in subsidiaries (note 11) | 1,350,000 | 2,350,000 |
| Property, plant and equipment (note 12) | 27,915,836 | 28,242,792 |
| Intangible assets (note 13) | 470,463 | 344,768 |
| Deferred tax asset (note 17) | 1,208,120 | 1,208,120 |
| Income tax receivable (note 17) | - | 833,706 |
| Due from related parties (note 18) | 169,993 | 106,131 |
| Total assets | 445,791,546 | 416,874,305 |
| **Liabilities** | | |
| Customers' deposits (note 14) | 387,086,471 | 366,368,970 |
| Other liabilities and accrued expenses (note 15) | 4,728,516 | 4,897,747 |
| Due to related party (note 18) | 5,334,062 | - |
| Income tax payable (note 17) | 466,799 | - |
| Deferred tax liability (note 17) | 1,097,078 | 1,091,495 |
| Total liabilities | 398,712,926 | 372,358,212 |
| **Shareholders' Equity** | | |
| Share capital (note 19) | 9,347,687 | 9,347,687 |
| Statutory reserve (note 20) | 9,734,355 | 9,734,355 |
| Revaluation reserve (note 21) | 13,013,771 | 12,970,578 |
| Other reserves (note 22) | 2,305,510 | 1,879,932 |
| Retained earnings | 12,677,297 | 10,583,541 |
| Total shareholders' equity | 47,078,620 | 44,516,093 |
| Total liabilities and shareholders' equity | 445,791,546 | 416,874,305 |

Approved for issue by the Board of Directors on September 28, 2016

Chairman

Chief Financial Officer

# SUMMARY NON-CONSOLIDATED STATEMENT OF INCOME/(LOSS)

For the year ended June 30, 2016
*(expressed in Eastern Caribbean dollars)*

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Interest income (note 23) | 17,201,131 | 13,716,526 |
| Interest expense (note 24) | (8,007,955) | (9,525,764) |
| Net interest income | 9,193,176 | 4,190,762 |
| Impairment provision on investment securities (note 8) | - | (426,100) |
| Other operating income (note 25) | 3,314,805 | 3,213,297 |
| | 12,507,981 | 6,977,959 |
| Operating expenses | | |
| General and administrative expenses (note 30) | 6,910,930 | 6,672,870 |
| Depreciation (note 12) | 793,566 | 747,176 |
| Amortisation (note 13) | 236,760 | 201,497 |
| Directors' fees and expenses | 428,337 | 444,589 |
| Audit fees | 278,701 | 271,750 |
| (Recovery) / provision for loan impairment (note 9) | (902,437) | 960,135 |
| Correspondent bank charges | 445,762 | 377,884 |
| | 8,191,619 | 9,675,901 |
| Operating profit / (loss) before tax for the year | 4,316,362 | (2,697,942) |
| Taxation (note 17) | | |
| Current tax expense: – Current year | 866,052 | 21,544 |
| – Prior year | 946,667 | - |
| Deferred tax (credit) expense | (15,691) | 324,967 |
| | 1,797,028 | 346,511 |
| Net profit / (loss) for the year – attributable to shareholders of the company | 2,519,334 | (3,044,453) |
| Earnings/(Loss) per share (note 26) | 0.27 | (0.33) |

# SUMMARY NON-CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

For the year ended June 30, 2016
*(expressed in Eastern Caribbean dollars)*

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Net profit/(loss) for the year | 2,519,334 | (3,044,453) |
| Other comprehensive income for the year: | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Net change in market value of investment securities, net of tax (note 21) | 43,193 | 128,950 |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Revaluation adjustment: land and building (note 21) | - | 50,373 |
| Total other comprehensive income for the year | 43,193 | 179,323 |
| Total comprehensive income/(loss) for the year | 2,562,527 | (2,865,130) |

# SUMMARY NON-CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2016
*(expressed in Eastern Caribbean dollars)*

| | Share capital $ | Statutory reserves $ | Revaluation reserve $ | Other reserves $ | Retained earnings $ | Total $ |
|---|---|---|---|---|---|---|
| Balance June 30, 2014 | 9,347,687 | 9,734,355 | 12,791,255 | 1,048,505 | 15,160,498 | 48,082,300 |
| Total comprehensive loss for the year | - | - | 179,323 | - | (3,044,453) | (2,865,130) |
| Transfers to reserves (notes 20 and 22) | - | - | - | 831,427 | (831,427) | - |
| Dividends (note 16) | - | - | - | - | (701,077) | (701,077) |
| Balance June 30, 2015 | 9,347,687 | 9,734,355 | 12,970,578 | 1,879,932 | 10,583,541 | 44,516,093 |
| Total comprehensive income for the year | - | - | 43,193 | - | 2,519,334 | 2,562,527 |
| Transfers to reserves (notes 20 and 22) | - | - | - | 425,578 | (425,578) | - |
| Balance June 30, 2016 | 9,347,687 | 9,734,355 | 13,013,771 | 2,305,510 | 12,677,297 | 47,078,620 |

# SUMMARY NON-CONOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2016
*(expressed in Eastern Caribbean dollars)*

| | 2016 $ | 2015 $ |
|---|---|---|
| Cash flows from operating activities | | |
| Operating profit/(loss) before tax for the year | 4,316,362 | (2,697,942) |
| Items not affecting cash | | |
| (Recovery of)/Provision for loan impairment | (902,437) | 960,135 |
| Depreciation | 793,566 | 747,176 |
| Amortisation | 236,760 | 201,497 |
| Losses from movements in foreign currency exchange rates | 190,810 | 304,585 |
| Impairment provision on investment securities | - | 426,100 |
| Net gain on disposal of property, plant and equipment | (33,000) | (2,174) |
| Interest income | (17,201,131) | (13,716,526) |
| Interest expense | 8,007,955 | 9,525,764 |
| Cash flows from operating income before changes in operating assets and liabilities | (4,591,115) | (4,251,385) |
| Changes in operating assets and liabilities | | |
| Increase in mandatory and restricted deposits held with Central Bank | (7,781,624) | (574,863) |
| Decrease/(Increase) in other assets | 373,632 | (79,070) |
| (Increase)/Decrease in loans and advances, net of repayments received | (12,425,952) | 2,982,135 |
| Increase in customers' deposits | 21,162,294 | 44,263,009 |
| Decrease in other liabilities and accrued expenses | (169,231) | (19,380,397) |
| Cash (used in) from operations before interest and tax | (3,431,996) | 22,959,429 |
| Interest paid | (8,433,102) | (9,809,680) |
| Interest received | 16,720,607 | 14,259,770 |
| Income tax paid | (512,214) | (21,544) |
| Net cash from operating activities | 4,343,295 | 27,387,975 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (466,610) | (1,247,257) |
| Sale of property, plant and equipment | 33,000 | 2,174 |
| Purchase of intangible assets | (362,455) | (86,937) |
| Purchase of investment securities | (32,125,343) | (24,999,853) |
| Disposals of investment securities | 14,143,294 | 9,074,097 |
| Increase in fixed deposits, net | (8,251,464) | (74,125) |
| Net cash used in investing activities | (27,029,578) | (17,331,901) |
| Cash flows from financing activities | | |
| Dividends paid | - | (701,077) |
| Repayments from related parties | 5,250,554 | 2,700,144 |
| Net cash (used in)/from financing activities | 5,250,554 | 1,999,067 |
| (Decrease)/Increase in cash and cash equivalents | (17,435,729) | 12,055,141 |
| Net effect of foreign currency exchange rate movements on cash and amounts due from other banks | (190,810) | (304,585) |
| Cash and cash equivalents, beginning of year | 134,368,998 | 122,618,442 |
| Cash and cash equivalents, end of year (note 29) | 116,742,459 | 134,368,998 |

# NOTES

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**The Bank of Nevis Ltd**
P.O. Box 450
Main Street
Charlestown
Nevis
Tel: (869) 469-5564/5796
Fax: (869) 469-4798/1039/1492
Email: info@thebankofnevis.com

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