

**Schedule 2  
FORM ECSRC – OR**

(Select One)

**QUARTERLY FINANCIAL REPORT** for the period ended DECEMBER 31, 2019  
Pursuant to Section 98(2) of the Securities Act, 2001

**OR**

**TRANSITION REPORT**  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Pursuant to Section 98(2) of the Securities Act, 2001  
*(Applicable where there is a change in reporting issuer's financial year)*

Issuer Registration Number: \_\_\_\_\_  
**ST.KITTS-NEVIS-ANGUILLA NATIONAL BANK LTD**

\_\_\_\_\_  
(Exact name of reporting issuer as specified in its charter)  
**ST CHRISTOPHER AND NEVIS**

\_\_\_\_\_  
(Territory or jurisdiction of incorporation)  
**CENTRAL STREET, BASSETERRE, ST KITTS**

\_\_\_\_\_  
(Address of principal executive Offices)

(Reporting issuer's:

Telephone number (including area code): (869) 465-2204

Fax number: (869) 465-1050

Email address: webmaster@sknanb.com

\_\_\_\_\_  
(Former name, former address and former financial year, if changed since last report)

(Provide information stipulated in paragraphs 1 to 8 hereunder)

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

CLASS	NUMBER
ORDINARY SHARES	135,000,000

**SIGNATURES**

A Director, the Chief Executive Officer and Chief Financial Officer of the company shall sign this Annual Report on behalf of the company. By so doing each certifies that he has made diligent efforts to verify the material accuracy and completeness of the information herein contained.

The Chief Financial Officer by signing this form is hereby certifying that the financial statements submitted fairly state the company's financial position and results of operations, or receipts and disbursements, as of the dates and period(s) indicated. The Chief Financial Officer further certifies that all financial statements submitted herewith are prepared in accordance with International Accounting Standards consistently applied (except as stated in the notes thereto) and (with respect to year-end figures) including all adjustments necessary for fair presentation under the circumstances.

Name of Chief Executive Officer: (Acting)

Name of Director:

DONALD THOMPSON

ALEXIS NISBETT

Si SIGNED AND CERTIFIED

Si SIGNED AND CERTIFIED

Date

Date

*30/01/20*

Name of Chief Financial Officer:

ANTHONY GALLOWAY

Signature SIGNED AND CERTIFIED

Date

*January 30, 2020*

## **INFORMATION TO BE INCLUDED IN FORM ECSRC-OR**

### **1. Financial Statements**

Provide Financial Statements for the period being reported in accordance with International Accounting Standards. The format of the financial statements should be similar to those provided with the registration statement. Include the following:

- (a) Condensed Balance Sheet as of the end of the most recent financial year and just concluded reporting period.
- (b) Condensed Statement of Income for the just concluded reporting period and the corresponding period in the previous financial year along with interim three, six and nine months of the current financial year and corresponding period in the previous financial year.
- (c) Condensed Statement of Cash Flows for the just concluded reporting period and the corresponding period in the previous financial year along with the interim three, six and nine months of the current financial year and the corresponding period in the previous financial year.
- (d) By way of *Notes to Condensed Financial Statements*, provide explanation of items in the financial statements and indicate any deviations from generally accepted accounting practices.

### **2. Management's Discussion and Analysis of Financial Condition and Results of Operation.**

Discuss the reporting issuer's financial condition covering aspects such as liquidity, capital resources, changes in financial condition and results of operations during the reporting period. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated. Discussion of material changes should be from the end of the preceding financial year to the date of the most recent interim report.

The Management's Discussion and Analysis should disclose sufficient information to enable investors to judge:

1. The quality of earnings;
2. The likelihood that past performance is indicative of future performance; and
3. The issuer's general financial condition and outlook.

It should disclose information over and above that which is provided in the management accounts and should not be merely a description of the movements in the financial statements in narrative form or an otherwise uninformative series of technical responses. It should provide management's perspective of the company that enables investors to view the business from the vantage point of management.

The discussion should focus on aspects such as liquidity; capital resources; changes in financial condition; results of operations; material trends and uncertainties and measures taken or to be taken to address unfavourable trends; key performance indicators; and nonfinancial indicators.

### *General Discussion and Analysis of Financial Condition*

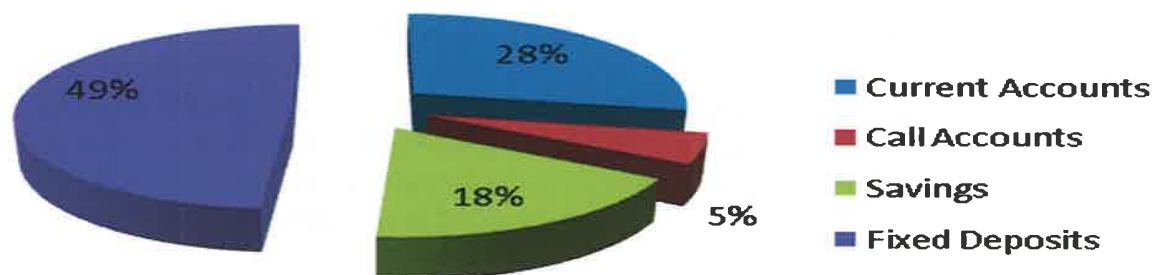
At the end of the quarter ended December 2019, the Financial Condition of the Bank was as follows:

- 1) The Bank's total asset base decreased by \$142.2 million or 3.9% to \$3.506 billion, due mainly to the following:
  - Increase in Cash and balances with Central Bank by \$23.6 million or 11.1%
  - Increase in Investments by \$62.3 million or 6.7%
  - Increase in Loans and Advances by \$27.5 million or 3.3%
  - Increase in Deferred Tax Asset by \$3.7 million or 20.2%Offset by,
  - Decrease in Financial Assets by \$10.0 million or 1.5%
  - Decrease in Originated Debts by \$87.3 million or 38.9%
  - Decrease in Other Assets by \$6.3 million or 23.3%
  - Decrease in Deposits with other financial institutions by \$155.7 million or 26.4%

Cash and balances with Central Bank constituted 6.8% of the total assets, investments constituted 46.8%, loans and advances contributed to 24.6%, Lands held (financial asset) constituted 19.2%, while all other assets comprised the 2.6% at December 31, 2019. The investment strategy applied by the Bank ensures that it maintains a well-diversified portfolio to reduce risk exposure.

- 2) Net Loans and advances at December 31, 2019 increased by \$27.5 million or 3.3% when compared with \$835.9 million at June 2019. During the review period, the Bank continued to grow the loan portfolio through its National Pride, National Grad, Christmas and vehicle loan promotions as well as other loan strategies.
- 3) Customers' deposits decreased by \$83.1 million or 2.7% when compared with \$3.039 billion at June 2019, due mainly to the decrease in fixed deposits held by Statutory Bodies and Subsidiaries as well as a decrease in USD current and call account balances held by Private Businesses and Government of St.Kitts-Nevis. Below is a diagram showing the customer deposit mix at the end of December 2019.
- 4) Shareholders' Equity decreased by \$20.4 million or 3.7% when compared with \$542.2 million at June 2019, resulting from a dividend payment to shareholders of \$20.2 million, unrealized losses on FVOCI investments of \$6.0 million and profit earned of \$5.8 million. The Company continues to closely monitor market and other risks to ensure that it realizes its goal of providing satisfactory returns to shareholders, thereby increasing the value of their investments.

## Customer Deposit Mix



### Liquidity and Capital Resources

Provide a narrative explanation of the following (but not limited to):

- i) The reporting issuer's financial condition covering aspects such as liquidity, capital resources, changes in financial condition and results of operations.
- ii) Any known trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, the issuer's liquidity increasing or decreasing in any material way. If a deficiency is identified, indicate the course of action that the reporting issuer has taken or proposes to take to remedy the deficiency.
- iii) The issuer's internal and external sources of liquidity and any material unused sources of liquid assets.
- iv) Provisions contained in financial guarantees or commitments, debt or lease agreements or other arrangements that could trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation such as adverse changes in the issuer's financial ratios, earnings, cash flows or stock price or changes in the value of underlying, linked or indexed assets.
- v) Circumstances that could impair the issuer's ability to continue to engage in transactions that have been integral to historical operations or are financially or operationally essential or that could render that activity commercially

impracticable such as the inability to maintain a specified level of earnings, earnings per share, financial ratios or collateral.

- vi) Factors specific to the issuer and its markets that the issuer expects will affect its ability to raise short-term and long-term financing, guarantees of debt or other commitment to third parties, and written options on non-financial assets.
- vii) The relevant maturity grouping of assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date. Commentary should provide information about effective periods and the way the risks associated with different maturity and interest profiles are managed and controlled.
- viii) The issuer's material commitments for capital expenditures as of the end of the latest fiscal period, and indicate the general purposes of such commitments and the anticipated source of funds needed to fulfil such commitments.
- ix) Any known material trends, favorable or unfavorable, in the issuer's capital resources, including any expected material changes in the mix and relative cost of capital resources, considering changes between debt, equity and any off-balance sheet financing arrangements.

#### *Discussion of Liquidity and Capital Resources*

##### LIQUIDITY

The Bank's liquidity is managed and monitored on a daily basis by management to ensure that there is sufficient liquidity to meet its liabilities when they fall due, both under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank maintains a portfolio of marketable assets that can be easily liquidated as protection against unforeseen liquidity problems, as well as cash and balances with the Central Bank and other financial institutions. At the end of the review period, Cash and balances with Central Bank stood at \$236.8 million, \$79.3 million more than the required reserve deposit of \$157.5 million.

During the last six months, the bank remained sufficiently liquid to meet its contractual obligations as they fall due. This is evident by the reported positive cash and cash equivalents amount of \$470.4 million at the end of December 2019, despite a reduction of \$219.1 million when compared to June 2019. The fall was due mainly to the conversion of liquid funds held by the fund managers into investment securities, drawdown of cash on loan commitments and corporation tax installment payments made during the quarter.

##### CAPITAL

The Bank's policy is to manage the capital levels based on the underlying risk of its business. Capital adequacy is monitored to ensure compliance with the ECCB's risk based capital guidelines, which require a minimum ratio for Tier 1 or core capital of 4% to risk weighted assets. Tier 1 Capital is comprised of share capital, statutory reserves, general reserves and retained earnings. At December 31, 2019, the Bank was in compliance with the capital adequacy requirements, reporting a Tier 1 capital ratio of 32%.

Shareholders' Equity recorded at December 31, 2019 was \$521.8 million, which represents a 3.7% or \$20.4 million decrease when compared with \$542.2 million recorded at June 30, 2019. This was the result of a net operating income for the period, which was offset by a dividend payment to shareholders and unrealized losses on investments during the period.

#### Off Balance Sheet Arrangements

Provide a narrative explanation of the following (but not limited to):

- i) Disclosures concerning transactions, arrangements and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of, or requirements for capital resources.
- ii) The extent of the issuer's reliance on off-balance sheet arrangements should be described fully and clearly where those entities provide financing, liquidity, market or credit risk support, or expose the issuer to liability that is not reflected on the face of the financial statements.
- iii) Off-balance sheet arrangements such as their business purposes and activities, their economic substance, the key terms and conditions of any commitments, the initial on-going relationship with the issuer and its affiliates and the potential risk exposures resulting from its contractual or other commitments involving the off balance sheet arrangements.
- iv) The effects on the issuer's business and financial condition of the entity's termination if it has a finite life or it is reasonably likely that the issuer's arrangements with the entity may be discontinued in the foreseeable future.

At the end of the review period, the Bank had contractual commitments to extend credit to customers resulting from loan and credit card facilities granted and Letters of Credit arrangements with customers. At December 2019, Letters of Credit obligations stood at \$6.4 million, which remained unchanged from the amount reported at June 2019, while loan and credit card commitments stood at \$40.0 million, an increase of \$8.8 million or 28.1% resulting from new credit facilities granted.

### Results of Operations

In discussing results of operations, issuers should highlight the company's products and services, facilities and future direction. There should be a discussion of operating considerations and unusual events, which have influenced results for the reporting period. Additionally, any trends or uncertainties that might materially affect operating results in the future should be discussed.

Provide a narrative explanation of the following (but not limited to):

- i) Any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and, in each case, the extent to which income was so affected.
- ii) Significant components of revenues or expenses that should, in the company's judgment, be described in order to understand the issuer's results of operations.
- iii) Known trends or uncertainties that have had or that the issuer reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.



- iv) Known events that will cause a material change in the relationship between costs and revenues (such as price increases, costs of labour or materials), and changes in relationships should be disclosed.
- v) The extent to which material increases in net sales or revenues are attributable to increases in prices or to increases in the volume or amount of goods or services being sold or to the introduction of new products or services.
- vi) Matters that will have an impact on future operations and have not had an impact in the past.
- vii) Matters that have had an impact on reported operations and are not expected to have an impact upon future operations
- viii) Off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships that have or are reasonably likely to have a current or future effect on the registrant's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.
- ix) Performance goals, systems and, controls.

## Overview of Results of Operations

### RESULTS OF OPERATIONS

There were no unusual transactions or any significant economic changes that materially affected the amount of reported income from continuing operations for the quarter ended December 31, 2019. Usual and ordinary events and transactions for the quarter ended December 31, 2019 resulted in operating income before tax of \$5.8 million, which represents a \$7.9 million decrease when compared with 13.7 million reported at December 31, 2018.

Outlined below is a summary of the results of operations at the end of December 2019 and 2018.

	Dec 2019	Dec 2018	
	\$mil	\$mil	% Change
Income from Loans & Advances	14.6	16.8	-13.1%
Income from Investments	8.0	6.7	19.4%
Income from Deposits with financial Inst.	2.2	1.3	69.2%
Income from Lands	9.4	10.2	-7.8%
Non-interest income	26.8	34.4	-22.1%
Total income	61.0	69.4	-12.1%
Interest Expenses	24.9	25.2	-1.2%
Non-interest expenses	30.3	30.5	-0.7%
Total expenses	55.2	55.7	-0.9%
Net Income before taxes	5.8	13.7	-57.7%

#### Net-interest Income

At December 31, 2019, net interest income decreased by 0.4 million or 4.3% when compared with the \$9.7 million recorded at the end of the same period in 2018. The decrease in net interest income was due to a \$0.3 million decrease in interest expense coupled with a \$0.7 million decrease in interest income.

The year-over-year decrease in interest income resulted from the reduction in interest income from loans and advances.

#### Net Fees & Commission Income

Net fees and commission income grew by \$1.1 million (or 90.4%) at the end of December 2019 when compared with the amount attained for the quarter ended December 31, 2018. The year-over-year increase in net fees and commission income was due mainly to an increase in service charges received on incoming wires of \$0.7 million and an increase in legal income of \$0.4 million.

## Other Income

At December 31 2019, income from other sources showed a significant decline of \$10.0 million or 37.5% when compared to the amount recorded for the period ended December 2018. The decline in other income was due to a decrease in dividends received from equity investments of \$0.8 million, a decrease in gains realized from the sale of marketable securities of \$9.1 million, and a decrease in miscellaneous income of \$0.1 million. The table below gives an analysis of revenues earned over the review period.

<i>Analysis of Revenue</i>	<b>Dec 2019</b>	<b>Dec 2018</b>	
<b>Interest Income</b>	<b>\$ 000</b>	<b>\$ 000</b>	<b>% Change</b>
Interest from loans and advances	14,611	16,793	-13.0%
Interest from Investments	6,891	4,896	40.7%
Interest from Treasury Bills	1,127	1,832	-38.4%
Interest from Deposits with Fin. Inst.	2,192	1,305	68.0%
Interest on Lands	9,407	10,143	-7.3%
<b>Total interest</b>	<b>34,228</b>	<b>34,969</b>	<b>-2.1%</b>
<b>Non-interest income</b>			
Income from fees and commissions	10,183	7,895	29.0%
Gains from foreign exchange	3,505	3,480	0.7%
Gains from investments, net	10,474	19,570	-46.4%
Dividend income	2,530	3,359	-24.7%
Expected credit losses	-	-	-
Other income	98	155	-36.8%
<b>Total non-interest income</b>	<b>26,790</b>	<b>34,459</b>	<b>-22.2%</b>
<b>Total Revenue</b>	<b>61,018</b>	<b>69,428</b>	<b>-12.1%</b>

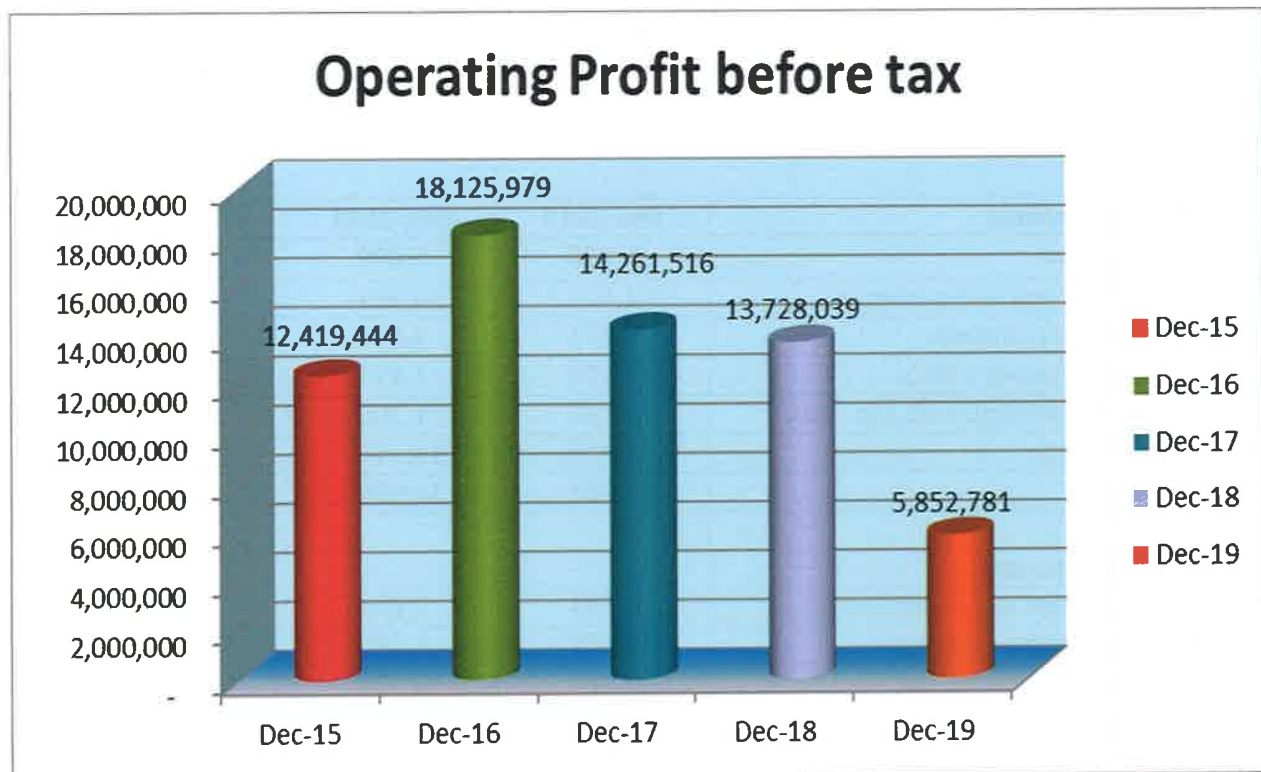
## Operating Expenses

Operating expenses incurred at the end of December 2019 was \$22.4 million when compared to \$23.8 million at the end of December 2018, representing a reduction of \$1.4 million or 5.8%. Operating cost management and curtailment remains a critical area of focus for the bank.

## Operating Income

Over the past 5 years, operating income before tax grew comparatively from \$12.4 million at the end of December 2015 to a high of \$18.1 million at the end of December 2016, before gradually decreasing to \$5.8 million for the same period in 2019. The Company is optimistic that its continued efforts to augment the non-interest income base and curtail interest costs will result in a significant improvement in profitability over the next quarter and beyond.

Outlined below is the movement of net operating income at December 31<sup>st</sup> over a five year period.



## OUTLOOK

The Directors and Management of National Bank will remain focused on our strategic priorities of broadening and deepening customer relationships, managing risks and positioning ourselves to take advantage of growth opportunities. New initiatives are being sought to further improve the overall end-to-end customer experience. Additionally, promotions are currently being undertaken to increase awareness and usage of our Card products and other services. Providing greater security and assurance to our Debit and Credit Card users against fraud and Identity theft continues to be a major goal.

### 3. Disclosure about Risk Factors.

Provide a discussion of the risk factors that may have an impact on the results from operations or on the financial conditions. Avoid generalised statements. Typical risk factors include untested products, cash flow and liquidity problems, dependence on a key supplier or customer, management inexperience, nature of business, absence of a trading market (specific to the securities of the reporting issuer), etc. Indicate if any risk factors have increased or decreased in the time interval between the previous and current filing.

The management of risks has emerged as one of the greatest challenges that banks now face. The Bank's activities expose it to a variety of financial risks, as taking risk is core to the commercial banking business. Management is aware that operational risks are an inevitable consequence of being in business, and hence risk management policies are designed to identify and analyze risks in order to set appropriate levels and controls to monitor and mitigate risks. Risk management is carried out by the Credit and Finance Divisions under policies approved by the Board of Directors. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The types of risks that affect the Bank are credit risk, liquidity risk, market risk (interest rate and currency risk), insurance risk and other operational risks. Credit risks can have a great impact on the results from operations or on financial conditions due to the industry in which we operate. The Bank takes on exposure to credit risk, which is the risk that counter-parties will cause financial losses for the bank by failing to discharge their obligations. Credit exposure arises principally in lending activities that lead to loans and advances and investment activities that bring debt securities and other bills into the Bank's asset portfolio. The Bank's exposure to credit risk is managed through regular analysis of the ability of its borrowers to meet obligations as well as taking collateral and corporate and personal guarantees as securities on advances.

The Bank is exposed to market risk, which is the risk that fair values or future cash flows will fluctuate because of changes in market prices. The Bank holds investments in open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in market rates or prices such as interest rates, equity prices and foreign exchange rates. Exposure to market risk is managed by diversifying the investment portfolio. The Bank with the assistance of highly competent and experienced fund managers maintains a well-diversified investment portfolio of over \$0.9 billion, which contributes significantly to the total income of the bank. At the end of December 2019, net realized gains from FVTPL investments held in the portfolio amounted to \$10.5 million.

Liquidity risk, to which the Bank is also exposed, is the risk that the bank is unable to meet its payment obligations when they fall due and fulfill commitments to lend. Sources of liquidity are regularly monitored and the bank holds a diversified portfolio of cash and investment securities to support payment obligations. Liquidity sources fell over the last three quarters due to a large reduction of deposit balances maintained by a few Correspondent banks in the ECCU region thereby decreasing the Bank's deposit balance held at ECCB. Notwithstanding this, liquidity is

closely monitored to ensure that sufficient funds are available at all times to meet any demands for funds.

4.

**Legal Proceedings.**

A legal proceeding need only be reported in the ECSRC – OR filed for the period in which it first became a reportable event and in subsequent interim reports in which there have been material developments. Subsequent Form ECSRC – OR filings in the same financial year in which a legal proceeding or a material development is reported should reference any previous reports in that year. Where proceedings have been terminated during the period covered by the report, provide similar information, including the date of termination and a description of the disposition thereof with respect to the reporting issuer and its subsidiaries.

None
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**5. Changes in Securities and Use of Proceeds.**

- (a) Where the rights of the holders of any class of registered securities have been materially modified, give the title of the class of securities involved. State briefly the general effect of such modification upon the rights of holders of such securities.

None
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(a) Where the use of proceeds of a security issue is different from that which is stated in the registration statement, provide the following:

- Offer opening date (provide explanation if different from date disclosed in the registration statement)

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- Offer closing date (provide explanation if different from date disclosed in the registration statement)

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- Name and address of underwriter(s)

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- Amount of expenses incurred in connection with the offer

- Net proceeds of the issue and a schedule of its use

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- Payments to associated persons and the purpose for such payments

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(c) Report any working capital restrictions and other limitations upon the payment of dividends.

None



6.

**Defaults upon Senior Securities.**

- (a) If there has been any material default in the payment of principal, interest, a sinking or purchase fund instalment, or any other material default not satisfied within 30 days, with respect to any indebtedness of the reporting issuer or any of its significant subsidiaries exceeding 5 per cent of the total assets of the reporting issuer and its consolidated subsidiaries, identify the indebtedness. Indicate the nature of the default. In the case of default in the payment of principal, interest, or a sinking or purchase fund instalment, state the amount of the default and the total arrears on the date of filing this report.
- (b)

None
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- (c) If any material arrears in the payment of dividends have occurred or if there has been any other material delinquency not satisfied within 30 days, give the title of the class and state the amount and nature of the arrears or delinquency.

None
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**7. Submission of Matters to a Vote of Security Holders.**

If any matter was submitted to a vote of security holders through the solicitation of proxies or otherwise during the financial year covered by this report, furnish the following information:

- (a) The date of the meeting and whether it was an annual or special meeting.

None

- (b) If the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting.

None

- (c) A brief description of each other matter voted upon at the meeting and a statement of the number of votes cast for or against as well as the number of abstentions as to each such matter, including a separate tabulation with respect to each nominee for office.

None

- (d) A description of the terms of any settlement between the registrant and any other participant.

8.

None

- (e) Relevant details of any matter where a decision was taken otherwise than at a meeting of such security holders.

None

**Other Information.**

The reporting issuer may, at its option, report under this item any information, not previously reported in a Form ECSRC – MC report (used to report material changes), with respect to which information is not otherwise called for by this form, provided that the material change occurred within seven days of the due date of the Form ECSRC-OR report. If disclosure of such information is made under this item, it need not be repeated in a Form ECSRC – MC report which would otherwise be required to be filed with respect to such information or in a subsequent Form ECSRC – OR report.

None