

**Schedule 2
FORM ECSRC – OR**

(Select One)

QUARTERLY FINANCIAL REPORT for the period ended DECEMBER 31, 2017
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

SIGNED AND CERTIFIED

SIGNED AND CERTIFIED

Signature

Signature

31-1-18

31/01/2018

Date

Date

Name of Chief Financial Officer: (Acting)

CHIDI LIBURD-EDWARDS

SIGNED AND CERTIFIED

Signature

31-1-18

Date

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 review period, the Financial Condition of the Bank was as follows:

- 1) The total asset base fell by \$251.9 million or 6.7% compared with \$3.748 billion at June 2017, which was due mainly to the following:

Increase in Available for Sale Investments by \$10.9 million or 1.1%

Increase in Loans and Advances by \$13.9 million or 1.9%

Increase in Treasury Bills by \$2.3 million or 2.1%

Increase in Cash and balances with Central Bank by \$12.1 million or 5.9%

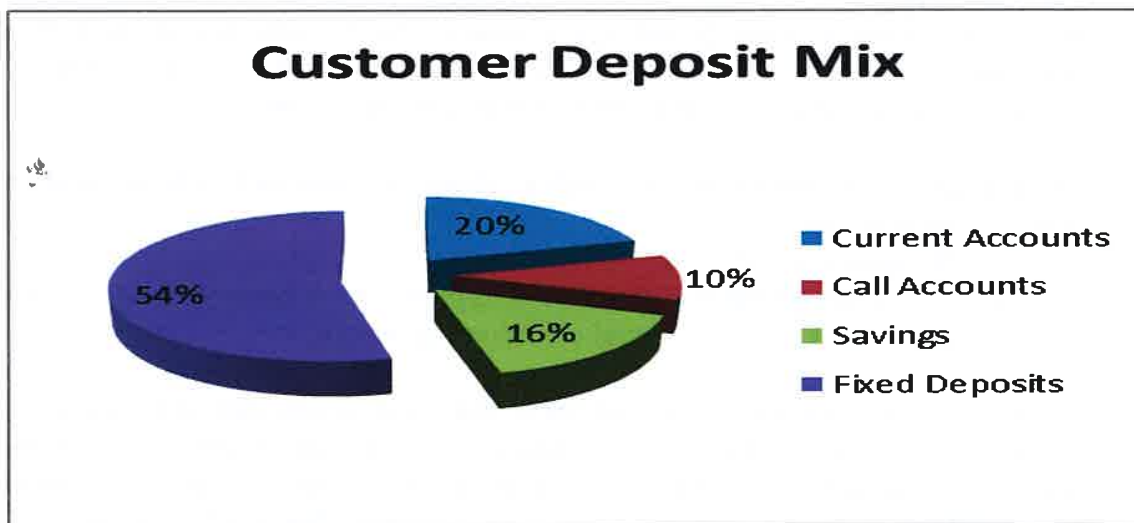
Offset by:

Decrease in Deposits with Financial Institutions by \$273.0 million or 36.1%

Decrease in Financial Assets (Land) by \$18.1 million 2.2%

Cash and balances with Central Bank constituted 6.2% of the total assets, investments constituted 47.4%, loans and advances contributed to 20.9%, Lands held (financial asset) constituted 23.0%, while all other assets comprised the remaining 2.5% at December 31, 2017. The investment strategy applied to these assets ensures the Bank maintains a well-diversified portfolio to reduce risk exposure.

- 2) Net Loans and advances at December 31, 2017 increased by \$13.9 million or 1.9% when compared with \$715.9 million at June 2017.
- 3) Customers' deposits decreased by \$266.1 million or 8.3% when compared with \$3.223 billion at June 2017. Below is a diagram showing the customer deposit mix at the end of December 2017.



4) Shareholders' Equity increased by \$6.1 million or 1.3% when compared with \$488.7 million at June 2017, which is evidence that the company continues to realize its goal of providing satisfactory returns to shareholders, thus increasing the value of their investments.

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 \$218.2 million, \$63.8 million more than the required reserve deposit of \$154.4 million. During the last six months, Cash and cash equivalents decreased by \$228.5 million to \$514.1 million from \$742.6 million reported in June 2017, nevertheless, the bank remains sufficiently liquid to meet its contractual obligations as they fall due.

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 September 30, 2017, the Bank was in compliance with the capital adequacy requirements, reporting a Tier 1 capital ratio of 26%.

Shareholders' Equity recorded at December 31, 2017 was \$494.8 million compared with \$488.7 million recorded at June 30, 2017, an increase of \$6.1 million or 1.3%, resulting from net operating income for the period of \$14.3 million, an interim dividend payment to shareholders of \$6.7 million and a corporation tax payment of \$1.5 million.

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 offbalance 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 2017, Letters of Credit obligations stood at \$7.6 million, an increase of \$0.2 million from June 2017, while loan and credit card commitments stood at \$25.2 million, an increase of \$1.2 million or 5.0%.

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, 2017. Results from usual and ordinary events and transactions for the quarter ended December 31, 2017 reported a net operating income of \$14.3 million, which represents a \$3.8 million decrease when compared with 18.1 million reported at December 30, 2016. The year-over-year decrease in profitability was due mainly to a decrease in net gains from the sale of investment securities and an increase in operating expenses.

Outlined below is a summary of the results of operations at the end of December 2017 and 2016.

	Dec 2017	Dec 2016	
	\$ mil	\$ mil	% Change
Income from Loans & Advances	18.6	21.3	-12.7%
Income from Investments	5.4	7.4	-27.0%
Income from Deposits with financial Inst.	2.0	0.5	300.0%
Income from Lands	11.9	13.7	-13.1%
Non-interest income	26.7	25.8	3.4%
Total income	64.6	68.7	-6.0%
Interest Expenses	27.0	31.1	-13.2%
Non-interest expenses	23.3	19.5	19.4%
Total expenses	50.3	50.6	-0.6%
Net Income before taxes	14.3	18.1	-21.0%

Net-interest Income

At December 31, 2017, net interest income decreased by \$0.9 million or 7.5% when compared with the \$11.9 million recorded at the end of the same period in 2016. The increase in net interest income was due to a \$4.1 million decrease in interest expense coupled with a \$5.0 million decrease in interest income.

The year-over-year decrease in interest costs resulted from the strategic management of costs, given substantial growth in total deposits.

Other Income

At December 31, 2017, income from other sources increased by \$1.1 million or 6.2% in comparison to the amount recorded for the quarter ended December 31, 2016. The growth in other income was due to an increase in dividend income by \$1.5 million, an increase in gains on foreign exchange by \$1.2 million and other income by \$0.7 million, offset by a decrease in net gains from the sale of investments by \$2.3 million. The table below gives an analysis of revenues earned over the review period.

<i>Analysis of Revenue</i>	Dec 2017	Dec 2016	
Interest Income	\$ 000	\$ 000	% Change
Interest from loans and advances	18,590	21,307	-12.7%
Interest from Investments	3,166	4,586	-31.0%
Interest from Treasury Bills	2,244	2,827	-20.6%
Interest from Deposits with Fin. Inst.	1,978	497	298.0%
Interest on Lands	11,941	13,751	-13.1%
Total interest	37,919	42,968	-11.8%
Non-interest income			
Income from fees and commissions	8,182	8,413	-2.8%
Gains from foreign exchange	2,442	1,776	37.5%
Gains from investments, net	12,189	14,522	-16.1%
Dividend income	2,651	1,077	146.1%
Other income	1,192	14	8,414.3%
Total non-interest income	26,656	25,802	3.3%
Total Revenue	64,575	68,770	-6.1%

Operating Expenses

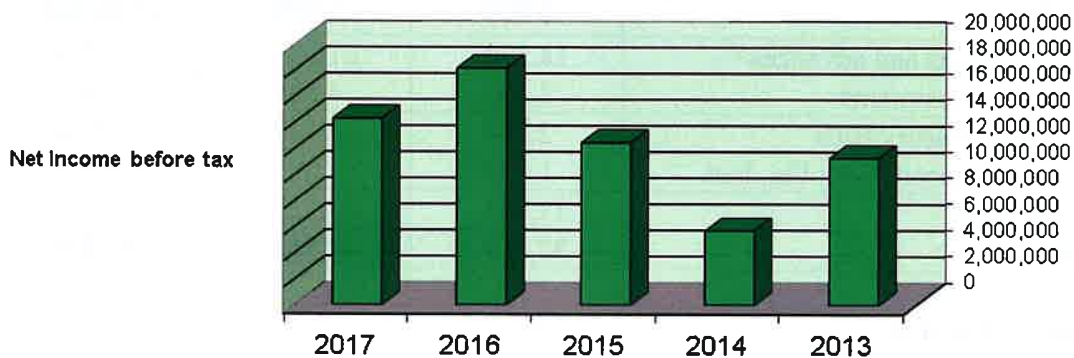
At the end of December 2017, operating expenses increased to \$18.0 million 15.4 million at the end of December 2016, representing a reduction of \$2.6 million or 16.9%. Operating cost management and curtailment remains a critical area of focus for the bank.

Net Income

Over the past 5 years, net income before tax has increased from \$11.2 million in the second quarter of 2013 to \$14.3 million for the same period in 2017. 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 September 30th over a five year period.

5 Year Net Income Comparison



	31-Dec-17	31-Dec-16	31-Dec-15	31-Dec-14	31-Dec-13
■ Net Income	14,261,516	18,125,979	12,419,444	5,665,959	11,248,181

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 Comptroller 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.

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.

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

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

(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)

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

- Name and address of underwriter(s)

- Amount of expenses incurred in connection with the offer _____

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

- Payments to associated persons and the purpose for such payments

(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.

None

- (b) 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

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.

None

8.

- (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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

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BALANCE SHEET AS AT DECEMBER 31, 2017

Assets	Notes	<i>Unaudited Quarter Ended 31-Dec-2017</i> \$	<i>Unaudited Year Ended 30-Jun-2017</i> \$
Cash and balances with Central Bank	6	218,250,529	206,125,685
Treasury Bills	7	109,547,617	107,303,739
Deposits with other financial Institutions	8	482,738,506	755,731,009
Financial Asset	32	804,956,810	823,124,144
Loans and Advances - customers	9	729,764,755	715,909,826
- originated debts	10	113,506,781	113,209,189
Investments - available for sale	11	927,237,627	916,345,753
Investment in Subsidiaries	12	26,750,000	26,750,000
Customers' Liability under Acceptances, Guarantees, and Letters of Credit (per contra)	13	7,686,682	7,455,745
Income tax recoverable		24,672,972	24,672,972
Property, Plant and Equipment	14	27,349,246	28,414,661
Intangible Assets	15	170,181	290,694
Other Assets	16	23,882,043	23,104,790
Deferred Tax Asset	20		
Total Assets		3,496,513,749	3,748,438,207
Liabilities			
Due to Customers	17	2,956,562,647	3,222,706,720
Due to other financial institutions		14,481,395	-
Deferred Tax Liability		3,053,245	2,976,388
Acceptances, Guarantees and Letters of Credit (per contra)		7,686,682	7,455,745
Accumulated Provisions, Creditors, and Accruals	19	19,881,781	26,618,915
Total Liabilities		3,001,665,750	3,259,757,768
Shareholders' Equity			
Issued Share Capital	21	135,000,000	135,000,000
Share Premium		3,877,424	3,877,424
Retained Earnings		27,315,834	21,304,318
Other Reserves	22	328,654,741	328,498,697
Total Shareholders' Equity		494,847,999	488,680,439
Total Liabilities and Shareholders' Equity		3,496,513,749	3,748,438,207

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
Statement of Income for the period ended December 31, 2017

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	<i>SIX MONTHS ENDED</i>		<i>THREE MONTHS ENDED</i>	
	<i>31-Dec-2017</i>	<i>31-Dec-2016</i>	<i>30-Sep-2017</i>	<i>30-Sep-2016</i>
	\$	\$	\$	\$
Net income	37,919,096	42,967,686	20,388,148	20,414,485
Net expense	(26,957,700)	(31,114,115)	(13,547,042)	(15,882,033)
Interest income	10,961,396	11,853,571	6,841,106	4,532,452
and commission income	8,182,236	8,413,244	4,510,492	3,877,372
expense	(5,337,416)	(4,115,955)	(2,714,655)	(1,947,735)
Fees and commission income	2,844,820	4,297,289	1,795,837	1,929,637
Net income	2,651,237	1,077,061	1,139,606	531,444
Gains less (losses) from investments	12,189,332	14,522,145	6,670,128	8,549,985
on foreign exchange	2,441,653	1,775,969	1,188,210	814,986
operating income	1,192,236	14,074	17,200	95,645
Pre-tax Income/(losses)	18,474,458	17,389,249	9,015,144	9,992,060
Operating Income	32,280,674	33,540,109	17,652,087	16,454,149
Operating expenses				
Administration and general expenses	15,994,830	13,479,234	8,365,618	5,949,269
Directors fees and expenses	347,808	258,376	132,266	101,169
Professional fees and expenses				
Depreciation & amortisation	1,676,520	1,676,520	838,260	838,260
Government charges				
Operating expenses	18,019,158	15,414,130	9,336,144	6,888,698
Operating income before tax and impairment	14,261,516	18,125,979	8,315,943	9,565,451
Income tax	-	-	-	-
Net income	14,261,516	18,125,979	8,315,943	9,565,451

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

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Statement of Comprehensive Income for the period ended December 31, 2017

	SIX MONTHS ENDED		THREE MONTHS ENDED	
	31-Dec-2017 \$	31-Dec-2016 \$	30-Sep-2017 \$	30-Sep-2016 \$
Income for the period	14,261,516	18,125,979	8,315,943	9,565,451
Other Comprehensive Income, net of income tax:				
<i>Other comprehensive income to be classified to profit or loss in subsequent periods:</i>				
Available-for-sale financial assets:				
Realised gains/(losses) on investment securities, net of tax	5,873,450	8,836,022	(2,503,953)	18,324,793
Reclassification adjustments for (gains)/losses included in income	(5,717,406)	(66,749)	(3,123,236)	873,755
Other comprehensive Income/(loss)	156,044	8,769,273	(5,627,189)	19,198,548
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>				
Property, Plant & Equipment:				
Revaluation Surplus	-	-	-	-
Measurement of defined benefit assets	-	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	-	-
Other Comprehensive Income/(Loss) for the period	14,417,560	26,895,252	2,688,754	28,763,999

STATEMENT OF CHANGES IN EQUITY
For The Quarter Ended December 31, 2017

Notes	Share Capital \$	Share Premium \$	Statutory Reserves \$	Other Reserves \$	Investment Reserves \$	Property Revaluation Reserves \$	Retained Earnings \$	Total Shareholders' Equity \$
Balance at Dec 31, 2016 (Restated)	135,000,000	3,877,424	116,449,012	180,819,188	(35,344,726)	15,912,813	23,541,757	440,255,468
Net Income for the year							25,532,751	25,532,751
Other Comprehensive Income	-	-	-	2,264,542	34,127,678	-	-	36,392,220
Total Comprehensive Income for the year	-	-	-	2,264,542	34,127,678	-	25,532,751	61,924,971
Transfer to Reserves	-	-	7,019,640	7,250,550	-	-	(14,270,190)	-
Dividends	-	-	-	-	-	-	(13,500,000)	(13,500,000)
Balance at June 30, 2017	135,000,000	3,877,424	123,468,652	190,334,280	(1,217,048)	15,912,813	21,304,318	488,680,439
Total Comprehensive Income For The Quarter	-	-	-	-	156,044	-	14,261,516	14,417,560
Corporation tax payment	-	-	-	-	-	-	(1,500,000)	(1,500,000)
Dividends	-	-	-	-	-	-	(6,750,000)	(6,750,000)
Balance at Dec 31, 2017	135,000,000	3,877,424	123,468,652	190,334,280	(1,061,004)	15,912,813	27,315,834	494,847,999

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LTD.
STATEMENT OF CASHFLOW
FOR THE PERIOD ENDED DECEMBER 31, 2017

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	Notes	Unaudited Quarter ended 31-Dec-2017 \$	Unaudited Year ended 30-Jun-2017 \$
Cash flows from operating activities			
Operating Income before taxation		14,261,516	31,903,323
Adjustments for:			
Interest Income		(37,919,096)	(85,065,152)
Interest Expense		26,957,700	59,337,716
Depreciation and amortisation		1,676,520	2,345,249
(Gain)/loss on disposal of premises and equipment		-	17,874
Dividend Income		(2,651,237)	(5,822,167)
Provision for impairment		(795,739)	11,035,556
Reclassification of projects ongoing to expense		-	201,594
Retirement period recovery		-	483,530
Operating income before changes in operating assets and liabilities		1,529,664	14,437,523
<i>(Increase) decrease in operating assets:</i>			
Loans and advances to customers		(14,035,275)	(7,166,916)
Mandatory deposits with Central Bank		14,851,592	1,944,436
Other assets		(777,253)	1,233,080
<i>Increase (decrease) in operating liabilities:</i>			
Customers' deposits		(275,382,795)	(6,357,985)
Due to other financial institutions		14,481,395	(224,754)
Accumulated provisions, creditors, and accruals		(6,737,133)	4,740,118
Cash generated from/(used in) operations		(266,069,805)	8,605,502
Interest received		53,053,729	43,047,300
Interest paid		(17,718,978)	(62,844,350)
Income tax paid		(1,500,000)	0
Net cash generated from/(used in) operating activities		(232,235,054)	(11,191,548)
Cash flows from investing activities			
Purchase of equipment and intangible assets		(490,592)	(2,005,857)
Interest received from investments			14,345,028
Dividend received		2,651,237	5,822,167
Proceeds from disposal of equipment		-	117,059
(Increase)/Decrease in special term deposits		16,065,239	(15,000,000)
(Increase)/Decrease in financial asset		3,300,000	1,750,000
(Increase)/Decrease in restricted term deposits and T/Bills		(47,053)	40,179,080
Increase in Investment securities and originated debts		(399,679,238)	(1,198,833,992)
Proceeds from the sale of investment securities		388,705,200	973,518,686
Net cash generated from/(used in) investing activities		10,504,793	(180,107,829)
Cash flows from financing activities			
Other Borrowed Funds		-	-
Dividend paid		(6,750,000)	(13,500,000)
Net cash generated from/(used in) financing activities		(6,750,000)	(13,500,000)
Net Increase (Decrease) in cash and cash equivalents		(228,480,261)	(204,799,377)
Cash and cash equivalents at beginning of period		742,594,188	947,393,565
Cash and cash equivalents at end of period	30	514,113,927	742,594,188

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

1 General information

St. Kitts-Nevis-Anguilla National Bank Limited (the “Bank”) was incorporated as a public limited company on February 15, 1971 under the Companies Act Chapter 335, and was reregistered under the new Companies Act No. 22 of 1996 on April 14, 1999. The Bank operates in both St. Kitts and Nevis and is subject to the provisions of the Banking Act of 2016. Its registered office is at Central Street, Basseterre, St. Kitts.

The Bank is a public company listed on the Eastern Caribbean Securities Exchange.

The principal activity of the Bank is the provision of financial services, and its registered office is at Central Street, Basseterre, St. Kitts.

2 Significant accounting policies

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

2.1 Basis of preparation

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

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

2.2 Changes in accounting policy

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2 Significant accounting policies.....continued.

2.2 Changes in accounting policycontinued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorization of these financial statements, certain new standards and amendments to existing standards have been published by the IASB that are not yet effective, and have been adopted early by the Bank. Information on those expected to be relevant to the Bank's financial statements is provided below. Management anticipates that all relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

Amendments to International Accounting Standards IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

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

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

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

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments allow the use of the equity method in the separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries.

The amendment has no impact on the disclosures or amounts recognized in the financial statements. Amendment is required to be applied for annual reporting periods beginning on or after January 1, 2016.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2 Significant accounting policiescontinued.

2.2 Changes in accounting policy.....continued

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

Amendments to IAS 1 *Presentation of Financial Statements*

The amendment to IAS 1, *Presentation of Financial Statements*, address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- Clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
- Clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single items based on whether or not it will subsequently be reclassified to statement of income; and
- Additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

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

IFRS 15 *Revenue from Contracts with Customers*

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2 Significant accounting policiescontinued.

2.2 Changes in accounting policycontinued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bankcontinued

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

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

The directors anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and the disclosures made in the financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Bank performs a detailed review. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2016.

IFRS 9, *Financial Instruments* (2014)

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

Key requirements of IFRS 9:

- All recognized financial assets that are in scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be substantially at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are sole payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2 Significant accounting policies.....continued

2.2 Changes in accounting policy.....continued

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

Key requirements of IFRS 9:

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

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

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

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions that qualify for hedging instruments and the type of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2 Significant accounting policies.....continued

2.2 Changes in accounting policy.....continued

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

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

2.3 Cash and cash equivalents

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

2.4 Financial assets and liabilities

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

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

(i) Loans and receivables

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

Loans and receivable are recognised when cash or the right to cash is advanced to a borrower and are carried at amortised cost using the effective interest method. The Bank's loans and receivables include cash in bank and cash equivalents, treasury bills, deposit with other financial institution, loans and advances to customers, and originated debts.

(ii) Available-for-sale financial assets

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2. Significant accounting policies.....continued

2.4 Financial assets and liabilitiescontinued

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale are recognized on settlement date – the date that an asset is delivered to or by the Bank.

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

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

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

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

Financial liabilities

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

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

Derecognition

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2. Significant accounting policies.....continued

2.4 Financial assets and liabilitiescontinued

Reclassification of financial assets

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

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

2.5 Classes of financial instruments

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

Financial assets	Loans and receivables	Cash and cash equivalents and deposit with other financial institutions	Bank accounts
		Treasury bills and originated loans	Government fixed rated bonds and long term note
		Loans and advances to customers	Primary lenders
		Investment securities	Equity and debt securities
	Available-for-sale financial assets	Available -for-sale investments	
Financial liabilities	Financial liabilities at amortised cost	Customers' deposits and borrowings	
		Other liabilities and accrued expenses	

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2. Significant accounting policiescontinued

2.6 Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset

(a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

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

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2. Significant accounting policiescontinued

2.6 Impairment of financial assetscontinued

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

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

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

2.7 Offsetting financial instruments

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2. Significant accounting policiescontinued

2.8 Employee benefits

(a) Gratuity

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

(b) Pension plan

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

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

2.9 Property, plant and equipment

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2. Significant accounting policiescontinued

2.9 Property, plant and equipmentcontinued

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, any revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the fixed asset revaluation reserve to retained earnings except when an asset is derecognised.

Projects on going represents structures under construction and project development not yet completed and is stated at cost. This includes the costs of construction and other direct costs. Projects on going is not depreciated until such time that the relevant assets are ready for use.

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on the following basis:

Building:	25 – 45 years
Leasehold improvements:	25 years, or over the period of lease if less than 25 years
Equipment, fixtures and motor vehicles:	3 – 10 years

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

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

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

2.10 Intangible assets

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

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

2.11 Impairment of non-financial assets

Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2. Significant accounting policiescontinued

2.11 Impairment of non-financial assets.....continued

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Investment in subsidiaries

The investment in subsidiaries is accounted for using the cost method and therefore the assets, liabilities and results of operations of the entities have not been reflected in these accounts. A subsidiary is an entity in which the Bank holds controlling interest (50% plus 1 share or more) of the voting shares of that entity. Income from subsidiaries' operations is recognised only to the extent of dividends received.

The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries. Users of these separate financial statements should read them together with the Bank's consolidated financial statements as of and for the year ended June 30, 2017 in order to obtain full information on the financial position, results of operations and changes in financial position of the Bank and its subsidiaries as a whole.

2.13 Investment in associates

Associates are those entities over which the Bank is able to exert significant influence but which are not subsidiaries. Associate companies are recorded at cost less amounts provided for impairment.

2.14 Borrowings

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

2.15 Guarantees and letters of credit

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2. Significant accounting policiescontinued

2.16 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

2.17 Leases – Bank as a Lessee

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

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

2.18 Interest income and expense

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2. Significant accounting policiescontinued

2.19 Fee and commission income

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

2.20 Dividend income

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

2.21 Operating expenses and fees expenses

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

2.22 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

2. Significant accounting policiescontinued

2.23 Equity, reserves and dividend payments

(a) Issued share capital and share premiums

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

(b) Dividends on ordinary shares

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

(c) Other components of equity

- Other components of equity include the following:
- Statutory reserves – comprises of reserves fund for regulatory requirement
- Property revaluation reserve – comprises gains and losses from the revaluation of land;
- Available-for-sale revaluation reserves – comprises gains and losses relating to these types of financial instruments; and
- Other reserves – comprises the defined benefit plan reserve, reserve for interest accrued on non-performing loans and general reserve.

2.24 Current and deferred income tax

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

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

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

3. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the commercial banking business, and the operational risks are an inevitable consequence of being in business.

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

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

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

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

3.1 Credit risk

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

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

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

(a) Loans and advances

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

3. Financial risk managementcontinued

3.1 Credit Risk.....continued

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

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

(a) *Debt securities and other bills*

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

3.1.1 Risk limit control and mitigation policies

The 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 acceptable in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review, when considered necessary by the Board of Directors.

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

(a) *Collateral*

The 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 common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or risk mitigation.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

3. Financial risk managementcontinued

3.1.1 Risk limit control and mitigation policiescontinued

The principal collateral types for loans and advances are:

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

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

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

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit (which are written undertakings by the Bank on behalf of a customer 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 shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

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

3.1.2 Impairment and provisioning

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

3. Financial risk managementcontinued

3.1 Credit Risk.....continued

3.1.2 Impairment and provisioning.....continued

		Dec 2017		June 2017	
		Loans and advances	Impairment provision	Loans and advances	Impairment provision
		(%)	(%)	(%)	(%)
Bank rating					
1	Pass	32.08	0.00	39.95	0.00
2	Special mention	18.01	0.14	17.36	0.14
3	Sub-standard	42.46	43.18	35.46	43.18
4	Doubtful	3.33	49.47	6.21	49.47
5	Loss	4.12	7.21	1.02	7.21
		100.00	100.00	100.00	100.00

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

(i) Loans

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

(ii) Advances (overdrafts)

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

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

3. Financial risk management.....continued

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

Credit risk exposure relating to on/off statement of financial position assets is as follows:

	Maximum exposure	
	Dec <u>2017</u> \$	June <u>2017</u> \$
<i>Credit risk exposures relating to on-balance sheet assets:</i>		
Cash and balances with Central Bank*	43,009,982	21,017,103
Treasury bills	109,547,617	107,303,739
Deposits with other financial institutions	482,738,506	755,731,009
Financial asset	804,956,810	823,124,144
Loans and advances:		
• Overdrafts	186,301,716	180,938,516
• Corporate customers	281,729,786	282,109,912
• Term loans	108,728,969	103,769,772
• Mortgages (personal)	153,004,284	149,091,626
• Originated debts	113,506,781	113,209,189
Investment securities – available-for-sale (AFS)	206,771,991	272,851,199
Other assets	10,325,141	9,669,218
Customers' liability under acceptances, guarantees and Letters of credit	7,686,682	7,455,745
Loan commitments	25,250,570	24,045,145
Total	2,533,558,835	2,850,316,317

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

The above table represents a worse case scenario of credit risk exposure to the Bank at December 31, 2017 and June 30, 2017, 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 Statement of Financial Position. As shown above, 29% (June 2017 – 25%) of the total maximum exposure is derived from loans and advances to banks and customers.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

3. Financial risk management.....continued

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

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

- 57% (June 2017 – 57%) of the loans and advances portfolio is categorized in the top two grades of the internal rating system;
- Term loans, which represent the largest group in the portfolio, are backed by security – cash and real estate collateral and/or guarantees.
- 22% (June 2017 – 35%) of the loans and advances portfolio are considered to be neither past due nor impaired.
- The Bank continues to grant loans and advances in accordance with its lending policies and guidelines;
- A number of issuers and debt instruments in the region are not rated; consequently 25% (June 2017 - 22%) of these debt investments are not rated (Government securities – treasury bills, etc.).

3.1.4 Loans and advances

	<u>Dec</u>	<u>June</u>
	<u>2017</u>	<u>2017</u>
	\$	\$
Loans and advances are summarized as follows:		
Loans and advances to customers		
Neither past due nor impaired	175,589,414	275,236,720
Past due but not impaired	212,820,360	104,593,404
Impaired	<u>402,648,497</u>	<u>397,192,872</u>
	791,058,271	777,022,996
 Other Interest receivable	 1,293,765	 1,474,111
Less allowance for impairment losses (Note 24)	(62,587,281)	(62,587,281)
 Net	 <u>729,764,755</u>	 <u>715,909,826</u>

The total allowance for impairment losses on loans and advances is \$62,587,281 (June 2017 - \$62,587,281). Further information of the allowance for impairment losses on loans and advances to customers is provided in Notes 24.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

3. Financial risk management.....continued

3.1.4 Loans and advances.....continued

(a) Loans and advances neither past due nor impaired

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

Dec 31, 2017

	Overdrafts	Term loans	Mortgages	Corporate customers	Total
	\$	\$	\$	\$	\$
Loans and advances to customers					
Classifications:					
1. Pass	26,570,538	24,374,360	78,339,250	38,487,817	167,771,965
2. Special mention	1,637,527	15,256	1,219,895	2,432,879	5,305,557
3. Substandard	204,967	25,677	1,095,301	1,185,947	2,511,892
Gross	28,413,032	24,415,293	80,654,446	42,106,643	175,589,414

June 30, 2017

	Overdrafts	Term loans	Mortgages	Corporate customers	Total
	\$	\$	\$	\$	\$
Loans and advances to customers					
Classifications:					
4. Pass	27,232,919	22,936,907	102,778,037	114,693,291	267,641,154
5. Special mention	756,781	495,678	1,717,221	2,543,008	5,512,688
6. Substandard	149,014	320,351	406,896	1,206,617	2,082,878
Gross	28,138,714	23,752,936	104,902,154	118,442,916	275,236,720

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

3. Financial risk management.....continued

3.1.4 Loans and advances.....continued

(b) Loans and advances past due but not impaired

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

	Term loans	Mortgages	Corporate customers	Total
	\$	\$	\$	\$
At Dec 31, 2017				
Past due up to 30 days	5,169,955	34,530,297	7,081,325	46,781,577
Past due 30 – 60 days	440,826	5,206,479	1,595,194	7,242,499
Past due 60 – 90 days	114,802	1,545,798	12,266,698	13,927,298
Over 90 days	560,195	4,015,053	140,293,738	144,868,986
	-----	-----	-----	-----
Gross	6,285,778	45,297,627	161,236,955	212,820,360
	=====	=====	=====	=====
Fair value of collateral	29,248,952	81,520,764	206,636,557	317,406,273

	Term loans	Mortgages	Corporate customers	Total
	\$	\$	\$	\$
At Jun 30, 2017				
Past due up to 30 days	1,580,190	11,556,626	73,241,307	86,378,123
Past due 30 – 60 days	420,244	3,682,683	-	4,102,927
Past due 60 – 90 days	776,023	429,125	-	1,205,148
Over 90 days	15,455	130,317	12,761,434	12,907,206
	-----	-----	-----	-----
Gross	2,791,912	15,798,751	86,002,741	104,593,404
	=====	=====	=====	=====
Fair value of collateral	10,983,240	30,161,333	205,866,646	247,011,219

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

3. Financial risk management.....continued

3.1.4 Loans and advances.....continued

(c) *Loans and advances individually impaired*

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is \$402,648,497 (June 2017 - \$397,192,872).

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

	Overdrafts	Term loans	Mortgages	Corporate customers	Total
	\$	\$	\$	\$	\$
Dec 31, 2017					
Individually impaired	171,903,944	75,944,510	22,867,160	60,577,719	331,293,333
<u>Interest receivable</u>	<u>13,260,440</u>	<u>4,861,799</u>	<u>13,275,817</u>	<u>39,957,108</u>	<u>71,355,164</u>
	185,164,384	80,806,309	36,142,977	100,534,827	402,648,497
Fair value of collateral	64,135,138	10,498,588	40,659,207	57,722,957	173,015,890

	Overdrafts	Term loans	Mortgages	Corporate customers	Total
	\$	\$	\$	\$	\$
June 30, 2017					
Individually Impaired	166,765,465	75,115,971	24,168,796	59,787,476	325,837,708
<u>Interest receivable</u>	<u>13,260,440</u>	<u>4,861,799</u>	<u>13,275,817</u>	<u>39,957,108</u>	<u>71,355,164</u>
	180,025,905	79,977,770	37,444,613	99,744,584	397,192,872
Fair value of collateral	64,135,138	37,718,873	40,659,207	57,722,957	200,236,175

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

3. Financial risk management.....continued

3.1.4 Loans and advances.....continued

(d) Loans and advances renegotiated

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

3.1.5 Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at December 31, 2017, based on Standard & Poor's ratings or equivalent:

	Treasury Bills \$	Investment Securities \$	Loans and receivables - notes & bonds \$	Total \$
As of Dec 31, 2017				
AA- to AA+		3,117,298		3,117,298
A- to A+		8,397,933		8,397,933
Lower than A- Unrated/ Internally rated	109,547,617	168,725,799	113,506,781	391,780,197
	109,547,617	206,771,991	113,506,781	429,826,389

	Treasury Bills \$	Investment Securities \$	Loans and receivables - notes & bonds \$	Total \$
As of June 30, 2017				
AA- to AA+		3,122,035		3,122,035
B- to A+		9,770,774		9,770,774
Lower than A- Unrated/ Internally rated	107,303,739	231,293,140	113,209,189	451,806,068
	107,303,739	272,851,199	113,209,189	493,364,127

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

3. Financial risk management.....continued

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

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

	<u>St. Kitts & Nevis</u>	<u>United States & Canada</u>	<u>Europe</u>	<u>Other Caribbean States</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Dec 31, 2017					
Cash and balances with					
Central Bank	43,009,982	-	-	-	43,009,982
Treasury bills	90,698,530			18,849,087	109,547,617
Deposits with Fin. Inst.	25,385,098	430,930,400	21,457,136	4,965,872	482,738,506
Financial asset	804,956,810	-	-	-	804,956,810
Loans and advances	626,002,980	95,782,879	4,584,111	3,394,785	729,764,755
Originated debts	20,014,565	11,237,763	-	82,254,453	113,506,781
Customers' liability under					
acceptances, guarantees					
and letters of credit	7,686,682	-	-	-	7,686,682
Investments (AFS)	-	206,771,991	-	-	206,771,991
Other assets	3,523,717	6,801,424	-	-	10,325,141
	1,621,278,364	751,524,457	26,041,247	109,464,197	2,508,308,265
June 30, 2017					
Cash and balances with					
Central Bank	21,017,103	-	-	-	21,017,103
Treasury bills	88,881,733	-	-	18,422,006	107,303,739
Deposits with Fin. Inst.	21,873,865	681,838,401	24,878,662	27,140,081	755,731,009
Financial asset	823,124,144	-	-	-	823,124,144
Loans and advances	611,197,880	96,522,265	5,060,898	3,128,783	715,909,826
Originated debts	19,711,999	11,183,159	-	82,314,031	113,209,189
Customers' liability under					
acceptances, guarantees					
and letters of credit	7,455,745	-	-	-	7,455,745
Investments (AFS)	-	272,851,199	-	-	272,851,199
Other assets	2,992,432	6,676,786	-	-	9,669,218
	1,596,254,901	1,069,071,810	29,939,560	131,004,901	2,826,271,172

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Financial risk management.....continued

3.1.7 Concentration of risks of financial assets with credit exposure

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

Dec 31, 2017	Public Sector	Construction	Tourism	Financial Institutions	Individuals	Other Industries	Total
Cash and balances with Central Bank	-	-	-	43,009,982	-	-	43,009,982
Treasury Bills	109,547,617	-	-	-	-	-	109,547,617
Deposit with financial institutions	20,217,260	-	-	462,513,182	8,064	-	482,738,506
Financial asset	804,956,810	-	-	-	-	-	804,956,810
Loans and receivables:							
- Originated debts	102,269,018	-	-	11,237,763	-	-	113,506,781
- Loans & Advances	163,843,937	113,646,212	166,243,368	16,716,358	177,306,897	92,007,983	729,764,755
Investments – available-for-sale	2,343,783	-	684,156	151,134,378	-	52,609,674	206,771,991
Customers' liability under acceptances,							
Guarantees and letters of credit	3,611,332	-	-	-	-	4,075,350	7,686,682
Other assets	-	-	-	1,730,064	515,533	8,079,544	10,325,141
Total	1,206,789,757	113,646,212	166,927,524	686,341,727	177,830,494	156,772,551	2,508,308,265

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Financial risk management.....continued

3.1.7 Concentration of risks of financial assets with credit exposure

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

June 30, 2017	Public Sector	Construction	Tourism	Financial Institutions	Individuals	Other Industries	Total
Cash and balances with Central Bank	-	-	-	21,017,103	-	-	21,017,103
Treasury Bills	107,303,739	-	-	-	-	-	107,303,739
Deposit with financial institutions	15,220,822	-	-	740,476,903	33,284	-	755,731,009
Financial asset	823,124,144	-	-	-	-	-	823,124,144
Loans and receivables:							
- Originated debts	102,026,031	-	-	11,183,158	-	-	113,209,189
- Loans & Advances	156,116,606	114,108,034	171,850,243	17,355,328	171,207,415	85,272,200	715,909,826
Investments – available-for-sale	2,347,894	-	685,981	221,466,455	-	48,350,869	272,851,199
Customers' liability under acceptances, Guarantees and letters of credit	3,380,395	-	-	-	-	4,075,350	7,455,745
Other assets	-	-	-	1,022,851	1,463,307	7,183,060	9,669,218
Total	1,209,519,631	114,108,034	172,536,224	1,012,521,798	172,704,006	144,881,479	2,826,271,172

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NOTES TO THE FINANCIAL STATEMENTS
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3. Financial risk management.....continued

3.18 Market risk

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

The Bank exposures to market risks primarily arise from the interest rate management of the Bank retail and commercial banking assets and liabilities and equity risks arising from its available-for-sale investments.

3.1.9 Price risk

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

3.2.0 Foreign exchange risk

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

The following table summarises the Bank exposure to foreign currency exchange rate risk at December 31, 2017. Included in the table are the Bank financial instruments at carrying amounts, categorized by currency.

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FOR THE PERIOD ENDED DECEMBER 31, 2017

Financial risk management.....continued

3.2.0 Foreign exchange risk.....continued

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

As at Dec 31, 2017	ECD	USD	EURO	GBP	CAN	BDS	GUY	TOTAL
Assets								
Cash & balances with Central Bank	211,245,488	6,670,331	64,522	159,329	50,430	60,429	-	218,250,529
Treasury bills	109,547,617	-	-	-	-	-	-	109,547,617
Deposits with other financial bodies	28,505,414	447,308,521	2,859,350	1,331,542	1,646,859	1,030,041	56,779	482,738,506
Financial Asset	804,956,810	-	-	-	-	-	-	804,956,810
Loans and receivables								
- Loans and advances to customers	501,185,191	228,579,564	-	-	-	-	-	729,764,755
- Originated debts	61,272,597	52,234,184	-	-	-	-	-	113,506,781
Investments (AFS)	7,392,501	919,845,126	-	-	-	-	-	927,237,627
Customers' liability under acceptances, guarantees and letters of credit	7,686,682	-	-	-	-	-	-	7,686,682
Other assets	2,692,346	7,632,795	-	-	-	-	-	10,325,141
Total financial assets	1,734,484,646	1,662,270,521	2,923,872	1,490,871	1,697,289	1,090,470	56,779	3,404,014,448
Liabilities								
Due to Customers	2,379,793,626	574,627,074	139,386	63,484	1,939,077	-	-	2,956,562,647
Due to other financial bodies	-	14,480,369	-	-	1,026	-	-	14,481,395
Letters of credit	7,686,682	-	-	-	-	-	-	7,686,682
Other liabilities	17,625,114	1,562,582	42,514	480,382	39,839	128,196	-	19,878,627
Total financial liabilities	2,405,105,422	590,670,025	181,900	543,866	1,979,942	128,196	-	2,998,609,351
Net on-balance sheet positions	(670,620,776)	1,071,600,496	2,741,972	947,005	(282,653)	962,274	56,779	405,405,097
Credit commitment	32,937,252	-	-	-	-	-	-	32,937,252

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Financial risk management.....continued

3.2.0 Foreign exchange risk.....continued

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

As at June 30, 2017	ECD	USD	EURO	GBP	CAN	BDS	GUY	TOTAL
Total financial assets	1,721,326,411	1,926,682,671	3,188,016	1,887,847	843,009	938,031	8,323	3,654,874,308
Total financial liabilities	2,534,012,573	720,018,357	175,130	569,828	1,877,296	128,196	-	3,256,781,380
Net on-balance sheet positions	(812,686,162)	1,206,664,314	3,012,886	1,318,019	(1,034,287)	809,835	8,323	398,092,928
Credit commitments	31,590,890	-	-	-	-	-	-	31,590,890

3.2.1 Interest rate risk

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31 2017

Financial risk management.....continued

3.2.1 Interest rate risk.....continued

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

As at Dec 31, 2017	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non- interest Bearing	Total
	\$	\$	\$	\$	\$	\$	\$
Assets							
Cash & balances with Central Bank	-	-	-	-	-	218,250,529	218,250,529
Treasury bills	-	-	106,721,940	-	-	2,825,677	109,547,617
Deposits with other financial Inst.	370,828,747	5,000,000	15,000,000	-	-	91,909,759	482,738,506
Loans and advances – Customers	329,521,808	153,304	115,802,662	66,127,410	218,159,571	-	729,764,755
- Originated debts	12,266	-	4,092,726	87,596,556	20,910,430	894,803	113,506,781
Financial Asset	-	-	-	790,970,571	-	13,986,239	804,956,810
Customers' liability under acceptances, guarantees and letters of credit	-	-	-	-	-	7,686,682	7,686,682
Investments – Available-for-sale	205,996,673	-	-	-	-	721,240,954	927,237,627
Other assets	327,365	-	-	-	-	9,997,776	10,325,141
Total assets	906,686,859	5,153,304	241,617,328	944,694,537	239,070,001	1,066,792,419	3,404,014,448
Liabilities							
Due to customers	1,035,622,098	604,200,517	691,543,384	1,004,942	-	624,191,706	2,956,562,647
Due to other financial institutions	14,481,395	-	-	-	-	-	14,481,395
Letters of credit	-	-	-	-	-	7,686,682	7,686,682
Other liabilities	-	-	-	-	-	19,878,627	19,878,627
Total liabilities	1,050,103,493	604,200,517	691,543,384	1,004,942	-	651,757,015	2,998,609,351
Total Interest repricing gap	(143,416,634)	(599,047,213)	(449,926,056)	943,689,595	239,070,001	415,035,404	405,405,097

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
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FOR THE PERIOD ENDED DECEMBER 31, 2017

Financial risk management.....*continued*

3.2.1 Interest rate risk.....*continued*

As at June 30, 2017	<u>Up to 1 Month</u> \$	<u>1 to 3 Months</u> \$	<u>3 to 12 Months</u> \$	<u>1 to 5 Years</u> \$	<u>Over 5 Years</u> \$	<u>Non- interest Bearing</u> \$	<u>Total</u> \$
Total financial assets	1,054,812,015	68,560,428	177,056,256	953,005,113	218,098,466	1,183,342,030	3,654,874,308
Total financial liabilities	1,045,921,966	201,706,014	1,059,032,783	-	-	951,620,617	3,256,781,380
Total Interest repricing gap	8,890,049	(133,145,586)	(881,976,527)	953,005,113	218,098,466	231,721,413	398,092,928

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

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NOTES TO THE FINANCIAL STATEMENTS
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3. Financial risk management.....continued

3.3 Liquidity risk

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

3.3.1 Liquidity risk management

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

- Daily monitoring of the Bank liquidity position to ensure that requirements can be met. These include the replenishment of funds as they mature and/or are borrowed by customers. The Bank ensures that sufficient funds are held to meet its obligation by not converting into foreign deposits, demand deposits, reserve, provision for interest, provision for loan losses, and other net financial assets and liabilities.
- Maintaining a portfolio of marketable assets that can easily be liquidated as protection against unforeseen liquidity problems. Additionally, the investment portfolio is diversified by geography, product, currency and term.
- Daily monitoring of the balance sheet liquidity ratios against internal and regulatory requirements.
- Managing the concentration and profile of debt maturities.
- Formalised arrangements with non-regional financial institutions to fund any liquidity needs that may arise.

3.3.2 Funding Approach

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

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Financial risk management.....continued

3.3.3 Non-derivative cash flows

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

As at Dec 31, 2017	<u>Up to 1 month</u> \$	<u>1 – 3 months</u> \$	<u>3 – 12 months</u> \$	<u>1 – 5 years</u> \$	<u>Over 5 years</u> \$	<u>Total</u> \$
Financial Liabilities						
Due to customers	1,636,254,938	620,262,706	712,746,670	1,005,768	-	2,970,270,082
Due to other financial institutions	14,481,395	-	-	-	-	14,481,395
Letters of credit	-	-	-	7,686,682	-	7,686,682
Other liabilities	10,599,121	9,279,506	-	-	-	19,878,627
Total financial liabilities	1,661,335,454	629,542,212	712,746,670	8,692,450	-	3,012,316,786
Total assets	1,945,011,383	5,697,506	270,059,539	943,068,220	240,177,800	3,404,014,448
As at June 30, 2017						
Total financial liabilities	1,966,683,097	214,179,578	1,093,054,621	7,455,745	-	3,281,373,041
Assets held to manage Liquidity risk	2,180,474,034	97,794,450	192,371,455	965,087,675	219,146,694	3,654,874,308

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3. Financial risk management.....continued

3.3.4 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 29), are summarized in the table below.

	<u>Up to 1 year</u>	<u>1 – 3 years</u>	<u>Over 3 years</u>	<u>Total</u>
	\$	\$	\$	\$
As at Dec 31, 2017				
Loan commitments	7,719,038	374,656	8,776,643	16,870,337
Credit card commitments	8,380,233			8,380,233
Guarantees and standby letters of credit	7,686,682			7,686,682
	<u>23,785,953</u>	<u>374,656</u>	<u>8,776,643</u>	<u>32,937,252</u>

As at June 30, 2017

Loan and other credit commitments	24,848,948	460,950	6,190,992	31,500,890
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3.4 Fair values of financial assets and financial liabilities

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

The fair values of cash resources, other assets and liabilities, items in transit are assumed to approximate their carrying values due to their short term nature. The fair values of off balance sheet commitments are also assumed to approximate the amount disclosed in Note 29. Fair value of financial assets and financial liabilities are also determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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3. Financial risk management.....continued

3.4 Fair values of financial assets and liabilities.....continued

(a) Treasury bills

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

(b) Deposits with other financial institutions

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

(a) Loans and advances to customers

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

(b) Customers' deposits

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

(c) Due to financial institutions

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

(d) Other borrowed funds

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2017

3. Financial risk management.....continued

3.4 Fair values of financial assets and liabilities.....continued

	Carrying Value		Fair Value	
	<u>Dec 2017</u>	<u>June 2017</u>	<u>Dec 2017</u>	<u>June 2017</u>
	\$	\$	\$	\$
Financial assets				
Cash and balances with				
Central Bank	218,250,529	206,125,685	218,250,529	206,125,685
Treasury bills	109,547,617	107,303,739	109,547,617	107,303,739
Deposits with other				
financial institutions	482,738,506	755,731,009	482,738,506	755,731,009
Financial asset	804,956,810	823,124,144	804,956,810	823,124,144
Loans and receivables:				
Loans and advances				
Overdrafts	186,301,716	180,938,516	207,923,921	207,923,921
Corporate	281,729,786	282,109,912	656,101,357	656,101,357
Mortgage	153,004,284	149,091,626	284,688,013	284,688,013
Term	108,728,969	103,769,772	185,829,684	185,829,684
Originated debts	113,506,781	113,209,189	113,506,781	113,209,189
Customers' liability under				
Acceptances, guarantees				
and letters of credit	7,686,682	7,455,745	7,686,682	7,455,745
Other assets	10,325,141	9,669,218	10,325,141	9,669,218
	<u>2,476,776,821</u>	<u>2,738,528,555</u>	<u>3,081,555,041</u>	<u>3,357,161,704</u>
Financial Liabilities				
Due to customers	2,956,562,647	3,222,706,720	2,956,562,647	3,222,706,720
Due to financial				
institutions	14,481,395	-	14,481,395	-
Letters of credit	7,686,682	7,455,745	7,686,682	7,455,745
Other liabilities	19,878,627	26,618,915	19,878,627	26,618,915
	<u>2,998,609,351</u>	<u>3,256,781,380</u>	<u>2,998,609,351</u>	<u>3,256,781,380</u>

3.4.1 Fair Value measurements recognized in the statement of financial position

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

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

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3. Financial risk management.....continued

3.4.1 Fair value measurements recognized in the statement of financial position.....continued

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

Available-for-sale financial assets:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Dec 31, 2017				
Debt securities	271,108,774	-	-	271,108,774
Equities	648,917,300	40,380	-	648,957,680
	920,026,074	40,380	-	920,066,454

Available-for-sale financial assets:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
June 30, 2017				
Debt securities	261,972,423	4,555,054	5,543,144	272,070,621
Equities	635,527,096	43,876	-	635,570,972
	897,499,519	4,598,930	5,543,144	907,641,593

The method of valuation on these Level 2 securities was identified as not being directly from unadjusted quoted prices but was based on the investee's net asset value as at its 31st December year end adjusted for the results of the intervening period to quarter end.

3.5 Fair value measurement of non-financial assets

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

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
As at Dec 31, 2017				
Land and property	-	-	22,931,198	22,931,198
As at June 30, 2017				
Land and property	-	-	22,931,198	22,931,198

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NOTES TO THE FINANCIAL STATEMENTS
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3. Financial risk management.....continued

3.6 Capital management

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

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

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

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

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

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

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

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the period ended December 31, 2017 and June 30, 2017. During these two periods, the Bank complied with all the externally imposed capital requirements to which it must comply.

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3. Financial risk management.....continued

3.6 Capital management.....continued

	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
Tier 1 capital		
Share Capital	135,000,000	135,000,000
Bonus shares from capitalization of unrealized asset revaluation reserve	(4,500,000)	(4,500,000)
Reserves	259,133,063	259,133,063
Retained earnings	<u>27,315,834</u>	<u>21,304,318</u>
Total qualifying Tier 1 capital	<u>416,948,897</u>	<u>410,937,381</u>
Tier 2 capital		
Revaluation reserve – available-for-sale investments	(1,061,004)	(1,217,048)
Revaluation reserve – property, plant and equipment	15,912,813	15,912,813
Bonus shares capitalization	4,500,000	4,500,000
Un-appropriated profits	14,261,516	-
Accumulated impairment allowance	62,587,281	62,587,281
Total qualifying Tier 2 capital	<u>96,200,606</u>	<u>81,783,046</u>
Investment in subsidiaries	(26,750,000)	(26,750,000)
Total regulatory capital	<u>486,399,503</u>	<u>465,970,427</u>
Risk-weighted assets		
On-balance sheet	1,585,421,200	1,623,841,994
Off-balance sheet	30,658,575	29,938,254
Total risk-weighted assets	1,616,079,775	1,653,780,248
Tier 1 capital ratio	26%	25%
Basel ratio	30%	28%

4. Critical accounting estimates and judgments

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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4. Critical accounting estimates and judgments.....continued

(a) Impairment losses on loans and advances

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

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

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

(c) Pension Benefits

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

5. Cash and balances with Central Bank

	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
Cash in hand	20,784,719	15,801,162
Balances with Central Bank other than mandatory deposits	<u>43,009,982</u>	<u>21,017,103</u>
Included in cash and cash equivalent (Note 28)	<u>63,794,701</u>	<u>36,818,265</u>
Mandatory deposits with Central Bank	<u>154,455,828</u>	<u>169,307,420</u>
Total	<u>218,250,529</u>	<u>206,125,685</u>

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- 1) All banks in the Eastern Caribbean Currency Union are required to have a 3-day average daily gross Automated Clearing House (ACH) collateral amount with the Central Bank. The Bank's cash collateral amount stands at \$5,482,310 and form part of the mandatory deposit.
- 2) As regards the remaining part of the mandatory deposits with Central Bank, commercial banks are required under Section 17 of the Banking Act, 1991 to maintain a reserve deposit with the Central Bank equivalent to 6 percent of their total deposit of customers. This reserve deposit is not available to finance the Bank's day-to-day operations. Cash and balances with Central Bank including mandatory deposits do not receive interest payments.

6. Treasury bills	Dec <u>2017</u> \$	June <u>2017</u> \$
<u>Government of St Lucia</u>		
maturing May 2, 2018 at 4.5% interest	11,530,000	11,530,000
maturing May 21, 2018 at 5.0% interest	4,750,000	4,750,000
maturing June 5, 2018 at 4.5% interest	2,024,500	2,024,500
<u>Government of St. Kitts and Nevis</u>		
maturing May 15, 2018 at 4.0% interest	<u>88,417,440</u>	<u>88,417,440</u>
	106,721,940	106,721,940
Interest receivable	2,825,677	581,799
	<u>109,547,617</u>	<u>107,303,739</u>
	=====	=====

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	Dec 2017 \$	June 2017 \$
7. Deposits with other financial institutions		
Operating cash balances	169,184,805	362,649,843
Items in the course of collection	8,704,586	3,131,245
Interest bearing term deposits	<u>272,429,835</u>	<u>339,994,835</u>
Included in cash and cash equivalent (Note 28)	450,319,226	705,775,923
Special term deposits*	20,000,000	36,065,239
Restricted term deposits**	<u>12,175,700</u>	<u>12,128,647</u>
	482,494,926	753,969,809
Provision for Impairment	-	(795,739)
Interest receivable	<u>243,580</u>	<u>2,556,939</u>
Total	<u>482,738,506</u>	<u>755,731,009</u>
Current	470,562,806	743,602,362
Non-current	<u>12,175,700</u>	<u>12,128,647</u>
	<u>482,738,506</u>	<u>755,731,009</u>

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

**Restricted term deposits are interest bearing fixed deposits collateral used in the Bank's international business operations. These deposits are not available for use in the day-to-day operations of the Bank. Interest earned on both 'Special term deposits' and 'Restricted term deposits' is credit to income.

8. Loans and advances to customers

	Dec 2017 \$	June 2017 \$
Overdrafts	20,902,096	21,322,157
Mortgages	104,006,896	98,847,724
Demand	227,565,537	224,058,871
Special Term	-	-
Other Secured	23,479,249	22,956,601
Credit Cards	7,510,937	6,816,556
Consumer	<u>4,945,058</u>	<u>5,828,214</u>
Productive loans	388,409,773	379,830,123
Impaired loans and advances	402,648,497	397,192,873
Less allowance for impairment (Note 24)	<u>(62,587,281)</u>	<u>(62,587,281)</u>
	728,470,989	714,435,715
Interest receivable	<u>1,293,766</u>	<u>1,474,111</u>
Net loans and advances	<u>729,764,755</u>	<u>715,909,826</u>

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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8. Loans and advances to customers.....continued

	<u>Dec</u> <u>2017</u>	<u>June</u> <u>2017</u>
Current	445,477,774	454,030,498
Non-current	<u>284,286,981</u>	<u>261,879,328</u>
	<u>729,764,755</u>	<u>715,909,826</u>

9. Originated debts

	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
Government of St. Kitts and Nevis bonds maturing April 18, 2057 at 1.5% interest **	20,014,565	19,680,228
Antigua Commercial Bank 9 % interest rate Series A bond maturing December 31, 2025	1,343,585	1,368,117
Government of Antigua 7-year long-term notes maturing April 30, 2017 at 6.7% interest	36,242,620	36,242,620
Government of St. Vincent & The Grenadines 10-year bond maturing December 17, 2019 at 7.5% interest	5,000,000	5,000,000
Government of St Lucia USD Fixed Rate Note maturing July 18, 2017 at 5.50% interest	-	13,513,000
Government of St Lucia USD Fixed Rate note maturing July 18, 2019 at 5.00% interest	13,513,000	
Government of St Lucia USD Fixed Rate note maturing September 5, 2018 at 5.0% interest	25,404,440	25,404,440
Wells Fargo Bank USD Corporate Bond maturing January 16, 2018 at 1.50% to 6.3% interest	<u>11,093,768</u>	<u>11,093,768</u>
	<u>112,611,978</u>	<u>112,302,173</u>
Interest receivable	<u>894,803</u>	<u>907,016</u>
Total	<u>113,506,781</u>	<u>113,209,189</u>
Current	18,512,795	33,208,527
Non-current	<u>94,993,986</u>	<u>80,000,662</u>
	<u>113,506,781</u>	<u>113,209,189</u>

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9. Originated Debts.....continued

Government of Antigua and Barbuda 7-year long term notes

Commencing on May 7, 2010, the Bank purchased from ABI Bank Limited (ABIB) a series of certificates of participation in the cash flows from a long term notes issued by the Government of Antigua and Barbuda which had been securitized by ABIB. ABIB was placed in receivership on November 27, 2015. As of March 31, 2017, the Bank's interest in the long term notes amounted to \$36,242,620 (June 2016: \$36,242,620). No scheduled payments have been received during the current financial year in respect of the long term notes from the Paying Agent, ABIB (now in Receivership). As at December 31, 2017, the Bank has not been advised by the Receiver of any time frame for payment of the amount due. However, the Bank has received correspondence from the Receiver indicating that \$6,897,071 of the amount due will be serviced from the scheduled monthly payments, as they are received from the Government of Antigua and Barbuda; whilst the remaining \$30,637,831 is expected to be dealt with according to the priorities in payment of claims rules outlined in section 153 of the Banking Act 2015.

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

**10. Investment securities
(A)**

	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
<i>Available-for-sale securities</i>		
Securities at fair value		
-- Unlisted	12,969,111	12,972,979
-- Listed	<u>918,498,719</u>	<u>907,597,717</u>
Total available-for-sale securities, gross	931,467,830	920,570,696
-- Less provision for impairment	<u>(5,005,521)</u>	<u>(5,005,521)</u>
	926,462,309	915,565,175
-- Interest receivable	<u>775,318</u>	<u>780,578</u>
Sub-total	<u>927,237,627</u>	<u>916,345,753</u>

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10. Investment securities.....continued

(B) The movement in held-to-maturity, available-for-sale, fair value through profit or loss and loans and receivables – originated debt financial assets during the year is as follows:

	Available for Sale	Originated Debts	Total
	\$	\$	\$
Balance – June 30, 2017	916,345,753	113,209,189	1,029,554,942
Additions	399,344,901	334,337	399,679,238
Disposals (sales/redemption)	(388,680,668)	(24,532)	(388,705,200)
Fair value gains (losses)	232,901	-	232,901
Movement in interest receivable	(5,260)	(12,213)	(17,473)
Total as at Dec 31, 2017	927,237,627	113,506,781	1,040,744,408
Balance – June 30, 2016	613,956,008	114,164,002	728,120,010
Additions	1,172,800,732	26,033,260	1,198,833,992
Disposal (sales/redemption)	(946,508,033)	(27,010,653)	(973,518,686)
Fair value gains	79,591,391	-	79,591,391
Current period Impairment	(2,286,002)	-	(2,286,002)
Movement in interest receivable	(1,208,343)	22,580	(1,185,763)
Total as at June 30, 2017	916,345,753	113,209,189	1,029,554,942

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10. Investment securities.....continued

(B)	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
Included in available-for-sale financial assets are as follows:		
Listed securities:		
- Equity securities – US	711,434,845	634,459,896
- Equity securities – Caribbean	1,067,200	1,067,200
- Debt securities – US	<u>205,996,673</u>	<u>272,070,621</u>
Total listed securities	<u>918,498,719</u>	<u>907,597,717</u>
Unlisted securities:		
- Equity securities – US	40,008	43,876
- Equity securities – Caribbean	12,929,103	12,929,103
Total unlisted securities	<u>12,969,111</u>	<u>12,972,979</u>
Total available-for-sale securities, gross	931,467,830	920,570,696
Provision for impairment	<u>(5,005,521)</u>	<u>(5,005,521)</u>
	926,462,309	915,565,175
Interest receivable	<u>775,318</u>	<u>780,578</u>
	<u>927,237,627</u>	<u>916,345,753</u>

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

(C)	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
Listed:		
US dollars	917,431,519	906,530,517
EC dollars	1,067,200	1,067,200
Total listed securities	<u>918,498,719</u>	<u>907,597,717</u>
Unlisted:		
US dollars	40,008	43,876
EC dollars	12,929,103	12,929,103
Total unlisted securities	<u>12,969,111</u>	<u>12,972,979</u>
Total available-for-sale securities, gross	931,467,830	920,570,696
Less: Provision for impairment loss	<u>(5,005,521)</u>	<u>(5,005,521)</u>
	926,462,309	915,565,175
Interest receivable	<u>775,318</u>	<u>780,578</u>
Total available-for-sale securities	<u>927,237,627</u>	<u>916,345,753</u>

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	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
11. Investment in subsidiary		
National Bank Trust Company (St Kitts-Nevis-Anguilla) Limited	5,750,000	5,750,000
National Caribbean Insurance Company Limited	9,000,000	9,000,000
St Kitts and Nevis Mortgage and Investment Company Limited (MICO)	12,000,000	12,000,000
Total	26,750,000	26,750,000
	=====	=====

The subsidiaries are wholly owned except National Caribbean Insurance Company Limited (NCIC) which is 90 percent owned. National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited which is a wholly owned subsidiary of the Bank owns the remaining 10 percent.

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

Letters of credit	7,686,682	7,455,745
Guarantees	-	-
Total	7,686,682	7,455,745
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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13. Property, Plant and Equipment

	<u>Total</u> \$	<u>Property</u> \$	<u>Equipment</u> \$	<u>Furniture And Fittings</u> \$	<u>Motor Vehicles</u> \$	<u>Reference Books</u> \$	<u>Projects Ongoing</u> \$
Period ended June 30, 2017							
Net book value	28,414,661	22,931,198	3,318,522	685,981	70,753	85	1,408,122
Additions	490,592	-	23,217	35,689	-	-	431,686
Disposal	-	-	-	-	-	-	-
Depreciation charge	(1,556,007)	(600,362)	(754,840)	(179,309)	(21,496)	-	-
Deprec. on Disposal	-	-	-	-	-	-	-
Net book value As at Dec 31, 2017	27,349,246	22,330,836	2,586,899	542,361	49,257	85	1,839,808
At Dec 31, 2017							
Cost or valuation	44,318,184	25,195,864	13,302,256	3,443,688	396,200	140,368	1,839,808
Accum depreciation	(16,968,938)	(2,865,028)	(10,715,357)	(2,901,327)	(346,943)	(140,283)	-
Net book value	27,349,246	22,330,836	2,586,899	542,361	49,257	85	1,839,808
At June 30, 2017							
Cost or valuation	43,827,592	25,195,864	13,279,039	3,407,999	396,200	140,368	1,408,122
Accum depreciation	(15,412,931)	(2,264,666)	(9,960,517)	(2,722,018)	(325,447)	(140,283)	-
Net book value	28,414,661	22,931,198	3,318,522	685,981	70,753	85	1,408,122

Included in Property is land at a carrying value of \$4,347,412. This is made up as follows:

	Sept 2017	June 2017
Headquarters (Basseterre)	2,206,260	2,206,260
Sandy Point (#1)	46,785	46,785
Sandy Point (#2)	26,040	26,040
Saddlers	26,513	26,513
Nevis	1,019,250	1,019,250
West Independence Square	809,589	809,589
Rosemary Lane (#1)	110,000	110,000
Rosemary Lane (#2)	102,975	102,975
Total	<u>4,347,412</u>	<u>4,347,412</u>

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	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
14. Intangible assets		
Opening balance	290,694	423,924
Additions	-	114,985
Disposals	-	-
Amortisation charge	(120,513)	(248,215)
Write-back on disposals	-	-
Net book amount	<u>170,181</u>	<u>290,694</u>
	=====	=====
Cost or valuation	6,440,528	6,440,528
Accumulated Depreciation	<u>(6,270,347)</u>	<u>(6,149,834)</u>
Net book value	<u>170,181</u>	<u>290,694</u>
	=====	=====

Intangible assets represent computer software acquired for the Bank use.

	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
15. Other assets		
Prepayments	629,131	2,283,951
Stationery and card stock	915,058	688,953
Epassport receivable, net	6,107,800	6,107,800
Net defined benefit asset	12,672,274	12,672,274
Other receivables	<u>3,557,780</u>	<u>1,351,812</u>
Total	<u>23,882,043</u>	<u>23,104,790</u>
Current	5,101,969	4,324,716
Non-current	<u>18,780,074</u>	<u>18,780,074</u>
	<u>23,882,043</u>	<u>23,104,790</u>

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	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
16. Customers' deposits		
Direct demand accounts	598,559,707	899,653,197
Call accounts	289,735,192	275,848,069
Savings accounts	466,172,829	460,572,782
Fixed deposit accounts	1,576,462,920	1,570,239,395
	<u>2,930,930,648</u>	<u>3,206,313,443</u>
Interest Payable	<u>25,631,999</u>	<u>16,393,277</u>
	<u>2,956,562,647</u>	<u>3,222,706,720</u>
Current	2,955,556,879	3,222,706,720
Non-current	<u>1,005,768</u>	<u>-</u>
	<u>2,956,562,647</u>	<u>3,222,706,720</u>

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

The Bank pays interest on all categories of customers' deposits. At the balance sheet date, total interest paid and payable on deposit accounts for the period amounted to \$34,338,107.

17. Accumulated provisions, creditors and accruals

Suspense Liabilities	19,570	10,687,696
Employee related payables	5,743,095	5,720,822
Unpaid drafts on other banks	1,935,236	1,938,515
Other payables	8,715,744	6,648,436
Managers' cheques and bankers' payments	3,468,136	1,623,446
	<u>19,881,781</u>	<u>26,618,915</u>
Total	<u>19,881,781</u>	<u>26,618,915</u>

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	<u>Dec</u> <u>2017</u> \$	<u>Dec</u> <u>2016</u> \$
18. Taxation		
Tax expense		
Current tax	-	-
Deferred tax	-	-
	-----	-----
Total	-	-
	=====	=====
Income for the period before tax	<u>14,261,216</u>	<u>18,125,979</u>

18.1 Deferred tax asset/(liability)

The movement on the deferred tax assets and liabilities during the period is as follows:

	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
Deferred tax asset/(liability)		
Balance brought forward	(2,976,388)	41,464,236
Current year charge	-	(17,060,096)
Movement in unrealized losses on investment securities	(76,857)	(26,265,156)
Losses/(gains) on re-measurement of defined benefit asset	-	(1,115,372)
Total	<u>(3,053,245)</u>	<u>(2,976,388)</u>

18.2 Income tax recoverable

Included in the statement of financial position is amount of \$24,672,972 (June 2017: \$24,672,972) that relate to income tax credits/advance tax payments due from the Inland Revenue Department in respect of tax assessments that were finalized up to the year ended June 30, 2011. The amount may be applied against any future taxes payable by the Bank.

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	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
19. Share Capital		
Authorised: -		
270,000,000 Ordinary Shares of \$1 each	<u>270,000,000</u>	<u>270,000,000</u>
Issued and Fully Paid: -		
135,000,000 Ordinary Shares of \$1 each	<u>135,000,000</u>	<u>135,000,000</u>
20. Reserves		
Balance brought forward	328,498,697	258,637,739
Movement during the period	<u>156,044</u>	<u>69,860,958</u>
Balance	<u>328,654,741</u>	<u>328,498,697</u>
Reserves are represented by:		
Statutory reserve	123,468,652	123,468,652
Revaluation reserve	14,851,809	14,695,765
Other reserve	<u>190,334,280</u>	<u>190,334,280</u>
Balance	<u>328,654,741</u>	<u>328,498,697</u>
20.1 Statutory reserve		
Balance at beginning of year	123,468,652	116,449,012
Addition	-	7,019,640
	<u>123,468,652</u>	<u>123,468,652</u>
	<u><u>123,468,652</u></u>	<u><u>123,468,652</u></u>
<p>In accordance with Section 14 (1) of Saint Christopher and Nevis Banking Act No. 6 of 1991, the St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain a reserve fund into which it shall transfer not less than 20% of its net profit of each year whenever the reserve fund is less than the Bank paid-up capital.</p>		
20.2 Revaluation reserve		
Balance brought forward	14,695,765	(38,630,461)
Movement in market value of investments, net	156,044	53,326,226
Increase in fair value of properties	-	-
Balance	<u>14,851,809</u>	<u>14,695,765</u>
	<u><u>14,851,809</u></u>	<u><u>14,695,765</u></u>

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	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
20. Reserves.....continued		
20.2 Revaluation reserve.....continued		
Revaluation reserve is represented by:		
Available for sale investment securities	(1,061,004)	(1,217,048)
Properties	15,912,813	15,912,813
	14,851,809	14,695,765
	14,851,809	14,695,765
20.3 Other reserves		
Balance at beginning of year	190,334,280	180,819,188
Other Comprehensive Income	-	9,515,092
	190,334,280	190,334,280
	190,334,280	190,334,280
Other reserves is represented by:		
Reserve for interest on non-performing loans	46,239,725	46,239,725
Defined Benefit Plan	8,430,144	8,430,144
General reserve	135,664,411	135,664,411
	190,334,280	190,334,280
	190,334,280	190,334,280

Included in Other reserves are the following individual reserves:

General Reserve

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

Reserve for interest charged on non-performing loans

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

Defined benefit plan reserve

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

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FOR THE PERIOD ENDED DECEMBER 31, 2017

	<u>Dec</u>	<u>Dec</u>
	<u>2017</u>	<u>2016</u>
	\$	\$
21. Net Interest Income		
<u>Interest Income</u>		
Loans and Advances	18,590,053	21,306,854
Deposits with other financial institutions	1,978,473	497,019
Treasury Bills	2,243,878	2,826,735
AFS Investments	1,029,503	1,396,353
Originated debts	2,136,135	3,190,062
Financial asset	11,941,054	13,750,663
	-----	-----
Interest income	37,919,096	42,967,686
	-----	-----
<u>Interest Expense</u>		
Savings accounts	4,227,099	4,544,329
Call Accounts	190,007	183,219
Fixed Deposits	22,540,594	26,386,567
Debt and other related accounts	-	-
	-----	-----
	26,957,700	31,114,115
	-----	-----
Net Interest income	10,961,396	11,853,571
	=====	=====
22. Net fees and commission income		
Credit related fees and commission	1,545,778	1,533,020
International and foreign exchange	5,004,115	5,279,951
Brokerage and other fees and commission	1,632,343	1,600,273
	-----	-----
Fees and commission income	8,182,236	8,413,244
	-----	-----
Fee expenses		
Brokerage and other related fee expenses	46,318	70,779
International and foreign exchange fee expenses	4,652,151	3,838,651
Other fee expenses	638,947	206,525
	-----	-----
Fee expenses	5,337,416	4,115,955
	-----	-----
Net fees and commission income	2,844,820	4,297,289
	=====	=====

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	<u>Dec</u> <u>2017</u> \$	<u>Dec</u> <u>2016</u> \$
23. Net gains less (losses) on AFS investments		
Gains on AFS investments at fair value	12,189,332	14,601,357
Losses on AFS investments at fair value	-	(79,212)
	-----	-----
Total	<u>12,189,332</u>	<u>14,522,145</u>
	=====	=====
24. Provision for credit impairment	<u>Dec</u> <u>2017</u>	<u>Jun</u> <u>2017</u>
Balance brought forward	62,587,281	54,837,727
Current period change	-	7,749,554
	-----	-----
Total	<u>62,587,281</u>	<u>62,587,281</u>
	=====	=====
25. Administration and general expenses	<u>Dec</u> <u>2017</u> \$	<u>Dec</u> <u>2016</u> \$
Advertisement and marketing	416,963	286,551
Stationery and supplies	179,050	240,876
Communication	454,903	445,856
Utilities	319,092	321,300
Shareholders' expenses	-	-
Rent and occupancy expenses	277,725	306,759
Taxes and licences	1,310,956	-
Security services	137,859	144,427
Insurance	65,288	79,640
Legal expenses	364,949	126,624
Staff employment	9,512,622	9,192,489
Repairs and maintenance	1,556,487	1,634,178
Premises upkeep	33,560	18,218
Other general expenses	1,365,376	682,316
	-----	-----
Total	<u>15,994,830</u>	<u>13,479,234</u>
	=====	=====

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FOR THE PERIOD ENDED DECEMBER 31, 2017

25. Administrative and general expenses.....continued

25.1 Employee benefit expense

	<u>Dec</u> <u>2017</u> \$	<u>Dec</u> <u>2016</u> \$
Salaries and wages	6,508,705	6,811,068
Other staff cost	<u>3,003,917</u>	<u>2,381,421</u>
Total	<u>9,512,622</u>	<u>9,192,489</u>

26. Dividend

The comparative financial statements for December 31, 2017 reflect interim dividend payment of \$6,750,000.00 or \$0.05 per share for the financial year ended June 30, 2017 which was paid on December 19, 2017.

27. Related Parties

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making operational or financial decisions. A number of banking transactions are entered into with our subsidiaries and directors in the normal course of business. Those transactions, which include deposits, loans and other transactions, are carried out on commercial terms and conditions, at market rates.

Government of St Kitts and Nevis

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

	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
Public Sector		
Net surplus position (loan, advances and deposits)	1,336,135,959	1,381,014,405
Interest on deposits	16,623,301	37,717,142
Interest on loans and advances	6,413,852	11,735,839
Interest on land stock	11,941,054	27,492,978

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27. Related Parties.....continued

	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
Subsidiaries		
Loans and advances	8,791,450	10,597,398
Deposits	227,985,266	234,353,742
Interest on deposits	1,474,490	7,770,297
Interest from loans and advances	269,090	539,710
Associated Companies		
Loans and advances	70,007,016	70,008,225
Deposits	11,940,047	11,846,567
Interest on deposits	42,676	138,607
Interest from loans and advances	106	10,988
Directors and Associates		
Loans and advances	1,041,880	1,044,929
Deposits	479,901	331,936
Interest on deposits	3,622	6,079
Interest from loans and advances	32,429	72,133
SKNANB shares held	124,284	160,700
Key Management		
Total remuneration	862,230	2,653,603
Loans and advances	3,855,381	4,016,402
Deposits	771,105	560,903
Interest on deposits	6,806	8,316
Interest from loans and advances	124,714	275,146
SKNANB shares held	30,765	30,765

Loans advanced to Directors and key management are repayable on a monthly basis at a weighted average effective interest rate of 6.0%. Secured loans are collateralised by cash and mortgage over residential properties.

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	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
28. Cash and cash equivalent		
Cash and balances with Central Bank (Note 5)	63,794,701	36,818,265
Deposits with other financial institutions (Note 7)	450,319,226	705,775,923
	<u>514,113,927</u>	<u>742,594,188</u>

29. Contingent liabilities and commitments

At December 31, 2017 the Bank had contractual commitments to extend credit to customers, guarantee and other facilities as follows:

	<u>Dec</u> <u>2017</u> \$	<u>June</u> <u>2017</u> \$
Loan and other credit commitments	<u>32,937,252</u>	<u>31,500,890</u>
	32,937,252	31,500,890

30. Financial Asset

The financial asset of \$804,956,810 (June 2017: \$823,124,144) represents the Bank's right to that amount of cash flows from the sale of certain lands and interest outstanding on the said lands pursuant to a shareholder's agreement between the Bank, its majority shareholder the Government of St. Kitts & Nevis ("GOSKN"), and the Nevis Island Administration (NIA). Under the terms of the Agreement certain debt obligations owed to the Bank by the GOSKN, certain public corporations, and the NIA would be irrevocably released and discharged by the Bank in exchange for the transfer of certain land assets and the allocation of certain shares in a Special Land Sales Company (SLSC) to the Bank. Other lands would be transferred to the SLSC for sale, if necessary, in order to satisfy the agreements of the three parties

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30. Financial Asset.....continued

All parties agreed that the distribution of sales proceeds of the land assets shall be applied as follows:

- a. First towards the payment of selling and operational costs of SLSC;
- b. Secondly to the Bank until the Bank has received the face amount of the eligible secured debt immediately prior to the effective date and the interest payments, less amounts paid to the Bank;
- c. Thirdly to the Bank in exchange of the redemption of its relative interest in SLSC which was allotted for the release of eligible unsecured debt that was owed to the Bank prior to the effective date; and
- d. Fourthly to the Government of St. Kitts and Nevis and Nevis Island Administration.

The Bank has not included in these financial statements any investment in SLSC. As of December 31, 2017 SLSC, which is currently operational, has no unsecured land assets in the Company. Further, the bank has not invested any funds in SLSC and its interest in SLSC has no carrying value as of December 31, 2017.