NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED
Financial Statements
31 March 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
National Bank of Anguilla
(Private Banking and Trust) Limited

Report on the financial statements

We have audited the accompanying financial statements of National Bank of Anguilla (Private Banking and Trust) Limited (the Private Bank), which comprise the balance sheet as at 31 March 2008, and the statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Private Bank as at 31 March 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLC

Chartered Accountants
19 September 2008
The Valley, Anguilla, B.W.I

NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED
Balance Sheet
As at 31 March 2008

(Expressed in Eastern Caribbean Dollars (EC$))

	Note	2008	2007
Assets			
Cash in bank		131,377,875	119,693,306
Loans to customers, net	8,9	85,461,693	44,469,441
Interest receivable, net	10	1,659,217	553,542
Other assets and receivables		123,669	65,341
Held-to-maturity investment	11	2,121,425	2,507,142
Property, plant and equipment, net	12	9,371	89,524
Software, net	13	64,800	97,200
Total Assets		220,818,050	167,475,496
Liabilities and Shareholders' Equity			
Liabilities			
Deposits from customers	14	211,978,870	163,193,084
Interest payable		1,037,441	1,412,614
Other liabilities		158,514	14,344
Total Liabilities		213,174,825	164,620,042
Shareholders' equity			
Share capital	15	2,700,000	675,000
Retained earnings		4,943,225	2,180,454
Total Shareholders' equity		7,643,225	2,855,454
Total Liabilities and Shareholders' equity		220,818,050	167,475,496

These financial statements were approved on behalf of the Board of Directors on 19 September 2008 by the following:

Director

Director

The accompanying notes form an integral part of the financial statements.

NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED
Statement of Income
For the Year Ended 31 March 2008

(Expressed in Eastern Caribbean Dollars (EC$))

	Note	2008	2007
Interest and similar income			
Loans to customers		6,370,733	2,844,222
Placement with banks		4,566,836	4,111,208
Securities		187,843	143,657
		11,125,412	7,099,087
Interest and similar expenses			
Time		(2,962,329)	(2,527,365)
Savings		(1,310,622)	(696,625)
Other		(338,479)	(367,499)
		(4,611,430)	(3,591,489)
Net interest income		6,513,982	3,507,598
Fees, charges and other income		1,231,132	410,329
Foreign exchange gain		257,135	-
Operating income		8,002,249	3,917,927
Operating expenses			
Impairment losses		(2,517,700)	-
General and administrative expenses	16	(1,455,819)	(1,797,710)
Foreign exchange loss		-	(63,548)
Net income		4,028,730	2,056,669
Earnings per share	17	403	823

The accompanying notes form an integral part of the financial statements.

NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED
Statement of Shareholders' Equity
For the Year Ended 31 March 2008

(Expressed in Eastern Caribbean Dollars (EC$))

	Note	Common stock Shares	Common stock Amount	Retained earnings	Total
Balance at 31 March 2006		2,500	675,000	572,971	1,247,971
Net income for year		-	-	2,056,669	2,056,669
Reserve for loan losses	9	-	-	(449,186)	(449,186)
Balance at 31 March 2007		2,500	675,000	2,180,454	2,855,454
Net income for year		-	-	4,028,730	4,028,730
Shares issued during the year	15	7,500	2,025,000	-	2,025,000
Reserve for loan losses	9	-	-	(1,265,959)	(1,265,959)
Balance at 31 March 2008		10,000	2,700,000	4,943,225	7,643,225

The accompanying notes form an integral part of the financial statements.

NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED
Statement of Cash Flows
For the Year Ended 31 March 2008

(Expressed in Eastern Caribbean Dollars (EC$))

	Note	2008	2007
Cash flows from operating activities			
Net income		4,028,730	2,056,669
Adjustments for:			
Interest and similar income		(11,125,412)	(7,099,087)
Interest and similar expense		4,611,430	3,591,489
Impairment losses	9	2,517,700	-
Depreciation and amortization	12,13	113,026	112,728
Recovery from impairment losses		-	(32,639)
		145,474	(1,370,840)
Increase in operating assets:			
Increase in loans to customers	8	(44,775,911)	(22,182,721)
Increase in other assets and receivables		(58,328)	(24,335)
Increase in operating liabilities:			
Increase in deposits from customers	14	48,785,786	41,842,978
Increase in other liabilities		144,170	8,307,864
		4,241,191	26,572,946
Interest and similar receipts		10,019,737	6,572,996
Interest and similar payments		(4,986,603)	(3,585,378)
Net cash provided by operating activities		9,274,325	29,560,564
Cash flows provided by/(used) in investing activities			
Sale/(purchase) of held-to-maturity investment	11	385,717	(2,507,142)
Acquisition of property, plant and equipment	12	(473)	(3,637)
Net cash provided by/(used in) investing activities		385,244	(2,510,779)
Cash flow from financing activity			
Proceeds from the issuance of share capital	15	2,025,000	-
Net increase in cash in bank		11,684,569	27,049,785
Cash in bank at beginning of year		119,693,306	92,643,521
Cash in bank at end of year		131,377,875	119,693,306

The accompanying notes form an integral part of the financial statements.

1. **General information**

The National Bank of Anguilla (Private Banking and Trust) Limited (the Private Bank) is a wholly-owned subsidiary of National Bank of Anguilla Limited (NBA), a company incorporated in Anguilla. The Private Bank was incorporated on 4 February 2002 under the Companies Act - IRSA 2000.

The Private Bank was created to conform with the Trust Companies and Offshore Banking Act 2005 which requires all banks operating from within Anguilla and conducting business in currencies other than Eastern Caribbean Dollars (EC Dollars) with persons or entities who are not citizens or residents of Anguilla to obtain an offshore banking license and keep those accounts within a newly formed Bank.

The principal activity of the Private Bank is to carry on the business of banking, including accepting deposits from customers, making loans to customers and investing in debt and equity securities for persons or entities not citizens or residents of Anguilla. The Private Bank commenced its operations on 1 April 2005.

2. **Basis of preparation**

(a) ***Statement of compliance***

The financial statements of the Private Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB).

The financial statements of the Private Bank were authorised for issue by the Board of Directors on 19 September 2008.

(b) ***Basis of measurement***

The financial statements have been prepared on the historical cost basis except for held-to-maturity investments which are stated at amortised cost.

(c) ***Functional and presentation currency***

The Private Bank's functional currency is the United States dollar. The financial statements have been prepared in EC Dollars for the purpose of consolidating the statements to that of its parent company, NBA. There is no exchange gain or loss arising from the change in functional currency to presentation currency as the EC Dollar is fixed to the US Dollar at a rate of 2.70.

(d) ***Use of estimates and judgements***

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2. **Basis of preparation (continued)**

(d) *Use of estimates and judgements (continued)*

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amount recognised in the financial statements is described in Note 5.

3. **Significant accounting policies**

The accounting policies set out below have been applied consistently by the Private Bank to all periods presented in these financial statements, unless otherwise stated.

(a) ***Financial instruments***

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise of cash in bank, loans to customers, held-to-maturity investment , deposits from customers and other liabilities.

Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash in bank

Cash in bank represents demand deposits held by NBA, its parent company, and earns interest ranging from 2.74% to 4.25% in 2008 and 2007. Bank overdrafts that are repayable on demand and form an integral part of the Private Bank's cash management are included as a component of cash for the purpose of the statement of cash flows.

Loans to customers

Loans and receivables originated by the Private Bank are loans and receivables created by providing funds to a debtor other than those created with the intention of short term profit taking. Loans and receivables comprise loans and advances to customers.

Loans and receivables are recognised/derecognised on the day they are originated to/by the Private Bank, respectively.

The recoverable amount of originated loans and advances and purchased loans that are classified as held-to-maturity is measured at amortised cost less impairment.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. In accordance with IAS 39, a loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event has an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset or group of assets. Adjustments are made to the statement of income.

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

(a) ***Financial instruments (continued)***

(i) *Non-derivative financial instruments (continued)*

Loans to customers (continued)

Appropriate loan loss provisions are also made taking into consideration ECCB's prudential guidelines on loan loss provision whereby, at the close of each financial year, all loans of EC$270,000 or more, as well as loans that are in arrears for 60 days or more, are specifically reviewed and a provision is made, if necessary. In addition, a 1.0% general provision is made to the remaining loan portfolio. The difference between the requirements of ECCB and IAS 39 is adjusted to the reserve account under retained earnings.

Held-to-maturity investments

If the Private Bank has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

Deposits from customers

Deposits are the Private Bank's sources of debt funding.

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except, where the Private Bank chooses to carry the liabilities at fair value through profit or loss.

Other

Other non-derivative financial instruments are measured at cost less any impairment losses.

(ii) *Share capital*

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(b) ***Property, plant and equipment***

(i) *Recognition and measurement*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

(b) ***Property, plant and equipment (continued)***

(i) *Recognition and measurement (continued)*

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal within the carrying amount of property, plant and equipment and are recognized net within "fees, commissions and other income" in the statement of income.

(ii) *Subsequent costs*

The cost of replacing part of an item of property, plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Private Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of income as incurred.

(iii) *Depreciation*

Depreciation is charged to the statement of income on the straight line basis over the estimated useful lives of items of property, plant and equipment.

The estimated useful lives are as follows:

Furniture and equipment	5 - 7 years
Machinery and equipment	5 - 7 years
Computer hardware	5 years
Automation	3 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

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

(c) ***Software***

Software acquired by the Private Bank is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the statement of income on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is five years.

(d) ***Impairment***

The carrying value of the Private Bank's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of income.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the statement of income even though the asset has not been derecognised. The amount of the cumulative loss that is recognised in the statement of income is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the statement of income.

The recoverable amount of an asset is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down is reversed through the statement of income.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined (net of depreciation and amortisation) had no impairment loss been recognised in prior years.

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

(e) ***Provisions***

A provision is recognised if, as a result of a past event, the Private Bank has a present legal or constructive obligation that can be estimated reliably, and is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Private Bank has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Private Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Private Bank recognises any impairment loss on the assets associated with that contract.

(f) ***Interest***

Interest income and expense is recognized in the statement of income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently.

The calculation of the effective interest rate includes all fees, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of a financial asset.

Interest income presented in the statement of income includes interest on financial assets at amortized cost on an effective interest basis and interest on held-to-maturity investments. When the related financial asset becomes impaired, the carrying value is reduced due to an impairment loss and interest income is recognized using the rate of interests used to discount the future cash flows for the purpose of measuring the impairment loss.

Services charges and penalties for past due accounts are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectibility.

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

(g) ***Fees, charges and other income***

Fees, charges and other income arise on financial services provided by the Private Bank including cash management services and brokerage services. Fees, charges and other income other than those directly attributable to loans to customers which are amortized over the life of the loan are recognised when the corresponding service is provided.

(h) ***Foreign currency***

Transactions in foreign currencies are translated to EC Dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into EC Dollars at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on conversion and translation are recognised in the statement of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to EC Dollars at the foreign exchange rates ruling at the date of the acquisition.

(i) ***Related parties***

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

(j) ***Events after balance sheet date***

Post year-end events that provide additional information about the Private Bank's financial position at balance sheet date (adjusting events) are reflected in the financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

(k) ***Tax on Income***

No provision is made for income tax since Anguilla does not have any form of income tax.

(l) ***New standards and interpretations not yet adopted***

A number of new standards, amendments to standards and interpretations are not yet effective for the fiscal year ended 31 March 2008, or are not applicable to the Private Bank and have not yet been applied in preparing these financial statements:

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

(l) ***New standards and interpretations not yet adopted (continued)***

	Accounting Standards	Effective Date
IFRS 8	*Operating Segments*	1 January 2009
IFRIC 12	*Service Concession Arrangements*	1 January 2008
IFRIC 13	*Customer Loyalty Programmes*	1 July 2008
IFRIC 14	*IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction*	1 January 2008
IAS 23 (Revised)	*Borrowing Costs*	1 January 2009

- IFRS 8 - *Operating Segments* requires segment disclosure based on the components of the Private Bank that management monitors in making decisions about operating matters as well as qualitative disclosures on segments. Segments will be reportable based on threshold tests related to revenues, results and assets. IFRS 8 will become mandatory for the Private Bank's 2010 financial statements, and is not expected to have any impact on the Private Bank's financial statements.

- IFRIC 12 - *Service Concession Arrangements* addresses the accounting requirements for public-to-private service concession arrangements in private sector entities. IFRIC 12 will become mandatory for the Private Bank's 2009 financial statements and is not expected to have any impact on the Private Bank's financial statements.

- IFRIC 13 - *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 will become mandatory for the Private Bank's 2010 financial statements, with retrospective application required. It is not expected to have any impact on the Private Bank's financial statements.

- IFRIC 14 - IAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* provides a limit on the measurement of a defined benefit asset to the "present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan" plus unrecognised gains and losses (the "asset ceiling"). IFRIC 14 will become mandatory for the Private Bank's 2009 financial statements.

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

(l) *New standards and interpretations not yet adopted (continued)*

- IAS 23 (Revised) - *Borrowing Costs* removes the option of immediately recognising all borrowing costs as an expense, which was the benchmark treatment in the previous standard. The revised standard requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. IAS 23 (Revised) will become mandatory for the Private Bank's 2010 financial statements.

4. **Financial risk management**

(a) **Introduction and overview**

The Private Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Private Bank's exposure to each of the above risks, it's objectives, policies and procedures for measuring and managing risk, and the management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Private Bank's risk management framework. The Board of Directors has established the Investment and Loan committees, which are responsible for developing and monitoring the Private Bank's risk management policies in their specified areas. All committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Private Bank's risk management policies are established to identify and analyse the risks faced by the Private Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Private Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Private Bank's Audit Committee is responsible for monitoring compliance with the Private Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Private Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

4. **Financial risk management (continued)**

(b) Credit risk

Credit risk is the risk of financial loss to the Private Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Private Bank's loans and advances to customers and deposits to banks.

Management of credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers. The Board of Directors has delegated responsibility for the management of credit risk to its Loan Committee.

The Loan Committee is responsible for oversight of the Private Bank's credit risk, including:

- Formulating credit policies in consultation with management and staff, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Credit Manager and Senior Manager by the Loan Committee as appropriate.
- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band and market liquidity.
- Developing and maintaining the Private Bank's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by the Loan Committee.
- Reviewing compliance with agreed exposure limits, including those for selected industries, country risk and product type. Regular reports are provided to the Loan Committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to departments to promote best practice throughout the Private Bank in the management of credit risk.

4. **Financial risk management (continued)**

(b) **Credit risk (continued)**

The credit department is required to implement the Private Bank's credit policies and procedures, with credit approval authorities delegated from the Loan Committee. The credit department has a Credit Manager who reports on all credit related matters to top management and the Loan Committee. The credit department is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Audits of the credit department processes are undertaken by Internal Audit.

Exposure to credit risk

	Loans and advances to customers		Cash in bank		Held-to-maturity investment	
	2008	2007	2008	2007	2008	2007
Carrying amount	85,461,693	44,469,441	131,377,875	119,693,306	2,121,425	2,507,142
Individually impaired						
Grade 6	26,809,734	8,117,957	-	-	-	-
Grade 7	837,061	6,971	-	-	-	-
Grade 8	7,528	21,723	-	-	-	-
Gross Amount	27,654,323	8,146,651	-	-	-	-
Allowance for impairment	(4,232,845)	(449,186)	-	-	-	-
Carrying amount	23,421,478	7,697,465	-	-	-	-
Past due but not impaired						
Grade 1-3: Low-fair risk	6,882	16,293,188	-	-	-	-
Carrying amount	6,882	16,293,188	-	-	-	-
Neither past due nor impaired						
Grade 1-3: Low-fair risk	62,033,333	20,478,788	131,377,875	119,693,306	2,121,425	2,507,142
Carrying amount	62,033,333	20,478,788	131,377,875	119,693,306	2,121,425	2,507,142
Total carrying amount	85,461,693	44,469,441	131,377,875	119,693,306	2,121,425	2,507,142

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Private Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded substandard to loss in the Private Bank's internal credit risk grading system.

Past due but not impaired loans

Loans where contractual interest or principal payments are past due but the Private Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Private Bank.

4. **Financial risk management (continued)**

(b) **Credit risk (continued)**

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Private Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment

The Private Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component of this allowance is a specific loss component that relates to individually significant exposures.

The impairment losses were made in accordance with IAS 39 which considers the estimated future cash flows of the collaterals. However, appropriate loan loss provisions were also made taking into consideration ECCB's prudential guidelines. Based on ECCB guidelines, all loans of EC$270,000 or more, as well as loans that are in arrears for 60 days or more, are reviewed and an additional provision is made, if necessary. In addition, a 1.0% general provision is made to the remaining loan portfolio. An additional provision is recognised as reserve under retained earnings to account for the difference between the requirements of ECCB and IAS 39.

Write-off policy

The Private Bank writes off a loan balance (and any related allowances for impairment losses) when the Loan Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on product specific past due status.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers		Cash in bank		Held-to-maturity investment	
	Gross	Net	Gross	Net	Gross	Net
31 March 2008						
Grade 6	26,809,734	23,079,125	-	-	-	-
Grade 7	837,061	334,825	-	-	-	-
Grade 8	7,528	7,528	-	-	-	-
	27,654,323	23,421,478	131,377,875	131,377,875	2,121,425	2,121,425
31 March 2007						
Grade 6	8,117,957	7,694,677	-	-	-	-
Grade7	6,971	2,788	-	-	-	-
Grade 8	21,723	-	-	-	-	-
	8,146,651	7,697,465	119,693,306	119,693,306	2,507,142	2,507,142

4. **Financial risk management (continued)**

(b) **Credit risk (continued)**

Write-off policy (continued)

The Private Bank requires collateral in respect of credit facilities. Collateral is usually in the form of land and buildings, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated periodically. Collaterals usually are not held against investment securities and no such collateral was held at 31 March 2008 (2007: nil).

An estimate of the fair value of collateral and other security enhancements held against financial assets follows:

	Loans and advances to customers		Cash in bank	
	2008	2007	2008	2007
Against individually impaired				
Property	46,161,900	13,224,600	-	-
Debt securities	-	-	-	-
Other	-	-	-	-
Against past due but not impaired				
Property	-	24,057,000	-	-
Debt securities	-	-	-	-
Other	-	-	-	-
	-	-	-	-
Against neither past due but not impaired				
Property	153,611,235	44,894,150	-	-
Debt securities	-	-	-	-
Other (cash)	2,025,000	2,025,000	-	-
	201,798,135	84,200,750	-	-

Concentration risk

The Private Bank monitors concentrations of credit risk by sector. An analysis of economic sector credit risk concentrations of outstanding loans are presented in the table below:

(In thousands of EC Dollars)	2008	2007
Construction and land development	77,727	33,665
Transportation	8,091	7,483
Professional services	1,907	2,285
Other	2,990	1,486
	90,715	44,919

Settlement risk

The Private Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a Private Bank to honour its obligations to deliver cash, securities or other assets as contractually agreed.

4. **Financial risk management (continued)**

(b) **Credit risk (continued)**

Settlement risk (continued)

For certain types of transactions the Private Bank mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Private Bank risk.

(c) **Liquidity risk**

Liquidity risk is the risk that the Private Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Private Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Private Bank's reputation.

The Board of Directors assesses information regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. It then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, deposits to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained by the Private Bank.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors. A summary report, including any exceptions and remedial action taken, is submitted regularly to the Board of Directors.

Exposure to liquidity risk

The key measure used by the Private Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash in bank for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.

4. **Financial risk management (continued)**

(c) **Liquidity risk (continued)**

It is the policy of the Private Bank to monitor the following liquidity measures and keep them with the limits cited.

(a) Loans to capital ratio
(b) Loans to available deposits
(c) Net funds purchased to capital
(d) Net liquid assets to net liabilities

The above liquidity measures are reviewed internally on a historical basis and externally when possible with other banks.

Details of the ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

	2008	2007
At 31 March	0.41	0.27
Average for the period	0.40	0.25
Maximum for the period	0.47	0.33
Minimum for the period	0.25	0.19

The Private Bank has access to a diverse funding base. Funds are raised during a broad range of instruments including deposits, other liabilities and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Private Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Private Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Private Bank strategy. In addition, the Private Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The Board of Directors addresses the liquidity needs of the Private Bank to assure that sufficient funds are available to meet credit demand and deposit withdrawals. In assessing liquidity equal consideration is given to the current position as well as the future outlook.

4. **Financial risk management (continued)**

(c) **Liquidity risk (continued)**

Residual contractual maturities of financial liabilities:

(In thousands of EC Dollars)	Note	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
31 March 2008							
Deposits from customers	14	211,979	217,611	89,951	76,624	13,621	31,783
Other liabilities		159	159	159	-	-	-
		212,138	217,770	90,110	76,624	13,621	31,783
31 March 2007							
Deposits from customers	14	163,193	166,785	113,911	13,797	12,486	22,999
Other liabilities		14	-	14	-	-	-
		163,207	166,785	113,925	13,797	12,486	22,999

(d) **Market risk**

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Private Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Private Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Investment Committee, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Management of market risk (continued)

Overall authority for market risk is vested in the Board of Directors. The Board of Directors is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

Interest rate risk

Interest rates risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is affected where there is a mismatch between interest earning assets and interest-bearing liabilities, which are subject to interest rate adjustments within a specified period.

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at balance sheet date and the periods in which they are re-priced.

4. Financial risk management (continued)

(d) Market risk (continued)

2008					
(In thousands of EC Dollars)	Effective interest rate	Total	12 months or less	1-5 years	More than 5 years
Held-to-maturity investment	8.00%	2,121	-	-	2,121
Cash in bank	2.70%	131,378	131,378	-	-
Loans to customers	9.74%	85,462	15,180	1,070	69,212
Deposits from customers	2.27%	(211,979)	(186,477)	(25,502)	-
		6,982	(39,919)	(24,432)	71,333

2007					
(In thousands of EC Dollars)	Effective interest rate	Total	12 months or less	1-5 years	More than 5 years
Held-to-maturity investment	8.00%	2,507	-	-	2,507
Cash in bank	2.70%	119,693	119,693	-	-
Loans to customers	8.41%	44,469	1,139	1,058	42,272
Deposits from customers	2.34%	(163,193)	(154,925)	(8,268)	-
		3,476	(34,093)	(7,210)	44,779

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Private Bank incurs foreign currency risk on transactions that are denominated in a currency other than the functional currency, the US Dollar. The currencies that give rise to this risk are primarily Canadian Dollars, Pounds Sterling and Euro.

The table below illustrates the concentration of foreign currency risk incurred by the Private Bank.

	2008				2007			
	USD	EUR	GBP	CAD	USD	EUR	GBP	CAD
Loans	100.00%	-	-	-	100.00%	-	-	-
Held-to-maturity investment	100.00%	-	-	-	100.00%	-	-	-
Cash resources	95.00%	4.80%	0.10%	0.10%	98.72%	0.04%	0.51%	0.73%
Deposits	97.79%	2.00%	0.01%	0.20%	99.46%	0.13%	0.01%	0.40%

After evaluating these facts, foreign currency risk is considered as minimum.

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Private Bank's processes, personnel, technology, infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Private Bank's operations and are faced by all business entities.

4. **Financial risk management (continued)**

(e) **Operational risk (continued)**

The Private Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Private Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors. This responsibility is supported by the development of overall Private Bank's standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risk faced and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance when this is effective.

Compliance with Private Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of business unit to which they relate, with summaries submitted to the Board of Directors.

(f) **Capital management**

Regulatory capital

The Private Bank's local regulator, Anguilla Financial Services Commission, monitors capital requirements for the Private Bank.

The Private Bank's policy is to maintain investor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Private Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

4. **Financial risk management (continued)**

(f) **Capital management (continued)**

Regulatory capital (continued)

The Private Bank has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Private Bank's management of capital during the period.

5. **Critical accounting estimates and judgements**

The Private Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant use of material adjustment in the next financial year are discussed below:

a. Allowance for impairment losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy (see note 3).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merit, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit department.

b. Impairment of non-financial assets

c. Determining fair values

d. Financial asset and liability classification

Accounting policies 3(a), 3(d) and 3(e) contain information about the assumptions and their factors relating to financial asset and liability classification and allowance for impairment losses.

It is possible based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the assets.

6. Determination of fair values

A number of the Private Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Financial assets
Due to the short-term nature of the transaction, the fair value of cash in bank, and other assets approximate the carrying amounts as of balance sheet date.

(ii) Loans to customers
The fair value of loans to customers is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iii) Financial liabilities
The carrying value of the Bank's deposit liabilities and other liabilities approximates the fair value because of its short-term nature.

7. Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the Private Bank's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest):

	Note	Designated at fair value	Held-to-maturity	Total carrying amount	Fair value
31 March 2008					
Cash in bank		-	131,377,875	131,377,875	131,377,875
Loans to customers	8	-	85,461,693	85,461,693	85,461,693
Held-to-maturity investment	11	-	2,121,425	2,121,425	2,121,425
Other assets and receivables		123,669	-	123,669	123,669
		123,669	218,960,993	219,084,662	219,084,662
Deposits from customers	14	211,978,870	-	211,978,870	211,978,870
Other liabilities		158,514	-	158,514	158,514
		212,137,384	-	212,137,384	212,137,384
31 March 2007					
Cash in bank		-	119,693,306	119,693,306	119,693,306
Loans to customers	8	-	44,469,441	44,469,441	44,469,441
Held-to-maturity investment	11	-	2,507,142	2,507,142	2,507,142
Other assets and receivables		65,341	-	65,341	65,341
		65,341	166,669,889	166,735,230	166,735,230
Deposits from customers	14	163,193,084	-	163,193,084	163,193,084
Other liabilities		14,344	-	14,344	14,344
		163,207,428	-	163,207,428	163,207,428

8. Loans to customers

	Note	2008	2007
Commercial industrial loans		49,507,253	33,479,669
Real estate loans		20,613,187	9,461,707
Personal loans		1,912,595	1,087,965
Other		18,682,313	889,286
		90,715,348	44,918,627
Unearned interest		(1,020,810)	-
		89,694,538	44,918,627
Allowance for impairment losses	9	(4,232,845)	(449,186)
		85,461,693	44,469,441

Maturity analysis

	2008	2007
On demand	347,378	1,097,893
Within 1 year	18,902,465	42,422
Between 1-5 years	794,873	1,057,765
After 5 years	70,670,632	42,720,547
	90,715,348	44,918,627

At 31 March 2008, approximately forty-seven percent (47%) (2007:64%) of the total loan portfolio has been made to Europeans, approximately fifty-two percent (52%) (2007:32%) has been made to North Americans and approximately one percent (1%) (2007:4%) has been made to Caribbean residents.

9. Allowance for impairment losses

2,517,700

	2008	2007
Balance at	449,186	-
Impairment loss during the year	2,517,700 *	-
~~Reserve for loan losses during the year~~	1,265,959	449,186
ECCB.	4,232,845 ECCB.	449,186

10. Interest receivable

	2008	2007
Loans	1,628,574	517,885
Investment	30,643	35,657
	1,659,217	553,542

(Expressed in Eastern Caribbean Dollars (EC$))

11. **Held-to-maturity investment**
This pertains to investment in Antigua and Barbuda government bonds which will mature on 26 July 2013 and earns interest at 8.00% per annum. Private Bank classified the investment as held-to-maturity.

12. **Property, plant and equipment**

	Furniture and equipment	Computer hardware	Automation	Machinery and equipment	Total
Cost					
31 March 2006	6,270	-	231,790	8,170	246,230
Additions	864	2,773	-	-	3,637
31 March 2007	7,134	2,773	231,790	8,170	249,867
Additions	-	-	-	473	473
31 March 2008	7,134	2,773	231,790	8,643	250,340
Accumulated depreciation					
31 March 2006	1,254	-	77,263	1,498	80,015
Depreciation	1,384	46	77,264	1,634	80,328
31 March 2007	2,638	46	154,527	3,132	160,343
Depreciation	1,168	555	77,262	1,641	80,626
31 March 2008	3,806	601	231,789	4,773	240,969
Net book value					
31 March 2006	5,016	-	154,527	6,672	166,215
31 March 2007	4,496	2,727	77,263	5,038	89,524
31 March 2008	3,328	2,172	1	3,870	9,371

13. **Software**

	2008	2007
Cost		
31 March 2007	162,000	162,000
Additions	-	-
31 March 2008	162,000	162,000
Accumulated amortization		
31 March 2007	64,800	32,400
Amortization for the period	32,400	32,400
31 March 2008	97,200	64,800
Net Book Value	64,800	97,200

14. Deposits from customers

	2008	2007
Demand	36,442,225	33,569,175
Savings	53,449,935	79,261,827
Time	122,086,710	50,362,082
	211,978,870	163,193,084

At 31 March 2008, approximately forty nine percent (49%) (2007:50%) of deposits held are from North America, twenty eight percent (28%) (2007:33%) from the Caribbean, and twenty three percent (23%) (2007:17%) from Europe.

15. Share capital

	Number of shares	2008	2007
Beginning balance	2,500 shares @ EC$ 270 per share	675,000	675,000
Additional capital	7,500 shares @ EC$ 270 per share	2,025,000	-
Ending balance	10,000 shares @ EC$270 per share	2,700,000	675,000

16. General and administrative expenses

	2008	2007
Staff costs	522,114	387,997
Service maintenance costs	371,310	357,218
Professional fees	113,668	76,174
Depreciation and amortization	113,026	112,728
Public relations	103,399	100,675
NCDS expenses	32,888	30,573
Occupancy costs	17,739	17,739
Supplies	9,193	60,645
Other	172,482	653,961
	1,455,819	1,797,710

17. Earnings per share

The calculations of basic earnings per share as at 31 March 2008 and 2007 were based on the net income for the year and the total number of capital shares issued and outstanding as at balance sheet date calculated as follows:

17. Earnings per share (continued)

	2008	2007
Net income for the year	4,028,730	2,056,669
Total number of shares issued and outstanding at the end of year	10,000	2,500
Earnings per share	403	823

18. Related party disclosures

The Private Bank had the following transactions during the year and balances outstanding at year-end with NBA, its parent company:

	2008	2007
Cash in bank	131,377,875	119,693,306
Interest received	4,566,836	4,111,208
Service maintenance fee paid	270,000	270,000
Rent expense	17,739	17,739

Remuneration to executive staff

	2008	2007
Executive staff salaries	208,680	171,300

The parent company, NBA, pays for the pension expense of all employees on behalf of the Private Bank.

In addition, a resolution was passed on 31 July 2008 for the approval of the Board of Directors remuneration effective April 2008.

19. Commitments

Customer loans approved at 31 March 2008 but not disbursed amounted to EC$6,107,382 (2007:EC$7,538,568). Undrawn overdraft facilities were EC$136,988 (2007:EC$165,878). There were no guarantees and letters of credit at 31 March, 2008 (2007: nil).