

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**

Separate Financial Statements

March 31, 2011

(expressed in Eastern Caribbean dollars)

NATIONAL BANK OF ANGUILLA (PRIVATE BANKING AND TRUST) LIMITED
Separate Financial Statements
31 March 2011

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INDEPENDENT AUDITORS' REPORT**To the Shareholder of
National Bank of Anguilla (Private Banking and Trust) Limited**

We have audited the accompanying separate financial statements of National Bank of Anguilla (Private Banking and Trust) Limited (the "Bank"), which comprise the separate statement of financial position as at 31 March 2011, and the related separate statements of comprehensive (loss)/income, shareholder's equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these separate 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 about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate financial statements.

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



INDEPENDENT AUDITORS' REPORT *(continued)*

**To the Shareholder of
National Bank of Anguilla (Private Banking and Trust) Limited**

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at 31 March 2011, its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

We draw attention to the fact that the corresponding figures presented, excluding the adjustments described in note 25 to the separate financial statements, are based on the separate financial statements of the Bank as at and for the year ended March 31, 2010, which were audited by other auditors who expressed an unqualified opinion on these statements on 12 September 2012. As part of our audit, we have audited the adjustments described in note 25 to the separate financial statements that were applied to restate the corresponding figures. In our opinion, such adjustments are appropriate and have been properly applied.

Without qualifying our opinion, we draw attention to note 2 to the separate financial statements which indicates the existence of a material uncertainty that may cast significant doubt about the Bank's ability to continue as a going concern.

KPMG

Chartered Accountants
July 23, 2013
Bridgetown
Barbados

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**
Separate Statement of Financial Position
As at 31 March 2011

[Expressed in Eastern Caribbean Dollars (EC\$)]

		2011	2010 As Restated - Note 25	2009 As Restated - Note 25
Assets				
Cash	9	72,178,595	76,012,775	69,038,328
Loans and advances – net	10, 25	68,370,236	78,883,144	87,477,589
Other assets and receivables – net	12, 25	138,887	725,943	8,383
Investment security	13	979,976	1,370,715	1,766,353
Property, plant and equipment – net	14	129,337	164,522	202,890
Intangible assets – net	15	42,471	57,294	104,517
Total Assets		141,839,502	157,214,393	158,598,060
Liabilities and Shareholder's Equity				
Liabilities				
Deposits from customers	16	133,616,967	146,630,305	149,357,219
Other liabilities	17, 25	1,138,642	993,760	1,331,362
Due to related party	23	-	13,230	-
Total Liabilities		134,755,609	147,637,295	150,688,581
Shareholder's Equity				
Share capital	18	8,700,000	8,700,000	8,700,000
Other reserves	19, 25	313,248	1,355,343	599,137
Accumulated deficit		(1,929,355)	(478,245)	(1,389,658)
Total shareholder's equity		7,083,893	9,577,098	7,909,479
Total Liabilities and Shareholder's Equity		141,839,502	157,214,393	158,598,060

These separate financial statements were approved on behalf of the Board of Directors on 15 July 2013 by the following:


Frederick O. Harrigan
Chairman


Selwyn Horsford
Chief Executive Officer (Ag)

The accompanying notes on pages 9 to 57 are an integral part of these separate financial statements.

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**
Separate Statement of Comprehensive (Loss)/Income
As at 31 March 2011

[Expressed in Eastern Caribbean Dollars (EC\$)]

		2010
	<i>Notes</i>	As Restated - Note 25
		2011
Interest and similar income		
Loans and advances	25	7,102,517
Placements with banks	23	2,988,269
Investment security		104,420
		10,195,206
Interest and similar expenses		
Time		(3,715,491)
Savings		(631,646)
Other		(223,659)
		(4,570,796)
Net interest income		5,624,410
Loan impairment charges	11, 25	(6,755,964)
Net interest (loss)/income after loan impairment charges		(1,131,554)
Fees, commissions and other income		286,101
Foreign exchange income/(loss)	25	82,702
Net interest and fee (loss)/income after loan impairment charges		(762,751)
Expenses		
General and administrative expenses	20	(1,544,128)
Directors' fees	23	(100,070)
Depreciation	14	(49,616)
Amortization	15	(14,823)
Bank charges		(21,817)
		(1,730,454)
Net (loss)/income		(2,493,205)
Other comprehensive income/(loss)		-
Total comprehensive (loss)/income		(2,493,205)

The accompanying notes on pages 9 to 57 are an integral part of these separate financial statements.

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**
Separate Statement of Shareholder's Equity
As at 31 March 2011

[Expressed in Eastern Caribbean Dollars (EC\$)]

	<i>Notes</i>	2011	2010 As Restated - Note 25
Share capital			
Issued	<i>18</i>	8,700,000	8,700,000
Other reserves			
Balance at beginning of year, as previously reported		665,839	599,137
Correction of prior period errors	<i>25</i>	689,504	-
Balance at beginning of year, as restated		1,355,343	599,137
Reserve for loan impairment	<i>19</i>	(282,175)	(316,962)
Reserve for interest receivable on non-performing loans	<i>19</i>	(759,920)	1,073,168
Balance at end of year		313,248	1,355,343
(Accumulated deficit)/retained earnings			
Balance at beginning of year, as previously reported		5,774,174	4,198,966
Correction of prior period errors	<i>25</i>	(6,252,419)	(5,588,624)
Balance at beginning of year, as restated		(478,245)	(1,389,658)
Total comprehensive (loss)/income		(2,493,205)	1,667,619
Reserve for loan impairment	<i>19</i>	282,175	316,962
Reserve for interest receivable on non-performing loans	<i>19</i>	759,920	(1,073,168)
Balance at end of year		(1,929,355)	(478,245)
		7,083,893	9,577,098

The accompanying notes on pages 9 to 57 are an integral part of these separate financial statements.

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**
Separate Statement of Cash Flows
For the Year Ended 31 March 2011

[Expressed in Eastern Caribbean Dollars (EC\$)]

	<i>Notes</i>	2011	2010 As Restated - Note 25
Cash flows from operating activities			
Net (loss)/income		(2,493,205)	1,667,619
Adjustments for items not affecting cash:			
Loan impairment charges	<i>11</i>	6,755,964	3,045,565
Provision for long outstanding suspense assets	<i>12, 20</i>	110,038	-
Depreciation	<i>14</i>	49,616	48,181
Amortization	<i>15</i>	14,823	47,223
Interest and similar income		(10,195,206)	(10,804,686)
Interest and similar expenses		4,570,796	4,796,412
		(1,187,174)	(1,199,686)
Interest received		6,960,766	8,994,175
Interest paid		(4,199,069)	(5,039,882)
Cash flows from operating income before changes in operating assets and liabilities		1,574,523	2,754,607
Changes in operating assets and liabilities			
Decrease/(increase) in:			
Loans and advances	<i>10</i>	6,996,411	7,369,315
Other assets and receivables	<i>12</i>	477,018	(717,560)
Increase/(decrease) in:			
Deposits from customers	<i>16</i>	(13,385,065)	(2,483,444)
Due to related party	<i>23</i>	(13,230)	13,230
Other liabilities	<i>17</i>	144,882	(337,602)
Net cash (used in)/provided by operating activities		(4,205,461)	6,598,546
Cash flows from investing activities			
Redemption of available-for-sale security	<i>13</i>	385,712	385,714
Acquisition of property and equipment	<i>14</i>	(14,431)	(9,813)
Net cash provided by investing activities		371,281	375,901
Net (decrease)/increase in cash		(3,834,180)	6,974,447
Cash at beginning of year		76,012,775	69,038,328
Cash at end of year	<i>9</i>	72,178,595	76,012,775

The accompanying notes on pages 9 to 57 are an integral part of these separate financial statements.

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED
Notes to the Separate Financial Statements
31 March 2011**

(Expressed in Eastern Caribbean Dollars (EC\$))

1. Reporting entity

The National Bank of Anguilla (Private Banking and Trust) Limited (the “Bank”) is a wholly-owned subsidiary of National Bank of Anguilla Limited (NBA), a company incorporated in Anguilla. The Bank was incorporated on February 4, 2002 under the Companies Act 2000 I.R.S.A.c1.

The Bank was created to conform with the Trust Companies and Offshore Banking Act which requires all banks operating 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 separate bank.

The principal activity of the 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 Bank commenced its operations on April 1, 2005.

2. Status of operations

Going concern

These separate financial statements have been prepared on the going concern basis, which contemplates the realization of assets and liabilities in the normal course of business, and assumes the Bank will continue in operation for the foreseeable future. However, the Bank incurred a net loss of \$2,493,205 resulting in accumulated deficit of \$1,929,355 and net cash outflows from operating activities amounting to \$4,205,461 for the year ended March 31, 2011. Additionally on occasions during the years mentioned above and subsequently until early 2013, NBA, the parent Company, was not in compliance with the liquidity reserve requirement as established by the Eastern Caribbean Central Bank.

Further, the timing of contractual cash flows disclosed in note 5 (c) indicates the Bank’s mandatory commitments to pay its contractual obligations.

The ability of the Bank to continue as a going concern is dependent on it returning to an operating profit, along with improving and maintaining adequate liquidity reserves, thus allowing the Bank’s financial obligations to be met as they fall due. The Board of Directors expects that these profitability and liquidity challenges will be resolved in the near future with certain strategic initiatives as outlined below being pursued by the Bank and the Group as a whole:

- Improving profitability within the next three years by:
 - Enhancing collection efforts on non-performing loans and improving spread in the investment portfolio by strengthening the Asset and Liability management capability
 - Restructuring of management and organizational functions
 - Reduction of current staff complement by 36 personnel in August and October 2013
 - Rationalization of IT functions and reduction of outsourcing costs
 - Hiring of in-house legal counsel and corporate secretary

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**
Notes to the Separate Financial Statements *(continued)*
31 March 2011

(Expressed in Eastern Caribbean Dollars (EC\$))

2. Status of operations *(continued)*

Going concern (continued)

- Improvement in liquidity with first outcomes within six months and realization of major improvements in the same fifteen months by:
 - Sale of the West End building to a prospective local partner
 - Sale of large loans to local or foreign investors
 - Continuous dialogue with the Government of Anguilla for possible placement of funds in the Group
- Enhancement of Tier 1 Capital of the Group within the next twelve months by selling shares to strategic partner(s) and by public offering.

Based on the initiatives described above, an expected improvement in the economic environment and performance of the Anguilla economy in the next twelve months and in the future, and management's assessment and analysis of the maturity profile of the Bank's financial liabilities and the consequential liquidity needs in the normal course of business, the Board of Directors are confident that the Bank will be able to meet its liquidity and cash flow requirements in the short and medium term.

3. Basis of preparation

a. Statement of compliance

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

The Bank's separate financial statements as at and for the year ended 31 March 2011 were approved and authorized for issue by the Board of Directors on 15 July 2013.

b. Basis of measurement

The separate financial statements have been prepared on the historical cost basis except for available-for sale financial assets which have been measured at fair value.

c. Functional and presentation currency

These separate financial statements have been prepared in Eastern Caribbean Dollars (EC Dollars), which is the Bank's presentation currency. The Bank's functional currency is the United States Dollar (US Dollars). Except as otherwise indicated, financial information presented in EC Dollars has been rounded to the nearest dollar.

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**
Notes to the Separate Financial Statements *(continued)*
31 March 2011

(Expressed in Eastern Caribbean Dollars (EC\$))

3. Basis of preparation *(continued)*

d. Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the separate financial statements are described in note 6.

e. Change in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted the following new and amended IFRS and IFRIC (International Financial Reporting Interpretations Committee) interpretations as of 1 April 2010:

- IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009
- IFRIC 9 *Remeasurement of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* effective for period ending on or after 30 June 2009
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective from 1 July 2009
- IFRIC 18 *Transfer of Assets from Customers* effective from 1 July 2009
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRS 8 *Operating Segment Information*
- Improvements to IFRS 2009

Adoption of these standards and interpretations did not have any material effect on the financial performance or position of the Bank.

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**
Notes to the Separate Financial Statements *(continued)*
31 March 2011

(Expressed in Eastern Caribbean Dollars (EC\$))

4. Significant accounting policies

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these separate financial statements.

(a) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(b) Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities have to be recognized in the separate statement of financial position and measured in accordance with their assigned category.

Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables and available-for-sale securities. Management determines the classification of its investments 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;

- those that the Bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortized cost using the effective interest rate method. Loans and receivables are reported in the separate statement of financial position as cash, loans and advances, other assets and receivables and investment security. Interest on loans is included in the separate statement of comprehensive (loss)/income and is reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognized in the separate statement of comprehensive (loss)/income as 'Loan impairment charges'.

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**
Notes to the Separate Financial Statements *(continued)*
31 March 2011

(Expressed in Eastern Caribbean Dollars (EC\$))

4. Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(ii) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables. Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in the separate statement of comprehensive (loss)/income as "other comprehensive income", except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in the separate statement of comprehensive (loss)/income as "other comprehensive income" is recognized in the profit and loss. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the profit and loss. Dividends on available-for-sale equity instruments are recognized in the profit and loss as 'Dividend income' when the Bank's right to receive payment is established.

(iii) Recognition

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the separate statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or re-pledge them.

Financial liabilities

The Bank's holding in financial liabilities is measured in financial liabilities at amortized cost. Financial liabilities are derecognized when extinguished.

(i) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost are deposits from banks or customers and other financial liabilities.

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**
Notes to the Separate Financial Statements *(continued)*
31 March 2011

(Expressed in Eastern Caribbean Dollars (EC\$))

4. Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the reporting periods. In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks, other financial institutions and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

Derecognition

Financial assets are derecognized 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 derecognized when they have been redeemed or otherwise extinguished.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitization transactions in which the Bank retains a portion of the risks.

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**
Notes to the Separate Financial Statements *(continued)*
31 March 2011

(Expressed in Eastern Caribbean Dollars (EC\$))

4. Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

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 amortized 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.

(c) Impairment of financial assets

(i) Assets carried at amortized cost

The Bank assesses at each reporting date 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:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio; and
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**
Notes to the Separate Financial Statements *(continued)*
31 March 2011

(Expressed in Eastern Caribbean Dollars (EC\$))

4. Significant accounting policies *(continued)*

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

(i) Assets carried at amortized cost (continued)

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months.

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 recognized are not included in a collective assessment of impairment.

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 recognized in the separate statement of comprehensive (loss)/income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

**NATIONAL BANK OF ANGUILLA
(PRIVATE BANKING AND TRUST) LIMITED**
Notes to the Separate Financial Statements *(continued)*
31 March 2011

(Expressed in Eastern Caribbean Dollars (EC\$))

4. Significant accounting policies *(continued)*

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

(i) Assets carried at amortized cost (continued)

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience. Statutory and other regulatory loan reserve requirements that exceed these amounts are dealt with in the other reserves as an appropriation of retained earnings.

When a loan is uncollectible, it is written off against the related allowance 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. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges.

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

(ii) 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 recognized in the profit or loss – is removed from equity and recognized in the separate statement of comprehensive (loss)/income. Impairment losses recognized in the separate statement of comprehensive (loss)/income on equity instruments are not reversed through the separate statement of comprehensive (loss)/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 recognized in profit or loss, the impairment loss is reversed through the separate statement of comprehensive (loss)/income.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

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Notes to the Separate Financial Statements *(continued)*
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4. Significant accounting policies *(continued)*

(d) Offsetting of financial instruments

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

(e) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized 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 recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an expense.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical 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 labor, 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 capitalized 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 separate statement of comprehensive (loss)/income.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the separate statement of comprehensive (loss)/income during the financial period in which they are incurred.

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4. Significant accounting policies *(continued)*

(f) Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated using the straight line method to allocate the cost of assets to their residual values over their estimated useful lives, as follows:

Furniture, fittings and equipment	5-10 years
Computers	5-6 years
Automation	3 years
Machinery and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(g) Intangible assets

Intangible assets comprise computer software licenses. Intangible assets are recognized at cost. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Generally, the identified intangible assets of the Bank have a definite useful life. At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. The Bank uses the cost model for the measurement after recognition.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of software is three to five years.

Costs associated with maintaining computer software program are recognized as an expense when incurred.

(h) Impairment of non-financial assets

Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For 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.

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4. Significant accounting policies *(continued)*

(i) Interest income and expense

Interest income and expenses are recognized in the separate statement of comprehensive (loss)/income for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized 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, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

(j) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the separate statement of comprehensive (loss)/income on a straight line basis over the period of the lease.

(k) Fees and commissions and revenue recognition

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down are deferred (together with related direct costs) and recognized over the life of the loan, using the effective interest method. Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the acquisition of shares or other securities are recognized on completion of the underlying transaction.

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction net of tax, from the proceeds.

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4. Significant accounting policies *(continued)*

(m) Dividend income

Dividends are recognized in the separate statement of comprehensive (loss)/income when the entity's right to receive payment is established.

(n) Declaration of dividend

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Board of Directors. Dividends for the year which are approved after the balance sheet date are disclosed as a subsequent event.

(o) Foreign currency transaction

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"), which is United States Dollars. The financial statements are presented in Eastern Caribbean dollars, which is the Bank's presentation currency.

Transaction and balances

Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the closing rates of exchange prevailing as at the reporting date. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the separate statement of comprehensive (loss)/income.

(p) Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(q) Tax on income

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

(r) Events after reporting date

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

(s) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

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5. Financial risk management

(a) Introduction and overview

The 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 Bank's exposure to each of the above risks, the Board's objectives, policies and processes for measuring and managing risk and the Board's management of capital. Further quantitative disclosures are included throughout these separate financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Investment and Loan committees, which are responsible for developing and monitoring the 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 Bank's risk management policies are established to identify and analyse the risks faced by the 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 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 Bank's Audit Committee is responsible for monitoring compliance with the 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 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.

(b) Credit risk

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

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5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

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 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 authorization structure for the approval and renewal of credit facilities. Authorization 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 Bank's risk gradings in order to categorize 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 loan portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to departments to promote best practice throughout the Bank in the management of credit risk.

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5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Management of credit risk *(continued)*

The credit department is required to implement the 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.

(a) Loans and advances

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

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

(b) Debt and equity securities

The Bank's portfolio of debt and equity securities consists of investments in local and regional Governments and companies and other debt obligations by regional banking and non banking financial institutions, all of which are unrated. The Bank assesses the risk of default on Government obligations by regularly monitoring the performance of the respective Governments, through published government data and information published by international agencies such as the International Monetary Fund (IMF) and the World Bank. The risk of default on regional corporate debt is assessed by continuous monitoring of the performance of these companies through published financial information, and other data gleaned from various sources.

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5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified, in particular to individual counterparties and groups, and to industries and countries.

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

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

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.

The following specific control and mitigation measures are also utilized:

(i) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are as follows:

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

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

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

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5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Risk limit control and mitigation policies *(continued)*

(ii) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to customers 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 group on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralized by the underlying shipment of goods to which they relate, and therefore carry less risk than a direct loan.

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

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

Impairment and provision policies

The Bank's internal rating system focuses more on credit quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on the objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment provision shown in the separate statement of financial position at year end is derived from each of the five rating grades. However, the majority of the impairment provision comes from the substandard and doubtful grades. The following table shows the percentage of the Bank's separate statement of financial position items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories.

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5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies *(continued)*

	Loans and advances		Impairment provision		Net total
	\$	%	\$	%	\$
At March 31, 2011					
Pass	19,073,892	24	-	-	19,073,892
Special mention	2,464,014	3	-	-	2,464,014
Substandard	6,499,510	8	-	-	6,499,510
Doubtful	-	-	-	-	-
Loss	52,204,711	65	(12,022,121)	100	40,182,590
Gross loans and advances	80,242,127	100	(12,022,121)	100	68,220,006
Interest receivable	5,608,321	-	(5,295,073)	-	313,248
Inherent risk provision	-	-	(163,018)	-	(163,018)
	85,850,448	100	(17,480,212)	100	68,370,236
At March 31, 2010					
Pass	29,803,851	34	-	-	29,803,851
Special mention	3,060,153	4	-	-	3,060,153
Substandard	53,540,923	61	(8,591,203)	91	44,949,720
Doubtful	5,220	-	(5,220)	-	-
Loss	828,391	1	(828,391)	9	-
Gross loans and advances	87,238,538	100	(9,424,814)	100	77,813,724
Interest receivable	2,368,854	-	(1,295,687)	-	1,073,167
Inherent risk provision	-	-	(3,747)	-	(3,747)
	89,607,392	100	(10,724,248)	100	78,883,144

Loans and advances are analyzed as follows:

	2011	2010
	\$	\$
Neither past due nor impaired		
Pass	16,186,640	29,803,851
Past due but not impaired		
Pass		
Special mention	2,464,014	3,060,153
Substandard	6,499,510	-
Loss	460,077	-
	9,423,601	3,060,153

**NATIONAL BANK OF ANGUILLA
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5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies *(continued)*

	2011	2010
	\$	\$
Individually impaired		
Pass	2,887,251	53,540,923
Special mention	-	-
Substandard	-	-
Doubtful	-	5,220
Loss	51,744,635	828,391
	<u>54,631,886</u>	<u>54,374,534</u>
Total gross loans and advances	80,242,127	87,238,538
Allowance for impairment	(12,185,139)	(9,428,561)
	<u>68,056,988</u>	<u>77,809,977</u>
Interest receivable	5,608,321	2,368,854
Allowance for impairment	(5,295,073)	(1,295,687)
	<u>313,248</u>	<u>1,073,167</u>
Total carrying amount	68,370,236	78,883,144

The total impairment provision for loans and advances is \$17,480,212 (2010: \$10,724,248) of which \$12,022,121 (2010: \$9,424,814) represents the individually impaired loans, \$163,018 (2010: \$3,747) represents the portfolio provision, and \$5,295,073 (2010: \$1,295,687) represents provision for interest receivable. Further information on the impairment provision for loans and advances to customers is provided in notes 10 and 11.

The breakdown on loans and allowance for impairment according to type of loans is as follows:

	Overdraft	Retail	Total
	\$	\$	\$
March 31, 2011			
Neither past due nor impaired			
Pass	199,957	15,986,683	16,186,640
Past due but not impaired			
Special mention	-	2,464,014	2,464,014
Substandard	-	6,499,510	6,499,510
Loss	-	460,077	460,077
	<u>-</u>	<u>9,423,601</u>	<u>9,423,601</u>
Individually impaired			
Pass	-	2,887,251	2,887,251
Special mention	-	-	-
Substandard	-	-	-
Doubtful	-	-	-
Loss	309,308	51,435,327	51,744,635
	<u>309,308</u>	<u>54,322,578</u>	<u>54,631,886</u>

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5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies *(continued)*

	Overdraft	Retail	Total
	\$	\$	\$
March 31, 2011			
Total gross loans and advances	509,265	79,732,862	80,242,127
Allowance for impairment	(109,918)	(12,075,221)	(12,185,139)
	399,347	67,657,641	68,056,988
Interest receivable	-	5,608,321	5,608,321
Allowance for impairment	-	(5,295,073)	(5,295,073)
	-	313,248	313,248
Total carrying amount	399,347	67,970,889	68,370,236
	Overdraft	Retail	Total
	\$	\$	\$
March 31, 2010			
Neither past due nor impaired			
Pass	187,288	29,616,563	29,803,851
Past due but not impaired			
Pass			
Special mention	17,912	3,042,241	3,060,153
	17,912	3,042,241	3,060,153
Individually impaired			
Special mention	253	53,540,670	53,540,923
Substandard	-	-	-
Doubtful	5,220	-	5,220
Loss	828,391	-	828,391
	833,864	53,540,670	54,374,534
Total gross loans and advances	1,039,064	86,199,474	87,238,538
Allowance for impairment	(833,864)	(8,594,699)	(9,428,561)
	205,200	77,604,777	77,809,977
Interest receivable	-	2,368,854	2,368,854
Allowance for impairment	-	(1,295,687)	(1,295,687)
	-	1,073,167	1,073,167
Total carrying amount	205,200	78,677,944	78,883,144

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5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies *(continued)*

Impaired loans are loans for which the 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 normally graded substandard, doubtful or loss in the Bank's internal credit risk grading system.

Impaired loans

	Overdraft	Retail	Total
	\$	\$	\$
As at March 31, 2011			
Current	-	2,887,251	2,887,251
Past due up to 30 days	-	-	-
Past due 31-60 days	-	-	-
Past due 61-89 days	-	-	-
90 days and over	309,308	51,435,327	51,744,635
Total	309,308	54,322,578	54,631,886
Fair value of collateral	405,000	84,522,987	84,927,987
As at March 31, 2010			
Current	253	53,540,670	53,540,923
Past due up to 30 days	-	-	-
Past due 31-60 days	-	-	-
Past due 61-89 days	5,220	-	5,220
90 days and over	828,391	-	828,391
Total	833,864	53,540,670	54,374,534
Fair value of collateral	-	81,989,037	81,989,037

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the 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 Bank.

	Overdraft	Retail	Total
	\$	\$	\$
As at March 31, 2011			
Past due up to 30 days	-	2,464,014	2,464,014
Past due 31-60 days	-	6,499,510	6,499,510
Past due 61-89 days	-	-	-
90 days and over	-	460,077	460,077
Total	-	9,423,601	9,423,601
Fair value of collateral	-	25,976,700	25,976,700

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5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies *(continued)*

Past due but not impaired loans *(continued)*

	Overdraft \$	Retail \$	Total \$
As at March 31, 2010			
Past due up to 30 days	17,912	3,042,241	3,060,153
Past due 31-60 days	-	-	-
Past due 61-89 days	-	-	-
90 days and over	-	-	-
Total	17,912	3,042,241	3,060,153
Fair value of collateral	-	7,649,100	7,649,100

Allowance for impairment

The 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 the specific loss component that relates to individually significant exposures.

Provision for impairment losses were made in accordance with IAS 39 which considers the estimated future cash flows from the loans, including collateral. 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 recognized as a reserve within equity to account for the difference between the requirements of ECCB and IAS 39, if the ECCB provision is greater.

Write-off policy

The Bank writes off a loan balance (and any related allowances for impairment losses) when the Loan Committee determines that the loan is 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 standardized loans, charge off decisions generally are based on product specific past due status.

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Notes to the Separate Financial Statements *(continued)*
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5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Impairment and provision policies *(continued)*

Write-off policy *(continued)*

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below for amounts past due but not impaired and amounts impaired:

	2011 \$	2010 \$
Against individually impaired		
Property	76,827,987	81,989,037
Cash	-	-
Other (shares/debenture)	8,100,000	-
	84,927,987	81,989,037
Past due but not impaired		
Property	25,976,700	7,649,100
Cash	-	-
Other (shares/debenture)	-	-
	25,976,700	7,649,100
Total		
Property	30,844,800	80,869,958
Cash	9,674,100	9,674,100
Other (shares/debenture)	-	-
	40,518,900	90,544,058
	151,423,587	180,182,195

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgment of local 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. In the majority of cases, restructuring results in the asset continuing to be impaired:

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5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Loans and advances renegotiated *(continued)*

	2011	2010
	\$	\$
Renegotiated loans and advances to customers		
-Continuing to be impaired after restructuring	-	7,905,123
Loans to individuals		
-Non impaired after restructuring - would otherwise have been impaired	-	-
- Non impaired after restructuring - would otherwise not have been impaired	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>7,905,123</u>

Concentration of credit risk

The Bank monitors concentrations of credit risk by sector. An analysis of economic sector credit risk concentrations of outstanding loans excluding interest receivable, unearned interest and allowance for impairment losses are presented in the table below:

	2011	2011	2010	2010
	\$	%	\$	%
Property construction	29,777,899	37	30,053,999	34
Construction/land development	26,751,576	33	32,472,924	37
Transportation	13,768,554	17	13,812,274	16
Professional services	1,494,314	2	1,430,898	2
Other	8,449,784	11	9,468,443	11
As at March 31	<u>80,242,127</u>	<u>100</u>	<u>87,238,538</u>	<u>100</u>
Credit commitments				
Transportation	-	-	67,247	27
Other	459,853	100	185,441	73
As at March 31	<u>459,853</u>	<u>100</u>	<u>252,688</u>	<u>100</u>

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5. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Maximum net exposure to credit risk before collateral held or other credit enhancements are as follows:

	2011	2010
	\$	\$
Credit risk exposure relating to on-balance sheet assets:		
Cash	72,178,595	76,012,775
Loans and advances – net	68,370,236	78,883,144
Investment security	979,976	1,370,715
Other financial assets – net	120,377	717,560
	141,649,184	156,984,194
Credit exposures relating to off-balance sheet items:		
Loan commitments and other credit related facilities	459,853	252,688
	459,853	252,688
	142,109,037	157,236,882

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as at March 31, 2011 and 2010. For this table the Bank has allocated exposures to regions based on country of domicile of the counterparties.

March 31, 2011	Anguilla	Caribbean	USA	Europe	Total
	\$	\$	\$	\$	\$
Credit risk exposure relating to on-balance sheet assets:					
Cash	71,923,921	100,452	154,222	-	72,178,595
Loans to customers - net	-	37,588,001	30,782,235	-	68,370,236
Investment security					
- Available-for-sale debt security	-	979,976	-	-	979,976
Other financial assets - net	120,378	-	-	-	120,378
	72,044,299	38,668,429	30,936,457	-	141,649,185
Credit exposures relating to off-balance sheet items:					
Credit commitments	459,853	-	-	-	459,853
	72,504,152	38,668,429	30,936,457	-	142,109,038

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5. Financial risk management (continued)

(b) Credit risk (continued)

Geographical sectors (continued)

March 31, 2010	Anguilla \$	Caribbean \$	USA \$	Europe \$	Total \$
Credit risk exposure relating to on-balance sheet assets:					
Cash	75,710,617	95,034	207,124	-	76,012,775
Loans to customers - net	17,321	36,310,226	42,436,142	119,455	78,883,144
Investment security					
- Available-for-sale debt securities	-	1,370,715	-	-	1,370,715
Other financial assets - net	717,560	-	-	-	717,560
	<u>76,445,498</u>	<u>37,775,975</u>	<u>42,643,266</u>	<u>119,455</u>	<u>156,984,194</u>
Credit exposures relating to off-balance sheet items:					
Credit commitments	252,688	-	-	-	252,688
	<u>76,698,186</u>	<u>37,775,975</u>	<u>42,643,266</u>	<u>119,455</u>	<u>157,236,882</u>

Settlement risk

The 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 Bank to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the 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 the Bank.

(c) Liquidity risk

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

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5. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Management of liquidity risk

The 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 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 with banks and other interbank facilities, to ensure that sufficient liquidity is maintained by the 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.

Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash, loans and investment securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise of the following:

- Cash and balances due from other banks; and
- Loans and advances.

Exposure to liquidity risk

The key measure used by the 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.

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

- Loans to capital ratio;
- Loans to available deposits;
- Net funds purchased to capital; and
- Net liquid assets to net liabilities

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

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5. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

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

	<u>2011</u>	<u>2010</u>
As at March 31	0.69	0.59
Average for the period	0.67	0.58
Maximum for the period	0.70	0.60
Minimum for the period	0.64	0.54

The 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 Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The 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 Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$	\$
March 31, 2011						
Deposits from customers	74,276,084	6,870,243	38,216,159	14,254,481	-	133,616,967
Other financial liabilities	362,237	-	-	-	-	362,237
Due to related party	-	-	-	-	-	-
Total liabilities	74,638,321	6,870,243	38,216,159	14,254,481	-	133,979,204
Assets held-for-managing liquidity risk	86,066,481	-	6,153,189	11,324,052	37,005,110	140,548,832
Credit commitments	-	459,853	-	-	-	459,853
Liquidity surplus/(deficit)	11,428,160	(6,410,390)	(32,062,970)	(2,930,429)	37,005,110	7,029,481
March 31, 2010						
Deposits from customers	78,241,905	8,392,610	15,235,320	44,760,470	-	146,630,305
Other financial liabilities	135,156	-	-	-	-	135,156
Due to related party	13,230	-	-	-	-	13,230
Total liabilities	78,390,291	8,392,610	15,235,320	44,760,470	-	146,778,691
Assets held-for-managing liquidity risk	94,726,434	-	781,755	746,341	58,641,389	154,895,919
Credit commitments	-	252,688	-	-	-	252,688
Liquidity surplus/(deficit)	16,336,143	(8,139,922)	(14,453,565)	(44,014,129)	58,641,389	8,369,916

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5. Financial risk management *(continued)*

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the 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 optimizing the return on risk.

Management of market risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. The market risks arising from trading and non-trading portfolios are monitored by the Investment Committee and management. Regular reports are submitted to the Board of Directors and department heads. Trading portfolios include those positions arising from market making transactions where the Bank acts as principal with clients or with the market. Non trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's available-for-sale investment securities.

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.

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The Bank has no investments in equity securities, thus, it is not exposed to equity price risk. The Bank is also not exposed to commodity price risk.

Interest rate risk

Interest rate 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.

At March 31, 2011, if interest rates on available-for-sale investments had been 1% higher with all other variables held constant, post-tax profit for the year would have been \$17,510 (2010: \$16,177) higher, mainly as a result of higher interest income. At March 31, 2011, if interest rates on cash and cash equivalents and certificates of deposits had been 1% higher with all other variables held constant, post-tax profit for the year would have been \$720,920 (2010: \$740,920) higher, mainly as a result of higher interest income. At March 31, 2011, if interest rates on loans to customers had been 1% higher with all other variables held constant, post-tax profit for the year would have been \$512,686 (2010: \$887,560) higher, mainly as a result of higher interest income. At March 31, 2011, if interest rates on deposits to customers had been 1% higher with all other variables held constant, post-tax profit for the year would have been \$1,315,021 (2010: \$1,475,819) lower, mainly as a result of higher interest expense.

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5. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate risk *(continued)*

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

	Effective interest rate %	12 months or less \$	1-5 years \$	More than 5 years \$	Non-interest bearing \$	Total \$
March 31, 2011						
Financial assets						
Cash	4.25%	72,178,595	-	-	-	72,178,595
Loans to customers - net	7.02%	20,041,075	11,324,052	37,005,110	-	68,370,236
Investment security						
- Available-for-sale debt security	9.00%	401,410	578,566	-	-	979,976
Other financial assets - net	Nil	-	-	-	120,378	120,378
		92,621,080	11,902,618	37,005,110	120,378	141,649,185
Financial liabilities						
Deposits from customers	3.25%	(120,717,280)	(12,899,687)	-	-	(133,616,967)
Other financial liabilities	Nil	-	-	-	(362,237)	(362,237)
Due to related party	Nil	-	-	-	-	-
		(120,717,280)	(12,899,687)	-	(362,237)	(133,979,204)
Re-pricing gap		(28,096,200)	(997,069)	37,005,110	(241,859)	7,669,981
March 31, 2010						
Financial assets						
Cash	4.25%	76,012,775	-	-	-	76,012,775
Loans to customers - net	7.02%	19,495,413	746,340	58,641,391	-	78,883,144
Investment security						
- Available-for-sale debt security	9.00%	406,436	964,279	-	-	1,370,715
Other financial assets - net	Nil	-	-	-	717,560	717,560
		95,914,624	1,710,619	58,641,391	717,560	156,984,194
Financial liabilities						
Deposits from customers	3.25%	(106,277,966)	(40,352,339)	-	-	(146,630,305)
Other financial liabilities	Nil	-	-	-	(135,156)	(135,156)
Due to related party	Nil	-	-	-	(13,230)	(13,230)
		(106,277,966)	(40,352,339)	-	(148,476)	(146,778,781)
Re-pricing gap		(10,363,342)	(38,641,720)	58,641,391	569,084	10,205,413

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5. Financial risk management *(continued)*

(d) Market risk *(continued)*

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 Bank incurs foreign currency risk on transactions that are denominated in a currency other than the functional currency, the EC Dollar. The currencies giving rise to this risk are primarily Canadian Dollars, Pounds Sterling and Euro. The EC Dollar is fixed to the US Dollar at the rate of 2.70.

The following table summarizes the Bank's exposure to foreign currency exchange risk at March 31, 2011. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

March 31, 2011	US \$	US %	EC \$	EC %	Other \$	Other %	Total \$
Financial assets							
Cash	70,023,073	97	-	-	2,155,522	3	72,178,595
Loans and advance - net	68,370,236	100	-	-	-	-	68,370,236
Investment security							
- Available-for-sale debt security	979,976	100	-	-	-	-	979,976
Other financial assets – net	120,378	100	-	-	-	-	120,378
	139,493,663		-	-	2,155,522		141,649,185
Financial liabilities							
Deposits from customers	(132,262,123)	99	-	-	(1,354,844)	1	(133,616,967)
Other financial liabilities	(362,237)	100	-	-	-	-	(362,237)
Due to related party	-	-	-	-	-	-	-
	(132,624,360)		-	-	(1,354,844)		(133,979,204)
Net balance sheet position	6,869,303		-	-	800,678		7,669,981
Off-balance sheet items	459,853	100	-	-	-	-	459,853
March 31, 2010							
Financial assets							
Cash	74,027,019	97	-	-	1,985,756	3	76,012,775
Loans and advance - net	78,883,144	100	-	-	-	-	78,883,144
Investment security							
- Available-for-sale debt security	1,370,715	100	-	-	-	-	1,370,715
Other financial assets - net	717,560	100	-	-	-	-	717,560
	154,998,438		-	-	1,985,756		156,984,194
Financial liabilities							
Deposits from customers	(145,860,195)	99	-	-	(770,110)	1	(146,630,305)
Other financial liabilities	(135,156)	100	-	-	-	-	(135,156)
Due to related party	(13,230)	100	-	-	-	-	(13,230)
	(146,008,581)		-	-	(770,110)		(146,778,691)
Net balance sheet position	8,989,857		-	-	(1,215,646)		(10,205,503)
Off-balance sheet items	252,688	100	-	-	-	-	252,688

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5. Financial risk management *(continued)*

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and 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 behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the 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 Bank's standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization 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 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 Bank's lead regulator, Anguilla Financial Services Commission, monitors capital requirements for the Bank,

The Bank's policy is to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes 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.

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5. Financial risk management *(continued)*

(f) Capital management *(continued)*

Regulatory capital *(continued)*

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

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital which includes ordinary share capital, share premium, retained earnings, statutory reserves.
- Tier 2 capital includes unrealized gain on investments classified as available-for-sale securities or other hybrid capital instruments and other reserves.

The Bank's regulatory capital position as at March 31 is as follows:

	2011	2010 As restated – Note 25
Tier I capital		
Share capital	8,700,000	8,700,000
Accumulated deficit	(1,929,355)	(478,245)
Total qualifying tier I capital	6,770,645	8,221,755
Tier II capital		
Reserve for loan impairment	-	282,175
Reserve for interest on non-performing loans	313,248	1,073,168
Total qualifying tier II capital	313,248	1,355,343
Total regulatory capital	7,083,893	9,577,098
Risk weighted assets		
On balance sheet	141,839,502	157,214,393
Off balance sheet	459,853	252,688
Total risk weighted assets	142,299,355	157,467,081
Basel ratio	4.98%	6.08%

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6. Critical accounting estimates and judgments

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.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimate that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is addressed below.

(a) Impairment losses on loans and advances to customers

The Bank reviews its loan portfolios to assess impairment on an annual basis. In determining whether an impairment loss should be recorded in the separate statement of comprehensive (loss)/income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-10 percent, the provision would be estimated \$3,794,135 (2010: \$1,221,809) lower or \$3,499,751 higher (2010: \$1,542,373), respectively.

7. Determination of fair values

A number of the 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.

(a) Short-term financial assets

Due to the short term nature of the assets, the fair values of cash in bank and other financial assets approximate the carrying amounts as of the reporting date.

(b) Loans and advances

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Except for the staff loans, the interest rates on all other loans reflect the market interest rates, hence the carrying values are considered to approximate the fair values.

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7. Determination of fair values *(continued)*

(c) Financial liabilities

The carrying values of the Bank's demand deposit, savings deposit liabilities and other liabilities approximate the fair values because of their short term nature. The estimated value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of other fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The interest rates on these financial liabilities reflect the market interest rates, hence the carrying values are considered to approximate the fair values.

(d) Off-balance sheet items

The estimated fair values of the off-balance sheet financial instruments are based on market prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

8. Financial assets and liabilities

a. Accounts classification and fair values of financial instruments not measured at fair value

	Loans and receivables	Available-for- sale	Other amortized cost	Total carrying amount	Fair value
	\$	\$	\$	\$	\$
March 31, 2011					
Financial assets					
Cash	72,178,595	-	-	72,178,595	72,178,595
Loans and advances – net	68,370,236	-	-	68,370,236	68,370,236
Other financial assets – net	120,378	-	-	120,378	120,378
	<u>140,669,209</u>	<u>-</u>	<u>-</u>	<u>140,669,209</u>	<u>140,669,209</u>
Financial liabilities					
Deposits from customers	-	-	(133,616,967)	(133,616,967)	(133,616,967)
Other financial liabilities	-	-	(362,237)	(362,237)	(362,237)
Due to related party	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>(133,979,204)</u>	<u>(133,979,204)</u>	<u>(133,979,204)</u>
March 31, 2010					
Financial assets					
Cash	76,012,775	-	-	76,012,775	76,012,775
Loans and advances – net	78,883,144	-	-	78,883,144	78,883,144
Other financial assets – net	717,560	-	-	717,560	717,560
	<u>155,613,479</u>	<u>-</u>	<u>-</u>	<u>155,613,479</u>	<u>155,613,479</u>
Financial liabilities					
Deposits from customers	-	-	(146,630,305)	(146,630,305)	(146,630,305)
Other financial liabilities	-	-	(135,156)	(135,156)	(135,156)
Due to related party	-	-	(13,230)	(13,230)	(13,230)
	<u>-</u>	<u>-</u>	<u>(146,778,691)</u>	<u>(146,778,691)</u>	<u>(146,778,691)</u>

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8. Financial assets and liabilities *(continued)*

b. Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on Eastern Caribbean Securities Exchange (ECSE).
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments with significant unobservable components.

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

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
March 31, 2011				
Available-for-sale financial asset				
-Investments security – debt	979,976	-	-	979,976
Total	979,976	-	-	979,976
 March 31, 2010				
Available-for-sale financial asset				
-Investments security - debt	1,370,715	-	-	1,370,715
Total	1,370,715	-	-	1,370,715

9. Cash

	2011	2010
Cash	72,178,595	76,012,775

Included in cash is a balance of \$72,125,980 (2010: \$75,946,131) held with the parent company, National Bank of Anguilla Limited, which bears interest at 4.25% per annum (2010: 4.25% per annum).

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10. Loans and advances - net

	2011	2010 As restated - Note 25
Non-productive	51,390,299	53,560,123
Commercial and industrial	14,581,117	16,470,693
Real estate and tourism	12,942,567	15,043,786
Personal	313,774	1,149,193
Judgment debt	814,412	814,412
Overdrafts	199,958	200,331
	80,242,127	87,238,538
Less: allowance for impairment losses	(12,185,139)	(9,428,561)
	68,056,988	77,809,977
Accrued interest receivable	5,608,321	2,368,854
Less: allowance for impairment losses	(5,295,073)	(1,295,687)
	313,248	1,073,167
	68,370,236	78,883,144

Details of the current and non-current portion of loans and advances follow:

	2011	2010
Current	20,041,075	13,884,793
Non-current	48,329,161	64,998,351
	68,370,236	78,883,144

Maturity analysis for loans and advances - net

	2011	2010
On demand	1,014,000	1,278,377
Within 1 year	19,027,075	18,217,036
Between 1 to 5 years	11,324,052	746,340
After 5 years	37,005,110	58,641,391
	68,370,236	78,883,144

As at March 31, 2011, approximately fifty-five percent (2010: 46%) of the total loan portfolio has been made to the Caribbean and approximately forty-five percent (2010: 54%) has been made to North America.

Included in the interest receivable amount is interest earned on non-productive loans of \$5,308,860 (2010: \$1,679,351). This interest receivable was provided with allowance for impairment amounting to \$5,295,073 (2010: \$1,295,687).

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11. Allowance for impairment losses

The movements of the allowance for impairment losses are as follows:

	2011	2010 As restated - Note 25
Balance at beginning of year		
Loans to customers	9,428,561	7,678,683
Accrued interest receivable	1,295,687	-
	10,724,248	7,678,683
Loan impairment charges		
Loans to customers	2,756,578	1,749,878
Accrued interest receivable	3,999,386	1,295,687
	6,755,964	3,045,565
Balance at end of year		
Loans to customers	12,185,139	9,428,561
Accrued interest receivable	5,295,073	1,295,687
	17,480,212	10,724,248

12. Other assets and receivables - net

	<i>Note</i>	2011	2010 As restated - Note 25
Suspense accounts		125,400	717,560
Other loan charges		105,016	-
		230,416	717,560
Less: allowance for impairment losses	20	(110,038)	-
Total other financial assets - net		120,378	717,560
Prepayments		18,509	8,383
		138,887	725,943

Details of the current and non-current portion of other assets and receivables follow:

	2011	2010
Current	138,887	725,943
Non-current	-	-
	138,887	725,943

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13. Investment security

Available-for-sale debt security

	<i>Interest rate</i>	2011	2010
<i>Government bond</i>			
Government of Antigua and Barbuda Bond	8.0%	964,284	1,349,996
Accrued interest receivable		15,692	20,719
		979,976	1,370,715

Details of the current and non-current portion follow:

	2011	2010
Current	401,410	406,436
Non-current	578,566	964,279
	979,976	1,370,715

This represents an investment in Antigua and Barbuda government bonds which will mature on July 26, 2013 and earns interest at 9.00% per annum (2010: 8.50% per annum). This instrument was used as collateral for short-term borrowings by the parent company, National Bank of Anguilla Limited.

The movements in investment security are as follows:

	2011	2010
Balance beginning of year	1,370,715	1,766,353
Principal repayments	(385,712)	(385,714)
Movement in interest receivable	(5,027)	(9,924)
Balance at end of year	979,976	1,370,715

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14. Property, plant and equipment - net

Movements in this account are as follows:

	Furniture and equipment	Automation	Machinery equipment	Total
	\$	\$	\$	\$
Cost				
At March 31, 2009	204,996	231,790	32,596	469,382
Addition	3,997	-	5,816	9,813
At March 31, 2010	208,993	231,790	38,412	479,195
Addition	13,635	-	796	14,431
At March 31, 2011	222,628	231,790	39,208	493,626
Accumulated depreciation				
At March 31, 2009	24,896	231,789	9,807	266,492
Depreciation	41,565	-	6,616	48,181
At March 31, 2010	66,461	231,789	16,423	314,673
Depreciation	43,272	-	6,344	49,616
At March 31, 2011	109,733	231,789	22,767	364,289
Net book value				
March 31, 2010	142,532	1	21,989	164,522
March 31, 2011	112,895	1	16,441	129,337

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15. Intangible assets - net

Movements in this account follow:

	2011	2010
Cost		
Beginning balance	236,115	236,115
Acquisition during the year	-	-
Ending balance	236,115	236,115
Accumulated amortization		
Beginning balance	178,821	131,598
Amortization for the year	14,823	47,223
Ending balance	193,644	178,821
Carrying amount	42,471	57,294

16. Deposits from customers

	2011	2010
Time	72,619,710	79,479,497
Savings	33,740,196	36,205,127
Demand	24,793,796	28,854,143
	131,153,702	144,538,767
Interest payable	2,463,265	2,091,538
	133,616,967	146,630,305

Details of the current and non-current portion of deposits from customers follow:

	2011	2010
Current	120,717,280	106,277,966
Non-current	12,899,687	40,352,339
	133,616,967	146,630,305

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17. Other liabilities

	2011	2010 As restated - Note 25
Other payables	150,083	102,180
Accounts payable and accrued expenses	212,154	32,976
Total other financial liabilities	362,237	135,156
Unearned fees closing cost	776,405	858,604
	1,138,642	993,760

Details of the current and non-current portion of other liabilities follow:

	2011	2010
Current	362,237	135,156
Non-current	776,405	858,604
	1,138,642	993,760

18. Share capital

The authorized share capital is unlimited.

	<i>No. of shares</i>	2011	2010
Issued and fully paid shares	32,222	8,700,000	8,700,000

19. Other reserves

	2011	2010 As restated - Note 25
Reserve for loan impairment	-	282,175
Reserve for interest on non-performing loans	313,248	1,073,168
	313,248	1,355,343

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19. Other reserves *(continued)*

Reserve for loan impairment

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

	2011	2010
Balance at beginning of year	282,175	599,137
Decrease in reserve	(282,175)	(316,962)
	-	282,175

Reserve for interest on non-performing loans

This reserve is created to set aside interest accrued on non-performing loans in accordance with IAS 39. The Prudential Guidelines of Eastern Caribbean Central Bank, however, do not allow the accrual of such interest. The interest is therefore set aside in a reserve and is not available for distribution to the shareholder.

	2011	2010 As restated - Note 25
Balance at beginning of year	1,073,168	-
Increase/(decrease) in reserve	(759,920)	1,073,168
	313,248	1,073,168

20. General and administrative expenses

	<i>Note</i>	2011	2010
Staff and related costs	21	502,155	502,575
Service maintenance		420,513	382,973
Professional fees		223,580	213,519
National Commercial Data Services expenses		144,512	48,957
Provision for long outstanding suspense accounts	12	110,038	-
Other		50,013	56,677
Public relations		40,140	65,363
Supplies		30,777	9,762
Occupancy costs	23	17,739	17,739
Communication		4,661	4,111
Operating expenses		-	269,475
		1,544,128	1,571,151

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21. Staff and related costs

	2011	2010
Salaries, wages and allowances	476,052	477,764
Social security	16,953	17,060
Other staff cost and benefits	9,150	7,751
	502,155	502,575

22. (Loss)/earnings per share

The calculation of basic earnings loss per share as of March 31, 2011 and 2010 were based on the net (loss)/income for the year and the total number of shares issued and outstanding as at the reporting date calculated as follows:

	2011	2010 As Restated - Note 25
Net (loss)/income	(2,493,205)	1,667,619
Total number of shares issued and fully paid	32,222	32,222
(Loss)/earnings per share	(77)	52

23. Related party transactions

a. Identification of related party

A party is related to the Bank if:

- (i) Directly or indirectly the party:
 - Controls, is controlled by, or is under common control with the Bank;
 - Has an interest in the Board that gives it significant influence over the Bank; or
 - Has joint control over the Bank;
- (ii) The party is a member of the key management personnel of the Bank;
- (iii) The party is a close member of the family of any individual referred to in (i) or (ii); and
- (iv) The party is a post-employment benefit plan for the benefit of employees of the Bank or any company that is a related party of the Bank.

b. Related party transactions and balances

A number of transactions have been entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

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23. Related party transactions *(continued)*

b. Related party transactions and balances (continued)

Related party transactions, outstanding balances at the year end and relating expenses and income for the year are as follows:

(i) Related party balances

	<i>Note</i>	2011	2010
National Bank of Anguilla Limited			
Cash	9	72,125,980	75,946,131
Due to related party		-	13,230
		72,125,980	75,959,361

(ii) Related party transactions

	2011	2010
National Bank of Anguilla Limited		
Interest income	2,988,269	3,148,911
Service maintenance paid	270,000	270,000
Occupancy costs	17,739	17,739

(iii) Remuneration to directors and executive staff

	2011	2010
Director fees	100,070	103,800
Key management salaries and allowances	208,811	209,160

The parent company, National Bank of Anguilla Limited, pays for the pension expense of all employees on behalf of the Bank.

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24. Commitments

Customers loans approved at March 31, 2011 but not disbursed amounted to \$236,723 (2010: \$120,772), while undrawn overdraft facilities were \$223,130 (2010: \$131,916). There were no credit card commitments, guarantees and letters of credit as at March 31, 2011 (2010: Nil).

25. Correction of prior period errors

The comparative figures for 2010 and 2009 separate financial statements were restated to reflect the retrospective adjustments resulting from the following:

- a. Non-accrual of interest on non-performing loans (based on the provisions of the ECCB Credit Prudential Guidelines) which were considered unimpaired within the context of IAS 39, *Financial Instruments: Recognition and Measurement*. This was corrected by recognizing additional interest income amounting to \$1,295,687 reported in the separate statement of comprehensive (loss)/income for the year ended March 31, 2010. Additional reserve for interest on non-performing loans was also increased by \$689,504 to correct the reserve balance arising from such error.
- b. Non-inclusion of accrued interest receivable in the total carrying value of loans and advances which should have been compared with the present value of future cash flows for purposes of determining the necessary impairment loss for such loans. This resulted in the recognition of additional loan impairment charges in the separate statement of comprehensive (loss)/income as at March 31, 2010 amounting to \$1,295,687.
- c. In calculating for impairment loss of a loans and advances, it is required by IAS 39, *Financial Instruments: Recognition and Measurement* that disposal cost necessary to sell the properties used as collaterals for such loan should be deducted from the expected sales proceeds which shall be the basis in calculating the present value of future cash flows which shall then be compared with the carrying value of such loan to arrive at any impairment loss. Estimates for disposal cost were not considered by the Bank in calculating loan impairment charges in the current and prior years. This resulted in the recognition of additional loan impairment charges in the separate statement of comprehensive (loss)/income as at March 31, 2009 amounting to \$5,610,618.
- d. Overstatement of unearned loan fees arising from loans which were already paid off. This resulted in the recognition of additional fees, commissions and other income amounting to \$80,487 and \$25,709 for the periods ended March 31, 2009 and 2010.
- e. Erroneous entry posted in net settlement suspense assets and liabilities accounts in the 2009 financial statements. This resulted in the overstatement of other assets and receivables, other liabilities and foreign exchange gain/(loss) by \$25,594, \$47,588 and \$58,493, respectively.

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25. Correction of prior period errors *(continued)*

The effect of the above adjustments to the net (loss)/income for the years ended March 31, 2010 and 2009 follows:

	2010	2009
As previously reported	1,641,910	5,433,111
Effect of prior period adjustment		
Non-accrual of interest on non-performing loans	1,295,687	-
Non-inclusion of accrued interest receivable in determining loan impairment charges	(1,295,687)	-
Non-inclusion of disposal cost in determining loan impairment charges	-	(5,610,618)
Overstatement of unearned loan fees	25,709	80,487
Erroneous entry on net settlement assets and liabilities	-	(58,493)
Total prior period adjustment	25,709	(5,588,624)
As restated	1,667,619	(155,513)

The effect of the above adjustments to the beginning balance of (accumulated deficit)/retained earnings as March 31, 2011 and 2010 follows:

	2011	2010
As previously reported	5,774,174	4,198,966
Effect of prior period adjustment		
Non-accrual of interest on non-performing loans (net)	606,183	-
Non-inclusion of accrued interest receivable in determining loan impairment charges	(1,295,687)	-
Non-inclusion of disposal cost in determining loan impairment charges	(5,610,618)	(5,610,618)
Overstatement of unearned loan fees	106,196	80,487
Erroneous entry on net settlement assets and liabilities	(58,493)	(58,493)
Total prior period adjustment	(6,252,419)	(5,588,624)
As restated	(478,245)	(1,389,658)

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25. Correction of prior period errors (continued)

The effect of the above adjustments to the relevant assets and liabilities as March 31, 2010 and 2009 follows:

	As restated	As previously reported
March 31, 2010		
Loans and advances – net	78,883,144	84,493,762
Other assets and receivables – net	725,943	751,537
Other liabilities	(993,760)	(1,067,057)
March 31, 2009		
Loans and advances – net	87,477,589	93,088,207
Other assets and receivables –net	8,383	33,977
Other liabilities	(1,331,362)	(1,378,950)

26. Subsequent event

A fraud involving approximately US\$640,000 was perpetrated by a third party against the Bank in which funds were withdrawn from a customer's account based on an e-mail instruction which was negligently processed by the Bank. The Bank submitted a claim against the insurer to recover the loss. The Bank has not yet provided any contingent liability in its 2011 separate financial statements pending receipt of the insurer's final settlement.