

SIGNATURES

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

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

Name of Chief Executive Officer:
BERNICE GRANT-KELLY (ACTING)

Bkelly
Signature:

31/10/23
Date

Name of Director:
TERRENCE CROSSMAN

[Signature]
Signature:

31/10/23
Date

Name of Chief Financial Officer:
PETRONELLA CROOKE

Pcroke
Signature

30/10/2023
Date

1. Financial Statements.

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

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

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

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

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

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

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

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

General Discussion and Analysis of Financial Condition

At the end of the quarter ended September 30, 2023, the Financial Condition of the Bank was as follows:

1) The Bank's total assets base decreased by \$175.9 million or 4.7% to \$3.544 billion when compared to June 2023, due mainly of the following:

- Decrease in Deposits with Financial Institutions by \$74.5 million or 19.6%
- Decrease in Treasury Bills by \$60.4 million or 17.5%
- Decrease in Investments by \$36.9 million or 3.2%
- Decrease in Cash and balances with ECCB by \$3.9 million or 1.7%

Total assets constitutes of the following:

- 6.3% of Cash and Balances with Central Bank
- 52.2% of Investments
- 28.4% of Loan and advances
- 10.0% of Financial Asset
- 3.1% of all other assets

2) Net Loans and advances at Sept 30, 2023 increased by \$3.9 million or 0.4% when compared with \$1,001.5 billion at June 2023. During the review period, the Bank continued in its efforts to aggressively grow the loan portfolio with the launch of campaigns to introduce new and improved mortgage products to the market.

3) Customers' deposits decreased by \$138.2 million or 4.3% when compared with \$3.220 billion reported at June 2023. Much of this decrease is attributed to the decrease in demand deposit accounts, which decreased by \$15.9 million over the period July to Septemebr 2023, offset by increases in savings, call and fixed deposits.

4) Shareholders' Equity decreased by \$9.6 million or 2.2% when compared with \$427.0 million at June 2023, resulting from the operating loss of \$9.0 million at the end of the quarter and net unrealized loss on FVOCI investments of \$0.6 million. The Bank continues to closely monitor market and other risks to ensure that it realizes its goal of providing satisfactory returns to shareholders, thereby increasing the value of their investments.

Liquidity and Capital Resources

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

- i. The reporting issuer's financial condition covering aspects such as liquidity, capital resources, changes in financial condition and results of operations.

- ii. Any known trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, the issuer's liquidity increasing or decreasing in any material way. If a deficiency is identified, indicate the course of action that the reporting issuer has taken or proposes to take to remedy the deficiency.
- iii. The issuer's internal and external sources of liquidity and any material unused sources of liquid assets
- iv. Provisions contained in financial guarantees or commitments, debt or lease agreements or other arrangements that could trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation such as adverse changes in the issuer's financial ratios, earnings, cash flows or stock price or changes in the value of underlying, linked or indexed assets.
- v. Circumstances that could impair the issuer's ability to continue to engage in transactions that have been integral to historical operations or are financially or operationally essential or that could render that activity commercially impracticable such as the inability to maintain a specified level of earnings, earnings per share, financial ratios or collateral.
- vi. Factors specific to the issuer and its markets that the issuer expects will affect its ability to raise short-term and long-term financing, guarantees of debt or other commitment to third parties, and written options on non-financial assets.
- vii. The relevant maturity grouping of assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date. Commentary should provide information about effective periods and the way the risks associated with different maturity and interest profiles are managed and controlled.
- viii. The issuer's material commitments for capital expenditures as of the end of the latest fiscal period, and indicate the general purposes of such commitments and the anticipated source of funds needed to fulfil such commitments.
- ix. Any known material trends, favorable or unfavorable, in the issuer's capital resources, including any expected material changes in the mix and relative cost of capital resources, considering changes between debt, equity and any off-balance sheet financing arrangements.

Discussion of Liquidity and Capital Resources

LIQUIDITY

To efficiently support daily operations, the Bank's liquidity is managed and monitored daily by management to ensure that sufficient resources are available to fund its ongoing liquidity needs, without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank continues to maintain a reasonable level of marketable assets that can be easily liquidated as protection against unforeseen liquidity problems, as well as cash and balances with the Central Bank and other financial institutions. At the end of the review period, Cash and balances with Central Bank stood at \$222.0 million, \$41.6 million more than the required reserve deposit of \$175.9 million.

The loan portfolio continues to grow as customers draw down on credit facilities granted, which increases the liquidity needs of the Bank. Management continues to monitor the outflows to ensure that these can at least be covered by the inflows. The Bank's liquid resources remain strong, and management can easily liquidate marketable assets or draw on an available line of credit to supplement liquidity, if deemed necessary. At the end of September 2023, the Bank held \$291.0

million in overseas interest-bearing short term deposits and fixed income securities for liquidity purposes.

CAPITAL

The Bank's policy is to manage the capital levels based on the underlying risk of its business. Capital adequacy is monitored to ensure compliance with the ECCB's risk-based capital guidelines, which require a minimum ratio for Tier 1 capital of 6% to risk weighted assets and a minimum ratio for Total Capital (Tier 1 and Tier 2) to risk weighted assets (CAR) of 8%. Tier 1 capital is comprised of share capital, statutory reserves, general reserves and retained earnings. The ECCB has stipulated that SKNANB maintain a CAR of 15% based on its systemic importance in the ECCU region.

The Bank's capital stands close to the minimum regulatory requirements, following the reduction in Tier 1 capital to \$145.6 million at June 2022 resulting from the Net loss incurred. Prior to the close of the financial year June 2023, the Bank reported a Tier 1 capital ratio of 6.4% and a CAR of 9.5%. With the reported CAR of the Bank being less than the required 15%, the Bank was required to submit a Capital Augmentation Plan with its strategy to improve its capital levels and return to a CAR of 15.0% by 2024, which was approved by ECCB. Based on its forecasts of financial results for June 2023, the Bank projected a Tier 1 ratio of 7.4% and CAR of 12.0% by June 2023. Based on draft financial results for the financial year ended June 2023, the Bank has calculated a Tier 1 capital of \$175.1 million, Tier 1 capital ratio of 7.5% and CAR of 12.5%, which shows that the Bank is on track to returning to a CAR of 15.0%.

The Bank remains cognizant that the strategic objective of responsibly growing the loan portfolio and improving the portfolio's asset quality is integral in improving capital and mitigating the risks posed by the implementation of Basel II/III.

Off Balance Sheet Arrangements

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

- i) Disclosures concerning transactions, arrangements and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of, or requirements for capital resources.

- ii) The extent of the issuer's reliance on off-balance sheet arrangements should be described fully and clearly where those entities provide financing, liquidity, market or credit risk support, or expose the issuer to liability that is not reflected on the face of the financial statements.

- iii) Off-balance sheet arrangements such as their business purposes and activities, their economic substance, the key terms and conditions of any commitments, the initial on-going relationship with the issuer and its affiliates and the potential risk exposures resulting from its contractual or other commitments involving the offbalance sheet arrangements.

- iv) The effects on the issuer's business and financial condition of the entity's termination if it has a finite life or it is reasonably likely that the issuer's arrangements with the entity may be discontinued in the foreseeable future.

At the end of the review period, the Bank had contractual commitments to extend credit to customers resulting from loan and credit card facilities granted and Letters of Credit arrangements with customers. At the end of September 2023, Letters of Credit obligations stood at \$7.4 million, which remained the same as the amount reported at June 2023, while loan and credit card commitments stood at \$56.0 million.

Results of Operations

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

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

- i) Any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and, in each case, the extent to which income was so affected.
- ii) Significant components of revenues or expenses that should, in the company's judgment, be described in order to understand the issuer's results of operations.
- iii) Known trends or uncertainties that have had or that the issuer reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.
- iv) Known events that will cause a material change in the relationship between costs and revenues (such as price increases, costs of labour or materials), and changes in relationships should be disclosed.
- v) The extent to which material increases in net sales or revenues are attributable to increases in prices or to increases in the volume or amount of goods or services being sold or to the introduction of new products or services.
- vi) Matters that will have an impact on future operations and have not had an impact in the past.
- vii) Matters that have had an impact on reported operations and are not expected to have an impact upon future operations
- viii) Off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships that have or are reasonably likely to have a current or future effect on the registrant's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.
- ix) Performance goals, systems and, controls.

Overview of Results of Operations

The Bank recorded a net operating loss of \$9.0 million for the quarter ended September 2023, in comparison to the \$19.1 million recorded for September 2022. Unrealized losses from a decrease in the fair value of Equity instruments held in the Investment portfolio was largely responsible for the net loss incurred. Stocks lost a portion of their first-half gains in the quarter as a continued tight monetary bias from the Federal Reserve sent bond yields higher, unsettling investors. The combination of a deteriorating growth outlook and the risk of higher yields for longer led to a sell-off in the stock market, causing stock values to decline.

On the upside, the interest income earned from debt investments and short-term fixed deposits held with overseas institutions received a boost from the upward movement in interest rates, resulting in a positive net interest income for the quarter ended Sept 2023 of \$5.1 million, compared with a negative net interest income for September 2022 of (\$0.6) million.

Outlined below is a summary of the results of operations for Sept 2023 and Sept 2022 (\$mil).

	Sept 2022	Sept 2023	\$ Change	% Change
Income from Loans and Advances	9.0	9.3	0.3	3.7%
Income from Investments	1.9	8.0	6.1	315.3%
Income from Treasury Bills	0.6	0.6	-	-
Income from Deposits with Financial Inst.	1.1	0.4	-	-
Income from Financial Asset (Lands)	1.4	1.4	-	-
Non-Interest Income	35.0	3.7	(31.3)	-89.6%
Total Income	49.0	23.4	(25.6)	-52.2%
Interest Expenses	14.6	14.7	0.1	0.3%
Non-Interest expenses	15.3	17.7	2.4	15.7%
Total expenses	29.9	32.4	2.5	8.4%
Net Income/(loss) before taxes	19.1	(9.0)	(28.1)	

Net Fees & Commission Income

Net Fees and commission income decreased by \$2.5 million or 76.1% for the quarter ended September 2023 when compared with the amount of \$3.3 million earned for September 2022. The year-over-year decrease in net fees and commission income was due mainly to a decrease in service charges on incoming and CBI wires of \$1.4M, coupled with an increase in due diligence fees of \$0.9 million and visa reimbursement fees of \$0.2 million.

Other Income

For the quarter ended September 2023, income from other sources showed a decline of \$31.3 million or 89.6% from the amount of \$35.0 million reported for September 2022. The decrease in non-interest income resulted mainly from unrealized losses of \$4.1 million for September 2023 compared to unrealized gains of \$25.6 million for September 2022, a variance of (\$29.7) million. In addition, there was a reduction in foreign exchange gains and service charges on wires year over year.

The table below provides details on Non-interest income for Sept 2022 and Sept 2023.

NON-INTEREST INCOME	Sept 2022	Sept 2023	\$ Change	% Change
Income from Fees and Commission	6.5	5.0	(1.5)	-22.4%
Gains from Foreign Exchange	1.6	1.3	(0.3)	-23.9%
Gains/(loss) from Investments, net	25.6	(4.1)	(29.7)	-116.1%
Dividend Income	1.1	1.5	0.4	35.0%
Other Income	0.2	-	(0.2)	-86.3%
Total Non-Interest Income	35.0	3.7	(31.3)	-89.6%

Operating Expenses

Operating expenses incurred at the end of September 2023 was \$12.4 million when compared to \$10.8 million at September 2022, representing an increase of \$1.6 million or 12.7%. This increase was driven by costs incurred to upgrade the premises, costs to launch mortgage loan campaigns and increased staff expenses.

Operating cost management and curtailment remains a critical area of focus for the bank.



3. Disclosure about Risk Factors.

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

The management of risks has emerged as one of the greatest challenge that Banks now face, especially with varying global crisis. The Bank's activities expose it to a variety of financial risks, as taking risk is core to the commerical banking business. Management is aware that operational risks are an inevitable consequence of being in buisness, and hence risk management policies are designed to identify and analyze risks in order to set appropriate levels and controls to monitor and mitigate risks.

The types of risks that affect the Bank are credit risk, liquidity risk, capital risk, market risk (interest rate and currency risk), earnings risk and other operational risks.

Earnings Risk

Management considers the risks to the earnings potential of the Bank, caused by both internal and external factors. The recently published IMF World Economic Outlook (WEO) report on the Caribbean shows a favourable forecast for St Kitts & Nevis for 2023 and 2024. The economic projections for real GDP growth for St Kitts & Nevis of 4.9 percent in 2023 and 3.8 percent in 2024 are on par with the ECCU average GDP growth of 4.7 percent and 4.0 percent for 2023 and 2024 respectively. In addition, the economic projections for St Kitts & Nevis for 2023 and 2024 are expected to outperform the World GDP growth forecast of 3.0 percent and 2.9 percent respectively. Consumer price inflation is projected to decline from 2.9 percent in 2023 to 2.3 percent in 2024. These positive projections, once materialized, will fuel economic growth and support development in the local economy, leading to opportunities for the Bank to increase its earnings by increased demand for loans and other products/services offered by the Bank.

The Bank continues in its efforts to implement strategies to boost the Bank's earnings, by launching new mortgage loan products to substantially grow the loan portfolio. This is expected to bolster the Bank's earnings and relieve the heavy reliance on investment income, which involves a greater earnings risk.

Interest Rate Risk

The Bank is exposed to interest rate risk, which is the risk that future cash flows or the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank has deposit liabilities that are of a shorter maturity than loans, which means that deposits are repriced faster than loans. Each time a deposit matures, there is the risk of interest rates rising and the Bank having to pay a higher interest rate on them. However, loans maturities cannot be repriced that easily, creating an interest repricing gap. The Bank held \$2.2 billion in short-term deposits at the end of the review period that can be easily repriced. Globally, short-term interest rates have increased, with rates rising

to above 5%.

Credit Risk

Credit risks can have a great impact on the results from operations or on financial conditions due to the industry in which we operate. The Bank takes on exposure to credit risk, which is the risk that counter-parties will cause financial losses for the bank by failing to discharge their obligations. Credit exposure arises principally in lending activities that lead to loans and advances and investment activities that bring debt securities and other bills into the Bank's asset portfolio.

Currently, the Bank has an NPL ratio to Gross loan ratio (inclusive of accrued interest) of 38.3%, which is well above the 5 percent regulatory minimum requirement. The NPL balance at September 2023 inclusive of interest was \$397.5 million.

Management continues to aggressively pursue its NPL facilities and has been actively engaging these borrowers in an effort to recover the NPLs. The Bank also continues to assess the quality of its loan portfolio and set aside additional provisions for losses on loans which appear uncollectible and have insufficient collateral. In addition, the Bank is currently in the process of establishing a dedicated Recoveries Unit within the Credit division, which will allow greater effort and emphasis to be placed on active follow-up to prevent loans from remaining overdue.

Liquidity Risk

Liquidity risk, to which the Bank is also exposed, is the risk that the Bank is unable to meet its payment obligations when they fall due and fulfill commitments to lend. Sources of liquidity are regularly monitored, and the Bank holds a diversified portfolio of cash and investment securities to support payment obligations. At the end of the review period, the Bank held \$291.0 million in short-term deposits and fixed income instruments that can be easily liquidated to meet demands.

Market/Investment Risk

The Bank is exposed to market risk, which is the risk that fair values or future cash flows will fluctuate because of changes in market prices. The Bank holds investments in open positions in interest rate and equity products, all of which are exposed to general and specific market movements and changes in market rates or prices such as interest rates, equity prices and foreign exchange rates. The Bank continues to maintain an appropriate mix of equities and bonds that reflect the Bank's comfort with market conditions. To reduce market risk, the investment portfolio was recently rebalanced to reduce the equity holdings and increase the percentage of fixed income securities held. Investment risk is also managed by maintaining a diversification of exposure to sectors benefiting from secular growth trends along with some exposure to cyclicalities to participate in economic growth.

Capital Risk

Capital is the cushion a bank uses to absorb unexpected losses and protect its depositors, whilst also protecting the stability of the financial system. Capital risk is the possibility that a Bank does not have sufficient capital to protect it. There are different types of capital, each with different risk

characteristics, such as CET1, Tier 1 and Tier 2 capital.

The Bank's capital stands close to the minimum regulatory requirements, due to reductions in its capital caused by a net loss incurred at June 2022. The reduced Tier 1 capital has resulted in the breach of regulatory requirements stated in the Banking act, such as the large individual borrower or borrower group not exceeding 25% of Tier 1 capital. Presently, there are four (4) credit accounts which exceed 25% of Tier 1 capital.

The Bank is currently pursuing capital augmentation strategies to ensure that it remains adequately capitalized and the minimum regulatory capital ratios are improved and maintained. The Bank submitted a Capital Augmentation Plan to the ECCB, which was approved, to improve its CAR to 15.0% and address the large borrower exposures over a two year period. The Bank is on track to realizing this plan.

4. Legal Proceedings.

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

NONE

5. Changes in Securities and Use of Proceeds

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

NONE

(b) Where the use of proceeds of a security issue is different from that which is stated in the registration statement, provide the following:

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

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

Name and address of underwriter(s)

Amount of expenses incurred in connection with the offer

Net proceeds of the issue and a schedule of its use

Payments to associated persons and the purpose for such payments

NONE

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

NONE

6. Defaults upon Senior Securities.

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

NONE

(b) If any material arrears in the payment of dividends have occurred or if there has been any other material delinquency not satisfied within 30 days, give the title of the class and state the amount and nature of the arrears or delinquency.

NONE

7. Submission of Matters to a Vote of Security Holders

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

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

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

holders.

NONE

8. Other Information.

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

NONE