

# **ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED JUNE 30, 2004**

*(Expressed in Eastern Caribbean Dollars)*

### **1. Incorporation**

The St. Kitts-Nevis-Anguilla National Bank Limited was incorporated on the 15<sup>th</sup> day of February 1971 under the Companies Act chapter 335, but was re-registered under the new Companies Act No. 22 of 1996 on the 14<sup>th</sup> day of April 1999.

### **2. Principal Activity**

St. Kitts-Nevis-Anguilla National Bank Limited provides a comprehensive and international range of banking, financial and related services.

### **3. Significant Accounting Policies**

These accounting policies are summarized below: -

#### **(i) Basis of preparation**

The financial statements are prepared in accordance with International Financial Reporting Standards. These financial Statements have been prepared on a historical cost basis, except for the measurement at fair value of available-for-sale investments, and financial assets at fair value through profit and loss.

#### **(ii) Cash and Cash Equivalents**

Cash and Cash Equivalents, as mentioned in the statement of cash flows, comprise of cash on hand, balances with other financial institutions and the Eastern Caribbean Central Bank, short term receivables, as well as investment funds whose maturities are ninety days or less.

#### **(iii) Depreciation**

Freehold buildings are depreciated on a straight-line basis at a rate of 2½ per cent per annum. Equipment, furniture, fittings and vehicles are depreciated on a straight-line basis over their useful lives at rates ranging from 10 per cent to 33 1/3 per cent.

#### **(iv) Currency**

All values are expressed in Eastern Caribbean Currency.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

*(Expressed in Eastern Caribbean Dollars)*

**(v) Foreign Currency**

Foreign currency transactions are accounted for at the mid-rate of exchange prevailing at the date of the transaction. Financial assets and liabilities denominated in foreign currencies at year-end are converted to Eastern Caribbean currency at the mid-rate of exchange ruling on that day. Gains and losses resulting from such transactions and from the translation of financial assets and liabilities denominated in foreign currencies are recognized in the income statement.

**(vi) Investments**

Investment securities are classified into the following four categories: financial assets at fair value through profit and loss, available-for-sale, held-to-maturity, and originated loans. Investment securities intended to be held for an indefinite time period, which may be sold in response to needs for liquidity or changes in interest rate or equity prices and are not classified as financial assets at fair value through profit and loss are therefore classified as available-for-sale. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity.

Investment securities are initially recognized at cost - which includes all transaction costs. Financial assets at fair value through profit and loss and Available-for-sale financial assets are subsequently re-measured to fair value based on quoted bid prices. As fair values for unquoted securities are not readily available, both equity and debt securities are measured at cost less any provision for impairment.

Unrealised gains and losses arising from changes in fair value of securities are recognized in income if such securities are "Financial Securities At Fair Value Through Profit and Loss" or equity if they are Available-for-Sale. When securities are disposed of, the resulting gain or loss is included in income.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount of a financial instrument measured at fair value is the present value of future cash flows discounted at the current market rate of interest for a similar financial asset. When securities become impaired the related impairment loss is charged to income as a loss.

Held-to-maturity and originated loan investments are carried at amortised cost using the effective yield method, less any provision for impairment.

**NOTES TO THE FINANCIAL STATEMENTS**  
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*(Expressed in Eastern Caribbean Dollars)*

***Investments continued***

An impairment loss on financial assets carried at amortised cost is the difference in the asset's carrying amount and the present value of future cash flows discounted at the financial instrument's original effective interest rate.

Interest earned on all investment securities is reported in interest income.

Dividend on equity securities, when received, is reported separately in dividend income. All purchases and sales of investment securities are recognized at trade date – the date on which the Bank commits to purchase or sell financial assets.

**(vii) Loans and Advances**

Loans originated by the Bank are financial assets created by providing money directly to a borrower and as such are carried at cost.

The accrual of interest ceases when the principal or interest is past due 90 days or when, in the opinion of management, full collection is unlikely. The allowance for loan impairment is based on continuous appraisal of all loans and advances together with an annual review of loan collateral. Specific provisions for losses are made against loans and advances when, in the opinion of management, credit risk or economic factors make recovery doubtful.

The allowance for loan impairment also covers general provisions for losses as required by the regulators, as there is always the possibility of losses within a loan portfolio that have not been specifically identified as non-performing at the balance sheet date.

The provision for loan impairment and recoveries of bad debts previously written off is charged to income. When a loan is uncollectable, it is written off against the related allowance for impairment. All subsequent recoveries are credited to the bad debt recovered income account.

**(viii) Taxation**

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

*(Expressed in Eastern Caribbean Dollars)*

**(ix) Income**

Interest income is recognized on the accrual basis for productive loans and advances, Investment Securities, and Interest bearing deposits with other financial institutions. Non-Productive loans and advances relate to accounts whose repayments of principal or interest are 90 days or more in arrears. Interest on these accounts is taken to income when received. Other income, such as fees and commission, is recognized on the accrual basis.

**(x) Comparative Figures**

Certain changes in presentation have been made during the year and comparative figures have been restated accordingly.

**(xi) Reserve Requirement**

In accordance with Article 33 of the Eastern Caribbean Central Bank (Central Bank) Agreement 1983, The St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain reserves against deposits through cash holdings and or by deposits held with the Central Bank.

**4. Cash and Money at call**

	<u>2004</u>	<u>2003</u>
	\$	\$
Cash in Hand	6,699,912	8,031,916
Deposits with other financial institutions	63,029,497	47,788,477
Items in the course of collection	994,911	215,358
Deposit balance with ECCB*	61,033,354	50,248,409
Term Deposits	361,526,892	282,155,816
	-----	-----
	<b>493,284,566</b>	<b>388,439,976</b>
Special Term Deposits	109,954,079	70,907,305
	-----	-----
	<b>603,238,645</b>	<b>459,347,281</b>
	=====	=====

**\*Eastern Caribbean Central Bank**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

*(Expressed in Eastern Caribbean Dollars)*

**4. Cash and Money at call continued**

	<u>2004</u> \$	<u>2003</u> \$
Term deposits pledged for the benefit of Visa International and Mastercard in support of the Bank's international card business	47,153,386	67,009,852
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**5. Loans and Advances**

Performing loans and advances	458,714,447	360,384,865
Non-performing loans and advances	66,424,159	65,695,659
	-----	-----
<b>Gross</b>	<b>525,138,606</b>	<b>426,080,524</b>
Less provision for doubtful debts	7,980,429	9,289,618
	-----	-----
<b>Net</b>	<b>517,158,177</b>	<b>416,790,906</b>
	=====	=====

Legal proceedings are ongoing with regard to a number of non-performing loans, and in some instances judgment has been obtained.

**5.1 Liquidity analysis of loans and advances (gross)  
based on contractual maturities:**

Within one year	350,134,001	319,365,551
One to three years	14,888,212	23,635,698
Three to five years	13,247,563	12,864,995
Over five years	146,868,830	70,214,280
	-----	-----
<b>Gross</b>	<b>525,138,606</b>	<b>426,080,524</b>
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

(Expressed in Eastern Caribbean Dollars)

<i>Loans and Advances continued</i>		
	<u>2004</u>	<u>2003</u>
	\$	\$
<b>5.2 Provision for Doubtful Debts</b>		
Balance brought forward	9,289,618	26,000,000
Charge-offs and Write-offs	(1,309,189)	(19,347,938)
Specific charge against income	-	2,637,556
	-----	-----
	<b>7,980,429</b>	<b>9,289,618</b>
	=====	=====
<b>6. Investments</b>		
<b><u>Financial Assets at Fair Value Through Profit and Loss</u></b>		
Corporate Bonds	9,696,758	9,984,384
U. S. Governments Securities	20,455,255	20,518,112
Mortgage Backed Securities	499,718	759,444
	-----	-----
	<b>30,651,731</b>	<b>31,261,940</b>
<b><u>Available-for-sale – quoted</u></b>		
East Caribbean Financial Holding Company Ltd 230,000 shares at \$6.75 each (market price)	1,552,500	-
<b><u>Available-for-sale – unquoted</u></b>		
Treasury Bills maturing August 24, 2004 with Interest rate at 6.5 per cent (2004 and 2003 - Nominal value of \$82,101,500)	80,767,351	80,767,351
National Commercial Bank of Grenada Ltd 62,100 ordinary shares at a cost of \$10 each	776,250	776,250
Caribbean Credit Card Corporation 550 shares at a cost of \$1,000 each	550,000	550,000
Cable Bay Hotel development Company Ltd 3,500 shares at a cost of \$270.26 each	1,083,366	1,056,328
National Commercial Bank of St. Lucia 230,000 shares at a cost of \$5 each	-	1,000,000
	-----	-----
	<b>83,176,967</b>	<b>84,149,929</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

(Expressed in Eastern Caribbean Dollars)

**6. *Investments continued***

**Available-for-sale - unquoted**

	<u>2004</u>	<u>2003</u>
	\$	\$
Eastern Caribbean Home Mortgage Bank 905 shares at cost of \$100 each	90,500	90,500
Eastern Caribbean Securities Exchange 10,000 Class "C" shares at a cost of \$10 each	100,000	100,000
Society for Worldwide Inter Bank Financial Telecommunication 1 share at a cost of \$5,148	5,148	5,148
Antigua Barbuda Investment Bank 185,000 shares at a cost of \$3 each	555,000	555,000
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	750,648	750,648
	-----	-----
	<b>83,927,615</b>	<b>84,900,577</b>

**Held-to-maturity**

Debentures – Government of St. Kitts-Nevis maturing July 15, 2008 with interest rate at 8%	<b>1,000,000</b>	<b>1,000,000</b>
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**Originated Loan**

Eastern Caribbean Home Mortgage Bank Long-term bond maturing October 18, 2009 with interest rate at 6.75% (to be recalled 1/7/04)	250,000	250,000
Antigua Commercial Bank 10% interest rate Series A bond maturing December 31, 2016	1,496,913	1,351,300
Caribbean Credit Card Corporation unsecured loan with interest rate at 10% with no specific terms of repayment	300,000	300,000
	-----	-----
	2,046,913	1,901,300
	-----	-----
<b>Balance as at June, 30</b>	<b>119,178,759</b>	<b>119,063,817</b>
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

*(Expressed in Eastern Caribbean Dollars)*

**6. Investments continued**

	<u>2004</u>	<u>2003</u>
	\$	\$
<b>Securities classified according to currency</b>		
United States Currency Securities	30,651,731	31,261,940
Eastern Caribbean Currency Securities	88,527,028	87,801,877
	-----	-----
	<b>119,178,759</b>	<b>119,063,817</b>
	=====	=====

**7. Investment in Subsidiaries**

National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited - 5,750,000 shares at \$1 each	5,750,000	5,750,000
St. Kitts-Nevis Mortgage and Investment Company Limited 31,800,000 shares at \$1 each (2003 – 29,800,000 shares)	31,800,000	29,800,000
	-----	-----
	<b>37,550,000</b>	<b>35,550,000</b>
	=====	=====

**8. Customers' Liability under Acceptances  
Guarantees and Letters of Credit**

Letters of Credit	292,760	180,000
Guarantees (credit cards)	4,096,565	4,096,565
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	<b>4,389,325</b>	<b>4,276,565</b>
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004**

*(Expressed in Eastern Caribbean Dollars)*

**9. Bank Premises and Equipment**

<b>COST</b>	<b><u>Total</u></b>	<b><u>Property</u></b>	<b><u>Equipment</u></b>	<b><u>Furniture And Fittings</u></b>	<b><u>Motor Vehicles</u></b>	<b><u>Reference Books</u></b>	<b><u>Projects Ongoing</u></b>
At July 1, 2003	28,343,315	17,221,322	8,943,906	1,214,377	534,000	103,552	326,158
Additions	1,499,746	282,108	1,157,661	29,313	-	12,707	17,957
Disposals	(320,843)	-	(13,070)	(20,040)	-	-	(287,733)
>>>	29,522,218	17,503,430	10,088,497	1,223,650	534,000	116,259	56,382
<b>Accumulated Depreciation</b>							
At July 1, 2003	10,026,685	2,351,171	6,334,851	972,671	315,799	52,193	-
Charge for Year	1,817,080	422,921	1,243,225	62,765	71,531	16,638	-
Eliminated on Disposal	(33,075)	-	(13,055)	(20,020)	-	-	-
>>>	11,810,690	2,774,092	7,565,021	1,015,416	387,330	68,831	-
<b>Net Book Value</b>							
At June 30, 2004	<b>17,711,528</b>	<b>14,729,338</b>	<b>2,523,476</b>	<b>208,234</b>	<b>146,670</b>	<b>47,428</b>	<b>56,382</b>
At June 30, 2003	<b>18,316,630</b>	<b>14,870,149</b>	<b>2,609,058</b>	<b>241,705</b>	<b>218,202</b>	<b>51,358</b>	<b>326,158</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
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(Expressed in Eastern Caribbean Dollars)

	<u>2004</u>	<u>2003</u>
	\$	\$
<b>10. Other Accounts</b>		
Interest Receivable	3,380,561	2,662,578
Other Receivables	191,925	787,143
Prepayments	6,006,238	2,090,865
Stationery and Cards Stock	353,510	365,371
	-----	-----
	<b>9,932,234</b>	<b>5,905,957</b>
	=====	=====
<b>11. Taxation</b>		
<b>11.1 Tax Expense</b>		
Current tax	7,309,330	6,684,283
Deferred tax	(148,636)	(125,818)
	-----	-----
<b>Balance at June, 30</b>	<b>7,160,694</b>	<b>6,558,465</b>
	=====	=====
Income for the year before tax	<b><u>23,847,925</u></b>	<b><u>24,280,163</u></b>
Income tax at the applicable tax rate of 35%	8,346,774	8,497,902
Non-deductible expenses	922,955	778,521
Withholding tax	21,299	5,537
Deferred tax over provided	1,923	29,091
Income not subject to tax	(2,132,257)	(2,752,586)
	-----	-----
<b>Balance at June, 30</b>	<b>7,160,694</b>	<b>6,558,465</b>
	=====	=====
<b>11.2 Deferred Tax</b>		
Balance brought forward	(125,309)	509
Recovered during the year, net	(148,636)	(125,818)
	-----	-----
<b>Balance at June, 30</b>	<b>(273,945)</b>	<b>(125,309)</b>
	=====	=====
<b>Accelerated depreciation</b>	<b>(273,945)</b>	<b>(125,309)</b>
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

(Expressed in Eastern Caribbean Dollars)

	<u>2004</u>	<u>2003</u>
	\$	\$
<b>12. Customers' Deposits</b>	<b>984,235,071</b>	<b>828,380,076</b>
	=====	=====

**Analysis of Deposits by Sector**

Consumers	199,539,724	154,590,821
Private Businesses and Subsidiaries	272,914,526	210,058,989
State, Statutory Bodies and Non-Financial Institutions	416,197,509	382,116,618
Others	95,583,312	81,613,648
	-----	-----
	<b>984,235,071</b>	<b>828,380,076</b>
	=====	=====

**13. Deferred Credit**

Balance brought forward	21,473,856	10,000,000
Addition	-	11,473,856
Subtraction: - net of tax	\$6,500,000	
- related tax	<u>\$3,500,000</u>	
	(10,000,000)	-
	-----	-----
	<b>11,473,856</b>	<b>21,473,856</b>
	=====	=====

During the year ended June 30, 2001 the Directors took a decision to defer a portion of the Bank income (**\$10,000,000**) arising from the Sugar Industry until a final decision is taken on its future and the effect on the accounts of the Bank is known.

St. Kitts-Nevis Mortgage and Investment Company Limited (MICO), a subsidiary of the Bank, acquired in December 2002 the remaining properties used by Trafalgar Development as security for advances made to it by the Bank. As a result, interest accrued on those advances is deferred until MICO disposes of the said properties to outside buyers.

**NOTES TO THE FINANCIAL STATEMENTS**  
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(Expressed in Eastern Caribbean Dollars)

**14. Accumulated Provisions, Creditors and Accruals**

	<u>2004</u>	<u>2003</u>
	\$	\$
Interest Payable	27,676,465	11,606,707
Income Tax Payable	10,809,330	6,746,203
Managers Cheques and Bankers Payments	946,218	468,063
Unpaid Drafts on other banks	2,247,584	2,266,664
Notes Payable	-	5,113,027
Bonds Payable	87,564,240	-
Other Payables	18,669,537	14,583,628
	-----	-----
	<b>147,913,374</b>	<b>40,784,292</b>
	=====	=====

**15. Share Capital**

**Authorised: -**

135,000,000 Ordinary Shares of \$1 each	135,000,000	135,000,000
	=====	=====

**Issued and Fully Paid: -**

81,000,000 Ordinary Shares of \$1 each	<b>81,000,000</b>	<b>81,000,000</b>
	=====	=====

**16. Reserves**

Statutory Reserve	26,954,749	23,454,749
General Reserve	23,587,231	22,000,000
Loan Loss Reserve	7,500,000	-
Revaluation Reserve	2,461,142	1,908,642
	-----	-----
	<b>60,503,122</b>	<b>47,363,391</b>
	=====	=====

**Statutory Reserve**

Balance brought forward	23,454,749	19,454,749
Addition	3,500,000	4,000,000
	-----	-----
	<b>26,954,749</b>	<b>23,454,749</b>
	=====	=====

In accordance with Section 14 (1) of Saint Christopher and Nevis Banking Act No. 6 of 1991, the St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain a reserve fund into which it shall transfer not less than 20% of its net profit of each year whenever the reserve fund is less than the Bank paid-up capital.

**NOTES TO THE FINANCIAL STATEMENTS**  
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(Expressed in Eastern Caribbean Dollars)

<b>16. Reserves Continued</b>	<b><u>2004</u></b>	<b><u>2003</u></b>
	\$	\$
<b>General Reserve</b>		
Balance brought forward	22,000,000	18,636,609
Amount transferred in	1,587,231	3,363,391
	-----	-----
	<b>23,587,231</b>	<b>22,000,000</b>
	=====	=====
<b>Loan Loss Reserve</b>	<b>7,500,000</b>	-
	=====	=====
<b>Revaluation Reserve</b>		
Property	1,908,642	1,908,642
Available-for-sale securities (on adoption of IAS 39)	552,500	-
	-----	-----
	<b>2,461,142</b>	<b>1,908,642</b>
	=====	=====
<p>During December 1996 a valuation on property was carried out on the Bank's land and buildings by Vincent Morton &amp; Associates Limited - an independent valuer.</p>		
<b>17. Net Interest Income</b>		
<b>Interest Income</b>		
Loans and Advances	41,650,121	44,585,578
Loan Fees	5,554,019	2,700,210
Deposits with other Banks	7,775,031	4,212,245
Investments	7,174,410	9,229,751
Other	16,409	34,967
	-----	-----
	62,169,990	60,762,761
	-----	-----
<b>Interest Expense</b>		
Customers' Deposits	39,857,363	34,549,698
Due to other Banks	3,164,513	2,020,740
	-----	-----
	43,021,876	36,570,438
	-----	-----
<b>Balance as at June 30</b>	<b>19,148,114</b>	<b>24,192,323</b>
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS**  
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<b>18. Establishment Expenses</b>	<b><u>2004</u></b>	<b><u>2003</u></b>
	\$	\$
Included in this expense head are: -		
Directors' Fees	281,450	281,915
Provision for loan losses	-	2,637,556
Depreciation	1,817,080	1,775,051

**19. Earnings Per Share**

Earning per share is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Net income attributable to shareholders	16,687,231	17,595,880
	=====	=====
Weighted average number of ordinary shares in issue	81,000,000	81,000,000
	-----	-----
Diluted/Basic earnings per share	0.21	0.22
	=====	=====

**20. Dividend**

The financial statements reflect a dividend of \$10,935,000 for the year ended June 30, 2003, which was approved at the Thirty-third Annual General Meeting held on January 29, 2004 and subsequently paid.

A dividend in respect of 2004 of \$0.135 per share (2003 - \$0.135 per share) amounting to \$10,935,000 is proposed. These financial statements do not reflect this proposed dividend which, if approved, will be accounted for as an appropriation of retained earnings in the year ending June 30, 2005.

**21. Contingent Liabilities/ Financial Commitments**

As at June 30, 2004, the Bank was committed to make loans and advances amounting to approximately **\$196,423,156 (2003 - \$185,818,000)**.

**22. Related Parties**

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

Advances outstanding from directors and associates as at June 30, 2004 amounted to **\$359,556 - (2003 - \$204,233)**. Whereas, Deposits balances of directors and associates as at June 30, 2004 amounted to **\$1,989,428 -(2003 - \$2,236,840)**.

**NOTES TO THE FINANCIAL STATEMENTS**  
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*(Expressed in Eastern Caribbean Dollars)*

**23. Fair Value of Financial Assets and Liabilities**

Financial assets and liabilities not carried at fair value include cash and money at call, originated debts, investment securities held to maturity, investment in subsidiaries, due to other banks, customers' deposits and due to subsidiaries. The following methods and assumption are relevant to their fair value:

**Assets**

*Cash and money at call*

Since these assets are short-term in nature, the values are taken as indicative of realizable value.

*Loans and advances*

Loans and advances are net of provision for loan losses. These assets result from transactions conducted during the normal course of business and their values are not adversely affected by unusual terms. The inherent rates of interest in the portfolio approximate market conditions and yield discounted cash flow values that are substantially equal to the carrying value.

*Investment securities held to maturity and  
Investment in subsidiaries*

The fair value of these items is assumed to be equal to their carrying values.

**Liabilities**

*Due to other banks, customers' deposits and due to subsidiaries*

The fair value of financial liabilities with no stated maturity is assumed to be equal to their carrying values.

Deposits with fixed rate characteristics are at rates that are not significantly different from current rates and are assumed to have discounted cash flow values that approximate carrying values.

**24. Currency Risk**

The Bank has no significant exposure to currency risk as substantially all its assets and liabilities as well as its transactions are denominated in Eastern Caribbean dollars or United States dollars.

**NOTES TO THE FINANCIAL STATEMENTS**  
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(Expressed in Eastern Caribbean Dollars)

**25. Interest Rate Risk**

The Bank is exposed to various risks associated with different rates of interest found in the normal course of its business. Interest rate risk mitigation focuses on potential changes in net interest income. These result from changes in interest rates and mismatches in the re-pricing of interest rate sensitive assets and liabilities as well as product spreads. These are monitored and, where necessary, action would be taken to minimize any adverse effect to shareholder value.

**Interest Sensitivity of Assets and Liabilities**

	<b>Up to 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Non-interest Bearing</b>	<b>Total</b>
<b>As at June 30, 2004</b>					
<b>Assets</b>					
Cash and money at call	481,949,472	12,496,996	-	108,792,177	603,238,645
Loans and advances	344,738,745	27,685,832	144,636,893	96,707	517,158,177
Investments	103,025,106	11,196,476	300,000	4,657,177	119,178,759
Other assets	-	-	-	69,857,032	69,857,032
<b>Total assets</b>	<b>929,713,323</b>	<b>51,379,304</b>	<b>144,936,893</b>	<b>183,403,093</b>	<b>1,309,432,613</b>
<b>Liabilities</b>					
Due to banks	4,008,579	-	-	-	4,008,579
Customers' deposits	708,780,838	101,590,505	-	173,863,728	984,235,071
Other liabilities	8,406,976	-	-	155,369,579	163,776,555
<b>Total liabilities</b>	<b>721,196,393</b>	<b>101,590,505</b>	<b>-</b>	<b>329,233,307</b>	<b>1,152,020,205</b>
<b>Interest Sensitivity Gap</b>	<b>208,516,930</b>	<b>(50,211,201)</b>	<b>144,936,893</b>		
<b>As at June 30, 2003</b>					
Total assets	788,183,094	34,950,348	70,211,482	166,031,541	1,059,376,465
Total liabilities	533,053,733	214,902,121	-	166,584,443	914,540,297
<b>Interest Sensitivity Gap</b>	<b>255,129,361</b>	<b>(179,951,773)</b>	<b>70,211,482</b>		

**NOTES TO THE FINANCIAL STATEMENTS  
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*(Expressed in Eastern Caribbean Dollars)*

**26. Liquidity Risk**

The Bank is exposed to daily calls on its available cash resources from current accounts, overnight deposits, maturing deposits, loan draw-downs and other calls on cash settled items. A range of wholesale and retail funds are managed to ensure that liquidity requirements are met. The Bank liquidity strategy relies on sufficient cash and marketable instruments such as treasury bills and other government securities to meet short term funding needs. Fallback techniques include access to the sub-regional inter-bank market and the ability to close out or liquidate market positions. The Bank ensures that it has sufficient funds to meet its obligations by not converting into loans foreign deposits, demand deposits, reserves, provision for interest, provision for loan losses, and other net financial assets and liabilities.

**Analysis of assets and liabilities into relevant maturity grouping**

	<b>Up to 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<b>As at June 30, 2004</b>				
<b>Assets</b>				
Cash and money at call	603,238,645	-	-	603,238,645
Loans and advances	344,835,452	27,685,832	144,636,893	517,158,177
Investments	103,025,106	11,196,476	4,957,177	119,178,759
Other assets	10,193,122	7,020,544	52,643,366	69,857,032
-----				
Total assets	1,061,292,325	45,902,852	202,237,436	1,309,432,613
-----				
<b>Liabilities</b>				
Due to banks	4,008,579	-	-	4,008,579
Customers' deposits	882,644,566	101,590,505	-	984,235,071
Other liabilities	49,070,984	20,667,475	94,038,096	163,776,555
-----				
Total liabilities	935,724,129	122,257,980	94,038,096	1,152,020,205
-----				
<b>Net Liquidity Gap</b>	<b>125,568,1966</b>	<b>(76,355,128)</b>	<b>94,038,096</b>	
=====				
<b>As at June 30, 2003</b>				
Total assets	891,251,227	35,219,769	132,905,469	1,059,376,465
Total Liabilities	668,454,870	222,647,423	23,438,004	914,540,297
-----				
<b>Net Liquidity Gap</b>	<b>222,796,357</b>	<b>(187,427,654)</b>	<b>109,467,465</b>	
=====				

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

*(Expressed in Eastern Caribbean Dollars)*

**27. Credit Risk**

Credit risk is the potential to loss due to failure of a counterparty or borrower to meet its financial obligations. Credit risk is inherent in traditional lending and investing activities. Exposures to credit risk are mainly concentrated in St. Kitts and Nevis, North America, and Europe.

The Bank exposure to credit risk is managed through regular analysis of the ability of its borrowers (current and potential) as well as counterparties to meet interest and principal repayment obligations. Credit risk is also managed in part by the taking of collateral and/or guarantees as securities on advances, and by the spreading of this risk geographically as well as over a diversity of personal and commercial customers.

**Geographical Concentrations of Assets and Liabilities**

	<b>Total Assets</b>	<b>Total Liabilities</b>	<b>Credit Commitments</b>	<b>Total Income</b>	<b>Capital Expenditure</b>
<b>As at June 30, 2004</b>					
St. Kitts and Nevis	810,001,223	894,959,543	196,423,156	83,077,786	284,672
North America	424,749,300	191,626,973	-	3,733,978	1,049,851
Europe	68,327,998	269	-	829,006	12,707
Other Caribbean States	6,354,092	65,433,420	-	587,899	152,516
	1,309,432,613	1,152,020,205	196,423,156	88,228,669	1,499,746
<b>As at June 30, 2003</b>					
St. Kitts and Nevis	666,308,023	749,646,210	185,818,000	72,069,308	1,761,170
North America	313,446,944	146,138,209	-	4,725,737	1,353,561
Europe	73,323,721	673,666	-	1,106,539	24,571
Other Caribbean States	6,297,777	18,082,212	-	492,030	14,551
	1,059,376,465	914,540,297	185,818,000	78,393,614	3,153,853

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

*(Expressed in Eastern Caribbean Dollars)*

**28. Operational Risk**

Operational risk is inherent to all business activities and is the potential for financial or reputational loss arising from failure in internal controls, operational processes or the system that support them. It includes errors, omissions, disasters and deliberate acts such as fraud.

The Bank recognizes that such risk can never be entirely eliminated and manages the risk through a combination of systems and procedures to monitor and document transactions. The Bank has developed contingency arrangements including facilities to support operations in the event of disasters. Independent checks on operational risk issues are also undertaken by the internal audit function.

**29. Significant Event**

1. The St. Kitts-Nevis-Anguilla National Bank Limited held certain deposits with Hamilton Bank, NA of Miami, Florida.

On January 11, 2002 Hamilton Bank NA was closed and the Federal Deposit Insurance Corporation was appointed Receiver.

In October 2003 the St. Kitts-Nevis-Anguilla National Bank Limited received certain dividends from the Receiver.

2. Subsequent to the year ended June 30, 2004 the St. Kitts-Nevis Mortgage and Investment Company Limited (MICO), a subsidiary of the Bank, bought back from the Bank 19,800,000 of its shares at \$1.00 each.
3. On July 01, 2004 the Bank purchased \$1,000,000 worth of bonds (Eastern Caribbean Home Mortgage Bank 12<sup>th</sup> Bond Issue) at a fixed rate of 5.5% per annum (tax free) with 6 years maturity.