

# **The Bank of Nevis Limited**

Consolidated Financial Statements

**June 30, 2003**

(expressed in Eastern Caribbean dollars)

November 14, 2003

## **Auditors' Report**

### **To the Shareholders of The Bank of Nevis Limited**

We have audited the accompanying consolidated balance sheet of **The Bank of Nevis Limited** as of June 30, 2003 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Chartered Accountants**

# The Bank of Nevis Limited

## Consolidated Balance Sheet

As of June 30, 2003

(expressed in Eastern Caribbean dollars)

	2003 \$	2002 \$
<b>Assets</b>		
Cash and due from other banks (note 4)	104,501,441	104,324,083
Treasury bills (note 5)	14,765,000	12,283,727
Investment securities (note 6)	92,766,138	46,050,974
Interest receivable	1,556,531	2,006,110
Loans and advances (note 7)	62,086,690	59,189,347
Other assets (note 8)	1,641,826	1,292,364
Property, plant and equipment (note 9)	5,475,737	3,579,268
<b>Total assets</b>	<b>282,793,363</b>	<b>228,725,873</b>
<b>Liabilities</b>		
Customers' deposits (note 10)	253,855,661	205,351,048
Other liabilities and accrued expenses (note 11)	3,992,827	5,743,021
Provision for income tax (note 12)	526,109	712,751
Deferred income tax (note 12)	145,326	145,326
<b>Total liabilities</b>	<b>258,519,923</b>	<b>211,952,146</b>
<b>Shareholders' Equity</b>		
Share capital (note 13)	7,478,150	7,478,150
Revaluation reserves (deficit) (note 14)	1,564,016	(2,513,742)
Reserve fund (note 15)	4,541,778	4,155,460
Retained earnings	10,689,496	7,653,859
<b>Total shareholders' equity</b>	<b>24,273,440</b>	<b>16,773,727</b>
<b>Total liabilities and shareholders' equity</b>	<b>282,793,363</b>	<b>228,725,873</b>

Approved by the Board of Directors on November 14, 2003

\_\_\_\_\_ Chairman

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# The Bank of Nevis Limited

## Consolidated Statement of Income

For the year ended June 30, 2003

(expressed in Eastern Caribbean dollars)

	2003 \$	2002 \$
<b>Interest income</b>		
Income from loans and advances	6,490,737	5,966,605
Income from deposits with other banks and investments	6,480,786	5,909,294
	<u>12,971,523</u>	<u>11,875,899</u>
<b>Interest expense</b>		
Savings accounts	917,591	862,571
Time deposits and current accounts	4,217,068	3,885,907
	<u>5,134,659</u>	<u>4,748,478</u>
<b>Net interest income</b>	7,836,864	7,127,421
<b>Gain less losses from investment securities</b> (note 6)	702,272	(183,264)
<b>Other operating income</b> (note 16)	2,303,807	2,216,309
<b>Operating income</b>	<u>10,842,943</u>	<u>9,160,466</u>
<b>Operating expenses</b>		
General and administrative expenses (note 23)	4,229,844	4,741,736
Provision for loan impairments	731,568	909,045
Directors' fees and expenses	535,105	477,260
Depreciation (note 9)	424,656	328,243
Correspondent bank charges	218,535	270,957
Audit fees and expenses	161,519	132,043
	<u>6,301,227</u>	<u>6,859,284</u>
<b>Operating income for the year before taxation</b>	<u>4,541,716</u>	<u>2,301,182</u>
<b>Taxation</b> (note 12)		
Current tax expense	183,014	421,032
Prior year tax expense	1,978	-
	<u>184,992</u>	<u>421,032</u>
<b>Net income for the year</b>	<u>4,356,724</u>	<u>1,880,150</u>
<b>Earnings per share</b> (note 18)	<u>0.58</u>	<u>0.25</u>

# The Bank of Nevis Limited

## Consolidated Statement of Changes in Equity For the year ended June 30, 2003

(expressed in Eastern Caribbean dollars)

	Share capital \$	Revaluation reserve- available for sale investments \$	Revaluation reserve - property \$	Reserve fund \$	Retained earnings \$	Total \$
Balance, June 30, 2001	7,478,150	–	74,955	3,852,618	8,319,996	19,725,719
Net income for the year	–	–	–	–	1,880,150	1,880,150
Depreciation in market value of investment securities	–	(1,208,332)	–	–	–	(1,208,332)
Transitional adjustment on implementation of IAS 39	–	(1,380,365)	–	–	–	(1,380,365)
Dividends (note 21)	–	–	–	–	(2,243,445)	(2,243,445)
Transfer to reserve fund (note 15)	–	–	–	302,842	(302,842)	–
<b>Balance, June 30, 2002</b>	<b>7,478,150</b>	<b>(2,588,697)</b>	<b>74,955</b>	<b>4,155,460</b>	<b>7,653,859</b>	<b>16,773,727</b>
Net income for the year	–	–	–	–	4,356,724	4,356,724
Available-for-sale investments, transfer from equity to income, net	–	(822,233)	–	–	–	(822,233)
Appreciation in market value of investment securities	–	3,388,314	–	–	–	3,388,314
Property revaluation surplus (note 9)	–	–	1,511,677	–	–	1,511,677
Dividends (note 21)	–	–	–	–	(934,769)	(934,769)
Transfer to reserve fund (note 14)	–	–	–	386,318	(386,318)	–
<b>Balance, June 30, 2003</b>	<b>7,478,150</b>	<b>(22,616)</b>	<b>1,586,632</b>	<b>4,541,778</b>	<b>10,689,496</b>	<b>24,273,440</b>

**The Bank of Nevis Limited**  
Consolidated Statement of Cash Flows  
For the year ended June 30, 2003

(expressed in Eastern Caribbean dollars)

	2003 \$	2002 \$
<b>Cash flows from operating activities</b>		
Operating income for the year	4,541,716	2,301,182
Items not affecting cash		
Provision for loan losses	731,568	909,045
Depreciation	424,656	328,243
Loss on disposal of property, plant and equipment	-	11,636
Interest income	(12,971,523)	(11,875,899)
Interest expense	5,134,659	4,748,478
<b>Operating losses before changes in operating assets and liabilities</b>	<b>(2,138,924)</b>	<b>(3,577,315)</b>
Changes in operating assets and liabilities		
(Increase) decrease in other assets	(349,462)	294,461
Increase in loans and advances	(3,801,642)	(9,806,696)
Increase in customer deposits	48,198,231	28,062,533
(Decrease) increase in other liabilities and accrued expenses	(1,750,194)	2,301,710
Increase in deposits held for regulatory purposes	(901,730)	(2,350,951)
Decrease in restricted fixed deposit	10,141,818	169,364
<b>Cash generated from operations</b>	<b>49,398,099</b>	<b>15,093,106</b>
Interest paid	(4,828,277)	(4,368,115)
Interest received	13,593,832	12,705,987
Income tax paid	(371,634)	(514,793)
<b>Net cash from operating activities</b>	<b>57,792,020</b>	<b>22,916,185</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(809,449)	(314,238)
Increase in investment securities	(44,149,083)	(30,117,586)
(Increase) decrease in fixed deposits	(119,999)	38,923,500
<b>Net cash from (used in) investing activities</b>	<b>(45,078,531)</b>	<b>8,491,676</b>
<b>Cash flows used in financing activities</b>		
Dividends paid	(934,769)	(2,243,445)
<b>Increase in cash and cash equivalents</b>	<b>11,778,720</b>	<b>29,164,416</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>93,817,262</b>	<b>64,652,846</b>
<b>Cash and cash equivalents, end of year (note 22)</b>	<b>105,595,982</b>	<b>93,817,262</b>

# The Bank of Nevis Limited

## Notes to Consolidated Financial Statements

### June 30, 2003

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(expressed in Eastern Caribbean dollars)

#### **1 Incorporation and principal activity**

The Bank is a public company incorporated on August 29, 1985 under the laws of the Federation of St. Christopher and Nevis. It is licensed to conduct banking activities under the Banking Act of St. Christopher and Nevis of 1991.

In July 1998, the Bank's offshore activities and operations were transferred into a newly formed subsidiary company, Bank of Nevis International Limited which is licensed to carry on the business of Offshore Banking as contemplated by the Nevis Offshore Banking Ordinance No. 1 of 1996.

The Bank employed 38 persons during the year (2002: 36 employees). The registered office of the Bank is located on Main Street, Charlestown, Nevis.

The Bank's shares are listed on the Eastern Caribbean Securities Exchange.

#### **2 Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below:

##### **a) Basis of preparation**

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards, and under the historical cost convention, as modified by the revaluation of certain assets and the carrying of investment securities at fair value.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

Effective July 1, 2001, the bank adopted the provisions of International Accounting Standard 39 on Financial Instruments: Recognition and Measurement which has been applied prospectively and therefore comparative financial information has not been restated. The transitional adjustment on adoption of this standard is disclosed on the Statement of Changes in Equity.

##### **b) Basis of consolidation**

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Bank of Nevis International Limited. A subsidiary is a company in which the Bank, directly or indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations. The Bank has adopted the pooling of interest method for consolidation.

# The Bank of Nevis Limited

## Notes to Consolidated Financial Statements

### June 30, 2003

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(expressed in Eastern Caribbean dollars)

## 2 Significant accounting policies ... *continued*

### c) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents consist of cash on hand, non-mandatory deposits with the Central Bank and other banks, treasury bills, short-term funds and investments with original maturities of less than or equal to 90 days.

### d) Foreign currency translation

Items included in the financial statements of Bank of Nevis International Limited are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in Eastern Caribbean dollars which is the measurement currency of the parent.

Income statements and cash flows are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 30 June, 2003.

Foreign currency transactions are translated into the measurement currency at the exchange rates prevailing at the dates of the transactions. 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 recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equities held for trading are reported as part of the fair value gain or loss. Thus, underlying translation differences on available-for-sale equities are included in the revaluation reserve in equity.

### e) Interest income and expense

Interest income and expense are recognised in the income statement on an accrual basis using the effective yield method. Interest income includes coupons earned on fixed income investments and discounts or premiums on treasury bills.

### f) Fees and commissions income

Fees and commissions are generally recognised 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 recognised as an adjustment to the effective yield on the loan. Commission 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 recognised on completion of the underlying transaction.

# The Bank of Nevis Limited

## Notes to Consolidated Financial Statements

### June 30, 2003

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(expressed in Eastern Caribbean dollars)

## 2 Significant accounting policies ... *continued*

### g) Investment securities

Investment securities are classified into the following categories: held to maturity, originated debt and available-for-sale securities. Investments with fixed maturity where the bank has the positive intent and ability to hold them to maturity are classified as held-to-maturity. Investments 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 are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at cost (which includes transaction costs). Originated debt and held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Available-for-sale securities are subsequently re-measured at fair value based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are recognised at cost less any provision for impairment.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

An investment security is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for securities carried at amortised cost is calculated as the difference between the securities' carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rates. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

All purchases and sales of investment securities are recognised at trade date, which is the date the Bank commits to purchase or sell the asset.

# The Bank of Nevis Limited

## Notes to Consolidated Financial Statements

### June 30, 2003

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(expressed in Eastern Caribbean dollars)

## 2 Significant accounting policies ... continued

### h) Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost or valuation, less accumulated depreciation. Depreciation is calculated on the straight line method at rates estimated to write down the cost or valuation of such assets to their residual values over their estimated useful lives at the following annual rates:

Buildings	2.5%
Furniture and fixtures	15%
Equipment	15%
Computer equipment	20%
Motor vehicle	20%

Land is not depreciated.

Property, plant and equipment are periodically reviewed for impairment. When the carrying amount of an asset is greater than as estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into income in the year the assets are disposed. Repairs and renewals are charged to the income statement when the expenditure is incurred.

Revaluations of property are carried out every 3-5 years based on independent valuations.

### i) Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower at draw down are categorised as originated loans and are carried at amortised cost which is defined as the fair value of cash consideration given to originate those loans as is determined by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to borrowers.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans.

# The Bank of Nevis Limited

## Notes to Consolidated Financial Statements

### June 30, 2003

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(expressed in Eastern Caribbean dollars)

## 2 Significant accounting policies ... continued

### i) Originated loans and provisions for loan impairment ... cont'd

The allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. The allowance for loan impairment is deducted in arriving at the balance sheet figure for loans and advances. When a loan is uncollectible, it is written off against the related provision for impairments. Subsequent recoveries are credited to the provision for loan losses in the income statement.

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general banking reserve as an appropriation of retained earnings.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as reduction of the provision for loan impairments in the income statement.

### j) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

### k) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

The principal temporary differences arise from the depreciation of property, plant and equipment and the revaluation of certain financial assets and liabilities.

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

# The Bank of Nevis Limited

## Notes to Consolidated Financial Statements

### June 30, 2003

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(expressed in Eastern Caribbean dollars)

## 2 Significant accounting policies ... continued

### k) Deferred income tax ...cont'd

Deferred tax related to fair value re-measurements of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

### l) Treasury shares

Where the Bank or its subsidiaries purchases then Bank's equity share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

### m) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year, which are declared after the balance sheet date, are noted as a subsequent event.

### n) Pension costs

The company's contributions to the defined contribution pension plan are charged to the statement of income in the period to which the contributions relate.

## 3 Financial risk management

### a) Strategy in using financial instruments

By its nature the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing.

Financial assets of the Bank include cash and deposits with other banks, treasury bills, investments, interest receivable and loans and advances. Financial liabilities of the Bank include customers' deposits, certain other liabilities and interest payable.

# The Bank of Nevis Limited

## Notes to Consolidated Financial Statements

### June 30, 2003

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(expressed in Eastern Caribbean dollars)

### 3 Financial risk management ... *continued*

#### b) Credit risk

Cash deposits with other banks and short-term investments are placed with reputable regional and international financial institutions and with the Governments of St. Christopher and Nevis and St. Lucia.

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. 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 to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved by management.

Exposure to credit risk is 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. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

#### Credit related commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans or overdraft facilities. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of authorized loans and advances being drawn by the customer and, second, from these drawings subsequently not being repaid as due. The total outstanding contractual amount of commitments to extend credit may not necessarily represent future cash requirements specifically in the case of advances, but usually tend to result in such, in the case of loans.

Commercial letters of credit, which are written undertakings by the bank 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 collateralised and therefore carry less risk than direct borrowing.

# The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2003

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management...continued

### Geographical concentration of assets, liabilities and off balance sheet items

	Total assets		Total liabilities		Interest and other operating income		Credit commitments		Capital expenditure	
	\$	%	\$	%	\$	%	\$	%	\$	%
<b>As at June 30, 2003</b>										
St. Christopher and Nevis	110,203,809	39	77,918,344	30	10,066,849	66	2,623,421	93	809,449	100
United States of America and Canada	166,102,148	59	180,601,579	70	4,997,705	33	202,118	7	–	–
Other Caribbean states	3,295,176	1	–	–	210,776	1	–	–	–	–
Europe	3,192,230	1	–	–	–	–	–	–	–	–
	<b>282,793,363</b>	<b>100</b>	<b>258,519,923</b>	<b>100</b>	<b>15,275,330</b>	<b>100</b>	<b>2,825,539</b>	<b>100</b>	<b>809,449</b>	<b>100</b>
<b>As at June 30, 2002</b>										
St. Christopher and Nevis	100,621,027	44	87,885,903	41	8,112,376	57	887,084	100	314,238	100
United States of America and Canada	120,837,306	53	124,066,243	59	5,562,564	40	–	–	–	–
Other Caribbean states	2,877,140	1	–	–	417,268	3	–	–	–	–
Europe	4,390,400	2	–	–	–	–	–	–	–	–
	<b>228,725,873</b>	<b>100</b>	<b>211,952,146</b>	<b>100</b>	<b>14,092,208</b>	<b>100</b>	<b>887,084</b>	<b>100</b>	<b>314,238</b>	<b>100</b>

**The Bank of Nevis Limited**  
Notes to Consolidated Financial Statements  
**June 30, 2003**

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(expressed in Eastern Caribbean dollars)

**3 Financial risk management...continued**

**Geographical concentration of assets, liabilities and off balance sheet items...cont'd**

The Bank's exposure to credit risk is concentrated as detailed above. St. Christopher and Nevis is the home country of the Bank. In the above countries, the predominant activity is corporate banking services.

As one of the largest banks in St. Christopher and Nevis, the Bank accounts for a significant share of credit exposure to many sectors of the economy. However, credit risk is spread over a diversity of personal and commercial customers.

With the exception of St. Christopher and Nevis, and the United States of America and Canada, no other individual country contributed more than 10% of consolidated income or assets.

Capital expenditure is shown by the geographical area in which the buildings and equipment are located.

Geographic sector risk concentrations within the customer loan portfolio are as follows:

	2003 \$	2003 %	2002 \$	2002 %
St. Christopher	62,991,230	95	59,420,623	93
United States of America and Canada	3,076,878	5	4,231,947	7
	<b>66,068,108</b>	<b>100</b>	63,652,570	100

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2003 \$	2003 %	2002 \$	2002 %
Tourism	1,914,084	3	2,591,160	4
Government bodies	1,054,120	2	1,567,200	2
Manufacturing	301,006	1	371,220	1
Agricultural	2,993,024	5	1,250,367	2
Commercial and personal	57,138,732	85	54,017,665	85
Other	2,667,142	4	3,854,958	6
	<b>66,068,108</b>	<b>100</b>	63,652,570	100

**The Bank of Nevis Limited**  
Notes to Consolidated Financial Statements  
**June 30, 2003**

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(expressed in Eastern Caribbean dollars)

**3 Financial risk management...continued**

**c) Interest rate risk**

The bank advances loans and receives deposits as part of its normal course of business from both related and third parties. The interest rates on loans generally attract interest based on market rates. Investment securities and customer deposits generally attract fixed interest rates. The company mitigates its interest rate risk by matching the maturity periods of its assets and liabilities.

	2003 \$	2002 \$
<b>Loans and advances</b>		
Demand loans	9 – 14%	11 -13%
Discount loans	9.75 – 18%	17-18%
Mortgage loans	10 – 13%	11 -13%
Overdrafts	9.75 – 15%	11-15%
<b>Investments</b>		
Government treasury bills	6.5 – 7.5%	7%
Investment securities, fixed deposits and other investments	1.5 – 10%	4.7% - 10%
Fixed rate bonds	6.5 – 10.125%	10.125 %
<b>Deposit liabilities</b>		
Demand deposits	0 – 3.0%	0%-3.0%
Savings deposits	4 – 4.5%	5%
Time deposits	1.5 – 8%	1.5-%-7.5%

In 2003, the interest rate policy was changed for discount loans whereby interest charged on an “add-on-basis” was discontinued. New customer loans which would previously be classified as discount loans are issued at interest rates within the band 9.75% - 14%. The existing “add-on” loans continued to earn interest at rates of between 16 – 18% as at June 30, 2003.

**d) Currency risk**

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions.

Substantially all of the bank’s transactions and assets and liabilities are denominated in Eastern Caribbean dollars or United States dollars. Therefore, the bank has no significant exposure to currency risk.

**The Bank of Nevis Limited**  
Notes to Consolidated Financial Statements  
**June 30, 2003**

(expressed in Eastern Caribbean dollars)

**3 Financial risk management...continued**

**e) Liquidity risk**

The bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts and maturing deposits. Management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below analysed assets and liabilities of the bank into relevant maturing groupings based on the remaining period at the balances sheet date to the contractual maturity date.

	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Maturities of assets and liabilities as of June 30, 2003</b>				
<b>Assets</b>				
Cash and due from other banks	104,501,441	–	–	104,501,441
Treasury bills	14,765,000	–	–	14,765,000
Investment securities	–	65,053,449	27,712,689	92,766,138
Interest receivable	1,556,531	–	–	1,556,531
Loans and advances	9,246,317	46,230,449	6,609,924	62,086,690
Other assets	261,080	1,380,746	–	1,641,826
Property, plant and equipment	–	–	5,475,737	5,475,737
	<b>130,330,369</b>	<b>112,664,644</b>	<b>39,798,350</b>	<b>282,793,363</b>
<b>Liabilities</b>				
Customer deposits	252,079,644	1,776,017	–	253,855,661
Other liabilities and accrued expenses	3,490,341	502,486	–	3,992,827
Provision for income tax	526,109	–	–	526,109
Deferred tax	–	145,326	–	145,326
	<b>256,096,094</b>	<b>2,423,829</b>	<b>–</b>	<b>258,519,923</b>
<b>Net liquidity gap</b>	<b>(125,765,725)</b>	<b>110,240,815</b>	<b>39,798,350</b>	<b>24,273,440</b>
<b>Maturities of assets and liabilities as of June 30, 2002</b>				
<b>Total assets</b>	<b>144,081,049</b>	<b>48,378,789</b>	<b>36,266,035</b>	<b>228,725,873</b>
<b>Total liabilities</b>	<b>208,631,604</b>	<b>2,766,436</b>	<b>554,106</b>	<b>211,952,146</b>
<b>Net liquidity gap, June 30, 2002</b>	<b>(64,550,555)</b>	<b>45,612,353</b>	<b>35,711,929</b>	<b>16,773,727</b>

**The Bank of Nevis Limited**  
Notes to Consolidated Financial Statements  
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(expressed in Eastern Caribbean dollars)

**3 Financial risk management...continued**

**e) Liquidity risk .. cont'd**

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be ever completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

**f) Fair value**

The following table summarizes the carrying amount and fair values of those financial assets and liabilities not presented on the bank's balance sheet at their fair value.

	<b>Carrying value</b>		<b>Fair value</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>				
Cash and due from other bank	104,501,441	104,324,083	104,501,441	104,324,083
Treasury bills	14,765,000	12,283,727	14,765,000	12,283,727
Interest receivable	1,556,531	2,006,110	1,556,531	2,006,110
Loans and advances to customers	62,086,690	58,673,739	62,086,690	58,673,739
Investment securities	92,766,138	46,050,974	92,766,138	46,000,974
Other assets	1,641,826	1,292,364	1,641,826	1,292,364
	<u>277,317,616</u>	<u>224,630,997</u>	<u>277,317,626</u>	<u>224,630,997</u>
<b>Financial liabilities</b>				
Customers' deposits	253,455,661	205,351,048	253,855,661	205,351,048
Other liabilities and accrued expenses	3,992,827	5,743,021	3,992,827	5,743,021
	<u>257,448,488</u>	<u>211,094,069</u>	<u>257,448,488</u>	<u>211,094,069</u>

The following methods and assumptions have been used to estimate the fair value of each class of financial instruments for which it is practical to estimate a value:

- Short-term financial assets and liabilities

The carrying value of these assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets comprise of cash resources and short-term investment, fixed deposits, interest receivable and other assets. Short-term financial liabilities are comprised of interest payable and certain other liabilities.

# The Bank of Nevis Limited

## Notes to Consolidated Financial Statements

### June 30, 2003

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(expressed in Eastern Caribbean dollars)

### 3 Financial risk management...continued

#### f) Fair value

- Investment securities  
Fair value is based on quoted market values.

- Loans and advances

These assets result from transactions conducted in 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 which are substantially in accordance with financial statement amounts.

- Customers' deposits

The fair value of items with no stated maturity are assumed to be equal to their carrying values. Deposits with fixed rate characteristics are at rates which are not significantly different from current rates and are assumed to have discounted cash flow values which approximate carrying values.

### 4 Cash and due from other banks

	2003 \$	2002 \$
Cash	1,087,491	638,512
Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits	213,759	677,536
Cash and current accounts with other banks	62,933,986	59,254,206
Fixed deposits	3,091,357	6,444,900
Cheques in the course of collection	737,594	1,034,508
Short-term marketable securities	<u>23,766,795</u>	<u>13,483,873</u>
<b>Included in cash and cash equivalents</b> (note 22)	<u>91,830,982</u>	<u>81,533,535</u>
Mandatory reserve deposits with the ECCB	5,626,527	5,724,797
Restricted fixed deposits	5,423,933	15,565,751
Fixed deposit	<u>1,619,999</u>	<u>1,500,000</u>
	<u>104,501,441</u>	<u>104,324,083</u>

# The Bank of Nevis Limited

## Notes to Consolidated Financial Statements

### June 30, 2003

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(expressed in Eastern Caribbean dollars)

#### 4 Cash and due from other banks ... *continued*

Commercial banks doing banking business in member states of the OECS are required to maintain a non-interest-bearing reserve with the ECCB equivalent to 6% of their total deposit liabilities (excluding inter-bank deposits, denominated deposits and foreign currencies). This reserve deposit is not available for use in the Bank's day-to-day operations, and is non-interest bearing.

The fixed deposit of \$1,619,999 is a certificate of deposit held at the Grenada Co-operative Bank and accrues interest at 7% (2002: 7%) per annum. The restricted fixed deposits are deposits held with Bank of America of \$269,490 (2002: \$Nil) and \$2,694,900 (2002: \$14,821,950) and accrue interest of 1.3% and 1.19% (2002: 3.42%) per annum respectively; and deposits held with Caribbean Credit Card Corporation of \$2,459,543 (2002: \$743,801) and accrue interest of 4% (2002: 6%) per annum. These deposits are not available for use in the company's day-to-day operations.

#### 5 Treasury bills

	Nominal Value 2003 \$	Cost 2003 \$	Nominal Value 2002 \$	Cost 2002 \$
Treasury bill – Government of Saint Christopher and Nevis, maturing August 28, 2003 with interest rate of 6.5%.	6,000,000	5,902,500	6,000,000	5,895,000
Treasury bill – Government of Saint Lucia matured August 9, 2002 with interest rate of 6%.	–	–	1,500,000	1,476,226
Treasury bill – Government of Saint Christopher and Nevis, maturing August 26, 2003 with interest rate of 6.5%.	5,000,000	4,918,750	5,000,000	4,912,501
Treasury bill – Nevis Island Government maturing July 29, 2003 with interest rate of 7.5%.	3,000,000	2,943,750	–	–
	<b>14,000,000</b>	<b>13,765,000</b>	12,500,000	12,283,727
Treasury bill – Nevis Island Government maturing July 28, 2003 with interest rate of 7.5%	1,018,839	1,000,000	–	–
	<b>15,018,839</b>	<b>14,765,000</b>	12,500,000	12,283,727

**The Bank of Nevis Limited**  
Notes to Consolidated Financial Statements  
**June 30, 2003**

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(expressed in Eastern Caribbean dollars)

**5 Treasury bills ... continued**

The treasury bill with nominal value \$1,018,839 and cost \$1,000,000 acts as a statutory deposit with the Nevis Island Government and is not available to finance the bank's day to day operations.

**6 Investment securities**

	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>
<b>Held to maturity</b>		
Statutory deposit with Nevis Island Government	–	1,000,000
<b>Available for sale – quoted</b>		
Debt securities at market value	<b>80,957,350</b>	34,955,976
Equity securities at market value	<b>425,643</b>	3,435,685
<b>Available for sale - unquoted</b>		
Caribbean Credit Card Corporation Limited		
275 shares at cost of \$1,000 each	<b>275,000</b>	275,000
Eastern Caribbean Securities Exchange Limited		
7,500 (2001: 2,500) Class "C" shares at cost of \$10 each	<b>75,000</b>	75,000
St. Kitts-Nevis-Anguilla National Bank		
370,400 ordinary shares at cost of \$1.35 each	<b>500,040</b>	500,040
Eastern Caribbean Home Mortgage Bank		
482 shares at cost of \$100 each	<b>48,200</b>	48,200
<b>Originated debt</b>		
Taurus Services Limited		
Fixed rate bond bearing interest at 10.125%	<b>3,013,445</b>	5,511,073
Government of Belize		
Fixed rate bond bearing interest at 9.25%	<b>2,221,460</b>	–
Government of Saint Christopher and Nevis		
Fixed rate bond bearing interest at 7.5%	<b>5,000,000</b>	–
Caribbean Credit Card Corporation Limited		
Unsecured loan bearing interest at a rate of 10%, with no specific terms of repayment.	<b>150,000</b>	150,000
Eastern Caribbean Home Mortgage Bank		
Long-term bond bearing interest at 6%	<b>100,000</b>	100,000
	<b>92,766,138</b>	46,050,974

**The Bank of Nevis Limited**  
Notes to Consolidated Financial Statements  
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(expressed in Eastern Caribbean dollars)

**6 Investment securities...continued**

In 2003, the statutory deposit with the Nevis Island Government was converted to a treasury bill (see note 5).

	<b>Held to maturity</b>	<b>Originated debt</b>	<b>Available for sale</b>	<b>Total</b>
	\$	\$	\$	\$
Balance as of June 30, 2002	1,000,000	5,761,073	39,289,901	45,050,974
Additions	–	7,671,606	138,348,484	146,020,090
Disposals (sale and redemption)	(1,000,000)	(2,947,776)	(95,334,534)	(99,282,310)
Loss from change in fair value, net	–	–	(22,616)	(22,616)
Balance as of June 30, 2003	–	<b>10,484,903</b>	<b>82,281,235</b>	<b>92,766,138</b>

Gains less losses from investment securities comprise:

	<b>2003</b>	<b>2002</b>
	\$	\$
Net realised gains (losses) from disposal of available-for-sale financial assets	<b>702,272</b>	(183,264)

**7 Loans and advances**

	<b>2003</b>	<b>2002</b>
	\$	\$
Reducing balance loans	<b>54,515,670</b>	52,861,938
Overdrafts	<b>9,528,877</b>	8,414,421
Discount loans	<b>1,138,693</b>	1,811,365
Credit card advances	<b>541,990</b>	49,239
Interest receivable	<b>342,878</b>	515,607
	<b>66,068,108</b>	63,652,570
Less: Allowance for loan impairment	<b>(3,981,418)</b>	(4,463,223)
	<b>62,086,690</b>	59,189,347

**The Bank of Nevis Limited**  
Notes to Consolidated Financial Statements  
**June 30, 2003**

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(expressed in Eastern Caribbean dollars)

**7 Loans and advances ... continued**

**Allowance for loan impairment**

The movement in allowance for loan impairment is as follows:

Balance, beginning of year	<b>4,463,223</b>	3,554,178
Provision for loan impairment	<b>731,568</b>	909,045
Loans and advances written off during the year as uncollectible	<b>(1,213,373)</b>	–
	<hr/>	
Balance, end of year	<b>3,981,418</b>	4,463,223
	<hr/>	

**8 Other assets**

	<b>2003</b>	<b>2001</b>
	\$	\$
Due from merchant processor	<b>2,128,947</b>	2,767,832
Restricted funds	<b>1,376,447</b>	–
Other receivables	<b>133,391</b>	488,504
Prepayments	<b>30,282</b>	51,061
Credit card and stationery stock	<b>53,993</b>	38,704
Miscellaneous	<b>47,713</b>	22,139
	<hr/>	
	<b>3,770,773</b>	3,368,240
Less: Provision for amounts due from merchant processor	<b>(2,128,947)</b>	(2,075,876)
	<hr/>	
	<b>1,641,826</b>	1,292,364
	<hr/>	

The Bank was advised by one of its correspondent banks that a court order was issued by the US District Court, Northern District of Texas to freeze an amount of \$1,376,447; this has been treated as restricted funds and has been excluded from cash and cash equivalents.

# The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2003

(expressed in Eastern Caribbean dollars)

## 9 Property, plant and equipment

	Land \$	Buildings \$	Furniture & fixtures \$	Equipment \$	Computer equipment \$	Motor vehicle \$	Total \$
<b>Cost or valuation</b>							
Balance at beginning of year	600,000	2,924,414	562,974	360,387	1,119,296	55,000	5,622,071
Additions	163,752	27,408	27,526	19,301	571,462	–	809,449
Revaluation adjustment	1,508,248	(534,122)	–	–	–	–	974,126
<b>Balance at end of year</b>	<b>2,272,000</b>	<b>2,417,700</b>	<b>590,500</b>	<b>379,688</b>	<b>1,690,758</b>	<b>55,000</b>	<b>7,405,646</b>
<b>Accumulated depreciation</b>							
Balance at beginning of year	–	463,755	403,591	186,511	944,948	43,999	2,042,804
Depreciation charge for year	–	73,796	55,846	58,282	225,731	11,001	424,656
Revaluation adjustment	–	(537,551)	–	–	–	–	(537,551)
<b>Balance at end of year</b>	<b>–</b>	<b>–</b>	<b>459,437</b>	<b>244,793</b>	<b>1,170,679</b>	<b>55,000</b>	<b>1,929,909</b>
<b>Net book values</b>							
<b>June 30, 2003</b>	<b>2,272,000</b>	<b>2,417,700</b>	<b>131,063</b>	<b>134,895</b>	<b>520,079</b>	<b>–</b>	<b>5,475,737</b>
June 30, 2002	600,000	2,460,659	159,384	173,876	174,348	11,001	3,579,268

## 9 Property, plant and equipment...continued

The land and buildings were revalued at open market value effective July 22, 2003 by an independent valuer. The surplus on revaluation at that date was taken to the revaluation surplus account (note 14).

The following is the historical cost carrying amount of land and buildings as of June 30, 2003:

	<b>Land</b> \$	<b>Buildings</b> \$	<b>Total</b> \$
Cost	382,279	2,758,340	3,140,619
Accumulated Depreciation	–	469,832	469,832
Net book values	<b>382,279</b>	<b>2,288,508</b>	<b>2,670,787</b>

## 10 Customer deposits

	<b>2003</b> \$	<b>2002</b> \$
Current accounts	<b>163,583,550</b>	118,092,007
Time deposits	<b>57,697,823</b>	57,733,923
Savings accounts	<b>30,218,773</b>	26,817,874
Merchant reserve accounts	<b>674,194</b>	1,332,305
Interest payable	<b>1,681,321</b>	1,374,939
	<b>253,855,661</b>	205,351,048

## 11 Other liabilities and accrued expenses

	<b>2003</b> \$	<b>2002</b> \$
Accounts payable and accrued expenses	<b>2,131,997</b>	1,607,113
Items-in-transit	<b>1,343,770</b>	3,288,357
Pension liability (note 19)	–	554,106
Manager's cheques	<b>364,572</b>	189,714
Government stamp duty	<b>152,488</b>	103,731
	<b>3,992,827</b>	5,743,021

## 12 Taxation

	2003 \$	2002 \$
<b>Deferred income tax</b>		
Balance, beginning of year	145,326	145,326
Recovery for the year	–	–
	<hr/>	<hr/>
Balance, at end of year	145,326	145,326
<b>Income tax payable</b>		
Income tax payable, beginning of year	712,751	806,512
Payments made during year	(371,634)	(514,793)
Current tax expense	183,014	421,032
Prior year tax expense	1,978	–
	<hr/>	<hr/>
Income tax payable, end of year	526,109	712,751
<b>Income tax expense</b>		
Operating income for the year	4,541,716	2,301,182
	<hr/>	<hr/>
Income tax expense at standard rate of 37%	1,680,435	851,437
Non-deductible expenses	17,125	17,536
Withholding tax	13,867	12,682
Untaxed interest income	(264,813)	(173,443)
Effect of lower tax rate in subsidiary company	(1,252,248)	(317,345)
Deferred tax effect of revaluation of depreciable assets	1,269	–
Prior year income tax adjustment	1,978	21,271
Deferred tax over (under) provided	(12,621)	8,894
	<hr/>	<hr/>
Actual income tax expense	184,992	421,032

## 13 Share capital

	2003 \$	2002 \$
Authorised share capital		
10,000,000 shares of \$1 each	10,000,000	10,000,000
	<hr/>	<hr/>
Issued and fully paid		
7,478,150 shares of \$1 each	7,478,150	7,478,150

#### 14 Revaluation reserves (deficit)

	2003 \$	2002 \$
Balance, beginning of year	(2,513,742)	74,955
Transitional adjustment on implementation of IAS 39	–	(1,380,365)
Depreciation in market value of investment securities	2,566,081	(1,208,332)
Revaluation of land and building	1,511,677	–
	<hr/>	<hr/>
Balance, end of year	1,564,016	(2,513,742)
	<hr/>	<hr/>
<b>Represented by revaluation reserves attributable to:</b>		
Available for sale investments	(22,616)	(2,588,697)
Property	1,586,632	74,955
	<hr/>	<hr/>
	1,564,016	(2,513,742)
	<hr/>	<hr/>

An independent valuation of land and buildings was conducted in July 2003 (see note 9).

#### 15 Reserve fund

Section 14 (1) of the Saint Christopher and Nevis Banking Act No. 6 of 1991 provides that not less than 20% of each year's net earnings shall be set aside to a reserve fund whenever the fund is less than the paid-up capital of the Bank.

Section 23 (1) of the Nevis Offshore Banking Ordinance 1996 provides that the Bank is to maintain a reserve fund and shall out of its net profits of each year and before any dividend is paid, transfer to the said fund a sum equal to not less than 25% of those profits whenever the amount of the reserve fund is less than the paid up capital of the Bank.

## 16 Other operating income

	2003 \$	2002 \$
Fees and commissions	1,309,776	1,665,178
Foreign exchange	591,320	435,030
Credit card fees	325,798	95,717
Rental income	12,000	12,000
Dividend income	37,413	–
Miscellaneous revenue	27,500	8,384
	<u>2,303,807</u>	<u>2,216,309</u>

## 17 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A number of banking transactions were 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.

The volumes of related party transactions, outstanding balances at the year end and related expenses and income for the year are as follows:

	2003 \$
<b>Loans to Directors</b>	
Loans outstanding at beginning of year	4,369,999
Loans issued during the year	196,064
Loans repayment during the year	<u>(491,442)</u>
Loans outstanding at end of year	<u>4,074,621</u>

Interest income earned on directors' loans and advances during the year is \$373,418 (2002: \$322,045).

## 17 Related party transactions ... continued

	2003 \$
<b>Deposits by Directors</b>	
Deposits at beginning of year	3,912,147
Deposits received during the year	269,474
Deposits repaid during the year	<u>(244,428)</u>
Deposits at end of year	<u>3,937,193</u>

Interest expense paid on directors' deposits during the year is \$427,695 (2002: \$372,387).

## 18 Earnings per share

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

	2003 \$	2002 \$
Net profit attributable to shareholders	4,356,724	1,880,150
Weighted average number of ordinary shares in issue	<u>7,478,150</u>	<u>7,478,150</u>
Basic and diluted earnings per share	<u>0.58</u>	<u>0.25</u>

## 19 Pension liability

During the year the Bank introduced a defined contribution pension scheme for its employees. Total contributions made by the company for the year amounted to \$127,481 (2002: \$220,676). Following the introduction of the scheme, the prior year provision for past service required adjustment based on calculations as determined by the new scheme rules. The credit of \$197,041 was therefore accounted for in the income statement during the year.

	2003 \$	2002 \$
Pension provision, beginning of year	554,106	710,390
Provision during the year	108,814	220,675
Write back of provision	(197,021)	(376,959)
Amounts paid to pension scheme	<u>(465,898)</u>	<u>—</u>
Pension provision, end of year	<u>—</u>	<u>554,106</u>

## 20 Contingencies and commitments

### Pending litigation

The Bank is a defendant in a lawsuit brought by Nevis Central Company Limited for specific performance of a contract for the purchase of real estate in the sum of US\$1 million. The Bank disputes the claim on the grounds that it did not enter into any purchase agreement and the outcome is presently not determinable. No provision has therefore been made in these financial statements.

The previously reported lawsuit in the amount of US\$1m against Quantum Group Ltd. (a customer) and the Bank was heard in October 2002. Judgement was entered against the Bank on July 11, 2003 and the estimated total liability including costs, is in the region of \$40,000 which has been accrued for. The claimant has subsequently filed an appeal.

In the lawsuit of First Atlantic Commerce Limited vs Martin Roy Lamb et al., the Bank was ordered to pay US\$25,185.62 to the Claimant, First Atlantic Commerce Limited along with costs of EC\$2,000. The Bank is in the process of appealing the ruling in Court but in the meantime the liability has been recognised in the financial statements.

A lawsuit has been filed by the United States of America against Bank of Nevis International Limited and First Atlantic Commerce Limited. The suit is filed claiming restitution of US\$1,612,162.30 that the Bank paid to First Atlantic Commerce Limited by order of the local court. Counsel does not believe that the suit has any merit and an application has been filed to strike it out. No provision has therefore been made in these financial statements.

A customer has commenced an action against the Bank to release their frozen funds (see note 7). Whilst the outcome is not presently determinable, the Bank is not expected to suffer any loss arising from this action, and no provision has therefore been made in these financial statements.

### Credit related commitments

The following table indicates the contractual amounts of the bank's off-balance sheet financial instruments that commit it to extend credit to customers:

	2003 \$	2002 \$
Undrawn commitments to extend advances	2,623,421	887,084
Commercial letter of credit	202,118	—
	<u>2,825,539</u>	<u>887,084</u>

## 21 Dividends

The financial statements reflect a dividend of \$934,769 for the year ended June 30, 2002 which was approved at the fifteenth Annual General Meeting held on January 30, 2003 and paid subsequently.

A dividend in respect of 2003 of EC\$0.175 per share (2002 actual dividend EC\$0.125 per share) amounting to a total of EC\$1,308,677 (2002 actual EC\$934,769) is proposed. The financial statements for the year ended June 30, 2003 do not reflect this proposed dividend which, if ratified, will be accounted for in equity as an appropriation of retained earnings in the year ending June 30, 2004.

## 22 Cash and cash equivalents

	2003 \$	2002 \$
Cash and due from other banks (note 4)	91,830,982	81,533,535
Treasury bills (note 5)	13,765,000	12,283,727
	<u>105,595,982</u>	<u>93,817,262</u>

## 23 General and administrative expenses

	2003	2002
	\$	\$
Salaries and related costs	1,960,195	1,622,373
Credit card processing expense	381,807	259,923
Professional fees	354,811	158,299
Legal fees	256,622	73,627
Stationery and supplies	235,816	260,503
Advertisement and promotion	140,958	161,529
Telephone, telex and cables	130,669	113,705
Provision for lawsuit	110,773	—
Travel and entertainment	99,996	67,604
Equipment repairs	94,953	86,569
Insurance expense	91,348	84,182
Utilities	77,885	57,192
Stamps and postage	62,351	56,358
Taxes and licences	61,180	73,300
Repairs and maintenance	54,452	89,667
Provision for amounts due from merchant processor	53,071	758,698
Printing costs	50,723	46,855
ECSE fees and expenses	49,841	36,758
Subscriptions and fees	48,368	33,629
Miscellaneous expenses	35,202	12,814
Strategic planning	33,776	—
Cleaning	16,410	10,750
Secretarial	12,234	12,234
Security services	2,631	1,477
Cash shorts	2,415	6,359
Operational (recoveries) losses	(188,643)	256,517
Investment securities write-offs	—	386,228
Loss on disposal of assets	—	11,636
General staff costs	—	2,950
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	4,229,844	4,741,736

## 24 Comparative figures

Certain items in the balance sheet and statement of income have been classified differently in order to achieve clearer presentation. The comparative figures have been similarly reformatted and reclassified in order to achieve comparability with the current period. The items which have been reclassified are as follows:

- Losses from investment securities of \$183,264 has been reclassified out of other operating income and shown separately on the face of the income statement;
- Provision for loan impairments of \$909,045 has been combined into the operating expenses caption;
- Interest receivable of \$515,607 has been reclassified to loans and advances;
- Interest payable of \$1,374,939 has been reclassified to customers' deposits;
- On the statement of changes in equity, revaluation reserves have been separated into two components: available-for-sale investments and property.