

The Bank of Nevis Limited

Consolidated Financial Statements

June 30, 2005

(expressed in Eastern Caribbean dollars)

September 30, 2005

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, 2005 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, 2005 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, 2005

(expressed in Eastern Caribbean dollars)

	2005 \$	2004 \$
Assets		
Cash and balances due from other banks (note 5)	135,069,854	97,936,994
Treasury bills (note 6)	54,676,814	32,240,183
Investment securities (note 7)	86,509,484	116,382,672
Income tax receivable (note 13)	30,381	—
Loans and advances (note 8)	96,895,684	70,156,992
Other assets (note 9)	1,336,339	1,252,731
Property, plant and equipment (note 10)	8,667,665	8,420,161
Total assets	383,186,221	326,389,733
Liabilities		
Customers' deposits (note 11)	342,283,932	295,183,338
Other liabilities and accrued expenses (note 12)	9,836,762	6,333,876
Provision for income tax (note 13)	60,282	252,825
Deferred tax (note 13)	440,671	486,007
Redeemable shares (note 14)	2,066,285	—
Total liabilities	354,687,932	302,256,046
Shareholders' Equity		
Share capital (note 15)	7,478,150	7,478,150
Revaluation reserves (deficit) (note 16)	989,151	(57,030)
Other reserves (note 17)	5,866,333	4,877,869
Retained earnings	14,164,655	11,834,698
Total shareholders' equity	28,498,289	24,133,687
Total liabilities and shareholders' equity	383,186,221	326,389,733

Approved by the Board of Directors on September 30, 2005

_____ Chairman

_____ Director

_____ Director

The Bank of Nevis Limited

Consolidated Statement of Income

For the year ended June 30, 2005

(expressed in Eastern Caribbean dollars)

	2005 \$	2004 \$
Interest income		
Income from loans and advances	7,928,280	7,022,227
Income from deposits with other banks and investment securities	9,582,163	6,688,793
	<u>17,510,443</u>	<u>13,711,020</u>
Interest expense		
Savings accounts	1,785,346	1,073,531
Time deposits and current accounts	6,766,071	4,839,448
	<u>8,551,417</u>	<u>5,912,979</u>
Net interest income	8,959,026	7,798,041
Gains less losses from investment securities (note 7)	(22,913)	(72,326)
Impairment loss on available-for-sale investment securities (note 7)	(735,387)	(189,365)
Other operating income (note 18)	4,575,323	2,477,405
	<u>12,776,049</u>	<u>10,013,755</u>
Operating income		
Operating expenses		
General and administrative expenses (note 25)	6,313,590	5,443,065
Provision for loan impairment (note 8)	24,965	117,038
Directors' fees and expenses	693,992	550,765
Depreciation (note 10)	509,369	423,132
Correspondent bank charges	250,144	253,543
Audit fees and expenses	235,462	204,267
	<u>8,027,522</u>	<u>6,991,810</u>
Operating income for the year before taxation	<u>4,748,527</u>	<u>3,021,945</u>
Taxation (note 13)		
Current tax expense	95,745	66,349
Prior year tax expense	5,463	64,779
Deferred tax expense	11,217	100,847
	<u>112,425</u>	<u>231,975</u>
Net income for the year	<u>4,636,102</u>	<u>2,789,970</u>
Earnings per share (note 20)	<u>0.62</u>	<u>0.37</u>

The Bank of Nevis Limited

Consolidated Statement of Changes in Equity

For the year ended June 30, 2005

(expressed in Eastern Caribbean dollars)

	Share capital \$	Revaluation reserve - available for sale investments \$	Revaluation reserve - property \$	Reserve fund \$	Retained earnings \$	Total \$
Balance, June 30, 2003	7,478,150	(22,616)	1,586,632	4,541,778	10,689,496	24,273,440
Net income for the year	—	—	—	—	2,789,970	2,789,970
Available for sale investment, transferred from equity	—	28,890	—	—	—	28,890
Depreciation in market value of investment securities, net of tax	—	(1,649,936)	—	—	—	(1,649,936)
Dividends (note 23)	—	—	—	—	(1,308,677)	(1,308,677)
Transfer to reserve fund (note 17)	—	—	—	336,091	(336,091)	—
Balance, June 30, 2004	7,478,150	(1,643,662)	1,586,632	4,877,869	11,834,698	24,133,687
Net income for the year	—	—	—	—	4,636,102	4,636,102
Dividends (note 23)	—	—	—	—	(1,317,681)	(1,317,681)
Reserve for ECCB loan provision (note 17)	—	—	—	431,505	(431,505)	—
Appreciation in market value of investment securities, net of tax	—	1,046,181	—	—	—	1,046,181
Transfer to reserve fund (note 17)	—	—	—	556,959	(556,959)	—
Balance, June 30, 2005	7,478,150	(597,481)	1,586,632	5,866,333	14,164,655	28,498,289

The Bank of Nevis Limited
Consolidated Statement of Cash Flows
For the year ended June 30, 2005

(expressed in Eastern Caribbean dollars)

	2005 \$	2004 \$
Cash flows from operating activities		
Operating income for the year	4,748,527	3,021,945
Items not affecting cash		
Provision for loan impairment, net	24,965	117,038
Provision for doubtful receivables	80,847	-
Depreciation	509,369	423,132
Gain on disposal of property, plant and equipment	-	(35,001)
Interest income	(17,510,443)	(13,711,020)
Interest expense	8,551,417	5,912,979
Impairment loss on available-for-sale investment securities	735,387	189,365
Operating losses before changes in operating assets and liabilities	(2,859,931)	(4,081,562)
Changes in operating assets and liabilities		
Decrease (increase) in restricted fixed deposits	2,462,705	(2,698,062)
Increase in deposits held for regulatory purposes	(2,535,010)	(2,619,890)
Increase in loans and advances	(26,364,514)	(8,137,780)
(Increase) decrease in other assets	(164,455)	707,295
Increase in customer deposits	46,282,120	41,114,942
Increase in other liabilities and accrued expenses	3,502,886	2,022,849
Cash generated from operations	20,323,801	26,307,792
Interest paid	(7,732,943)	(5,700,244)
Interest received	17,133,961	13,433,319
Income tax paid	(324,132)	(404,412)
Net cash from operating activities	29,400,687	33,636,455
Cash flows from investing activities		
Purchase of property, plant and equipment	(756,873)	(3,367,556)
Proceeds from sale of property, plant and equipment	-	35,001
Decrease (increase) in investment securities	29,819,860	(23,855,592)
Increase in fixed deposits	(4,129,021)	(113,401)
Net cash from (used in) investing activities	24,933,966	(27,301,548)
Cash flows used in financing activities		
Issue of redeemable shares	2,066,285	-
Dividends paid	(1,317,681)	(1,308,677)
Net cash from (used in) financing activities	748,604	(1,308,677)

The Bank of Nevis Limited

Consolidated Statement of Cash Flows ...*continued*

For the year ended June 30, 2005

(expressed in Eastern Caribbean dollars)

	2005	2004
	\$	\$
Increase in cash and cash equivalents	55,083,257	5,026,230
Cash and cash equivalents, beginning of year	110,622,212	<u>105,595,982</u>
Cash and cash equivalents, end of year (note 24)	<u>165,705,469</u>	<u>110,622,212</u>

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2005

(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.

On July 29, 2004 the Bank of Nevis International Fund Limited was incorporated. The Fund is an open-ended public mutual fund approved to be registered under the Nevis International Mutual Fund Ordinance, 2004. It commenced operations on February 9, 2005.

The Bank employed 48 persons during the year (2004: 44 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 (ECSE).

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 property and available-for-sale investment securities.

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.

b) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, Bank of Nevis International Limited, Bank of Nevis Mutual Fund Limited and Bank of Nevis Fund Managers Limited. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2005

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

b) Basic of consolidation ... cont'd

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

c) Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

d) 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, unrestricted treasury bills, short-term funds and investments with original maturities of less than or equal to 90 days.

e) 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 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 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 and debt securities for which fair values cannot be measured reliably are recognised at cost or amortised cost respectively less any provision for impairment. Fair value of investments in equity instruments that do not have a quoted market price in an active market is determined by management based on the present value of estimated future cash flows discounted at the current market rate of return.

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 the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities. If a security is impaired, the difference between the security's original cost and its recoverable amount (for debt instruments) or its current fair value (for equity instruments) is recognised in the income statement.

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2005

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

e) Investment securities ... cont'd

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.

f) 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 loans.

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 impairment. Subsequent recoveries are credited to the provision for loan impairment 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 a reduction of the provision for loan impairment in the income statement.

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

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(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

g) 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.

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 its 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 account in determining operating profit. 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) Treasury shares

Where the Bank or its subsidiaries purchases the Bank's equity share capital, the consideration paid including any attributable transaction costs, net of income taxes, is shown as a deduction from shareholders' equity. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

j) 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.

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2005

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... continued

j) Deferred income tax ... cont'd

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.

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.

k) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by shareholders. Dividends for the year which are approved after the balance sheet date, are noted as a subsequent event (note 23).

l) Interest income and expense

Interest income and expenses are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

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

m) 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, 2005

(expressed in Eastern Caribbean dollars)

2 Significant accounting policies ... *continued*

n) Foreign currency translation

Items included in the financial statements of Bank of Nevis International Limited are measured using United States dollars, 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.

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Eastern Caribbean dollars which is the Bank’s functional and presentation currency.

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the closing rates of exchange prevailing at the balance sheet date. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign exchange gains or losses arising 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.

o) Pension costs

The Bank’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, 2005

(expressed in Eastern Caribbean dollars)

3 Financial risk management...*continued*

b) Credit risk

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. Cash deposits with other banks and short-term investments are placed with reputable regional and international financial institutions and Governments.

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, overdraft facilities or letters of credit. 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, 2005

(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	
	\$	%	\$	%	\$	%	\$	%	\$	%
As at June 30, 2005										
St. Christopher and Nevis	171,813,062	45	159,809,055	45	14,885,014	67	25,435,641	82	756,873	100
United States of America and Canada	151,855,181	40	183,341,521	52	3,936,699	18	5,464,480	18	–	–
Other Caribbean states	46,816,803	12	3,060,131	1	2,269,038	10	–	–	–	–
Europe	12,701,175	3	8,477,225	2	995,015	5	–	–	–	–
	383,186,221	100	354,687,932	100	22,085,766	100	30,900,121	100	756,873	100
As at June 30, 2004										
St. Christopher and Nevis	147,849,480	45	121,544,461	40	11,045,969	68	6,383,807	100	3,367,556	100
United States of America and Canada	173,918,048	53	177,328,487	59	4,918,351	31	–	–	–	–
Other Caribbean states	2,449,621	1	975,169	–	188,989	1	–	–	–	–
Europe	2,172,584	1	2,407,929	1	35,116	–	–	–	–	–
	326,389,733	100	302,256,046	100	16,188,425	100	6,383,807	100	3,367,556	100

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(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:

	2005 \$	2005 %	2004 \$	2004 %
St. Christopher and Nevis	99,161,574	100	72,575,353	100

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

	2005 \$	2005 %	2004 \$	2004 %
Tourism	6,025,412	6	2,625,262	4
Government bodies	16,548,090	17	7,170,171	10
Manufacturing	328,550	–	506,054	1
Agricultural	86,210	–	90,256	–
Professional	326,223	–	330,483	–
Business services	2,181,931	3	72,617	–
Land, housing, other	73,665,158	74	61,780,510	85
	99,161,574	100	72,575,353	100

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
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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 a 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.

	2005	2004
Loans and advances		
Loans	10.00%	9.49%
Advances	8.57%	6.59%
Credit card advances	17.50%	18.50%
Investment securities		
Government treasury bills	6	6
Investment securities, fixed deposits and other investments	6	5
Fixed rate bonds	4	1
Customer deposits		
Demand deposits	0	0
Savings deposits	3	2
Time deposits	5	5

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, 2005

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3 Financial risk management...continued

(d) Currency risks ... cont'd

Concentrations of assets, liabilities and credit commitments

	XCD \$	USD \$	EURO \$	GBP \$	CAD \$	Other \$	Total \$
Assets							
Cash and balances due from other banks	15,402,507	111,938,967	5,211,661	2,176,461	256,112	84,146	135,069,854
Treasury bills	54,676,814	—	—	—	—	—	54,676,814
Investment securities	4,131,708	82,377,776	—	—	—	—	86,509,484
Income tax receivable	30,381	—	—	—	—	—	30,381
Loans and advances	86,008,199	10,887,485	—	—	—	—	96,895,684
Other assets	1,161,529	174,810	—	—	—	—	1,336,339
Property, plant and equipment	8,667,665	—	—	—	—	—	8,667,665
Total assets	170,078,803	205,379,038	5,211,661	2,176,461	256,112	84,146	383,186,221
Liabilities							
Customers' deposits	148,850,842	187,551,377	5,170,586	630,593	80,534	—	342,283,932
Other liabilities and accrued expenses	2,567,582	7,269,180	—	—	—	—	9,836,762
Provisions for income tax	60,282	—	—	—	—	—	60,282
Deferred tax	440,671	—	—	—	—	—	440,671
Redeemable shares	—	2,066,285	—	—	—	—	2,066,285
Total liabilities	151,919,377	196,886,842	5,170,586	630,593	80,534	—	354,687,932
Net balance sheet position	18,159,426	8,492,196	41,075	1,545,868	175,578	84,146	28,498,289
Credit commitments	6,075,907	24,824,214	—	—	—	—	30,900,121

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2005

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

(d) Currency risks ... cont'd

	XCD \$	USD \$	EURO \$	GBP \$	CAD \$	Other \$	Total \$
As at June 30, 2004							
Total assets	135,586,492	187,007,733	379,565	1,909,267	1,412,184	94,492	326,389,733
Total liabilities	119,058,186	183,197,860	–	–	–	–	302,256,046
Net balance sheet position	16,528,306	3,809,873	379,565	1,909,267	1,412,184	94,492	24,133,687
Credit commitments	5,880,022	503,785	–	–	–	–	6,383,807

The Bank of Nevis Limited

Notes to Consolidated Financial Statements
June 30, 2005

(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 analyses assets and liabilities of the bank into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

e) Liquidity risk ... cont'd

Maturities of assets and liabilities, June 30, 2005

	Up to 1 year \$	1-5 years \$	Over 5 years \$	Total \$
Assets				
Cash and due from other banks	129,680,054	–	5,389,800	135,069,854
Treasury bills	53,676,814	–	1,000,000	54,676,814
Income tax receivable	30,381	–	–	30,381
Investment securities	20,203,833	40,744,492	25,561,159	86,509,484
Loans and advances	32,329,270	49,551,836	15,014,578	96,895,684
Other assets	1,279,544	56,795	–	1,336,339
Property, plant and equipment	38,896	155,587	8,473,182	8,667,665
	<u>237,238,792</u>	<u>90,508,710</u>	<u>55,438,719</u>	<u>383,186,221</u>
Liabilities				
Customer deposits	327,263,822	15,020,110	–	342,283,932
Other liabilities and accrued expenses	9,836,762	–	–	9,836,762
Provision for income tax	60,282	–	–	60,282
Deferred tax	–	440,671	–	440,671
Redeemable shares	2,066,285	–	–	2,066,285
	<u>339,227,151</u>	<u>15,460,781</u>	<u>–</u>	<u>354,687,932</u>
Net liquidity gap, June 30, 2005	<u>(101,988,359)</u>	<u>75,047,929</u>	<u>55,438,719</u>	<u>28,498,289</u>

Maturities of assets and liabilities, June 30, 2004

Total assets	<u>172,232,356</u>	<u>98,547,343</u>	<u>55,610,034</u>	<u>326,389,733</u>
Total liabilities	<u>293,061,279</u>	<u>9,194,767</u>	<u>–</u>	<u>302,256,046</u>
Net liquidity gap, June 30, 2004	<u>(120,828,923)</u>	<u>89,352,576</u>	<u>55,610,034</u>	<u>24,133,687</u>

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 terms 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.

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

f) Fair value

	Carrying value		Fair value	
	2005	2004	2005	2004
	\$	\$	\$	\$
Financial assets				
Cash and due from other banks	135,069,854	97,936,994	135,069,854	97,936,994
Treasury bills	54,676,814	32,240,183	54,676,814	32,240,183
Loans and advances to customers	96,895,684	70,156,992	96,895,684	70,156,992
Investment securities	86,509,484	116,382,672	86,509,484	116,382,672
Other assets	1,336,339	1,252,731	1,336,339	1,252,731
	374,488,175	317,969,572	374,488,175	317,969,572
Financial liabilities				
Customers' deposits	342,283,932	295,183,338	342,283,932	295,183,338
Other liabilities and accrued expenses	9,836,762	6,333,876	9,836,762	6,333,876
Redeemable shares	2,066,285	—	2,066,285	—
	354,186,979	301,517,214	354,186,979	301,517,214

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 are comprised of cash resources and short-term investments, fixed deposits, interest receivable and other assets. Short-term financial liabilities are comprised of interest payable and certain other liabilities.

- Investment securities

Fair value is based on quoted market values. The fair value of investments in equity investments that do not have a quoted market price in an active market is determined by management based on the present value of estimated future cash flows discounted at the current market rate of return.

- 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.

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2005

(expressed in Eastern Caribbean dollars)

3 Financial risk management...continued

- 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 Business segments

At June 30, 2005, the Group is organised into four main business segments:

- (1) Retail and Corporate banking – incorporating private banking services, customer current accounts, savings, deposits, consumer loans and mortgages and other credit facilities, overdrafts, debit cards;
- (2) Offshore Banking – incorporating private banking services, customer current accounts, savings, deposits, consumer loans and mortgages and other credit facilities, overdrafts to non-residents of Nevis;
- (3) Credit cards – extending credit to customers through various card products and services; and
- (4) Mutual Funds – Open-ended public mutual funds comprising US dollar Money Market investments.

Transactions between the business segments are on normal commercial terms and conditions.

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2005

(expressed in Eastern Caribbean dollars)

4 Business segments ... continued

	Retail and corporate banking \$	Offshore banking \$	Credit cards \$	Mutual fund \$	Eliminating entries \$	Group \$
At June 30, 2005						
External revenue	12,455,923	8,611,057	672,207	385,061	–	22,124,248
Revenue from other segments	1,599,490	197,959	–	–	(1,797,449)	–
Total revenues	14,055,413	8,809,016	672,207	385,061	(1,797,449)	22,124,248
Segment result and profit before tax	1,179,117	3,312,396	25,402	231,612	–	4,748,527
Income tax expense	(22,310)	(81,901)	–	(8,214)	–	(112,425)
Profit for the year	1,156,807	3,230,495	25,402	223,398	–	4,636,102
Segment assets	194,046,841	161,360,490	2,974,645	24,804,245	–	383,186,221
Segment liabilities	182,893,425	169,193,715	489,977	2,110,815	–	354,687,932
Other segment items						
Impairment provision – investments	–	735,387	–	–	–	735,387
Impairment provision – loans	11,735	–	–	–	–	11,735
Depreciation	435,340	74,029	–	–	–	509,369
Capital expenditure	719,662	37,211	–	–	–	756,873

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2005

(expressed in Eastern Caribbean dollars)

4 Business segments ... continued

	Retail and corporate banking \$	Offshore banking \$	Credit cards \$	Mutual fund \$	Eliminating entries \$	Group \$
As June 30, 2004						
External revenues	9,251,511	6,454,409	482,505	–	–	16,188,425
Revenues from other segments	1,367,028	33,204	–	–	(1,400,232)	–
Total revenues	10,618,539	6,487,613	482,505	–	(1,400,232)	16,188,425
Segment result and profit before tax	765,398	2,534,368	(277,821)	–	–	3,021,945
Income tax expense	(174,151)	(57,824)	–	–	–	(231,975)
Profit (loss) for the year	591,247	2,476,544	(277,821)	–	–	2,789,970
Segment assets	151,570,546	173,010,446	1,808,741	–	–	326,389,733
Segment liabilities	139,185,235	163,070,811	–	–	–	302,256,046
Other segment items						
Impairment provision – investments	–	189,365	–	–	–	189,365
Impairment provision – loans	309,694	–	–	–	–	309,694
Depreciation	355,980	66,613	–	–	–	422,593
Capital expenditure	3,132,139	235,417	–	–	–	3,367,556

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(expressed in Eastern Caribbean dollars)

5 Cash and balances due from other banks

	2005	2004
	\$	\$
Cash on hand	1,643,128	1,527,730
Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits	1,695,505	849,365
Cash and current accounts with other banks	51,582,404	33,363,340
Fixed deposits	–	2,219,690
Cheques in the course of collection	503,787	648,089
Short-term marketable securities	57,040,013	41,035,873
	<hr/>	<hr/>
Included in cash and cash equivalents (note 24)	112,464,837	79,644,087
Mandatory reserve deposits with the ECCB	10,781,427	8,246,417
Restricted fixed deposits	5,659,290	8,121,995
Fixed deposits	5,862,421	1,733,400
	<hr/>	<hr/>
	134,767,975	97,745,899
Interest receivable	301,879	191,095
	<hr/>	<hr/>
Total cash and balances due from other banks	135,069,854	97,936,994

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 \$5,862,421 is a certificate of deposit held at the Grenada Co-operative Bank and accrues interest at rates ranging from 4.5% to 0.5% (2004: 5%) per annum. The restricted fixed deposits comprise deposits held with Bank of America of \$269,490 (2004: \$269,490) and \$2,694,900 bearing interest of 1% and 2% (2004: 1.05% and 1%) per annum respectively; a deposit held with Caribbean Credit Card Corporation of \$Nil (2004: \$2,462,705) bearing interest of 4% (2004: 4%) per annum; and a deposit with ABN AMRO of Nil (2004: \$2,694,900), which is not interest-bearing, and with Union Planters Bank of \$2,694,900 (2004: Nil) bearing interest of 3.5%. These deposits are not available for use in the company's day-to-day operations.

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(expressed in Eastern Caribbean dollars)

6 Treasury bills

	Nominal Value 2005 \$	Cost 2005 \$	Nominal Value 2004 \$	Cost 2004 \$
Treasury bills – Government of Saint Christopher and Nevis, maturing August 23, 2005 with interest rate of 6.5%.	43,226,500	42,524,070	23,500,000	23,118,125
Treasury bill – Government of Grenada, maturing on July 8, 2005 with interest rate of 6.44%	2,900,000	2,856,562	–	–
Treasury bills – Nevis Island Government maturing July 26, 2005 with interest rate of 7%.	8,000,000	7,860,000	8,000,000	7,860,000
Included in cash and cash equivalents (note 24)	54,126,500	53,240,632	31,500,000	30,978,125
Treasury bill – Nevis Island Government maturing July 26, 2005 with interest rate of 7%	1,017,813	1,000,000	1,017,813	1,000,000
	55,144,313	54,240,632	32,517,813	31,978,125
Interest receivable	–	436,182	–	262,058
Total treasury bills	55,144,313	54,676,814	32,517,813	32,240,183

The treasury bill with nominal value \$1,017,813 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.

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(expressed in Eastern Caribbean dollars)

7 Investment securities

	2005 \$	2004 \$
Originated debt		
Taurus Services Limited		
Fixed rate bond bearing interest at 10.125%	–	3,187,797
Government of Antigua and Barbuda		
Fixed rate bond bearing interest at 9%	2,609,452	–
Government of Saint Christopher and Nevis		
Fixed rate bond bearing interest at 7.5%	5,000,000	5,000,000
Caribbean Credit Card Corporation Limited		
Unsecured loan bearing interest at a rate of 10%, with no specific terms of repayment.	150,000	150,000
Eastern Caribbean Home Mortgage Bank		
Long-term bond bearing interest at 5.5%	2,600,000	–
Long-term bond bearing interest at 6.75% (2004: 6%)	–	100,000
Total investment securities – originated debt	10,359,452	8,437,797
Available for sale		
Debt securities:		
- unquoted, at amortised cost	–	1,929,613
- quoted, at market value	73,223,389	103,753,937
Equity securities at market value	1,703,097	531,606
Equity securities – unquoted	199,596	398,200
Total investment securities – available for sale	75,126,082	106,613,356
Interest receivable	1,023,950	1,331,519
Total investment securities	86,509,484	116,382,672

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(expressed in Eastern Caribbean dollars)

7 Investment securities...continued

	Originated debt \$	Available for sale \$	Total \$
Balance as of June 30, 2004	8,437,797	106,613,356	115,051,153
Additions	5,294,899	10,815,570	16,110,469
Disposals (sale and redemption)	(3,373,244)	(42,445,981)	(45,819,225)
Gain from change in fair value, net	—	878,524	878,524
Impairment loss	—	(735,387)	(735,387)
	10,359,452	75,126,082	85,485,534

Gains less losses from investment securities comprise:

	2005 \$	2004 \$
Net realised gains (losses) from disposal of available-for-sale financial assets	(22,913)	(72,326)

8 Loans and advances

	2005 \$	2004 \$
Reducing balance loans	88,380,581	59,751,901
Overdrafts	7,619,327	11,089,378
Credit card advances	2,368,958	1,051,073
Discount loans	1,127	290,563
Interest receivable	791,581	392,438
	99,161,574	72,575,353
Less: Allowance for loan impairment	(2,265,890)	(2,418,361)
Total loans and advances	96,895,684	70,156,992

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(expressed in Eastern Caribbean dollars)

8 Loans and advances ... continued

Allowance for loan impairment

	2005	2004
	\$	\$
The movement in allowance for loan impairment is as follows:		
Balance, beginning of year	2,418,361	3,981,418
Provision for loan impairment	24,965	309,694
Recoveries during the year	—	(192,656)
Loans and advances written off during the year as uncollectible	<u>(177,436)</u>	<u>(1,680,095)</u>
Balance, end of year	<u>2,265,890</u>	<u>2,418,361</u>

According to the Eastern Caribbean Central Bank loan provisioning guidelines, the calculated allowance for loan impairment amounts to \$2,619,521 (2004: \$2,174,485).

Included in interest income is an amount for interest on non-productive loans of \$245,074 (2004: \$358,600). The total value of non-productive loans at the end of the year amounted to \$9,726,735 (2004: \$9,517,777).

The interest receivable on non-productive loans and advances but not recognised in the financial statements at the end of the year amounted to \$1,734,846 (2004: \$1,723,115).

9 Other assets

	2005	2004
	\$	\$
Due from merchant processor	2,128,947	2,128,947
Items in-transit	987,345	854,785
Other receivables	134,452	117,720
Prepayments	188,768	191,583
Credit card and stationery stock	83,779	50,124
Miscellaneous	<u>22,842</u>	<u>38,519</u>
	3,546,133	3,381,678
Less: Provision for other receivables and amounts due from merchant processor	<u>(2,209,794)</u>	<u>(2,128,947)</u>
Total other assets	<u>1,336,339</u>	<u>1,252,731</u>

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2005

(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment

	Land \$	Buildings \$	Furniture & fixtures \$	Equipment \$	Computer equipment \$	Motor vehicle \$	Total \$
At 1 July 2003							
Cost	2,272,000	2,417,700	590,500	379,688	1,690,758	55,000	7,405,646
Accumulated depreciation	–	–	(459,437)	(244,793)	(1,170,679)	(55,000)	(1,929,909)
Net book amount	2,272,000	2,417,700	131,063	134,895	520,079	–	5,475,737
Year ended 30 June 2004							
Opening net book amount	2,272,000	2,417,700	131,063	134,895	520,079	–	5,475,737
Additions	1,487,086	1,239,166	47,728	176,728	333,848	83,000	3,367,556
Writeback of depreciation charge	–	–	–	–	–	55,000	55,000
Disposals	–	–	–	–	–	(55,000)	(55,000)
Depreciation charge	–	(68,677)	(60,390)	(63,229)	(214,236)	(16,600)	(423,132)
Closing net book amount	3,759,086	3,588,189	118,401	248,394	639,691	66,400	8,420,161
At 30 June 2004							
Cost	3,759,086	3,656,866	638,228	556,416	2,024,606	83,000	10,718,202
Accumulated depreciation	–	(68,677)	(519,827)	(308,022)	(1,384,915)	(16,600)	(2,298,041)
Net book amount	3,759,086	3,588,189	118,401	248,394	639,691	66,400	8,420,161

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2005

(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment...continued

	Land \$	Buildings \$	Furniture & fixtures \$	Equipment \$	Computer equipment \$	Motor vehicle \$	Total \$
Year ended 30 June 2005							
Opening net book amount	3,759,086	3,588,189	118,401	248,394	639,691	66,400	8,420,161
Additions	274,619	–	18,035	49,513	414,706	–	756,873
Depreciation charge	–	(91,422)	(49,814)	(67,471)	(263,839)	(36,823)	(509,369)
Closing net book amount	4,033,705	3,496,767	86,622	230,436	790,558	29,577	8,667,665
At 30 June 2005							
Cost	4,033,705	3,656,866	656,263	605,929	2,439,312	83,000	11,475,075
Accumulated depreciation	–	(160,099)	(569,641)	(375,493)	(1,648,754)	(53,423)	(2,807,410)
Net book amount	4,033,705	3,496,767	86,622	230,436	790,558	29,577	8,667,665

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 16).

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of June 30, 2005:

	Land \$	Buildings \$	Total \$
Cost	382,279	2,758,340	3,140,619
Accumulated Depreciation	–	(607,750)	(607,750)
Net book values	382,279	2,150,590	2,532,869

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(expressed in Eastern Caribbean dollars)

11 Customers' deposits

	2005 \$	2004 \$
Current accounts	166,105,731	157,374,767
Time deposits	108,353,322	93,074,653
Savings accounts	64,236,693	41,854,168
Merchant reserve accounts	875,656	985,694
Interest payable	2,712,530	1,894,056
	<hr/>	<hr/>
Total customers' deposits	342,283,932	295,183,338

Included in the customers deposits at year end are balances for other financial institutions amounting to \$9,200,713 (2004: \$4,819,523).

12 Other liabilities and accrued expenses

	2005 \$	2004 \$
Accounts payable and accrued expenses	6,685,472	1,765,242
Items-in-transit	1,302,864	3,997,800
Staff bonus payable	873,478	-
Manager's cheques	744,288	190,109
Government stamp duty	230,660	380,725
	<hr/>	<hr/>
Total other liabilities and accrued expenses	9,836,762	6,333,876

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(expressed in Eastern Caribbean dollars)

13 Provision for income tax

	2005 \$	2004 \$
Deferred income tax		
Balance, beginning of year	486,007	145,326
Current tax expense	11,217	100,847
Deferred tax on revaluation of available for sale investment securities, net of tax	<u>(56,553)</u>	239,834
Balance, at end of year	<u>440,671</u>	<u>486,007</u>
Income tax payable		
Income tax payable, beginning of year	252,825	526,109
Payments made during year	(324,132)	(404,412)
Current tax expense	95,745	66,349
Prior year tax expense	<u>5,463</u>	<u>64,779</u>
Income tax payable net, end of year	<u>29,901</u>	<u>252,825</u>
The income tax payable (net) is comprised of:		
	2005 \$	2004 \$
Income tax payable	60,282	252,825
Income tax receivable	<u>(30,381)</u>	<u>—</u>
	<u>29,901</u>	<u>252,825</u>
Income tax expense		
Operating income for the year	<u>4,748,527</u>	<u>3,021,945</u>
Income tax expense at standard rate of 35% (2004: 35%)	1,661,984	1,057,681
Non-deductible expenses	196,871	67,771
Income from tax exempted entity	(2,550)	—
Withholding tax	19,323	15,200
Untaxed interest income	(884,447)	(402,480)
Effect of lower tax rate in subsidiary company	(1,076,529)	(804,167)
Prior year income tax adjustment	5,463	64,779
Deferred tax over (under) provided	11,883	(4,598)
Effect of losses carried forward	<u>180,427</u>	<u>237,789</u>
Actual income tax expense	<u>112,425</u>	<u>231,975</u>

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(expressed in Eastern Caribbean dollars)

13 Provision for income tax ... continued

The company has carry forward income tax losses of \$1,194,906 at June 30, 2005, which have not been confirmed by the Comptroller of Inland Revenue. The losses were incurred as follows:

Year of Loss	\$
2004	679,400
2005	<u>515,506</u>
Total losses carried forward	<u>1,194,906</u>

The deferred tax asset of \$418,217 (\$2004: 237,790) associated with these losses have not been recognized in the financial statements because of the uncertainty of its recovery.

14 Redeemable shares

The redeemable shares held by the Bank have arisen as follows during the year ended June 30, 2005:

	2005	2004
	\$	\$
Bank of Nevis International Mutual Fund Limited 76,674 Class 'B' shares at cost of US\$10 each (16% owned)	<u>2,066,285</u>	<u>—</u>

15 Share capital

	2005	2004
	\$	\$
Authorised share capital 10,000,000 shares of \$1 each	<u>10,000,000</u>	<u>10,000,000</u>
Issued and fully paid 7,478,150 shares of \$1 each	<u>7,478,150</u>	<u>7,478,150</u>

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(expressed in Eastern Caribbean dollars)

16 Revaluation reserves (deficit)

	2005 \$	2004 \$
Balance, beginning of year	(57,030)	1,564,016
Appreciation (depreciation) in market value of investment securities, net of tax	<u>1,046,181</u>	<u>(1,621,046)</u>
Balance, end of year	<u>989,151</u>	<u>(57,030)</u>
Represented by revaluation reserves attributable to:		
Available for sale investment securities	(597,481)	(1,643,662)
Property	<u>1,586,632</u>	<u>1,586,632</u>
	<u>989,151</u>	<u>(57,030)</u>

An independent valuation of land and buildings was conducted in July 2003 (see note 10).

17 Other reserves

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.

Reserve for loan impairment

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

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
June 30, 2005

(expressed in Eastern Caribbean dollars)

18 Other operating income

	2005 \$	2004 \$
Fees and commissions	2,094,803	1,520,130
Foreign exchange	1,947,231	528,099
Credit card fees	445,411	361,653
Rental income	33,000	14,000
Dividend income	54,878	53,389
Miscellaneous revenue	–	134
Total other operating income	4,575,323	2,477,405

19 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:

	2005 \$	2004 \$
Loans to Directors		
Loans outstanding at beginning of year	3,783,863	4,074,621
Loans issued during the year	5,612,045	515,000
Loans repayment during the year	(2,320,364)	(805,758)
Loans outstanding at end of year	7,075,544	3,783,863

Interest income earned on directors' loans and advances during the year is \$568,825 (2004: \$300,337). Interest rates on directors' loans range from 9% to 11%. The Bank's commitment to extend credit to directors in the future, amounted to \$171,306 at the year end.

	2005 \$	2004 \$
Deposits by Directors		
Deposits at beginning of year	13,409,822	4,937,192
Deposits received during the year	5,529,122	8,835,976
Deposits repaid during the year	(633,214)	(363,346)
Deposits at end of year	18,305,730	13,409,822

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

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19 Related party transactions ... *continued*

Interest expense paid on directors' deposits during the year is \$982,109 (2004: \$442,524). Interest rates on directors' deposits range from 2% to 8%.

Legal fees paid on normal commercial terms to R. L. Kawaja and Associates, a law firm controlled by the Chairman amounted to \$102,666 (2004: \$100,816). Rental income was also earned from R.L. Kawaja and Associates of \$33,000 (2004: \$14,000).

At the year end there was a non-productive loan due from a company whose principal shareholder is a director of the Bank. The balance on the facility at the year end amounted to \$343,459. The provision recorded in respect of the non-productive loan is \$167,727.

20 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.

	2005 \$	2004 \$
Net profit attributable to shareholders	4,636,102	2,789,970
Weighted average number of ordinary shares in issue	7,478,150	7,478,150
	<hr/>	<hr/>
Basic and diluted earnings per share	0.62	0.37

21 Pension liability

In 2003 the Bank introduced a defined contribution pension scheme for its employees. Contributions to the pension scheme for the year ended June 30, 2005 amounted to \$93,184 (2004: \$80,862).

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

June 30, 2005

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22 Contingencies and commitments

Pending litigation

The previously reported lawsuit 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 liability including costs of US\$27,000 was accrued for. The plaintiff has appealed and the Bank filed a Counter Notice of Appeal. The appeal filed by the plaintiff was dismissed and Bank's counter appeal was upheld. BONI was awarded costs of EC\$130,000 in relation to the plaintiff's appeal and EC\$86,666 in relation to their appeal. The amounts remain outstanding and have not been recognized in the accounts.

A customer, Capital Resources Limited, has commenced an action against the Bank to recover a deposit which they claim the Bank is holding in their name. These funds were frozen by a local court order and a further court order was issued in the United States which resulted in the equivalent funds being deducted from the Bank's account in the United States. The Bank holds the position that the funds deducted from the Bank's account in the United States represent a repayment of Capital Resources' deposit funds. The High Court in Nevis granted a stay of proceedings pending determination in the United States of the right of the claimants to the funds in issue. However, the claimant has indicated their intentions to appeal, hence the outcome of this contingency is not presently determinable.

The Bank is a defendant in a lawsuit brought by the 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. The matter is set for trial in October 2005. The outcome is not presently determinable.

Taxation

The company was assessed tax liabilities of \$352,035 by the Inland Revenue Department for the years ended June 30, 2002 to 2004, in respect of certain expenses that have been disallowed for tax purposes. The company has accepted and paid \$77,295 of the assessments and is disputing the remaining portion of \$274,740. The company's directors believe that there are strong grounds upon which to challenge the assessment and a formal objection has been made. The outcome of this review is not presently determinable and no provision has been made in these financial statements for the disputed amount.

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
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22 Contingencies and commitments ... continued

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:

	2005 \$	2004 \$
Undrawn commitments to extend advances	<u>30,900,121</u>	<u>6,383,807</u>

23 Dividends

The financial statements reflect a dividend of \$1,308,677 for the year ended June 30, 2004 which was approved at the eighteenth Annual General Meeting held on December 9, 2004 and paid subsequently.

A dividend in respect of 2005 of EC\$0.20 per share (2004 actual dividend EC\$0.175 per share) amounting to a total of EC\$1,495,630 (2004 actual EC\$1,308,677) is proposed. The financial statements for the year ended June 30, 2005 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, 2006.

24 Cash and cash equivalents

	2005 \$	2004 \$
Cash and balances due from other banks (note 5)	112,464,837	79,644,087
Treasury bills (note 6)	<u>53,240,632</u>	<u>30,978,125</u>
Total cash and cash equivalents	<u>165,705,469</u>	<u>110,622,212</u>

The Bank of Nevis Limited
Notes to Consolidated Financial Statements
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25 General and administrative expenses

	2005 \$	2004 \$
Salaries and related costs	3,182,784	2,672,285
Credit card processing expense	426,557	350,290
Advertisement and promotion	345,620	189,540
Stationery and supplies	271,796	228,841
Insurance expense	245,755	130,499
Telephone, telex and cables	215,147	167,923
Professional fees	182,894	297,784
Debit card expenses	179,390	–
Legal fees	140,853	147,218
Repairs and maintenance	138,171	75,749
Credit card start up expense	122,833	282,656
Utilities	107,580	89,413
Travel and entertainment	99,988	165,349
Credit card chargeback loss	97,415	146,242
Equipment repairs	97,157	108,121
Printing costs	89,901	49,144
Provision for doubtful receivables	80,847	–
Taxes and licences	75,075	66,354
Stamps and postage	58,053	48,486
Rent	57,601	44,228
Subscriptions and fees	54,047	84,906
ECSE fees and expenses	31,873	30,118
Miscellaneous expenses	30,914	44,692
Cleaning	18,016	20,600
Online banking expenses	15,941	–
Secretarial	12,228	12,234
Security services	4,861	9,071
Cash shorts	3,055	2,848
Provision for lawsuit	(72,762)	13,475
Gain on disposal of assets	–	(35,001)
Total general and administrative expenses	6,313,590	5,443,065

The Bank of Nevis Limited

Notes to Consolidated Financial Statements

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(expressed in Eastern Caribbean dollars)

26 Comparative figures

Certain items in the notes to the consolidated financial statements have been classified differently in order to achieve a clearer or more appropriate 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:

- a) Financial risk management (note 3) – The amounts included in the economic sector risk concentration note for commercial and personal loans for \$72,575,353 have been reclassified as follows:

	\$
Government bodies	7,170,171
Manufacturing	506,054
Agricultural	90,256
Professional	330,483
Business services	72,617
Land, housing, other	61,780,510
Tourism	<u>2,625,262</u>
	<u>72,575,353</u>

- b) Investment securities (note 7) – An amount of \$398,200 included in the available for sale securities has been reclassified from debt securities – unquoted, at amortised cost to equity securities – unquoted.

