

**MANAGEMENT DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**  
For the 2<sup>nd</sup> quarter ended December 31, 2003

**Introduction**

This report includes forward-looking statements about objectives, strategies and expected financial results. These statements are inherently subject to risks and uncertainties beyond the Bank's control including, but not limited to, economic and financial conditions globally, technological development, competition, and regulatory developments in St. Kitts and Nevis and elsewhere. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements. The reader is therefore cautioned not to place undue reliance on these statements.

**Income Statement**

**Net Income**

Net operating income before tax was \$8.5 million at the end of the second quarter ended December 31, 2003, a 28.6% decrease, compared with \$11.9 million for the same period last year. This decline in income is attributed mainly to a 15.7% increase in total expenses. Total expenses rose from \$25.4 million to \$29.4 million for the same period. On the other hand, total income moved slightly from \$37.3 million at December 31, 2002 to \$37.8 million at December 31, 2003. This represents a 1.3% decrease.

**Interest Income**

Net interest income was recorded as \$6.1 million at December 31, 2003, down 42.5% from \$10.6 million at the end of the same period in 2002. This decrease in net interest income was due mainly to a dip in interest income from loans and advances, which moved from \$23.8 million in December 2002 to \$20.5 million in December 2003. Also, interest on deposits rose from \$18.5 million in December 2002 to \$20.2 million in December 2003.

## **Non-Interest Income**

The company remains committed to maintaining consistent growth in non-interest income to boost profits and circumvent the impact of the decline in the net interest margin. This is evident by the fact that total non-interest income increased to \$11.6 million at December 31, 2003, up 41.4%, from \$8.2 million for the same period last year. This increase stemmed primarily from commission, which increased from \$6.4 million to \$8.8 million for the same period. The increase in commission resulted from an increase in E-Business revenue. Service charge on loans and foreign business transactions such as wire transfers and stop payments also contributed to the increase in non-interest income. Increases in income from service charge are the direct result of the decision taken by management to revise the fee structure.

The Bank will continue to explore new avenues in an effort to augment all components in its income base.

## **Expenses**

At December 2003, total operating expenses were \$9.2 million at December 31, 2003, compared with \$6.9 million for the same period last year. The 33.3% increase in operating expenses was due mainly to foreign bank charges, additional costs relating to further automation of our retail banking technology infrastructure, the ongoing marketing campaign to re-introduce products and services in the marketplace, donations and sponsorship, and fees incurred to list on the Eastern Caribbean Securities Exchange.

The company anticipates lower operating expenses over the next quarter through continued emphasis on cost containment and operational efficiencies.

## **Balance Sheet**

### **Assets**

Total assets remained fairly constant at \$1.1 billion for the period 30 June 2003 to 31 December 2003. There were increases in cash, money at call, loans and advances, which were offset by decreases in bank premises and equipment.

## **Deposits**

Customer deposits are the company's primary source of funds. These deposit funds were \$862.2 million at December 31, 2003, compared with \$828.4 million at 30 June 2003. The increase in deposits from customers is due to the policy of paying above market rates on all accounts. Management will continue to monitor activities in this area to ensure the company continues to retain a large portion of its core deposits.

## **Loans and Advances**

Total loans and advances increased from \$416.8 million at the June 30, 2003 to \$445.7 million at December 31, 2003. This increase was associated with the lower rate offered on first time home mortgages. The relatively low interest rate environment gave many customers the opportunity to substantially improve their financial position through lower loan repayments. Net loans and advances as a percentage of total assets accounted for 39.7% at December 31, 2003, compared with 39.3% at June 30, 2003. Provision for loan losses remained constant at \$9.3 million over the review period.

## **Shareholders' Equity**

The company continues to realize its goal of providing a satisfactory return to shareholders and increasing the value of their investment. Shareholders' Equity was \$142.3 million at December 31, 2003, compared with \$133.8 million at June 30, 2003. This represents a 6.4% increase, resulting from the net operating income before tax for the period.

## **Risk Management**

The management of risks has emerged as one of the greatest challenges that bank now face. This challenge must be tackled by developing new approaches and by adjusting current processes.

The Bank has taken up this challenge and has placed increased emphasis on the management of risks through the systematic development of tools and strategies to mitigate these risks. Risks are continuously being evaluated in terms of the level of impact they can have on income and asset values.

While the bank places strong emphasis on the management of risks, it does so with the objective of balancing risk taking with expected returns to our shareholders.

## **Outlook**

The second quarter provides confirmation that the company is delivering on its commitment to generate value for its shareholders. The company continues to closely control discretionary spending while investing as necessary in key resources, needed to remain competitive. Over the next two quarters, we will place renewed emphasis on cost containment, risk management and operational efficiency. We will also continue to build on our existing infrastructure and technology to enhance our products and services and focus on initiatives to augment our net interest income base.