

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

UNAUDITED

FINANCIAL STATEMENTS

FOR THE SECOND QUARTER ENDED

DECEMBER 31, 2005

SKNA National Bank Ltd. Comptroller Division

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

UNAUDITED FINANCIAL STATEMENTS **FOR THE SECOND QUARTER ENDED DECEMBER 31, 2005**

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**MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**
For the 2nd quarter ended December 31, 2005

Introduction

The Company's financial condition and results of operations for the second quarter ended December 31, 2005 are discussed below. The 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 Interest Income

In recent years, management took steps to streamline its business and better manage costs in light of difficult market and economic conditions. The results of these changes are reflected in the improvement in net interest income.

At the end of the second quarter, the Company recorded net interest income of \$26.8 million or 127.1% more than the \$11.8 million recorded for the same period last year. Higher interest income largely influenced net interest income for the period.

At December 31, 2005 total interest income was \$53.9 million or \$17.8 million higher than the \$36.1 million at December 31, 2004. With this increase, net interest income now constitutes 40.4% of total revenue, compared with 22.4% for the same period last year.

Non-Interest Income

Non-interest income is largely generated from service charges, commission and other service fees. At 31 December 2005, fee-based revenue was \$12.4 million or 25.3% lower than the \$16.6 million at December 31, 2004.

The decrease in non-interest income is due mainly to large fluctuations in currency rates, particularly the euro currency. Management anticipates an improvement in non-interest income due to continued prudent measures to circumvent the impact of unexpected changes in foreign exchange rates, and operational efficiencies.

Expenses

Total expenses were \$47.1 million at 31 December 2005. This compares with \$39.3 million at 31 December 2004 and represents an increase of 19.8%. The increase reflected higher business volumes and compensation costs. Increased staff benefits, which include cost of living allowances and a retirement plan, were the main contributors to the increase in compensation costs.

The company anticipates lower operating expenses over the next quarter through continued emphasis on cost containment, effective risk management and operational efficiencies. Cost savings will also be attained through continued improvements in the technology infrastructure.

Net Income

The net result of the Bank operations was an increase in net income. At December 31, 2005 net income was \$19.3 million, up 45.1% over the prior year's earnings of \$13.3 million. The increase in net income was driven by higher interest revenues and therefore net interest income, which more than offset higher expenses in the six-month period.

The Company believes that the improved performance indicates that the foregoing strategies have begun to yield results, and that by continuing to focus on managing expenses, especially the cost of funds, we will be well positioned to capitalize on improvements in the business environment.

Balance Sheet

Assets

At December 31, 2005 total assets fell slightly by 3.5% when compared to total assets at June 30, 2005. The decrease over June 2005 results was due mainly to a reduction in short term funds.

Deposits

At December 31, 2005 customer deposits were 6.6% less than that recorded at the end of June 2005. A rise in consumer spending created a higher demand for goods and services, which led to a boost in the demand for loans. Consequently, a substantial amount of deposits were withdrawn by other financial institutions to fund the growing demand for loans in their own territory, and this in turn contributed to the decrease in total deposits.

Although total deposits decline during the quarter, there was a generic increase in savings. At December 31, 2005 public and private sector savings accounted for 18.8% of customer deposits compared to 17.2% at June 30, 2005.

The Bank recognizes the importance of its core deposit base and as such management continues to monitor activity in this area. Based on historical experience, and its current pricing strategy the Bank believes that it will continue to retain a large portion of its deposit accounts.

Loans and Advances

Loans and advances increased 13.3% to \$783.9 million for the period ended December 31, 2005 compared with \$691.6 million for June 30, 2005. Net loans and advances as a percentage of total assets accounted for 54.0% at December 31, 2005 compared with 46.0% at June 31, 2005.

The growth in loans and advances reflects the attractive interest rate levels, which has contributed to the increased economic activity within the federation, particularly in the construction sector. Household lending was positively affected as more credit was drawn upon to finance housing market activity and increase consumption.

Over the next quarter and beyond, management will continue to review the loan portfolio to ensure that loan growth exceeds previous periods' performance.

Shareholders' Equity

The company continues to realize its goal of providing a satisfactory return to shareholders and increasing the value of investment. Shareholders' Equity was \$193.1 million at December 31, 2005 compared with \$173.8 million at June 30, 2005. This represents an 11.1% increase, resulting from the net operating income for the period.

Corporate Governance

The Board of Directors continues to search for innovative ways to improve corporate governance, risk management, ethical conduct, best practices and maintenance of international standards. In this regard the Board is focused on:

- Adoption and implementation of corporate governance guidelines and codes of ethics and business conduct.
- Continued emphasis on the Corporate Strategic Plan, which includes management's philosophy, economic outlook and conditions, performance targets and plans for implementation of strategies over the next 5 years.

Additionally, the Board will continue to take vital steps towards culturing a strong corporate governance environment, improving transparency and fostering high levels of integrity, thereby strengthening shareholder confidence in the Company.

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 non-interest income base and increase assets and customer deposits.

BALANCE SHEET AS AT DECEMBER 31, 2005

Audited Year Ended <u>June 2005</u> \$	Assets	Notes	<i>Unaudited</i> Quarter Ended <u>December 2005</u> \$	<i>Unaudited</i> Quarter Ended <u>December 2004</u> \$
636,534,157	Cash and Money at call	4	500,637,079	495,812,484
691,645,027	Loans and Advances	5	783,889,596	645,966,139
119,510,038	Investments	6	115,851,710	124,080,132
17,750,000	Investment in Subsidiaries	7	17,750,000	17,750,000
4,950,478	Customers' Liability under Acceptances, Guarantees, and Letters of Credit (per contra)	8	4,969,100	4,658,515
16,905,977	Bank Premises and Equipment	9	17,275,977	17,281,454
16,484,965	Other Accounts	10	10,497,370	8,019,330
374,418	Deferred Tax	11	374,418	273,945
1,504,155,060	Total Assets		1,451,245,250	1,313,841,999
	Liabilities			
17,037,324	Due to other Banks		1,358,743	8,074,531
1,109,217,715	Customers' Deposits	12	1,035,660,974	959,179,321
11,473,856	Deferred Credit	13	11,473,856	11,473,856
1,944,300	Due to Subsidiaries		1,944,300	
4,950,478	Acceptances, Guarantees and Letters of Credit (per contra)	8	4,969,100	4,658,515
185,717,447	Accumulated Provisions, Creditors, and Accruals	14	202,723,586	170,460,723
1,330,341,120	Total Liabilities		1,258,130,559	1,153,846,946
	Shareholders' Equity			
81,000,000	Issued Share Capital	15	81,000,000	81,000,000
3,877,424	Share Premium		3,877,424	3,877,424
74,756,122	Reserves	16	74,756,122	60,676,122
	Profits (net of estimated tax)		19,300,751	13,344,645
14,180,394	Retained Earnings		14,180,394	1,096,862
173,813,940	Total Shareholders' Equity		193,114,691	159,995,053
1,504,155,060	Total Liabilities and Shareholders' Equity		1,451,245,250	1,313,841,999

Statement of Income for the period ended December 31, 2005

Audited Year Ended June 2005		Notes	Unaudited Quarter Ended December 2005 \$	Unaudited Quarter Ended December 2004 \$
INCOME				
59,926,435	Interest - Loan & Advances and Fees		42,943,846	28,422,102
18,428,619	- Investments and Deposits with other Banks		10,992,035	7,675,900
78,355,054	Total Interest Income		53,935,881	36,098,002
50,423,508	Less: - Interest Expense		(27,151,079)	(24,265,596)
27,931,546	Net Interest Income	17	26,784,802	11,832,406
Non-Interest Income				
1,943,642	Gain (Loss) on Foreign Exchange		(7,715,973)	1,080,557
389,283	Dividend		104,730	43,550
1,508,435	Service Charge		538,670	847,544
27,352,134	Commission		18,682,358	14,021,915
1,111,075	Miscellaneous		832,857	563,943
32,304,569	Total Non-Interest Income		12,442,642	16,557,509
60,236,115	Operating Income		39,227,444	28,389,915
NON-INTEREST EXPENSES				
5,168,580	Establishment	18	2,365,384	2,207,263
490,382	Loss on Marketable Securities, net		824,540	1,133
416,141	Communication		187,313	184,290
11,754,704	Staff Employment		5,359,931	4,640,893
92,185	Travelling		48,860	46,943
594,577	Stationery and Supplies		240,118	235,363
263,879	Miscellaneous		147,544	183,037
109,567	Audit Fees and Professional Expenses		1,729	367
722,644	Other Finance Charges		358,562	360,404
19,612,659	Total Non-Interest Expenses		9,533,981	7,859,693
40,623,456	Net Operating Income before Tax		29,693,463	20,530,223
(13,503,777)	Tax Expenses		(10,392,712)	(7,185,578)
27,119,679	Net Income		19,300,751	13,344,645
0.33	Earnings per share (diluted/basic)		0.24	0.16

STATEMENT OF CHANGES IN EQUITY
For The Quarter Ended December 31, 2005

Notes	Share Capital \$	Share Premium \$	Statutory Reserves \$	Loan Loss Reserves \$	General Reserves \$	Revaluation Reserves \$	Retained Earnings \$	Total Shareholders' Equity \$
Balance at June 30, 2004	81,000,000	3,877,424	26,954,749	7,500,000	23,587,231	2,461,142	12,031,862	157,412,408
Net Income	-	-	-	-	-	-	13,344,645	13,344,645
Appreciation in market value of investment securities	16	-	-	-	-	173,000	-	173,000
Dividends	20	-	-	-	-	-	(10,935,000)	(10,935,000)
Balance at December 31, 2004	81,000,000	3,877,424	26,954,749	7,500,000	23,587,231	2,634,142	14,441,507	159,995,053
- Income Tax, net	-	-	-	-	-	-	(36,147)	(36,147)
- As Restated	81,000,000	3,877,424	26,954,749	7,500,000	23,587,231	2,634,142	14,405,360	159,958,906
Net Income	-	-	-	-	-	-	13,775,034	13,775,034
Appreciation in market value of investment securities	16	-	-	-	-	80,000	-	80,000
Transfer to Reserves	16	-	-	8,000,000	-	6,000,000	-	(14,000,000)
Balance at June 30, 2005	81,000,000	3,877,424	34,954,749	7,500,000	29,587,231	2,714,142	14,180,394	173,813,940
Net Income	-	-	-	-	-	-	19,300,751	19,300,751
Balance at December 31, 2005	81,000,000	3,877,424	34,954,749	7,500,000	29,587,231	2,714,142	33,481,145	193,114,691

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LTD.
STATEMENT OF CASHFLOW
FOR THE PERIOD ENDED DECEMBER 31, 2005

Audited Year Ended June 2005		Notes	Quarter Ended December 2005 \$	Quarter Ended December 2004 \$
	Cash flows from operating activities			
40,623,456	Operating Income before taxation		29,693,463	20,530,223
	Adjustments for:			
1,599,965	Depreciation		923,568	923,568
321,889	Provision for loan losses		-	-
(36,147)	Prior year adjustments		-	-
57,372	Loss on disposal of fixed assets		-	-
42,566,535	Operating income before changes in operating assets and liabilities		30,617,031	21,453,791
	<i>(Increase) decrease in operating assets:</i>			
(174,808,738)	Net loans and advances		(92,244,569)	(128,807,962)
(9,168,293)	Other accounts		5,987,595	1,912,904
	<i>Increase (decrease) in operating liabilities:</i>			
13,028,745	Due to other banks		(15,678,581)	4,065,952
124,982,644	Customers' deposits		(73,556,741)	(25,055,750)
1,944,300	Due to subsidiaries		-	-
34,751,425	Accumulated provisions, creditors, and accruals		15,907,302	19,346,212
33,296,618	Cash (used in) generated from operations		(128,967,963)	(107,084,853)
(7,984,437)	Income tax paid		(9,293,875)	(3,984,438)
25,312,181	Net cash generated from (used in) operating activities		(138,261,838)	(111,069,291)
	Cash flows from investing activities			
(803,391)	Purchase fixed assets		(1,293,568)	(493,497)
(37,746,762)	(Increase) decrease in special term deposits		(2,144,592)	(26,329,531)
(78,279)	Net (increase) decrease in investment securities		3,658,328	(4,728,373)
19,800,000	Investment in subsidiaries		-	19,800,000
(18,828,432)	Net cash generated from (used in) investing activities		220,168	(11,751,401)
	Cash flows from financing activities			
(10,935,000)	Dividend paid		-	(10,935,000)
(10,935,000)	Net cash used in financing activities		0	(10,935,000)
(4,451,251)	(Decrease) increase in cash and cash equivalents		(138,041,670)	(133,755,692)
493,284,566	Cash and cash equivalents at beginning of period		488,833,315	493,284,566
488,833,315	Cash and cash equivalents at end of period	4	350,791,645	359,528,874

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2005

1. Incorporation

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

2. Principal Activity

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

3. Significant Accounting Policies

These accounting policies are summarized below: -

(i) Basis of preparation

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

(ii) Cash and Cash Equivalents

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

(iii) Depreciation

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

(iv) Currency

All values are expressed in Eastern Caribbean Currency.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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(v) Foreign Currency

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

(vi) Investments

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

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

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

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

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2005

Investments (continued)

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

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

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

(vii) Loans and Advances

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

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

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

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

(viii) Taxation

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2005

(ix) Income

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

(x) Comparative Figures

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

(xi) Reserve Requirement

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

4. Cash and Money at call	<u>June</u> <u>2005</u> \$	<u>Dec</u> <u>2005</u> \$
Cash in Hand	11,353,640	11,620,024
Deposits with other financial institutions	82,112,226	28,664,502
Items in the course of collection	1,246,963	5,641,205
Deposit balance with ECCB*	102,876,113	61,562,187
Term Deposits	291,244,373	243,303,727
	-----	-----
	488,833,315	350,791,645
Special Term Deposits	147,700,842	149,845,434
	-----	-----
	636,534,157	500,637,079
	=====	=====

***Eastern Caribbean Central Bank**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2005

4. <i>Cash and Money at call</i> (continued)	June 2005	Dec 2005
	\$	\$
Term deposits pledged for the benefit of Visa International and Mastercard in support of the Bank's international card business	67,808,424	68,284,793
	-----	-----
5. Loans and Advances		
Performing loans and advances	627,855,073	735,571,189
Non-performing loans and advances	72,092,272	56,620,725
	-----	-----
Gross	699,947,345	92,191,914
Less provision for doubtful debts	(8,302,318)	(8,302,318)
	-----	-----
Net	691,645,027	784,189,596
	=====	=====

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

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

Within one year	542,232,927	583,984,404
One to three years	11,911,668	13,702,401
Three to five years	12,396,813	41,324,051
Over five years	133,405,937	153,181,058
	-----	-----
Gross	699,947,345	792,191,914
	=====	=====

5.2 Sectoral Analysis

Consumers	104,257,244	105,365,229
Agriculture, fisheries & manufacturing	285,843,149	284,702,374
Construction & land development	94,426,935	88,107,869
Distributive trades, transportation & storage	12,558,685	12,287,112
Tourism, entertainment & catering	27,421,228	28,000,658
Financial Institutions	25,329,293	26,322,700
State, statutory bodies & public utilities	137,156,222	232,108,791
Professional & other services	12,954,589	15,297,181
	-----	-----
	699,947,345	792,191,914
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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<i>Loans and Advances continued</i>	June	Dec
	<u>2005</u>	<u>2005</u>
	\$	\$
5.2 Provision for Doubtful Debts		
Balance brought forward	7,980,429	8,302,318
Charge-offs and Write-offs	-	-
Specific charge against income	321,889	-
	-----	-----
	8,302,318	8,302,318
	=====	=====

6. Investments

Financial Assets at Fair Value Through Profit and Loss

Corporate Bonds	8,714,084	8,508,183
U. S. Governments Securities	21,265,072	14,171,771
	-----	-----
	29,980,010	22,679,954

Available-for-sale – quoted

East Caribbean Financial Holding Company Ltd 230,000 shares at \$7.85 each (market price)	1,805,500	1,805,500
	-----	-----

Available-for-sale – unquoted

Treasury Bills maturing February 21, 2006 with interest rate at 6.5 per cent	80,767,351	80,767,351
National Commercial Bank of Grenada Ltd 62,100 ordinary shares at a cost of \$10 each	776,250	776,250
Wireless Ventures (St. Kitts-Nevis) Ltd 669 shares at a cost of US\$100 each	-	1,807,899
Caribbean Credit Card Corporation 550 shares at a cost of \$1,000 each	550,000	550,000
Cable Bay Hotel development Company Ltd 4,009 shares at a cost of US\$100 each	1,083,366	1,565,895
	-----	-----
	83,176,967	85,467,395

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2005

6. *Investments* (continued)

<u>Available-for-sale – unquoted</u>	<u>June</u> <u>2005</u> \$	<u>Dec</u> <u>2005</u> \$
Eastern Caribbean Home Mortgage Bank 905 shares at cost of \$100 each	90,500	90,500
Eastern Caribbean Securities Exchange 10,000 Class “C” shares at a cost of \$10 each	100,000	100,000
TCI Bank Limited 500,000 share at a cost of US\$1.00 each	-	1,351,300
Society for Worldwide Inter Bank Financial Telecommunication 1 share at a cost of \$5,148	5,148	5,148
Antigua Barbuda Investment Bank 185,000 shares at a cost of \$3 each	555,000	555,000
	----- 750,648	----- 2,101,948
	----- 83,927,615	----- 87,569,343
 <u>Held-to-maturity</u>		
Debentures – Government of St. Kitts-Nevis maturing July 15, 2008 with interest rate at 8%	1,000,000	1,000,000
	-----	-----
 <u>Originated Debt</u>		
Eastern Caribbean Home Mortgage Bank Long-term bond maturing July 1, 2010 with interest rate at 5.5% (2004 – 6.75%)	1,000,000	1,000,000
Antigua Commercial Bank 10% interest rate Series A bond maturing December 31, 2016	1,496,913	1,496,913
Caribbean Credit Card Corporation unsecured loan with interest rate at 10% with no specific terms of repayment	300,000	300,000
	----- 2,796,913	----- 2,796,913
	----- 119,510,038	----- 115,851,710
Balance as at end of period	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2005

	June	Dec
	<u>2005</u>	<u>2005</u>
	\$	\$

6. *Investments (continued)*

Securities classified according to currency

United States Currency Securities	29,980,010	22,679,954
Eastern Caribbean Currency Securities	89,530,028	93,171,756
	119,510,038	115,851,710
	119,510,038	115,851,710

7. **Investment in Subsidiaries**

National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited - 5,750,000 shares at \$1 each	5,750,000	5,750,000
St. Kitts-Nevis Mortgage and Investment Company Limited 12,000,000 shares at \$1 each (2004 – 31,800,000 shares)	12,000,000	12,000,000
	17,750,000	17,750,000
	17,750,000	17,750,000

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

Letters of Credit	853,913	872,535
Guarantees (credit cards)	4,096,565	4,096,565
	4,950,478	4,969,100
	4,950,478	4,969,100

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
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9. Bank Premises and Equipment

COST	<u>Total</u>	<u>Property</u>	<u>Equipment</u>	<u>Furniture And Fittings</u>	<u>Motor Vehicles</u>	<u>Reference Books</u>	<u>Projects Ongoing</u>
At June 30, 2005	28,914,460	17,717,753	9,326,087	1,302,285	389,000	122,953	56,382
Additions	1,341,735	202,883	950,575	8,277	180,000	-	-
Disposals	(170,000)	-	-	-	(170,000)	-	-
>>>	30,086,195	17,920,636	10,276,662	1,310,562	399,000	122,953	56,382
Accumulated Depreciation							
At June 30, 2005	12,008,483	3,109,035	7,553,469	1,074,731	185,132	86,116	-
Charge for Year	923,568	211,086	633,656	30,886	39,900	8,040	-
Eliminated on Disposal	(121,833)	-	-	-	(121,833)	-	-
>>>	12,810,218	3,320,121	8,187,125	1,105,617	103,199	94,156	-
Net Book Value							
At Dec 31, 2005	17,275,977	14,600,515	2,089,537	204,945	295,801	28,797	56,382
At June 30, 2005	16,905,977	14,608,718	1,772,618	227,554	203,868	36,837	56,382

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	June	Dec
	<u>2005</u>	<u>2005</u>
	\$	\$
10. Other Accounts		
Interest Receivable	3,531,034	7,751,258
Other Receivables	645,724	1,347,194
Prepayments	12,007,009	1,049,605
Stationery and Cards Stock	301,198	349,313
	-----	-----
	16,484,965	10,497,370
	=====	=====
11. Taxation		
11.1 Tax Expense		
Current tax	13,604,250	10,392,712
Deferred tax	(100,473)	-
	-----	-----
	13,503,777	10,392,712
	=====	=====
Income for the year before tax	<u>40,623,456</u>	<u>29,693,463</u>
Income tax at the applicable tax rate of 35%	14,218,210	10,392,712
Non-deductible expenses	1,396,486	76,694
Withholding tax	-	-
Deferred tax over provided	61,808	-
Income not subject to tax	(2,172,727)	(76,694)
	-----	-----
	13,503,777	10,392,712
	=====	=====
11.2 Deferred Tax		
Balance brought forward	(273,945)	(374,418)
Recovered during the year, net	(100,473)	-
	-----	-----
	(374,418)	(374,418)
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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	June	Dec
	<u>2005</u>	<u>2005</u>
	\$	\$
12.	Customers' Deposits	
	1,109,217,715	1,035,660,974
	=====	=====

Analysis of Deposits by Sector

Consumers	243,871,652	253,785,916
Private Businesses and Subsidiaries	283,155,832	260,768,806
State, Statutory Bodies and Non-Financial Institutions	439,344,544	447,664,543
Others	142,845,687	73,441,709
	-----	-----
	1,109,217,715	1,035,660,974
	=====	=====

13. Deferred Credit

Balance brought forward	11,473,856	11,473,856
Subtraction: -	-	-
	-----	-----
	11,473,856	11,473,856
	=====	=====

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

14. Accumulated Provisions, Creditors and Accruals

Interest Payable	21,749,211	28,158,641
Income Tax Payable	13,937,710	15,036,913
Managers Cheques and Bankers Payments	1,361,178	1,114,326
Unpaid Drafts on other banks	2,534,864	2,397,637
Bonds Payable	93,540,229	93,540,229
Other Payables	52,594,255	62,475,840
	-----	-----
	185,717,447	202,723,586
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2005

	June 2005	Dec 2005
	\$	\$
15. Share Capital		
Authorised: -		
135,000,000 Ordinary Shares of \$1 each	135,000,000	135,000,000
	=====	=====
Issued and Fully Paid: -		
81,000,000 Ordinary Shares of \$1 each	81,000,000	81,000,000
	=====	=====
16. Reserves		
Statutory Reserve	34,954,749	34,954,749
General Reserve	29,587,231	29,587,231
Loan Loss Reserve	7,500,000	7,500,000
Revaluation Reserve	2,714,142	2,714,142
	-----	-----
	74,756,122	74,756,122
	=====	=====
<u>Statutory Reserve</u>		
Balance brought forward	26,954,749	34,954,749
Addition	8,000,000	-
	-----	-----
	34,954,749	34,954,749
	=====	=====
<p>In accordance with Section 14 (1) of Saint Christopher and Nevis Banking Act No. 6 of 1991, the St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain a reserve fund into which it shall transfer not less than 20% of its net profit of each year whenever the reserve fund is less than the Bank paid-up capital.</p>		
<u>General Reserve</u>		
Balance brought forward	23,587,231	29,587,231
Amount transferred in	6,000,000	-
	-----	-----
	29,587,231	29,587,231
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2005

	<u>June</u>	<u>Dec</u>
	<u>2005</u>	<u>2005</u>
	\$	\$
<u>Loan Loss Reserve</u>	7,500,000	7,500,000
	=====	=====
<u>Revaluation Reserve</u>		
Property	1,908,642	1,908,642
Available-for-sale securities (on adoption of IAS 39)	552,500	552,500
Appreciation in market value of investment securities	253,000	-
Available-for-sale securities	-	253,000
	-----	-----
	2,714,142	2,714,142
	=====	=====

During December 1996 a valuation on property was carried out on the Bank's land and buildings by Vincent Morton & Associates Limited - an independent valuer.

17. Net Interest Income

Interest Income

Loans and Advances	56,710,610	42,074,409
Loan Fees	3,215,825	869,437
Deposits with other Banks	11,110,818	7,715,779
Investments	7,282,419	3,263,021
Other	35,382	13,235
	-----	-----
	78,355,054	53,935,881
	-----	-----

Interest Expense

Customers' Deposits	43,144,212	27,107,277
Due to other Banks	7,279,296	43,802
	-----	-----
	50,423,508	27,151,079
	-----	-----
Balance	27,931,546	26,784,802
	=====	=====

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
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	<u>2005</u>	<u>2004</u>
	\$	\$
18. Establishment Expenses		
Included in this expense head are: -		
Directors' Fees	355,160	150,883
Provision for loan losses	321,889	-
Depreciation	1,559,965	923,568

19. Earnings Per Share

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

Net income attributable to shareholders	27,119,777	19,119,679
	=====	=====
Weighted average number of ordinary shares in issue	81,000,000	81,000,000
	=====	=====
Diluted/Basic earnings per share	0.33	0.24
	=====	=====

20. Dividend

A dividend in respect of 2004 of \$0.135 per share (2003 - \$0.135 per share) amounting to \$10,935,000 was approved at the Thirty-fourth Annual General Meeting held on December 30, 2004 and subsequently paid.

A dividend in respect of 2005 of \$0.135 per share (2004 - \$0.135 per share) amounting to \$10,935,000 is proposed. These financial statements do not reflect this proposed dividend, which if approved, will be accounted for as an appropriation of retained earnings in the year ending June 30, 2006.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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21. Contingent Liabilities

Financial Commitments

As at December 31, 2005, the Bank was committed to make loans and advances amounting to approximately **\$83,852,325**. (June 30, 2005 - **\$42,742,242**)

22. Related Parties

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

A number of banking transactions are entered into with our subsidiaries and directors in the normal course of business. Those transactions, which include deposits, loans and other transactions, are carried out on commercial terms and conditions, at market rates.

Advances outstanding from directors and associates as at December 31, 2005 amounted to **\$275,535** (June 30, 2004 - **\$379,626**).

Deposits balances of directors and associates as at December 31, 2005 amounted to **\$3,105,974** (June 30, 2004 - **\$3,645,197**).

23. Fair Value of Financial Assets and Liabilities

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

Assets

Cash and money at call

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2005

23. Fair Value of Financial Assets and Liabilities continued

Loans and advances

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

Investment securities held to maturity and Investment in subsidiaries

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

Liabilities

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

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

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

24. Currency Risk

The Bank is exposed to currency risk through its international card and other international business receipts and settlements. Various strategies to hedge the key risk have been devised, ensuring at all times that the actions taken are in keeping with the Bank overall objectives.

25. Interest Rate Risk

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

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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25. Interest Rate Risk continued

Interest Sensitivity of Assets and Liabilities

	Up to 1 Year	1 to 5 Years	Over 5 Years	Non- interest Bearing	Total
As at December 31, 2005					
Assets					
Cash and money at call	396,626,507	708,314	981,852	102,320,406	500,637,079
Loans and advances	556,312,971	54,449,764	151,575,692	21,551,169	783,889,596
Investments	94,103,537	5,315,503	7,825,179	8,607,491	115,851,710
Other assets	-	-	-	50,866,865	50,866,865

Total assets	1,047,043,015	60,473,581	160,382,723	183,345,931	1,451,245,250

Liabilities					
Due to banks	1,343,743	-	-	15,000	1,358,743
Customers' deposits	496,604,958	391,728,886	-	147,327,130	1,035,660,974
Other liabilities	872,535	-	93,540,229	126,698,078	221,110,842

Total liabilities	498,821,236	391,728,886	93,540,229	274,040,208	1,258,130,559

Interest Sensitivity Gap	548,221,779	(331,255,305)	66,842,494		
=====					
As at June 30, 2005					
Total assets	1,043,464,736	43,270,630	139,164,637	278,255,057	1,504,155,060
Total liabilities	697,031,261	269,301,923	93,540,229	270,467,705	1,330,341,120

Interest Sensitivity Gap	346,433,475	(226,031,293)	45,624,408		
=====					

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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26. Liquidity Risk

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

Analysis of assets and liabilities into relevant maturity grouping

	Up to 1	1 to 5	Over 5	Total
	Year	Years	Years	
As at December 31, 2005				
Assets				
Cash and money at call	498,946,913	708,314	981,852	500,637,079
Loans and advances	577,864,140	54,449,764	151,575,692	783,889,596
Investments	94,103,537	5,315,503	16,432,670	115,851,710
Other assets	11,623,718	7,422,690	31,820,457	50,866,865

Total assets	1,182,538,308	67,896,271	200,810,671	1,451,245,250

Liabilities				
Due to banks	1,358,743	-	-	1,358,743
Customers' deposits	643,932,088	391,728,886	-	1,035,660,974
Other liabilities	94,241,042	21,855,715	105,014,085	221,110,842

Total liabilities	739,531,873	413,584,601	105,014,085	1,258,130,559

Net Liquidity Gap	443,006,435	(345,688,330)	95,965,586	
=====				
As at June 30, 2005				
Total assets	1,277,417,554	50,147,914	176,589,592	1,504,155,060
Total Liabilities	944,182,317	281,144,718	105,014,085	1,330,341,120

Net Liquidity Gap	333,235,237	(230,996,804)	71,575,507	
=====				

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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27. Credit Risk

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

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

	Total Assets	Total Liabilities	Credit Commitments	Total Income	Capital Expenditure
As at June 30, 2005					
St. Kitts and Nevis	1,021,900,169	1,066,740,347	42,742,242	103,924,708	451,319
North America	169,770,199	220,249,268	-	3,523,483	288,196
Europe	300,072,495	266	-	2,658,670	6,694
Other Caribbean States	12,412,197	43,351,239	-	552,762	57,182
	1,504,155,060	1,330,341,120	42,742,242	110,659,623	803,391
As at December 31, 2005					
St. Kitts and Nevis	1,109,215,563	915,608,633	83,852,325	57,929,624	494,352
North America	262,799,710	248,891,829	-	5,047,123	429,308
Europe	68,327,998	73,950	-	3,216,740	-
Other Caribbean State	10,901,979	93,556,147	-	185,036	418,075
	1,451,245,250	1,258,130,559	83,852,325	66,378,523	1,341,735

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED
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28. Operational Risk

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

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