

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED****NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003****1. Incorporation**

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

**2. Principal Activity**

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

**3. Significant Accounting Policies**

The principal accounting policies of the Bank are based on generally accepted accounting principles. These accounting policies are summarized below: -

**(i) Basis of preparation**

These financial statements are prepared in accordance with the historical cost convention and International Accounting Standards.

**(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 banks and the Eastern Caribbean Central Bank, as well as short term funds and investments whose maturities are ninety days or less.

**(iii) Depreciation**

Freehold buildings are depreciated on a straight-line basis at a rate of 2 ½% per annum. Equipment, furniture, fittings and vehicles are depreciated on a straight-line basis over their useful lives at rates ranging from 10% to 33 1/3%.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**(iv) Currency**

All values are expressed in Eastern Caribbean Currency.

**(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 three categories: available-for-sale, held-to-maturity, and originated debts assets. 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 are 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. 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 classified as available-for-sale are recognized in income. 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.

**NOTES TO THE FINANCIAL STATEMENTS**  
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*Investments continued*

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

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 all 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.

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**(viii) Income**

Interest income is recognized on the accruals 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 accruals basis.

**(ix) Comparative Figures**

Certain changes in presentation have been made during the year and comparative figures have been restated accordingly. Some of these changes include dividend payment and provision for income tax. The effect of such changes is included in accumulated provisions, creditors and accruals, and retained earnings respectively. Other changes include the separation of term deposits from short-term investments, investment in subsidiaries from long-term investments, and balances due to other banks from customers' deposits.

**(x) 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>2003</u> \$	<u>2002</u> \$
Cash in Hand	8,031,916	5,763,856
Deposits with other financial institutions	47,788,477	118,093,644
Items in the course of collection	215,358	570,832
Deposit balance with ECCB*	50,248,409	43,032,493
Term Deposits	282,155,816	65,075,224
	-----	-----
	<b>388,439,976</b>	<b>232,536,049</b>
Special Term Deposits	70,907,305	70,694,265
	-----	-----
	<b>459,347,281</b>	<b>303,230,314</b>
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS**  
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*Cash and Money at call continued*

	<u>2003</u> \$	<u>2002</u> \$
Term deposits pledged for the benefit of visa international and mastercard in support of the bank's international card business	67,009,852	66,859,115
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*Eastern Caribbean Central Bank		

**5. Loans and Advances**

Performing loans and advances	360,384,865	434,874,561
Non-performing loans and advances	65,695,659	89,687,454
	-----	-----
<b>Gross</b>	<b>426,080,524</b>	<b>524,562,015</b>
Less provision for doubtful debts	6,652,062	26,000,000
	-----	-----
<b>Net</b>	<b>419,428,462</b>	<b>498,562,015</b>
	=====	=====

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

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

Within one year	319,365,551	424,912,191
One to three years	23,635,698	21,449,398
Three to five years	12,864,995	17,603,823
Over five years	70,214,280	60,596,603
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<b>Gross</b>	<b>426,080,524</b>	<b>524,562,015</b>
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

*Loans and Advances continued*

	<u>2003</u>	<u>2002</u>
	\$	\$
<b>5.2 Provision for Doubtful Debts</b>		
Balance brought forward	26,000,000	26,000,000
Charge-offs and Write-offs	(19,347,938)	-
Specific charge against income	2,637,556	-
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	<b>9,289,618</b>	<b>26,000,000</b>
	=====	=====

**6. Investments**

**Available-for-sale – quoted**

Corporate Bonds	9,984,384	12,059,981
U. S. Governments Securities	20,518,112	21,559,394
Mortgage Backed Securities	759,444	1,248,643
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	<i>31,261,940</i>	<i>34,868,018</i>

**Available-for-sale – unquoted**

Treasury Bills maturing August 26, 2003 with Interest rate at 6.6%		
<b>(2003 and 2002 - Nominal value of \$82,101,500)</b>	80,767,351	80,303,477
National Commercial Bank of Grenada Ltd 62,100 ordinary shares at a cost of \$10 each	776,250	776,250
Caribbean Credit Card Corporation 550 shares at a cost of \$1,000 each	550,000	550,000
Cable Bay Hotel development Company Ltd 3,500 shares at a cost of \$270.26 each	1,056,328	945,910
National Commercial Bank of St. Lucia 230,000 shares at a cost of \$5 each	1,000,000	1,000,000
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	84,149,929	83,575,637

**NOTES TO THE FINANCIAL STATEMENTS**  
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6. *Investments continued*

Available-for-sale - unquoted

	<u>2003</u>	<u>2002</u>
	\$	\$
Eastern Caribbean Home Mortgage Bank 905 shares at cost of \$100 each	90,500	90,500
Eastern Caribbean Securities Exchange 10,000 Class "C" shares at a cost of \$10 each	100,000	100,000
Society for Worldwide Inter Bank Financial Telecommunication 1 share at a cost of \$5,148	5,148	5,148
Antigua Barbuda Investment Bank 185,000 shares at a cost of \$3 each	555,000	555,000
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	750,648	750,648
	-----	-----
	84,900,577	84,326,285

**Held-to-maturity**

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

Eastern Caribbean Home Mortgage Bank Long-term bond maturing October 18, 2009 with interest rate at 6.75%	250,000	250,000
Antigua Commercial Bank 10% interest rate Series A bond maturing December 31, 2016	1,351,300	1,351,300
Caribbean Credit Card Corporation Unsecured loan with interest rate at 10% with no specific terms of repayment	300,000	300,000
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	1,901,300	1,901,300
	-----	-----
	<b>119,063,817</b>	<b>122,095,603</b>
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS**  
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**6. *Investments continued***

	<u>2003</u>	<u>2002</u>
	\$	\$
<b>Securities classified according to currency</b>		
Foreign Currency Securities	31,261,940	34,868,018
Eastern Caribbean Currency Securities	87,801,877	87,227,585
	-----	-----
	<b>119,063,817</b>	<b>122,095,603</b>
	=====	=====

**7. *Investment in Subsidiaries***

National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited - 5,750,000 shares at \$1 each	5,750,000	5,750,000
St. Kitts-Nevis Mortgage and Investment Company Limited 29,800,000 shares at \$1 each - (2002 – 400,000 shares at \$1 each)	29,800,000	400,000
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	<b>35,550,000</b>	<b>6,150,000</b>
	=====	=====

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

Letters of Credit	180,000	483,902
Guarantees (credit cards)	4,096,565	4,096,565
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	<b>4,276,565</b>	<b>4,580,467</b>
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003**

**9. Bank Premises and Equipment**

<b>COST</b>	<b><u>Total</u></b>	<b><u>Property</u></b>	<b><u>Equipment</u></b>	<b><u>Furniture And Fittings</u></b>	<b><u>Motor Vehicles</u></b>	<b><u>Reference Books</u></b>	<b><u>Projects Ongoing</u></b>
At July 1, 2002	25,578,643	15,581,292	7,935,160	1,177,589	628,127	73,375	183,100
Additions	3,153,853	1,640,029	1,215,567	41,022	84,000	30,177	143,058
Disposals	(389,183)	-	(206,821)	(4,235)	(178,127)	-	-
	28,343,213	17,221,321	8,943,906	1,214,376	534,000	103,552	326,158
<b>Accumulated Depreciation</b>							
At July 1, 2002	8,640,744	1,968,033	5,310,812	907,636	419,724	34,539	-
Charge for Year	1,775,051	383,139	1,230,797	69,261	74,199	17,655	-
Eliminated on Disposal	(389,112)	-	(206,761)	(4,226)	(178,125)	-	-
	10,026,683	2,351,172	6,334,848	972,671	315,798	52,194	-
<b>Net Book Value</b>							
At June 30, 2003	<b>18,316,630</b>	<b>14,870,149</b>	<b>2,609,058</b>	<b>241,705</b>	<b>218,202</b>	<b>51,358</b>	<b>326,158</b>
At June 30, 2002	<b>16,937,899</b>	<b>13,613,259</b>	<b>2,624,348</b>	<b>269,953</b>	<b>208,403</b>	<b>38,836</b>	<b>183,100</b>

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	<u>2003</u>	<u>2002</u>
	\$	\$
<b>10. Other Accounts</b>		
Interest Income Receivable	2,662,578	1,827,188
Other Receivables	787,143	514,937
Prepayments	2,090,865	1,775,154
Stationery and Cards Stock	365,371	346,378
	-----	-----
	<b>5,905,957</b>	<b>4,463,657</b>
	=====	=====
<b>11. Customers' Deposits</b>	<b>828,380,076</b>	<b>725,947,058</b>
	=====	=====
<b>Analysis by Sector</b>		
Consumers	154,590,821	150,399,328
Private Businesses and Subsidiaries	210,058,989	199,899,289
State, Statutory Bodies and Non-Financial Institutions	382,116,618	326,695,309
Others	81,613,648	48,953,132
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	<b>828,380,076</b>	<b>725,947,058</b>
	=====	=====
<b>12. Deferred Credit</b>		
Balance brought forward	10,000,000	10,000,000
Addition	11,473,856	-
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	<b>21,473,856</b>	<b>10,000,000</b>
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS**  
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*Deferred Credit continued*

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

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

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

	<u>2003</u>	<u>2002</u>
	\$	\$
Interest Payable	11,606,707	10,376,852
Income Tax Payable	6,746,203	9,586,078
Proposed Dividend	10,935,000	8,100,000
Managers Cheques and Bankers Payments	468,063	1,935,528
Unpaid Drafts on other banks	2,266,664	1,363,124
Note Payable	5,113,027	-
Other Payables	14,583,628	11,563,042
	<u>51,719,292</u>	<u>42,924,624</u>

**14. Share Capital**

**Authorised: -**

135,000,000 Ordinary Shares of \$1 each	135,000,000	135,000,000
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**Issued and Fully Paid: -**

81,000,000 Ordinary Shares of \$1 each	81,000,000	81,000,000
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**NOTES TO THE FINANCIAL STATEMENTS**  
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	<u>2003</u>	<u>2002</u>
	\$	\$
<b>15. Reserves</b>		
Statutory Reserve	23,454,749	19,454,749
General Reserve	22,000,000	18,636,609
Revaluation Reserve	1,908,642	1,908,642
	-----	-----
	<b>47,363,391</b>	<b>40,000,000</b>
	=====	=====

<b>Statutory Reserve</b>	<b>23,454,749</b>	<b>19,454,749</b>
	=====	=====

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

**General Reserve**

Balance brought forward	18,636,609	4,636,609
Amount transferred in	3,363,391	14,000,000
	-----	-----
	<b>22,000,000</b>	<b>18,636,609</b>
	=====	=====

<b>Revaluation Reserve</b>	<b>1,908,642</b>	<b>1,908,642</b>
	=====	=====

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.

**NOTES TO THE FINANCIAL STATEMENTS**  
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	<u>2003</u>	<u>2002</u>
	\$	\$
<b>16. Net Interest Income</b>		
<b>Interest Income</b>		
Loans and Advances	44,585,578	46,594,380
Loan Fees	2,700,210	2,505,577
Deposits with other Banks	4,212,245	3,863,120
Investments	9,229,751	8,556,242
Other	34,967	60,432
	-----	-----
	60,762,761	61,579,751
	-----	-----
<b>Interest Expense</b>		
Customers' Deposits	34,549,698	32,624,578
Due to other Banks	2,020,740	2,185,908
	-----	-----
	36,570,438	34,810,486
	-----	-----
<b>Balance as at June 30</b>	<b>24,192,323</b>	<b>26,769,265</b>
	=====	=====
<b>17. Establishment Expenses</b>		
Included in this expense head are: -		
Directors' Fees	281,915	261,450
Provision for loan losses	2,637,556	-
<b>18. Over (under) Provision for Income Tax</b>	<b>382,181</b>	<b>(426,932)</b>

The amount represents a net over provision for Income Tax for the year of Assessment 2003/2002 – (2002 - under provision for Income Tax for the of the year of Assessment 2002/2001). Under provisions are mainly amounts disallowed by the Comptroller of Inland Revenue.

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	<u>2003</u>	<u>2002</u>
	\$	\$
<b>19. Earnings Per Share</b>		
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	17,595,880	19,213,538
	=====	=====
Weighted average number of ordinary shares in issue	81,000,000	63,000,000
	-----	-----
Diluted/Basic earnings per share	0.22	0.30
	=====	=====
<b>20. Proposed Dividend</b>	<b>10,935,000</b>	<b>8,100,000</b>

A dividend in respect of the year just ended of 13.5% of issued share capital is proposed. (2002 – 13.5% was proposed). Actual dividend paid for the financial year ended June 30, 2002 was \$8,355,644, which represented the 13.5% proposed, and therefore, created an adjustment to retained earnings of \$255,644.

**21. Contingent Liabilities**

**21.1 Pending litigation**

**HIGH COURT SUIT SKBHCV2002/0015**

A former corporate customer filed a lawsuit in the amount of US\$1.8 million against the Bank. The case is being defended as the Bank denies any liabilities to the customer.

Professional legal advice indicates that the claim will not succeed, and therefore, no provisions were made.

**SKBHCV2002/0250**

A claim for the return of a Certificate of Title was filed against the Bank by two customers. The customers also claimed damages in an unspecified sum.

The Bank defended the claim on the grounds that it has a lien on the Certificate of Title for the monies owing to it by the customers. The Bank further counterclaimed for the sum of EC\$6,000 from the said customers.

The Bank was successful at the trial, but the customers have appealed. It is believed that the Bank will once again be successful once the Appeal is heard.

**21.2 Financial Commitments**

As at June 30, 2003, the Bank was committed to make loans and advances amounting to approximately **\$185,818,000** (2002 – **\$105,054,000**).

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**22. Related Parties**

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

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

Advances outstanding from directors and associates as at June 30, 2003 amounted to **\$204,233 – (2002 - \$743,562)**.

Deposits balances of directors and associates as at June 30, 2003 amounted to **\$2,236,840 – (2002 - \$1,492,279)**.

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

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

**Assets**

***Cash and money at call***

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

***Loans and advances***

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

**NOTES TO THE FINANCIAL STATEMENTS**  
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**23. Fair Value of Assets and Liabilities *continued***

*Investment securities held to maturity and  
Investment in subsidiaries*

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

**Liabilities**

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

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

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

**24. Currency Risk**

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

**25. Interest Rate Risk**

**Interest Sensitivity of Assets and Liabilities**

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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003**

**25. Interest Rate Risk *continued***

	<b>Up to 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Non- interest Bearing</b>	<b>Total</b>
<b>As at June 30, 2003</b>					
<b>Assets</b>					
Cash and money at call	351,303,148	-	-	108,044,133	459,347,281
Loans and advances	317,246,145	32,312,792	67,184,872	47,097	416,790,906
Investments	112,815,444	-	2,601,300	3,647,073	119,063,817
Other assets	6,818,357	-	300,001	56,930,794	64,049,152
<b>Total assets</b>	<b>788,183,094</b>	<b>34,950,348</b>	<b>70,086,173</b>	<b>168,669,097</b>	<b>1,059,251,156</b>
<b>Liabilities</b>					
Due to banks	18,937,860	-	-	-	18,937,860
Customers' deposits	499,318,498	214,902,121	-	114,159,457	828,380,076
Other liabilities	25,732,375	-	-	52,424,986	78,157,361
<b>Total liabilities</b>	<b>543,988,733</b>	<b>214,902,121</b>	<b>-</b>	<b>166,584,443</b>	<b>925,475,297</b>
<b>Interest Sensitivity Gap</b>	<b>244,194,361</b>	<b>(182,589,329)</b>	<b>70,086,173</b>		
<b>As at June 30, 2002</b>					
Total assets	672,051,661	39,323,221	64,339,383	180,305,690	956,019,955
Total liabilities	434,973,112	193,568,890	-	200,018,646	828,560,648
<b>Interest Sensitivity Gap</b>	<b>237,078,549</b>	<b>(154,245,669)</b>	<b>64,339,383</b>		

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003**

**26. Liquidity Risk**

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

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

	<b>Up to 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<b>As at June 30, 2003</b>				
<b>Assets</b>				
Cash and money at call	455,449,828	-	3,897,453	459,347,281
Loans and advances	317,246,145	32,312,792	67,231,969	416,790,906
Investments	112,029,291	-	7,034,526	119,063,817
Other assets	6,525,963	2,906,977	54,616,212	64,049,152
<b>Total assets</b>	<b>891,251,227</b>	<b>35,219,769</b>	<b>132,780,160</b>	<b>1059,251,156</b>
<b>Liabilities</b>				
Due to banks	18,937,860	-	-	18,937,860
Customers' deposits	608,698,077	219,681,999	-	828,380,076
Other liabilities	51,753,933	2,965,424	23,438,004	78,157,361
<b>Total liabilities</b>	<b>679,389,870</b>	<b>222,647,423</b>	<b>23,438,004</b>	<b>925,475,297</b>
<b>Net Liquidity Gap</b>	<b>211,861,357</b>	<b>(187,427,654)</b>	<b>109,342,156</b>	
<b>As at June 30, 2002</b>				
Total assets	833,405,572	36,551,079	86,063,304	956,019,955
Total Liabilities	614,554,953	199,806,130	14,096,565	828,560,648
<b>Net Liquidity Gap</b>	<b>218,747,619</b>	<b>(163,255,051)</b>	<b>71,966,739</b>	

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003**

**27. Credit Risk**

**Geographical Concentrations of Assets and Liabilities**

The Bank predominant activity is retail banking services. Exposures to credit risk are mainly concentrated in St. Kitts and Nevis.

The Bank exposure to credit risk is managed through regular analysis of the ability of its borrowers (current and potential) 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.

	<b>Total Assets</b>	<b>Total Liabilities</b>	<b>Credit Commitments</b>	<b>Total Income</b>	<b>Capital Expenditure</b>
<b>As at June 30, 2003</b>					
St. Kitts and Nevis	666,182,714	760,581,210	185,818,000	72,069,308	1,761,170
North America	313,446,944	146,138,209	-	4,725,737	1,353,561
Europe	73,323,721	673,666	-	1,106,539	24,571
Other Caribbean States	6,297,777	18,082,212	-	492,030	14,551
	----- 1,059,251,156	----- 925,475,297	----- 185,818,000	----- 78,393,614	----- 3,153,853
<b>As at June 30, 2002</b>					
St. Kitts and Nevis	683,656,082	641,305,690	105,054,000	71,430,030	337,587
North America	195,977,027	175,206,417	-	5,137,650	1,236,399
Europe	73,424,895	376,611	-	999,881	-
Other Caribbean States	2,931,951	11,671,930	-	436,671	-
	----- 956,019,955	----- 828,560,648	----- 105,054,000	----- 78,004,232	----- 1,573,986

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**28. Significant Event**

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

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

Subsequent to the year ended June 30, 2003 the St. Kitts-Nevis-Anguilla National Bank Limited received certain dividends from the Receiver.

## Balance Sheet as at June 30, 2003

<b>Assets</b>	<u>Notes</u>	<u>2003</u> \$	<u>2002</u> \$
Cash and Money at call	4	459,347,281	303,230,314
Loans and Advances	5	416,790,906	498,562,015
Investments	6	119,063,817	122,095,603
Investment in Subsidiaries	7	35,550,000	6,150,000
Customers' Liability under Acceptances, Guarantees, and Letters of Credit (per contra)	8	4,276,565	4,580,467
Bank Premises and Equipment	9	18,316,630	16,937,899
Other Accounts	10	<u>5,905,957</u>	<u>4,463,657</u>
<b>Total Assets</b>		<b>1,059,251,156</b>	<b>956,019,955</b>
<hr/>			
<b>Liabilities</b>			
Due to other Banks		18,937,860	45,102,999
Customers' Deposits	11	828,380,076	725,952,558
Due to Subsidiaries		687,648	-
Deferred Credit	12	21,473,856	10,000,000
Acceptances, Guarantees and Letters of Credit (per contra)	8	4,276,565	4,580,467
Accumulated Provisions, Creditors, and Accruals	13	<u>51,719,292</u>	<u>42,924,624</u>
<b>Total Liabilities</b>		<b>925,475,297</b>	<b>828,560,648</b>
<hr/>			
<b>Shareholders' Equity</b>			
Issued Share Capital	14	81,000,000	81,000,000
Share Premium		3,877,424	3,877,424
Reserves	15	47,363,391	40,000,000
Retained Earnings		<u>1,535,044</u>	<u>2,581,883</u>
<b>Total Shareholders' Equity</b>		<b>133,775,859</b>	<b>127,459,307</b>
<hr/>			
<b>Total Liabilities and Shareholders' Equity</b>		<b>1,059,251,156</b>	<b>956,019,955</b>
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## ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

## Statement of Income for the period ended June 30, 2003

	Notes	<u>2003</u> \$	<u>2002</u> \$
<b>INCOME</b>			
Interest - Loan & Advances and Fees		47,285,788	49,099,959
- Investments and Deposits with other Banks		<u>13,476,973</u>	<u>12,479,792</u>
<b>Total Interest Income</b>		<b>60,762,761</b>	<b>61,579,751</b>
Less: - Interest Expense		<u>36,570,438</u>	<u>34,810,486</u>
<b>Net Interest Income</b>	16	<b><u>24,192,323</u></b>	<b><u>26,769,265</u></b>
<b>Non-Interest Income</b>			
Gain on Foreign Exchange		2,449,556	1,864,794
Gain on Marketable Securities, net		117,946	196,088
Dividend		233,220	298,775
Service Charge		955,985	1,165,516
Commission		13,409,038	12,351,975
Miscellaneous		<u>465,108</u>	<u>547,333</u>
<b>Total Non-Interest Income</b>		<b><u>17,630,853</u></b>	<b><u>16,424,481</u></b>
<b>Operating Income</b>		<b><u><u>41,823,176</u></u></b>	<b><u><u>43,193,746</u></u></b>
<b>NON-INTEREST EXPENSES</b>			
Establishment	17	5,552,745	3,232,542
Communication		338,751	346,888
Staff Employment		8,445,152	8,953,484
Travelling		75,024	86,477
Stationery and Supplies		506,403	485,817
Miscellaneous		408,187	240,712
Audit Fees and Expenses		69,000	67,000
Other Finance Charges		<u>372,700</u>	<u>543,518</u>
<b>Total Non-Interest Expenses before Depreciation</b>		<b><u>15,767,962</u></b>	<b><u>13,956,438</u></b>
Net Operating Income Before Depreciation and Tax		26,055,214	29,237,308
Depreciation		<u>1,775,051</u>	<u>1,649,810</u>
<b>Net Operating Income before Tax</b>		<b>24,280,163</b>	<b>27,587,498</b>
Less: Provision for Income Tax		<u>(6,684,283)</u>	<u>(8,373,960)</u>
<b>Net Income for the year ended June 30</b>		<b><u><u>17,595,880</u></u></b>	<b><u><u>19,213,538</u></u></b>
<b>Earning per share</b>		<b>0.22</b>	<b>0.30</b>

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

**STATEMENT OF CHANGES IN EQUITY**

For The Year Ended June 30, 2003

	Notes	Share Capital \$	Share Premium \$	Statutory Reserves \$	General Reserves \$	Revaluation Reserves \$	Retained Earnings \$	Total Shareholders' Equity \$
Balance at June 30, 2001		45,000,000	166,632	13,454,749	4,636,609	1,908,642	11,895,277	77,061,909
- Provision - Income Tax	18	-	-	-	-	-	(426,932)	(426,932)
- As Restated		45,000,000	166,632	13,454,749	4,636,609	1,908,642	11,468,345	76,634,977
Net Income		-	-	-	-	-	19,213,538	19,213,538
Transfer to Reserves	15	-	-	6,000,000	14,000,000	-	(20,000,000)	-
Dividends	20	-	-	-	-	-	(8,100,000)	(8,100,000)
Issue of Share Capital		36,000,000	3,710,792	-	-	-	-	39,710,792
Balance at June 30, 2002		81,000,000	3,877,424	19,454,749	18,636,609	1,908,642	2,581,883	127,459,307
- Dividends ( 2002 )	20	-	-	-	-	-	(255,644)	(255,644)
- Group Schemes Contribution		-	-	-	-	-	(470,865)	(470,865)
- Provision - Income Tax	18	-	-	-	-	-	382,181	382,181
- As Restated		81,000,000	3,877,424	19,454,749	18,636,609	1,908,642	2,237,555	127,114,979
Net Income		-	-	-	-	-	17,595,880	17,595,880
Transfer to Reserves	15	-	-	4,000,000	3,363,391	-	(7,363,391)	0
Dividends	20	-	-	-	-	-	(10,935,000)	(10,935,000)
<b>Balance at June 30, 2003</b>		<b>81,000,000</b>	<b>3,877,424</b>	<b>23,454,749</b>	<b>22,000,000</b>	<b>1,908,642</b>	<b>1,535,044</b>	<b>133,775,859</b>

## STATEMENT OF CASH FLOW

For the year ended June 30, 2003

	Note	<u>- 2003 -</u>	<u>- 2002 -</u>
		\$	\$
<b>Cash flows from operating activities</b>			
Operating Income before taxation		26,917,719	27,587,498
Adjustments for:			
Depreciation		1,775,051	1,649,810
Provision for loan losses		-	-
Prior year adjustments		(344,328)	(426,932)
Loss on disposal of fixed assets		71	70,932
Operating income before changes in operating assets and liabilities		<u>28,348,513</u>	<u>28,881,308</u>
<i>(Increase) decrease in operating assets:</i>			
Net loans and advances		79,133,553	11,796,415
Other accounts		(1,442,300)	837,385
<i>Increase (decrease) in operating liabilities:</i>			
Due to other banks		(26,165,139)	(15,727,889)
Customers' deposits		102,427,518	15,115,649
Due to subsidiaries		687,648	-
Deferred credit		11,473,856	-
Accumulated provisions, creditors, and accruals		<u>8,673,007</u>	<u>12,383,191</u>
Cash generated from operations		203,136,656	53,286,059
Income tax paid		<u>(9,141,978)</u>	<u>(7,392,973)</u>
<i>Net cash from operating activities</i>		193,994,678	45,893,086
<b>Cash flows from investing activities</b>			
Purchase fixed assets		(3,153,853)	(1,573,986)
(Increase) decrease in special term deposits		(213,040)	34,772,966
Net (increase) decrease in investment securities		3,031,786	(26,500,691)
Investment in subsidiaries		<u>(29,400,000)</u>	<u>(400,000)</u>
<i>Net cash from (used in) investing activities</i>		(29,735,107)	6,298,289
<b>Cash flows from financing activities</b>			
Issue of shares		-	36,000,000
Share premium		-	3,710,792
Dividend paid	19	<u>(8,355,644)</u>	<u>(2,700,000)</u>
<i>Net cash from (used in) financing activities</i>		<u>(8,355,644)</u>	<u>37,010,792</u>
<b>Net increase in cash and cash equivalents</b>		<b>155,903,927</b>	<b>89,202,167</b>
<b>Cash and cash equivalents at beginning of period</b>		<b><u>232,536,049</u></b>	<b><u>143,333,882</u></b>
<b>Cash and cash equivalents at end of period</b>	4	<b><u>388,439,976</u></b>	<b><u>232,536,049</u></b>