ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

UNAUDITED

FINANCIAL STATEMENTS

FOR THE SECOND QUARTER ENDED

DECEMBER 31, 2004

SKNA National Bank Ltd. Comptroller Division

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

UNAUDITED FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED DECEMBER 31, 2004

C O N T E N T S

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the 2nd quarter ended December 31, 2004

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 Interest Income

The Company recorded $11.8 million in net interest income at the end of December 2004, compared with $6.1 million at the end of the same period in 2003. This represents a 93.4% increase.

An increase in lending and the income therefrom together with a reduction in deposits rates largely influenced net interest income for the period. Interest income stood at $36.1 million at the end of the second quarter ended 31 December 2004, compared with $26.2 million for the same period in 2003.

Net interest income constituted 22.5% of total revenue for this period, compared with 16.1% at 31 December 2003. The company will continue to improve its net interest income through emphasis on customer service excellence, increased sale of various products, lower cost of funds, higher asset quality and diversified earnings.

Non-Interest Income

Non-interest income is largely generated from service charges, commission and other service fees. For the second quarter ended 31 December 2004, non-interest income moved upwards, reflecting management continued efforts to expand existing fee-based revenue.

During the period under review, non-interest income was $16.6 million, compared with $11.6 million at December 31, 2003. The increase represented a growth of 43.1%. The improvement in this area was primarily attributed to a 58.9% increase in fees due to the increase in electronic business and an increase of 17.2% in transaction based activities.

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

Expenses

At 31 December 2004 total expenses stood at $32.1 million. This compares with $29.4 million at 31 December 2003 and represents an increase of 9.2%. Higher expenses were attributed mainly to interest bearing liabilities. Although there was an improvement in net interest income at December 31, 2004, interest expense (EC$24 million) was higher than in December 31, 2003 (EC$20 million).

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

Net Income

The net result of operations at the end of the second quarter showed an increase in net income. At 31 December 2004, net operating income (before tax) was $20.5 million, compared with $8.5 million at 31 December 2003. This represents a 141.2% increase.

The rise in income before tax is attributed mainly to growth in income from the increase in loans and advances and certain non-interest income. The Company anticipates further growth in net income and other income over the next quarter and beyond.

Balance Sheet

Assets

The Company has been experiencing a continuous growth in assets, and the period under review was no exception. Higher total assets were primarily attributed to growth in the loan portfolio resulting from increased borrowing in both the public and private sector.

An increase in investments also contributed to the rise in total assets. Investments rose 4.1% to $124.1 million at 31 December 2004 compared with $119.2 million at 30 June 2004.

Deposits

Deposits are the company's main source of funding and currently accounts for 83.6% of the total funds. Total deposits decreased by 2.5% to $959.2 million at 31 December 2004 compared with $984.2 million at 30 June 2004.

The decrease in deposits was due mainly to a 9.3% decline in public and private sector call accounts. However, there was a general increase across all other deposit categories.

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

Loans and Advances

Loans and advances increased 24.9% to $646.0 million for the period ended 31 December 2004, compared with $517.2 million at 30 June 2004. The growth in loans and advances reflects the Company's continued effort of providing a more attractive package to the individual and commercial customers at a fair price.

Our marketing strategy enabled us to successfully attract new customers while leveraging our existing customer base. These, coupled with the current interest rate environment, have contributed to sustained loan demand.

As of 31 December 2004, the loans to deposits ratio was 67.3% compared with 52.5% at 30 June 2004, demonstrating that sufficient liquidity exists to fund further loan growth.

Shareholders' Equity

The company continues to realize its goal of providing a satisfactory return to shareholders and therefore increasing the value of their investment. Shareholders' Equity was $167.2 million at 31 December 2004, compared with $157.4 million at 30 June 2004. This represents a 6.2% increase, resulting from the net operating income before tax for the period.

At 31 December 2004, shareholder's equity represented 12.7% of total assets compared with 12.0% of total assets at 30 June 2004.

Corporate Governance

The Board of Directors continues its effort to improve corporate governance, risk management, ethical conduct, best practices and maintenance of international standards. In this regard the Board is focusing 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 total revenue base.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

BALANCE SHEET AS AT DECEMBER 31, 2004

	Notes	*Unaudited 2nd* Quarter Ended December 2004 $	Audited Year Ended June 2004 $
Assets			
Cash and Money at call	4	495,812,484	603,238,645
Loans and Advances	5	645,966,139	517,158,177
Investments	6	124,080,132	119,178,759
Investment in Subsidiaries	7	17,750,000	37,550,000
Customers' Liability under Acceptances, Guarantees, and Letters of Credit (per contra)	8	4,658,515	4,389,325
Bank Premises and Equipment	9	17,281,454	17,711,528
Other Accounts	10	8,019,330	9,932,234
Deferred Tax		273,945	273,945
Total Assets		**1,313,841,999**	**1,309,432,613**
Liabilities			
Due to other Banks		8,074,531	4,008,579
Customers' Deposits	11	959,179,321	984,235,071
Deferred Credit	12	11,473,856	11,473,856
Acceptances, Guarantees and Letters of Credit (per contra)	8	4,658,515	4,389,325
Accumulated Provisions, Creditors, and Accruals	13	163,275,145	147,913,374
Total Liabilities		**1,146,661,368**	**1,152,020,205**
Shareholders' Equity			
Issued Share Capital	14	81,000,000	81,000,000
Share Premium		3,877,424	3,877,424
Reserves	15	60,676,122	60,503,122
Unappropriated Profits		20,530,223	
Retained Earnings		1,096,862	12,031,862
Total Shareholders' Equity		**167,180,631**	**157,412,408**
Total Liabilities and Shareholders' Equity		**1,313,841,999**	**1,309,432,613**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

Statement of Income for the period ended December 31, 2004

	Notes	2nd Quarter Ended December 2004 $	2nd Quarter Ended December 2003 $
INCOME			
Interest - Loan & Advances and Fees		28,422,102	20,450,866
- Investments and Deposits with other Banks		7,675,900	5,797,714
Total Interest Income		**36,098,002**	**26,248,580**
Less: - Interest Expense		(24,265,596)	(20,159,054)
Net Interest Income	16	**11,832,406**	**6,089,526**
Non-Interest Income			
Gain on Foreign Exchange		1,080,557	1,097,345
Dividend		43,550	248,745
Service Charge		847,544	723,443
Commission		14,021,915	8,824,699
Miscellaneous		563,943	733,025
Total Non-Interest Income		**16,557,509**	**11,627,257**
Operating Income		**28,389,915**	**17,716,783**
NON-INTEREST EXPENSES			
Establishment	17	1,283,695	1,457,536
Communication		184,290	116,334
Staff Employment		4,640,893	4,790,845
Travelling		46,943	47,602
Stationery and Supplies		235,363	237,546
Loss on Marketable Securities		1,133	16,247
Miscellaneous		183,037	107,652
Audit Fees and Expenses		367	22,853
Other Finance Charges		360,404	1,494,666
Total Non-Interest Expenses before Depreciation		**6,936,125**	**8,291,281**
Net Operating Income Before Depreciation and Tax		21,453,791	9,425,502
Depreciation		(923,568)	(923,737)
Net Operating Income before Tax		**20,530,223**	**8,501,765**

STATEMENT OF CHANGES IN EQUITY
For The Second Quarter Ended December 31, 2004

	Notes	Share Capital $	Share Premium $	Statutory Reserves $	Loan Loss Reserves $	General Reserves $	Revaluation Reserves $	Retained Earnings $	Total Shareholders' Equity $
Balance at June 30, 2003		81,000,000	3,877,424	23,454,749	-	22,000,000	1,908,642	12,595,353	144,836,168
Unappropriated Profits		-	-	-	-	-	-	8,501,765	8,501,765
- Income Tax		-	-	-	-	-	-	(228,491)	(228,491)
Balance at December 31, 2003		**81,000,000**	**3,877,424**	**23,454,749**	**-**	**22,000,000**	**1,908,642**	**20,868,627**	**153,109,442**
Deferred Credit net of tax		-	-	-	-	-	-	6,500,000	6,500,000
Final Adjusted Profits for year		-	-	-	-	-	-	8,185,466	8,185,466
Net effect of adopting IAS 39	15	-	-	-	-	-	552,500	-	552,500
Transfer to Reserves		-	-	3,500,000	7,500,000	1,587,231	-	(12,587,231)	-
Dividends	18	-	-	-	-	-	-	(10,935,000)	(10,935,000)
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
Unappropriated Profits		-	-	-	-	-	-	20,530,223	20,530,223
Appreciation in market value of investment securities	15	-	-	-	-	-	173,000	-	173,000
Dividends	18	-	-	-	-	-	-	(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**	**21,627,085**	**167,180,631**

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LTD.
STATEMENT OF CASHFLOW
FOR THE PERIOD ENDED DECEMBER 31, 2004

	Notes	Quarter Ended December 2004 $	Quarter Ended December 2003 $
Cash flows from operating activities			
Operating Income before taxation		20,530,223	8,501,765
Adjustments for:			
Depreciation		923,568	923,737
Operating income before changes in operating assets and liabilities		21,453,791	9,425,502
(Increase) decrease in operating assets:			
Net loans and advances		(128,807,962)	(28,936,686)
Other accounts		1,912,904	873,019
Increase (decrease) in operating liabilities:			
Due to other banks		4,065,952	4,231,791
Customers' deposits		(25,055,750)	33,815,653
Due to subsidiaries		-	(687,648)
Accumulated provisions, creditors, and accruals		19,346,212	23,479,703
Cash (used in) generated from operations		(107,084,853)	42,201,334
Income tax paid		(3,984,438)	(6,061,920)
Net cash (used in) generated from operating activities		(111,069,291)	36,139,414
Cash flows from investing activities			
Purchase fixed assets		(493,497)	(425,007)
(Increase) decrease in special term deposits		(26,329,531)	-
Net (increase) decrease in investment securities		(4,728,373)	(813,274)
Investment in subsidiaries		19,800,000	-
Net cash used in investing activities		(11,751,401)	(1,238,281)
Cash flows from financing activities			
Dividend paid		(10,935,000)	-
Net cash used in financing activities		(10,935,000)	0
(Decrease) increase in cash and cash equivalents		**(133,755,692)**	**34,901,133**
Cash and cash equivalents at beginning of period		**493,284,566**	**388,439,976**
Cash and cash equivalents at end of period	4	**359,528,874**	**423,341,109**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 2nd QUARTER ENDED DECEMBER 31, 2004
(Expressed in Eastern Caribbean Dollars)

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.

(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 the income statement.

(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 loans. 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 loan investments are carried at amortised cost using the effective yield method, less any provision for impairment.

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.

(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

	December 2004 $	June 2004 $
Cash in Hand	11,725,570	6,699,912
Deposits with other financial institutions	126,431,706	63,029,497
Items in the course of collection	1,031,486	994,911
Deposit balance with ECCB*	65,433,471	61,033,354
Term Deposits	154,906,641	361,526,892
	359,528,874	**493,284,566**
Special Term Deposits	136,283,610	109,954,079
	495,812,484	**603,238,645**

***Eastern Caribbean Central Bank**

4. ***Cash and Money at call*** (continued)

	December 2004 $	June 2004 $
Term deposits pledged for the benefit of Visa International and Mastercard in support of the Bank's international card business	67,257,572	47,153,386

5. Loans and Advances

	December 2004 $	June 2004 $
Performing loans and advances	589,057,078	458,714,447
Non-performing loans and advances	64,889,490	66,424,159
Gross	**653,946,568**	**525,138,606**
Less provision for doubtful debts	7,980,429	7,980,429
Net	**645,966,139**	**517,158,177**

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 loans and advances (gross) based on contractual maturities:

	December 2004 $	June 2004 $
Within one year	479,615,383	350,134,001
One to three years	14,824,860	14,888,212
Three to five years	12,713,899	13,247,563
Over five years	146,792,426	146,868,830
Gross	**653,946,568**	**525,138,606**

Loans and Advances continued	December 2004 $	June 2004 $
5.2 Provision for Doubtful Debts		
Balance brought forward	7,980,429	6,000,000
Charge-offs and Write-offs	-	(1,309,189)
Specific charge against income	-	-
	7,980,429	**7,980,429**

6. Investments

Financial Assets at Fair Value Through Profit and Loss	December 2004 $	June 2004 $
Corporate Bonds	9,576,646	9,696,758
U. S. Governments Securities	24,616,072	20,455,255
Mortgage Backed Securities	437,386	499,718
	34,630,104	***30,651,731***
Available-for-sale – quoted		
East Caribbean Financial Holding Company Ltd 230,000 shares at $7.50 each (market price)	*1,725,500*	1,552,500
Available-for-sale – unquoted		
Treasury Bills maturing February 22, 2005 with Interest rate at 6.5 per cent **(2004 and 2003 - Nominal value of $82,101,500)**	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
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	1,083,366	1,083,366
	84,902,467	83,176,967

6. *Investments continued*

Available-for-sale – unquoted	**December 2004 $**	**June 2004 $**
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
	750,648	750,648
	85,653,115	***83,927,615***
Held-to-maturity		
Debentures – Government of St. Kitts-Nevis maturing July 15, 2008 with interest rate at 8%	***1,000,000***	***1,000,000***
Originated Loan		
Eastern Caribbean Home Mortgage Bank Long-term bond maturing October 18, 2009 with interest rate at 5.5% (June '04 – 6.75%)	1,000,000	250,000
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	*2,046,913*
Balance as at end of period	**124,080,132**	**119,178,759**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 2nd QUARTER ENDED DECEMBER 31, 2004
(Expressed in Eastern Caribbean Dollars)

6. ***Investments*** (*continued*)

	December 2004 $	June 2004 $
Securities classified according to currency		
United States Currency Securities	34,630,104	30,651,731
Eastern Caribbean Currency Securities	89,450,028	88,527,028
	124,080,132	**119,178,759**

7. Investment in Subsidiaries

	December 2004 $	June 2004 $
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 31,800,000 shares at $1 each (2003 – 29,800,000 shares)	12,000,000	31,800,000
	17,750,000	**37,550,000**

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

	December 2004 $	June 2004 $
Letters of Credit	561,950	292,760
Guarantees (credit cards)	4,096,565	4,096,565
	4,658,515	**4,389,325**

NOTES TO THE FINANCIAL STATEMENTS FOR THE 2nd QUARTER ENDED DECEMBER 31, 2004

(Expressed in Eastern Caribbean Dollars)

9. Bank Premises and Equipment

COST	Total	Property	Equipment	Furniture And Fittings	Motor Vehicles	Reference Books	Projects Ongoing
At July 1, 2004	29,522,218	17,503,430	10,088,497	1,223,650	534,000	116,259	56,382
Additions	493,497	159,080	119,282	74,572	135,000	5,563	-
Disposals	(280,000)	-	-	-	(280,000)		
>>>	29,735,715	17,662,510	10,207,779	1,298,222	389,000	121,822	56,382
Accumulated Depreciation							
At July 1, 2004	11,810,690	2,774,092	7,565,021	1,015,416	387,330	68,831	-
Charge for Year	923,568	211,086	633,656	30,886	39,900	8,040	-
Eliminated on Disposal	(279,997)	-	-	-	(279,997)	-	-
>>>	12,454,261	2,985,178	8,198,677	1,046,302	147,233	76,871	-
Net Book Value							
At Dec 31, 2004	**17,281,454**	**14,677,332**	**2,009,102**	**251,920**	**241,767**	**44,951**	**56,382**
At June 30, 2004	**17,711,528**	**14,729,338**	**2,523,476**	**208,234**	**146,670**	**47,428**	**56,382**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 2nd QUARTER ENDED DECEMBER 31, 2004
(Expressed in Eastern Caribbean Dollars)

	December 2004 $	June 2004 $
10. Other Accounts		
Interest Receivable	5,867,321	3,380,561
Other Receivables	419,580	191,925
Prepayments	1,381,592	6,006,238
Stationery and Cards Stock	350,837	353,510
	8,019,330	**9,932,234**
11. Customers' Deposits	**959,179,321**	**984,235,071**

Analysis of Deposits by Sector

	December 2004 $	June 2004 $
Consumers	196,078,400	199,539,724
Private Businesses and Subsidiaries	259,536,421	272,914,526
State, Statutory Bodies and Non-Financial Institutions	392,412,964	416,197,509
Others	111,151,536	95,583,312
	959,179,321	**984,235,071**
12. Deferred Credit		
Balance brought forward	11,473,856	21,473,856
Addition	-	-
Subtraction: -	-	(10,000,000)
	11,473,856	**11,473,856**

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, 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.

13. Accumulated Provisions, Creditors and Accruals

	December 2004 $	June 2004 $
Interest Payable	42,547,581	27,676,465
Income Tax Payable	4,209,330	10,809,330
Managers Cheques and Bankers Payments	1,143,520	946,218
Unpaid Drafts on other banks	2,144,961	2,247,584
Bonds Payable	89,942,528	87,564,240
Other Payables	23,287,225	18,669,537
	163,275,145	**147,913,374**

14. 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**

15. Reserves

Statutory Reserve	26,954,749	26,954,749
General Reserve	23,587,231	23,587,231
Loan Loss Reserve	7,500,000	7,500,000
Revaluation Reserve	2,634,142	2,461,142
	60,676,122	**60,503,122**

Statutory Reserve

Balance brought forward	26,954,749	23,454,749
Addition	-	3,500,000
	26,954,749	**26,954,749**

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.

	December 2004	June 2004
15. ***Reserves*** **(continued)**	$	$
General Reserve		
Balance brought forward	23,587,231	22,000,000
Amount transferred in	-	1,587,231
	23,587,231	**23,587,231**
Loan Loss Reserve	**7,500,000**	**7,500,000**
Revaluation Reserve		
Property	2,461,142	1,908,642
Available-for-sale securities (on adoption of IAS 39)	-	552,500
Appreciation in market value of investment securities	173,000	-
	2,634,142	**2,461,142**

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.

16. Net Interest Income

	December 2004	June 2004
Interest Income		
Loans and Advances	28,047,021	41,650,121
Loan Fees	375,081	5,554,019
Deposits with other Banks	4,489,624	7,775,031
Investments	3,186,112	7,174,410
Other	164	16,409
	36,098,002	62,169,990
Interest Expense		
Customers' Deposits	24,241,887	39,857,363
Due to other Banks	23,709	3,164,513
	24,265,596	43,021,876
Balance	**11,832,406**	**19,148,114**

	December 2004	June 2004
17. Establishment Expenses	**$**	**$**
Included in this expense head are: -		
Directors' Fees	151,550	281,450
Provision for loan losses	-	-
Depreciation	923,568	1,817,080

18. 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.

19. 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.

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.

20. 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.

21. 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.

22. 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.

23. Credit Risk

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

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.

24. 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.