

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

UNAUDITED

FINANCIAL STATEMENTS

FOR THE SECOND QUARTER ENDED

DECEMBER 31, 2003

SKNA National Bank Ltd. Comptroller Division

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

STATEMENT OF ACCOUNTING POLICIES **FOR THE SECOND QUARTER ENDED DECEMBER 31, 2003**

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STATEMENT OF CASHFLOW
FOR THE SIX MONTHS ENDING DECEMBER 2003

	<u>Quarter Ended</u> <u>December 2003</u>	<u>Quarter Ended</u> <u>December 2002</u>
	\$	\$
Cash flows from operating activities		
Operating Income before taxation	8,501,765	11,866,138
Adjustments for:		
Depreciation	923,737	844,317
Provision for loan losses	-	
Prior year adjustments	-	(426,932)
Loss on disposal of fixed assets	-	-
Operating income before changes in operating assets and liabilities	<u>9,425,502</u>	<u>12,283,523</u>
<i>(Increase) decrease in operating assets:</i>		
Net loans and advances	(28,936,686)	(351,318)
Other accounts	873,019	(777,035)
<i>Increase (decrease) in operating liabilities:</i>		
Due to other banks	4,231,791	-
Customers' deposits	33,815,653	(4,964,281)
Due to subsidiaries	(687,648)	-
Deferred credit	-	-
Accumulated provisions, creditors, and accruals	<u>23,479,703</u>	<u>(5,281,446)</u>
Cash generated from operations	42,201,334	909,443
Income tax paid	<u>(6,061,920)</u>	<u>(6,141,978)</u>
<i>Net cash from (used in) operating activities</i>	36,139,414	(5,232,535)
Cash flows from investing activities		
Purchase fixed assets	(425,007)	(570,148)
(Increase) decrease in special term deposits	-	
Net (increase) decrease in investment securities	(813,278)	(110,417)
Investment in subsidiaries	<u> </u>	<u>(600,000)</u>
<i>Net cash used in investing activities</i>	(1,238,285)	(1,280,565)
Net increase in cash and cash equivalents	34,901,129	(6,513,100)
Cash and cash equivalents at beginning of period	<u>388,439,976</u>	<u>232,536,049</u>
Cash and cash equivalents at end of period	<u><u>423,341,105</u></u>	<u><u>226,022,949</u></u>
Represented by:		
Cash in Hand	11,133,348	8,289,189
Money at call and short notices	65,164,301	82,552,146
Term deposits	298,698,183	85,524,773
Deposit with ECCB	48,345,273	49,656,841
Cash and short-term funds	<u><u>423,341,105</u></u>	<u><u>226,022,949</u></u>

Statement of Income for the period ended December 31, 2003

	Notes	Quarter Ended December 2003 \$	Quarter Ended December 2002 \$
INCOME			
Interest - Loan & Advances and Fees		20,450,866	23,745,756
- Investments and Deposits with other Banks		<u>5,797,714</u>	<u>5,323,332</u>
Total Interest Income		26,248,580	29,069,088
Less: - Interest Expense		<u>20,159,054</u>	<u>18,467,338</u>
Net Interest Income	16	<u>6,089,526</u>	<u>10,601,750</u>
Non-Interest Income			
Gain on Foreign Exchange		1,097,345	882,758
Dividend		248,745	183,805
Service Charge		723,443	462,762
Commission		8,824,699	6,454,413
Miscellaneous		<u>733,025</u>	<u>224,950</u>
Total Non-Interest Income		<u>11,627,257</u>	<u>8,208,688</u>
Operating Income		<u><u>17,716,783</u></u>	<u><u>18,810,438</u></u>
NON-INTEREST EXPENSES			
Establishment	17	1,457,536	1,096,549
Communication		116,334	166,997
Staff Employment		4,790,845	4,322,428
Travelling		47,602	44,658
Stationery and Supplies		237,546	196,255
Loss on Marketable Securities		16,247	0
Miscellaneous		107,652	101,915
Audit Fees and Expenses		22,853	1,944
Other Finance Charges		<u>1,494,666</u>	<u>169,237</u>
Total Non-Interest Expenses before Depreciation		<u>8,291,281</u>	<u>6,099,983</u>
Net Operating Income Before Depreciation and Tax		9,425,502	12,710,455
Depreciation		<u>923,737</u>	<u>844,317</u>
Net Operating Income before Tax		<u><u>8,501,765</u></u>	<u><u>11,866,138</u></u>

BALANCE SHEET AS AT DECEMBER 31, 2003

	<u>Notes</u>	<i>Unaudited</i> Quarter Ended <u>Dec. 2003</u> \$	<i>Audited</i> Year Ended <u>June 2003</u> \$
Assets			
Cash and Money at call	4	494,248,410	459,347,281
Loans and Advances	5	445,727,592	416,790,906
Investments	6	119,877,095	119,063,817
Investment in Subsidiaries	7	35,550,000	35,550,000
Customers' Liability under Acceptances, Guarantees, and Letters of Credit (per contra)	8	4,121,565	4,276,565
Bank Premises and Equipment	9	17,774,750	18,316,630
Other Accounts	10	5,032,938	5,905,957
Total Assets		1,122,332,350	1,059,251,156
Liabilities			
Due to other Banks		23,169,651	18,937,860
Customers' Deposits	11	862,195,729	828,380,076
Due to Subsidiaries			687,648
Deferred Credit	12	21,473,856	21,473,856
Acceptances, Guarantees and Letters of Credit (per contra)	8	4,121,565	4,276,565
Accumulated Provisions, Creditors, and Accruals	13	69,093,925	51,719,292
Total Liabilities		980,054,726	925,475,297
Shareholders' Equity			
Issued Share Capital	14	81,000,000	81,000,000
Share Premium		3,877,424	3,877,424
Reserves	15	47,363,391	47,363,391
Unappropriated Profits		8,501,765	
Retained Earnings		1,535,044	1,535,044
Total Shareholders' Equity		142,277,624	133,775,859
Total Liabilities and Shareholders' Equity		1,122,332,350	1,059,251,156

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003**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

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
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

(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
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

(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>Dec</u> <u>2003</u> \$	<u>June</u> <u>2003</u> \$
Cash in Hand	11,133,348	8,031,916
Deposits with other financial institutions	64,579,427	47,788,477
Items in the course of collection	584,874	215,358
Deposit balance with ECCB*	48,345,273	50,248,409
Term Deposits	298,698,183	282,155,816
	-----	-----
	423,341,105	388,439,976
Special Term Deposits	70,907,305	70,907,305
	-----	-----
	494,248,410	459,347,281
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

Cash and Money at call continued

	Dec 2003 \$	June 2003 \$
Term deposits pledged for the benefit of Visa International and Mastercard in support of the Bank's international card business	67,009,852	67,009,852
	-----	-----
*Eastern Caribbean Central Bank		

5. Loans and Advances

Performing loans and advances	389,633,150	360,384,865
Non-performing loans and advances	65,384,060	65,695,659
	-----	-----
Gross	455,017,210	426,080,524
Less provision for doubtful debts	9,289,618	9,289,618
	-----	-----
Net	445,727,592	416,790,906
	=====	=====

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	344,032,023	319,365,551
One to three years	18,344,782	23,635,698
Three to five years	12,371,882	12,864,995
Over five years	80,268,523	70,214,280
	-----	-----
Gross	455,017,210	426,080,524
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

Loans and Advances continued

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

6. Investments

Available-for-sale – quoted

Corporate Bonds	9,984,384	9,984,384
U. S. Governments Securities	21,331,390	20,518,112
Mortgage Backed Securities	759,444	759,444
	<u>32,075,218</u>	<u>31,261,940</u>

Available-for-sale – unquoted

Treasury Bills maturing August 26, 2003 with Interest rate at 6.5% (2003 and 2002 - 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	1,056,328	1,056,328
Bank of St. Lucia 230,000 shares at a cost of \$5 each	1,000,000	1,000,000
	<u>84,149,929</u>	<u>84,149,929</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

6. *Investments continued*

Available-for-sale – unquoted

	<u>Dec</u> <u>2003</u> \$	<u>June</u> <u>2003</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
	----- 750,648	----- 750,648
	----- 84,900,577	----- 84,900,577

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 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 10.5% 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
	----- 1,901,300	----- 1,901,300
	----- 119,877,095	----- 119,063,817
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

6. *Investments continued*

	<u>Dec</u> <u>2003</u> \$	<u>June</u> <u>2003</u> \$
Securities classified according to currency		
Foreign Currency Securities	32,075,218	31,261,940
Eastern Caribbean Currency Securities	87,801,877	87,801,877
	-----	-----
	119,877,095	119,063,817
	=====	=====

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	29,800,000
	-----	-----
	35,550,000	35,550,000
	=====	=====

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

Letters of Credit	25,000	180,000
Guarantees (credit cards)	4,096,565	4,096,565
	-----	-----
	4,121,565	4,276,565
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

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 July 1, 2003	28,343,316	17,221,322	8,943,907	1,214,376	534,000	103,553	326,158
Additions	425,007	269,400	133,303	-	-	4,347	17,957
Transfer	(43,150)	-	-	-	-	-	(43,150)
	28,725,173	17,490,722	9,007,210	1,214,376	534,000	107,900	300,965
Accumulated Depreciation							
At July 1, 2002	10,026,686	2,351,173	6,334,849	972,672	315,798	52,194	-
Charge for Year	923,737	211,260	633,651	30,886	39,900	8,040	-
Eliminated on Disposal	-	-	-	-	-	-	-
	10,950,423	2,562,433	6,968,500	1,003,558	355,698	60,234	-
Net Book Value							
At Dec. 31, 2003	17,774,750	14,928,289	2,108,710	210,818	178,302	47,666	300,965
At June 30, 2002	18,316,630	14,870,149	2,609,058	214,705	218,202	51,358	326,158

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

	<u>Dec</u> <u>2003</u> \$	<u>June</u> <u>2003</u> \$
10. Other Accounts		
Interest Income Receivable	2,138,519	2,662,578
Other Receivables	1,414,642	787,143
Prepayments	1,109,639	2,090,865
Stationery and Cards Stock	370,138	365,371
	-----	-----
	5,032,938	5,905,957
	=====	=====
11. Customers' Deposits	862,195,729	828,380,076
	=====	=====
Analysis by Sector		
Consumers	154,590,821	154,590,821
Private Businesses and Subsidiaries	210,058,989	210,058,989
State, Statutory Bodies and Non-Financial Institutions	382,116,618	382,116,618
Others	81,613,648	48,953,132
	-----	-----
	828,380,076	725,947,058
	=====	=====
12. Deferred Credit		
Balance brought forward	21,473,856	10,000,000
Addition	-	11,473,856
	-----	-----
	21,473,856	21,473,856
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

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>Dec</u> <u>2003</u> \$	<u>June</u> <u>2003</u> \$
Interest Payable	20,223,070	11,606,707
Income Tax Payable	684,283	6,746,203
Proposed Dividend	10,935,000	10,935,000
Managers Cheques and Bankers Payments	757,880	468,063
Unpaid Drafts on other banks	2,070,847	2,266,664
Bonds Payable	27,026,000	-
Note Payable	-	5,113,027
Other Payables	7,396,845	14,583,628
	----- 69,093,925 =====	----- 51,719,292 =====

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
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

	<u>Dec</u> <u>2003</u> \$	<u>June</u> <u>2003</u> \$
15. Reserves		
Statutory Reserve	23,454,749	23,454,749
General Reserve	22,000,000	22,000,000
Revaluation Reserve	1,908,642	1,908,642
	<u>47,363,391</u>	<u>47,363,391</u>
Statutory Reserve	<u>23,454,749</u>	<u>23,454,749</u>
<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>		
General Reserve		
Balance brought forward	18,636,609	18,636,609
Amount transferred in	-	3,363,391
	<u>22,000,000</u>	<u>22,000,000</u>
Revaluation Reserve	<u>1,908,642</u>	<u>1,908,642</u>

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
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

	<u>Dec</u> <u>2003</u> \$	<u>June</u> <u>2003</u> \$
16. Net Interest Income		
Interest Income		
Loans and Advances	19,208,892	44,585,578
Loan Fees	1,241,974	2,700,210
Deposits with other Banks	2,428,115	4,212,245
Investments	3,366,720	9,229,751
Other	2,879	34,967
	-----	-----
	26,248,580	60,762,761
	-----	-----
Interest Expense		
Customers' Deposits	19,524,280	34,549,698
Due to other Banks	634,774	2,020,740
	-----	-----
	20,159,054	36,570,438
	-----	-----
Balance as at December 31/June 30	6,089,526	24,192,323
	=====	=====
17. Establishment Expenses		
Included in this expense head are: -		
Directors' Fees	151,550	281,915
Provision for loan losses	-	2,637,556
18. Over (under) Provision for Income Tax	-	382,181

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

19. Contingent Liabilities

19.1 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.

19.2 Financial Commitments

As at December 31, 2003, the Bank was committed to make loans and advances amounting to approximately **\$40,703,806 (June 30, 2003 – \$185,818,000)**.

20. 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 December 31, 2003 amounted to **\$293,000 – (June 30, 2003 - \$204,233)**. Whereas, deposits balances of directors and associates as at December 31, 2003 amounted to **\$1,808,000 – (June 30, 2003 - \$2,236,840)**.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003

21. 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.

22. 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.

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23. 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.

24. 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.

25. 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.

However, 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.

26. 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.