



ST. KITTS-NEVIS - ANGUILLA NATIONAL BANK LIMITED

Annual Report 2007



Providing Global Access with Financial Solutions



Member - Caribbean Association of Indigenous Banks



Vision

To be recognised internationally as a premier financial institution through advanced technology, strategic alliances and superior products and services.

Mission

To be an efficient, profitable and growth-oriented financial institution, promoting social and economic development in the national and regional community by providing high quality financial services and products at competitive prices.



CUSTOMERS' CHARTER

- To Keep the Bank a customer friendly institution.
- To treat customers as an integral part of the Bank and serve them with the highest levels of integrity, fairness and goodwill.
- To provide customers with the products and services they need, in the form and variety they demand them, at the time they require them, and at prices they can afford.
- To give our customers good value for the prices they pay.

POLICY STATEMENT

- To mobilise domestic and foreign financial resources and allocate them to efficient productive uses to gain the highest levels of economic development and social benefits.
- To promote and encourage the development of entrepreneurship for the profitable employment of available resources.
- To exercise sound judgement, due diligence, professional expertise and moral excellence in managing our corporate business and advising our customers and clients.
- To maintain the highest standard of confidentiality, integrity, fairness and goodwill in all dealings with customers, clients and the general public.
- To create a harmonious and stimulating work environment in which our employees can experience career fulfilment, job satisfaction and personal accomplishment; to provide job security; to pay fair and adequate compensation based on performance, and to recognise and reward individual achievements.
- To promote initiative, dynamism and a keen sense of responsibility in our Managers; to hold them accountable personally for achieving performance targets and to require of them sustained loyalty and integrity.
- To provide our shareholders with a satisfactory return on their capital and thus preserve and increase the value of their investment.
- To be an exemplary corporate citizen providing managerial, organisational and ethical leadership to the business community.

The policies set out above inform and inspire our customer relationships, staff interactions and public communication; guide our corporate decision making process; influence the manner in which we perform our daily tasks; and direct our recruitment, organisational, operational and development policies, plans and programmes.

Our Directors, Management and Staff are unreservedly committed to the observance of the duties and responsibilities stated above for the fulfilment of our Mission.



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NOTICE OF MEETING

Notice is hereby given that the **THIRTY-SEVENTH ANNUAL GENERAL MEETING** of **St. Kitts-Nevis-Anguilla National Bank Limited** will be held at the Ocean Terrace Inn, Fortlands, Basseterre on Thursday 31st January 2008 at 5.00pm for the following purposes:-

- 1 To read and confirm the Minutes of the Meeting held on 25th January 2007
- 2 To consider Matters Arising from the Minutes
- 3 To receive the Directors Report
- 4 To receive the Auditors Report
- 5 To receive and consider the Accounts for the year ended 30th June 2007
- 6 To declare a dividend
- 7 To elect Directors
- 8 To appoint Auditors for the year ending 30th June 2008 and to authorize the Directors to fix their remuneration.
- 9 To discuss any other business for which notice in writing is delivered to the Company Secretary three clear banking days prior to the meeting.

By Order of the Board

Yvonne Merchant-Charles
Secretary

12 November 2007

SHAREHOLDERS OF RECORD

All shareholders of record as at 15th November 2007 will be entitled to receive a dividend in respect of the financial year ended 30th June 2007

PROXY

A member of the Company who is entitled to attend and vote at this meeting is entitled to appoint a proxy to vote in his stead. No person shall be appointed a proxy who is not entitled to vote at the meeting for which the proxy is given. The proxy form must be delivered to the Company Secretary 48 hours before the meeting.



ARTICLES GOVERNING MEETINGS

ARTICLE 42

At any meeting, unless a poll is demanded as hereinafter provided, every resolution shall be decided by a majority of the Shareholders or their proxies present and voting, either by show of hands or by secret ballot, and in case there shall be an equality of votes, the Chairman of such meeting shall have a casting vote in addition to the vote to which he may be entitled as a member.

ARTICLE 43

If at any meeting a poll is demanded by ten members present in person or by proxy and entitled to vote, the poll shall be taken in every such manner as the Chairman shall direct; and in such case every member present at the taking of the poll, either personally or by proxy, shall have a number of votes, to which he may be entitled as hereinafter provided; and in case at any such poll there shall be an equality of votes, the Chairman of the meeting at which such poll shall be taken shall be entitled to a casting vote in addition to any votes to which he may be entitled as a member and proxy.

ARTICLE 45

Every member shall on a poll have one vote for every dollar of the capital in the Company held by him.

ARTICLE 56

At every ordinary meeting one-third of the Directors shall retire from office. If the number of Directors be not divisible by three, then the nearest to one-third of the number of Directors shall retire from office. The Directors to retire shall be those who have been longest in office since their last election. As between Directors of equal seniority in office the Directors to retire shall be selected from amongst them by lot. A retiring Director shall be immediately, or at any future time, if still qualified, eligible for re-election.

ARTICLE 59

No one (other than a retiring Director) shall be eligible to be a Director, unless notice in writing that he is a candidate for such office shall have been given to the Company by two other members of the Company at least seven days before the day of holding the meeting at which the election is to take place.



ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

FINANCIAL HIGHLIGHTS

	2007 \$` 000	2006 \$` 000	2005 \$` 000	2004 \$` 000	2003 \$` 000
BALANCE SHEET INFORMATION					
Total Assets	1,935,130	1,614,256	1,504,155	1,309,433	1,059,376
Deposits	1,290,808	1,141,913	1,109,218	984,235	828,380
Loans and Advances	979,357	846,471	691,953	517,158	416,791
Investment	262,597	164,916	119,510	119,179	119,064
Cash and Money at call	592,368	540,409	636,534	603,239	459,347
OPERATING RESULTS					
Gross Operating Income	161,257	154,956	110,660	88,229	78,246
Interest Income	109,304	103,489	78,355	62,170	60,763
Interest Expense	54,820	61,668	50,423	43,022	36,570
Earnings Before Income Tax	81,235	68,071	40,624	23,848	24,280
Net Income	56,869	47,525	27,120	16,687	17,722
Operating Expenses/Provisions	25,202	25,217	19,613	21,359	17,395
Number of Employees	153	153	148	151	154
Gross Revenue per Employee	1,054	1,013	748	584	509
Total Assets per Employee	12,648	10,551	10,163	8,672	6,879
SHARE CAPITAL & DIVIDEND INFORMATION					
Paid up Share Capital	81,000	81,000	81,000	81,000	81,000
Shareholders' Equity	255,168	210,181	173,814	157,412	144,836
Dividends	14,175	12,150	10,935	10,935	8,356
Number of Shareholders	5,150	5,083	3,226	2,738	2,738
Earnings per Share (\$) (Diluted)	0.70	0.59	0.33	0.21	0.22
Dividends per Share (\$)	0.175	0.150	0.135	0.135	0.135
BALANCE SHEET AND OPERATING RESULTS RATIOS (%)					
Loans and Advances to Deposits	75.9	74.1	62.4	52.5	50.3
Staff Cost/Total Cost	17.5	14.6	16.8	14.4	15.7
Staff Cost/Total Revenue	8.7	8.2	10.6	10.5	10.8
Cost/Income (Efficiency)	23.7	27.0	32.6	47.3	41.7
Return on Equity	24.4	24.8	16.4	11.0	13.0
Return on Assets	3.2	3.1	1.9	1.4	1.8
Asset Utilization	9.1	9.9	7.9	7.5	7.8
Yield on Earning Assets	7.6	8.2	6.7	6.2	7.4
Cost to Fund Earning Assets	3.8	4.9	4.3	4.3	4.5
Net interest Margin	3.8	3.3	2.4	1.9	2.9



ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

ANALYSIS OF INCOME AND EXPENDITURE

	2007 \$` 000	2006 \$` 000	2005 \$` 000	2004 \$` 000	2003 \$` 000
INCOME					
Interest	109,304	103,489	78,355	62,170	60,763
Gain on Foreign Exchange	2,753	4,690	1,944	1,960	2,450
Gain on Marketable Securities (Net)	5,782	-	-	-	118
Dividends	574	330	389	529	233
Service Charge	1,387	1,311	1,509	1,504	956
Commission	38,094	44,342	27,352	21,124	13,261
Miscellaneous	<u>3,363</u>	<u>794</u>	<u>1,111</u>	<u>942</u>	<u>465</u>
	<u>161,257</u>	<u>154,956</u>	<u>110,660</u>	<u>88,229</u>	<u>78,246</u>
EXPENDITURE					
Interest	54,820	61,668	50,423	43,022	36,570
Establishment Expenses	8,031	9,209	5,207	5,362	7,328
Staff Employment	14,026	12,654	11,755	9,245	8,445
Stationery and Supplies	699	622	594	568	506
Loss on Marketable Securities	-	1,078	490	1,244	-
Miscellaneous	1,127	784	772	652	674
Audit Fees and Expenses	72	72	72	107	69
Other Finance Charges	<u>1,247</u>	<u>798</u>	<u>723</u>	<u>4,181</u>	<u>373</u>
	<u>80,022</u>	<u>86,885</u>	<u>70,036</u>	<u>64,381</u>	<u>53,965</u>



ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED CORPORATE INFORMATION

BOARD OF DIRECTORS

Walford V. Gumbs	Chairperson
Mitchell Gumbs	1 st Vice Chairperson
Yvonne Merchant-Charles	2 nd Vice Chairperson
Linkon Willcove Maynard	Director
Halva Maurice Hendrickson	Director
Elsie Eudorah Mills	Director
Sharylle V. I. Richardson	Director
Sonia Romelia Carr	Director
Dr. Mervyn Laws	Director
Edmund W. Lawrence	Managing Director

CORPORATE SECRETARY

Yvonne Merchant-Charles

SOLICITORS

Kelsick, Wilkin & Ferdinand
Chambers
Unit 21
The Sands Complex
George Street
BASSETERRE

Dublin and Johnson
Chambers
Unit C18
The Sands Complex
George Street
BASSETERRE

AUDITORS

Simmonds and Associates
Chartered Accountant
P O Box 126
New Street
BASSETERRE



BRANCHES, ATMS AND SUBSIDIARIES

BRANCHES

Nevis Branch
Charlestown, Nevis

Sandy Point Branch
Main Street, Sandy Point, St. Kitts

Saddlers Branch
Main Street, Saddlers, St. Kitts

Pelican Mall Branch
Bay Road, Basseterre, St. Kitts

Airport Branch
RLB International Airport

ATMS

Old Road
St. Paul's
Cayon
Lodge
St. Peter's
CAP Southwell Industrial Park
Vance W Amory International Airport
Nevis Branch
Sandy Point Branch
Saddlers Branch
RLB International Airport
Pelican Mall
Basseterre Branch
Camps
Port Zante
Tabernacle

SUBSIDIARIES CONSOLIDATED

National Bank Trust Company
(St. Kitts-Nevis-Anguilla) Limited
Rosemary Lane, BASSETERRE, St. Kitts

National Caribbean Insurance Company Ltd.
Church Street, BASSETERRE, St. Kitts

St. Kitts and Nevis Mortgage & Investment
Company Limited
Central Street, BASSETERRE, St. Kitts

REGISTERED OFFICE OF THE PARENT COMPANY

St. Kitts-Nevis-Anguilla National
Bank Limited
Central Street, BASSETERRE, St. Kitts



LETTER FROM THE CHAIRMAN



Greetings! I am indeed delighted to state that St Kitts-Nevis-Anguilla National Bank Limited had another successful year of operations in 2006/2007.

Total assets increased to \$1,935,130,000 or 19.9% from \$1,614,256,000 in 2006 while deposits grew from \$1,141,913,000 in 2006 to \$1,290,808,000 or 13% in 2007. The Bank's loan portfolio increased by \$132,886,000 or 15.7% to \$979,357,000 from \$846,471,000 in 2006. I am pleased to report that net operating income before taxes increased by 19.3% to \$81,235,000 from \$68,071,000 in 2006.

The achievements in the Bank's operations during the year are extremely commendable as this performance surpassed budgetary estimates. During the next year the Bank is sure to surpass the two billion dollar mark in total assets.

As a result of the year's performance the Directors have recommended an increase in dividend to shareholders over what was paid during the previous year ending June 2006. We are committed to working harder for continued growth, although the banking environment is experiencing several challenges including mergers and acquisitions, heightened controls by banking regulators and supervisors, and changes in the global banking industry.

National Bank has taken steps to strengthen its compliance department and improve corporate governance. We are reviewing our staff structure and have approved a succession plan that will ensure that the Bank will withstand the challenges now and in the future. We will continue to invest in staff training to ensure a high quality staff in the institution.

During the year, the Bank continued its policy as a good corporate citizen and has sponsored and funded several organisations, particularly to youth development. Our loan portfolio shows significant investment in economic development to both the public and private sectors.

The success of the Bank could not have been achieved without the significant contribution of our staff and we will continue to reward them accordingly. The Board of

Directors thanks them for their service and contribution to the Bank's success.

I once again thank our shareholders for the confidence they have placed in the Board and it is my hope, that through the Bank's performance, we have again justified their confidence in us.

National strives to offer our customers high quality service. We will work to improve and achieve an even higher quality of service. I thank all our customers for their patronage during the past year as we pledge to offer greater service.

I wish to thank my fellow Directors for their cooperation and service to the Bank as we work towards greater success despite the challenges in the new banking environment.

Walford Gumbs
Chairman

12 November 2007



MANAGING DIRECTORS REPORT



National Bank, affectionately called **National**, has been very highly and widely commended for its sustained success in converting complex challenges into profitable opportunities in fiscal 2007, as it has done throughout the preceding years. The excellent results recorded in 2007 are unqualified reconfirmation of the strength, soundness and stability of the Bank.

Fiscal 2007 was another growth year for **National**. We achieved our financial, operational, customer, employee and service delivery and product diversification TARGETS, as well as our community objectives.

ASSETS REVIEW

LOANS AND ADVANCES increased by \$132.8 million or 15.6% in 2007 over 2006. Demand for credit by the public sector was stronger than the demand by the private and personal sectors. Public sector demand was mainly for physical, educational and social infrastructural development, expansion and maintenance.

Private sector demand was mainly for tourism, light industry, wholesale, retail, land and property development and public transport. Personal sector demand was predominantly for land, housing and private transport.

In fiscal 2007, non-performing loans and advances were 5% of total loans and advances, and doubtful debts were 1% of total loans and advances. This means that 95% of loans and advances was performing as agreed and 99% of loans and advances was expected to be fully repaid.

Although doubtful debts amounted to \$10.5 million in 2007, the amount of loan loss reserve in the same year was increased to \$17 million or approximately 1.7 times the amount of doubtful debts.

Non-performing is wider than non-payment and includes non-compliance with one or more of the non-monetary terms and conditions of the loan contract, such as keeping the security asset insured, providing timely financial and other reports, and not exceeding the overdraft limit. In the case of loans and overdrafts, the accounts are classified as non-performing if payments are ninety days in arrears.

Loans and overdrafts are made to prime borrowers who provide appreciating real estate collateral, cash or monetary instruments as security. The continuous application and observance of the established portfolio-enhancing policies and best practices enable the Bank to maintain a high quality asset.

LIABILITIES REVIEW

DEPOSITS increased by \$148.8 million or 13.0% in 2007 over 2006, and the largest increase was from private businesses. There were increases in all sectoral deposits.

OPERATIONS REVIEW

The results of operations in fiscal 2007 were excellent, and more so when full weight is given to the foreign and domestic volatile market conditions prevailing throughout the period.

GROSS INCOME of \$161.2 million in 2007 was \$6.3 million or 4.0% higher than in 2006. INTEREST INCOME after deducting interest expense and loan loss provision was \$52.8 million in 2007. This amount was \$14.4 million or 37.7% higher than in 2006. INTEREST EXPENSE of \$54.8 million in 2007 was \$6.8 million or 11.1% lower than in 2006. OPERATING INCOME of \$104.7 million in 2007 was \$14.9 million or 16.6% higher than in 2006.

PROFIT before tax for 2007 of \$81.2 million was \$13.1 million or 19.3% higher than the profit before tax for 2006. This remarkable result was achieved in an environment of keen competition that suppressed prices and margins.

EARNINGS PER SHARE in 2007 was 11 cents or 18.6% higher than in 2006. This performance was better than the market expected and led to a substantial advance in the price of the Bank shares on the Securities Exchange.

FINANCIAL REVIEW

Unencumbered LIQUID ASSETS comprising of cash and money at call plus U.S. currency investment amounted to \$676.6 million in 2007, and was equivalent to 52.4% of customers deposits with the Bank. This remarkably large pool of unencumbered money in the possession of the Bank gives deep and abiding confidence and comfort to all of the depositors with **National**.



MANAGING DIRECTORS REPORT CONT'D.

Not only are customers deposits insulated against risk by such a huge mass of money which is much more than \$0.6 billion that the Bank has free and clear, but all of our deposit customers are paid the highest rates of interest on their deposits with **National**.

SHAREHOLDERS EQUITY REVIEW

SHAREHOLDERS EQUITY increased by \$45.0 million or 21.4% in 2007 to reach \$255.1 million from \$210.1 million in 2006. Shareholders equity in 2007 was comprised of share capital - \$81.0 million, reserves - \$154.7 million and retained earnings - \$19.3 million.

Statutory reserve was increased by \$31.0 million to \$81.0 million in 2007 from \$50.0 million in 2006, thus making statutory reserve equal to the issued and fully paid up share capital. Other reserves were increased by \$10.0 million in 2007 to reach \$69.9 million.

4Ts

During the year under review **National** continued to execute strategic measures to optimise the short- and long-term benefits of the 4Ts: TECHNOLOGY, TALENT, TARGET, TREND.

National made the required investment in hardware and software TECHNOLOGY to upgrade, upscale, extend and expand operational systems and service delivery options and solutions.

National sees St. Kitts-Nevis as its location and the world as its market, therefore information and systems technology are critically important for **National**. **National** has been described as an international local Bank. **National** epitomises the saying that a Bank does not have to be everywhere to be international. The desire is for **National** to be recognised as a local Bank with international capabilities.

National produces TALENT by providing opportunities for academic and professional education, training and qualification for its employees. **National** is celebrated for its pay, benefit package and empowering programmes designed and delivered to foster and nurture employee loyalty. During 2007, **National** was extremely proactive in enabling its employees to acquire the skills and

develop the expertise that will equip them to perform their tasks efficiently, to act responsibly, to be accountable, and to prepare themselves for progression and succession opportunities in the Bank.

National has introduced a series of strategic initiatives that enable it to foresee TRENDS and to keep abreast of developments in the fast changing banking and financial services industry. By using the new tools and information **National** is equipped to anticipate and satisfy customers changing needs and to stay ahead of the competition.

COMMUNITY INVOLVEMENT

During the year under review **National** continued to discharge its social responsibility to the COMMUNITY. We disbursed hundreds of thousands of dollars as the premier sponsor and supporter of institutions, associations, charities and individuals in the fields of health, education, sports, culture, historical and social programmes and events, and other undertakings.

DIVIDEND

A final dividend of 17.5% amounting to \$14.1 million is recommended by the Board of Directors reflecting the strong financial position and sterling performance of **National** in 2007. The dividend approved and paid for 2006 was 15.0% amounting to \$12.1 million. The 2007 dividend is therefore \$2.0 million more than the 2006 dividend.

THE FUTURE

National's aim is to continually improve its technological ability to serve its customers with ever greater speed, convenience and efficiency coupled with an appropriate balance of first-rate human interaction. Our goal is to constantly enhance our capacity to deliver heightened customer satisfaction, employee loyalty and shareholder value.

Our objective is to apply the strategies, techniques, principles and discipline that would keep National revenue-centric and cost conscious by strict adherence to the efficient management of its resources, relationships, situations and time (2RST).



MANAGING DIRECTORS REPORT CONT'D .

National will continue to build and maintain a strong corporate governance structure and culture throughout the entire organisation. Our purpose is to achieve a top-class standard of accountability, openness and integrity in the conduct of our business and affairs.

A handwritten signature in black ink, appearing to read 'Edmund Lawrence', written in a cursive style.

Edmund Lawrence
Managing Director

12 November 2007



DIRECTORS REPORT

Your Directors have pleasure in submitting their Report for the financial year ended June 30, 2007.

DIRECTORS

In accordance with the Bank's Articles of Association one third of the Directors shall retire by rotation at every Annual General Meeting. Retiring Directors shall be eligible for re-election.

The retiring Directors by rotation are:

Mr. Halva Hendrickson
Mr. Walford Gumbs
Mrs. Yvonne Merchant-Charles

The retiring Directors, being eligible, offer themselves for re-appointment.

BOARD COMMITTEES

In keeping with its management function and fiduciary duties, the Board of Directors operates through seven (7) committees namely Asset/Liability Management, Audit, Budget, Corporate Governance, Credit, Executive and Investment.

All committees work closely with management to deal with the many challenges facing the financial services industry and the Bank in particular.

FINANCIAL RESULTS AND DIVIDENDS

Activities of the Bank are focused on increasing shareholders value by providing shareholders with a reasonable return on their investments. During the period June 1995 to June 2007, shareholders' equity increased by 421%; moving from \$49.0 million to \$255.2 million.

The Directors report that profit after taxation for the year ended June 30, 2007 amounted to \$56.9 million, with earnings per diluted share of \$0.70.

Further discussion of the performance of the Company can be found in the Management Discussion and Analysis presented in a separate section of this Annual Report.

The Directors have decided to recommend a dividend of 17.5% for the financial year ended June 30, 2007. This recommendation, if approved by the Annual General Meeting, will mean that a total dividend of \$14.2 million for the financial year 2007 compared to \$12.2 million for financial year 2006.

AUDITORS

The retiring auditors, Simmonds and Associates, Chartered Accountant, have expressed their willingness to be re-appointed and a resolution to the effect will be proposed at the Annual General Meeting.

By Order of the Board of Directors

Yvonne Merchant-Charles
Secretary

12 November 2007



INSURANCE



National Caribbean Insurance Company Headquarters

National Insurance Company Limited, the first indigenous insurance company in the Eastern Caribbean States, has been in operation since 1 October 1973. The company offers a wide range of insurance products through its Head Office in St Kitts and Branch Offices in Nevis and Anguilla. The products sold include long and short term life assurance, pension plans, health and general insurance business.

A number of life and health plans form part of the company's product mix and include - Whole of Life, Endowment, Quinquennial, Term Life, Pension Plans and Health Plans. Benefits under the health plans are available both locally and overseas.

Cover is offered for a wide spectrum of products under the general insurance portfolio. These include, property, motor, liability, contractors all risk and marine. The Homeshield policy, which provides protection in addition to those covered by the traditional homeowners' policy is one of the company's key selling products.

The environment in which the company operates is a very competitive one. However, the ongoing introduction of enhancement to its core products, as well as good customer service and relationships, has enabled the company to retain its prominent position in the marketplace. Gross premium of \$28.7 million was achieved, with property insurance being the largest contributor to total premium.

Marketing in 2007 was aimed at improving the public awareness of the company's range of products while responding to the insurance needs of current and prospective policyholders. This marketing strategy achieved its objective, the result of which was manifested in increased business.

As at 30 June 2007 total assets amounted to \$118.1 million and equity at \$23.5 million.



THE NATIONAL BANK SCHOOLS FOOTBALL LEAGUE



National Bank is proud of the substantial contributions it has made to sports in St. Kitts and Nevis. Our relationships are long standing and our commitment to sport is evidenced by the diversity of our sponsorships in sports. We are particularly proud of our contributions to the development of football which is the fastest growing sport in St Kitts and Nevis, a trend which is by no means accidental, but rather, pure design. National has definitely propelled the sport in St Kitts and Nevis, thereby ensuring that our youth remain enthused and admiring of the sport, as it spirals worldwide. We believe that no child should be left behind for the want or lack of opportunity. About

fourteen years ago, recognizing that it takes more than raw talent to engineer major achievements and successes, National aligned with the Department of Sport, in launching a football league in the primary schools.

National recognizes that its financial backing is crucial to the Nation's success in regional and international sporting arenas. We want to create opportunities for us all to be proud as a people, while providing a programme that ensures that our youth have healthy and rewarding alternatives to adverse lifestyles in their pursuit of the next adrenalin rush. Our football programme which is growing will ensure that the abundance of latent talent in St Kitts and Nevis is discovered and nurtured in an integrated training programme that transforms our eager young boys into ambitious adolescents and confident men on and off the field.



MANAGEMENT DISCUSSION & ANALYSIS

JUNE 30, 2007

Overview

During fiscal year ending June 30, 2007, the global economy grew robustly, but with a slight deceleration from the rapid pace the year before. Economic growth was supported by strong private-sector capital investment and growth in export-oriented industries, especially in India and China.

The economic conditions throughout the banking industry continue to be extremely demanding. Recent financial market developments in the United States of America have led to a tightening of credit availability, thereby making it more difficult to obtain credit which has the potential to curb economic activity.

These developments coupled with the emergent concerns of globalization, anti-money laundering and a stricter regulatory environment have exerted additional pressure on financial institutions in the Eastern Caribbean Currency Union.

Against this backdrop, the Bank reports another successful year of operations. Total deposits grew by 18.2% over last year's figure, bringing the aggregate to \$1.3 billion. Shareholder's Equity increased by 21.4% to \$255.2 million and net income was up 19.8% to \$56.9 million.

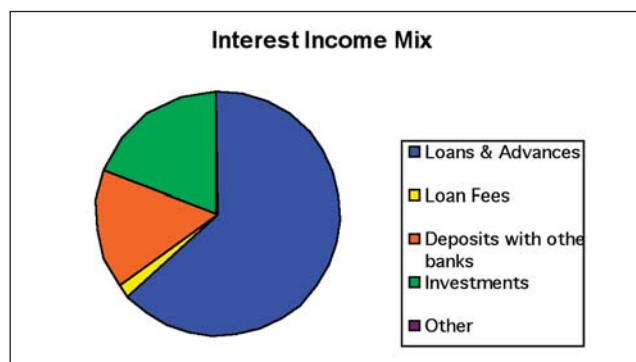
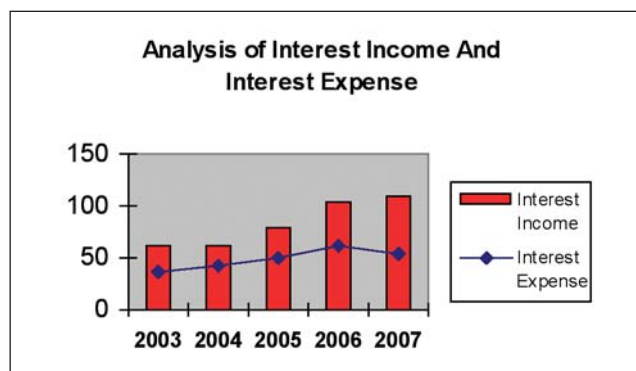
Results of Operations

Net Interest Income

As at June 30, 2007, net interest income grew by \$12.7 million or 30.4% when compared with the results attained in the previous fiscal year ended June 30, 2006. Increases in the returns on investments and efficiencies in the costs of funds were the main drivers behind the increase in this subhead. However, return on our loan portfolio fell off as a result of reduced interest rates on certain loan categories.

During the financial year 2006-2007, new investments were established and additional funds were injected into the portfolio to take advantage of existing opportunities in the Capital Market. This generated significant increases in total interest income, which grew by 5.6% to \$109.3 million at the end of June 2007. Interest expense, on the other hand, decreased by \$6.9 million or 11.2% due to efficiencies gained in the cost of funds.

Consequently, net interest margin improved by 50 basis points to 3.8% at June 30, 2007 from 3.3% at June 30, 2006. The yield from earnings assets decreased slightly due to the restructuring of loans from the agriculture, fisheries and manufacturing category to state, statutory bodies and public utilities category. This restructuring not only shifted loans categories, but reduced the interest rates charged on some loans, thereby decreasing overall return on such earnings assets, but a tax concession of the returns from the said category.





Non-Interest Income

Non interest income increased slightly by 1.0% to \$52.0 million at June 30, 2007. The growth in non-interest income in fiscal year 2007 was propelled mainly by gains in marketable and other securities that more than offset the decrease in commission and foreign exchange.

Non-Interest Expenses

Non-interest expenses were reported as \$23.5 million at June 30, 2007 compared with \$21.7 million at June 30, 2006. The year-to-year increase in non-interest expenses resulted from employment costs, maintenance of premises and international business charges.

The efficiency ratio improved by 330 basis points, from 27.0% in 2006 to 23.7% in 2007. This resulted from a higher net interest margin while still maintaining expenses at an acceptable level.

Earnings

The net effect of the above-mentioned items was a 940 basis point increase in net income. Therefore, net income increased to \$56.9 million or \$0.70 in earnings per share at the end of June 2007 from \$47.5 million or \$0.59 in earnings per share at the end of June 2006.

Financial Conditions

Deposits

During fiscal year 2007, we added new accounts within the various classes of deposits. These additions resulted from continued improvement in sales and service.

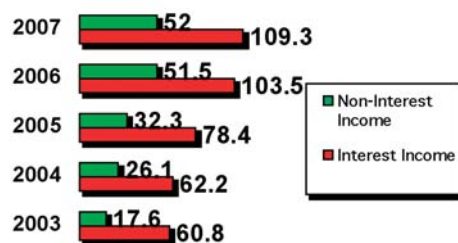
Increased funding of the new accounts and existing ones, coupled with the establishment of new deposits by other banks during the year, resulted in a rise in total deposits. As at June 30, 2007 total deposits were \$1.3 billion compared with \$1.1 billion for the same period in 2006. This represents approximately 18.2% increase.

Assets

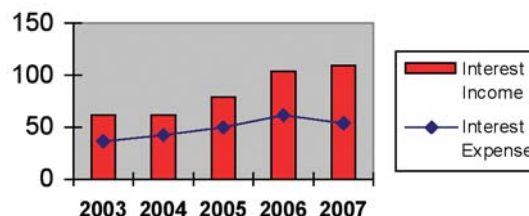
At June 30, 2007 total assets increased by 19.9% when compared to total assets at June 30, 2006. The overall growth in total assets was underpinned by an increase in term deposits, loans and advances, investments and other accounts.

The loans and advances portfolio was restructured during the year, which resulted in a significant shift in the sectoral

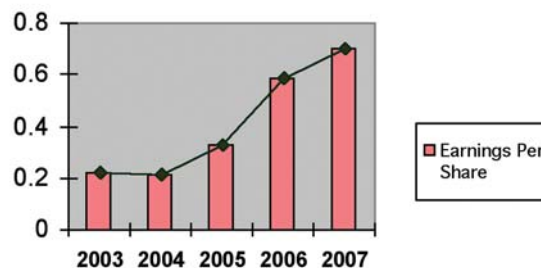
Analysis of Interest Income & Non-Interest Income



Analysis of Interest Income And Interest Expense



Earnings Per Share 2003-2007





analysis. The SSMC debt was reclassified from agriculture, fisheries and manufacturing to the state, statutory bodies and public utilities category, due to the liability for the debt being assumed by the Government.

Liquidity

At June 30, 2007, assets and liabilities maturing within 1 year totalled \$1.2 billion and \$1.4 billion, respectively, compared with \$1.3 billion and \$1.1 billion, respectively, at June 30, 2006. Notwithstanding a negative liquidity gap in fiscal year 2007, the Bank remained highly liquid and well within the guidelines set out by the Asset/Liability Management Committee.

Capital

Shareholders' equity increased 21.4% to \$255.2 million at June 30, 2007, due to higher retained earnings and net unrealized holding gains on securities. The ratio of shareholders' equity to total assets rose by 20 basis points from 13.0% at the previous year-end. Shareholders' equity per share rose 0.6% to \$3.15.

The bank regulators recommend minimum requirements for capital adequacy of their member banks as a protection to depositors as well as to promote stability and efficiency in the financial sector.

Tier 1 Capital: A minimum Tier 1 Capital ratio of 4% is recommended. As of June 30, 2007, the bank Tier 1 capital ratio was 36.5% compared with 44.0% at June 30, 2006.

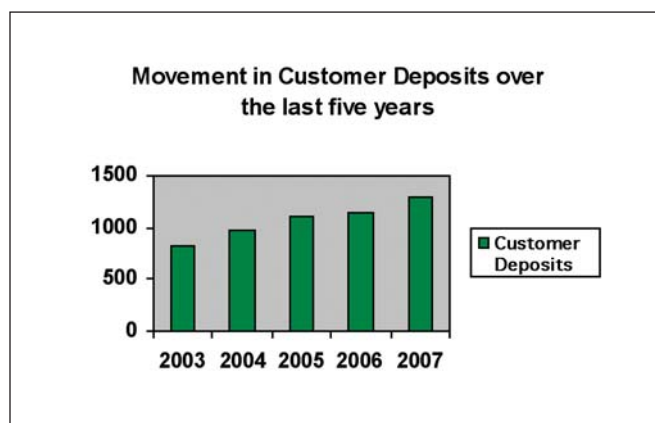
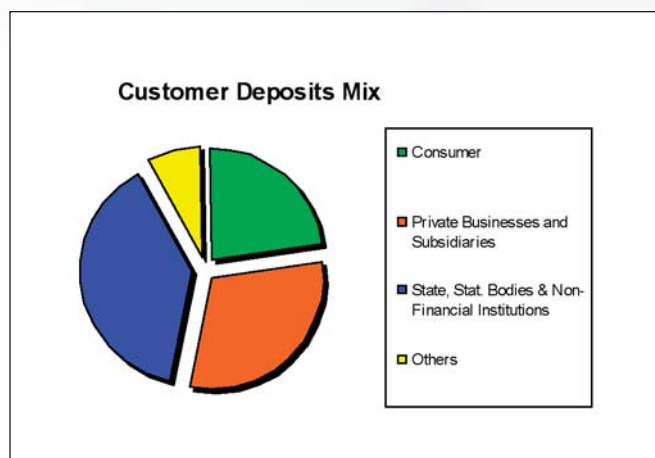
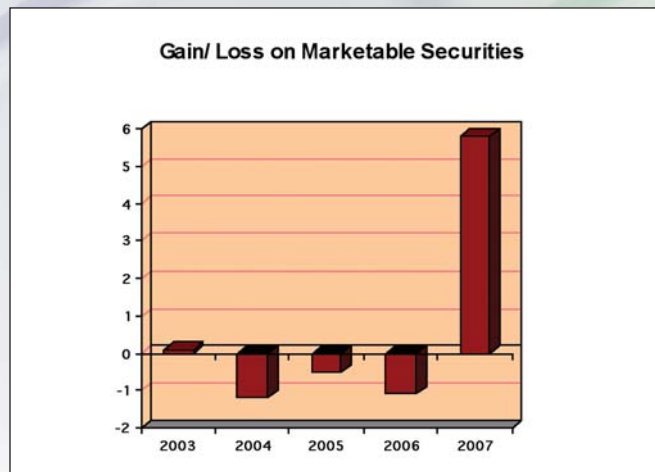
Total Capital: Total Capital ratio of the Bank at June 30, 2007 was 50.7%, 42.7 points above the 8% minimum required by the Accord.

These results show that the Bank is "well-capitalized" to strengthen its position in the sub-regional banking industry.

Risk Management

St. Kitts-Nevis-Anguilla National Bank applies effective risk management techniques to improve operating efficiency and effectiveness. During financial year 2007, the Bank implemented a payment processing and Swift connectivity solution to automate its back office functions and an automated real time solution that screens all incoming and outgoing payments by the use of a preventative compliance filter.

Back office functions such as the handling of wire transfers, standing orders, branch entry and book transfers were automated. This eliminates risks by applying business rule automation and straight through processing to domestic and international payments as well as reduces the need for a manual system and its related problems.





All payments entering and leaving the Bank are checked against OFAC and Bank of England lists. This ensures maximum security against payment fraud and compliance with international regulators.

The Bank will continue to utilise risk management techniques to effectively identify, monitor and mitigate risks, in response to the changing banking environment and international due diligence 'best practices', policies and procedures.

Corporate Governance

The Board of Directors, through the Audit Committee, continues to monitor the business affairs of the Bank to ensure compliance with relevant statutes and regulations. The Board is charged with the oversight responsibility of increasing operational efficiency, strengthening shareholder and customer confidence, and the investment attractiveness of the Company. The Board is constantly reviewing material developments in governance practices, issues and requirements, and where necessary, policy and strategic actions are taken to safeguard the interest of the Company.

Outlook

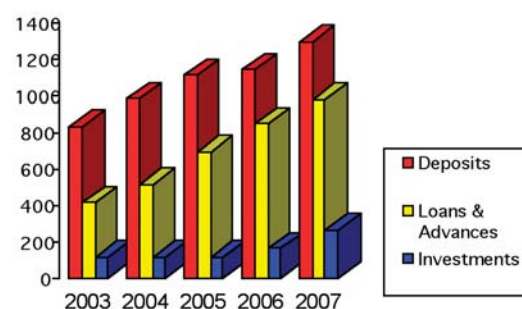
With the global economic recovery continuing, improvement in the tourism, construction and manufacturing sectors are expected to lead to the continuation of strong economic growth in the ECCU region.

In the banking industry, further consolidation of commercial banks in the region is expected; thereby creating a strong and competitive regional structure. As a result of this development, the playing field in the banking sector will rapidly continue to become diversified, complex and competitive.

In this setting, the Bank will continue to implement operational structure reforms and measures to improve profitability and strengthen its position in the regional, international and domestic marketplace. In addition, the Bank will continue to adapt to international prudential policies and practices with regards to capital adequacy and supervision that have been progressively tightened over the years.

Through these efforts, in the year ending June 2008, we are targeting higher customer deposits, shareholders' equity and profits, as well as lower cost of funds.

Movement in Deposits, Loans and Advances and Investments





DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

Company Law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the company and of the profit and loss for the period. In preparing financial statements, the Directors are required to:

- a) Select suitable accounting policies and then apply them consistently
- b) Make judgment and estimates that are reasonable and prudent
- c) State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- d) Prepare the financial statements on a going-concern basis, unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company to enable them to ensure that the financial statements comply with International Financial Reporting Standards. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to detect and prevent fraud and other irregularities.



AUDITORS REPORT

TO THE SHAREHOLDERS OF ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK LIMITED

We have audited the accompanying balance sheet of the St Kitts-Nevis-Anguilla National Bank Limited and its subsidiaries (the Group) as of June 30, 2007 and the related profit and loss account and cash flow statement of the group for the year then ended.

These financial statements set out on pages 25 to 49 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We read the other information published with the financial statements and considered whether it was consistent with the audited financial statements. We considered the implications for our audit if we became aware of any apparent misstatements or material inconsistencies with the financial statements.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentations.

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Company and the Group as at June 30, 2007 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

SIMMONDS AND ASSOCIATES
Chartered Accountant


ST. KITTS


12 November 2007



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP BALANCE SHEET AS AT JUNE 30, 2007

BANK			Notes	GROUP	
2006	2007			2007	2006
\$000	\$000			\$000	\$000
ASSETS					
540,409	592,368	Cash and Money at call	4	591,891	539,940
846,471	979,357	Loans and Advances	5	968,864	832,440
164,916	262,597	Investments	6	265,438	166,905
-	-	Investment in Properties	7	30,108	32,090
17,750	17,750	Investment in Subsidiaries	8	-	-
		Customers' Liability under Acceptances			
5,077	4,985	Guarantees and Letters of Credit	9	4,985	5,077
17,771	17,301	Premises and Equipment	10	22,015	22,646
21,573	60,488	Other Accounts	11	69,228	31,218
289	284	Deferred Tax Asset	12	284	289
<u>1,614,256</u>	<u>1,935,130</u>	Total Assets		<u>1,952,813</u>	<u>1,630,605</u>
Liabilities					
86	45,535	Due to Other Banks		45,535	86
1,141,913	1,290,808	Customers' Deposits	13	1,198,542	1,056,208
11,474	11,474	Deferred Cost	14	11,474	11,474
		Acceptance, Guarantees and			
5,077	4,985	Letters of Credit	9	4,985	5,077
245,211	326,624	Accumulated Provisions, Creditors	15	419,701	331,095
314	536	and Accruals	12	536	314
		Deferred Tax Liability			
<u>1,404,075</u>	<u>1,679,962</u>	Total Liabilities		<u>1,680,773</u>	<u>1,404,254</u>
Shareholders' Equity					
81,000	81,000	Share Capital	16	81,000	81,000
3,877	3,877	Share Premium		3,877	3,877
109,492	150,903	Reserves	17	169,020	125,329
15,812	19,388	Retained Earnings		18,143	16,145
<u>210,181</u>	<u>255,168</u>	Total Shareholders' Equity		<u>272,040</u>	<u>226,351</u>
<u>1,614,256</u>	<u>1,935,130</u>	Total Liabilities & Shareholders' Equity		<u>1,952,813</u>	<u>1,630,605</u>

Director: 
Walford V. Gumbs

Director: 
Mitchell Gumbs

The attached notes form part of these Financial Statements



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2007

BANK			Notes	GROUP	
2006 \$000	2007 \$000			2007 \$000	2006 \$000
41,821	54,484	NET INTEREST INCOME	18	56,597	43,829
<u>51,467</u>	<u>51,953</u>	NON-INTEREST INCOME		<u>66,906</u>	<u>66,012</u>
93,288	106,437			123,503	109,841
(3,480)	(1,673)	Loan Loss Provision		(1,673)	(3,480)
<u>(19,763)</u>	<u>(21,887)</u>	Non-Interest Expense		<u>(36,458)</u>	<u>(34,104)</u>
70,045	82,877	Net Operating Income before Depreciation and Tax		85,372	72,257
<u>(1,974)</u>	<u>(1,642)</u>	Depreciation		<u>(2,004)</u>	<u>(1,974)</u>
68,071	81,235	Net Operating Income before Tax		83,368	70,283
<u>(20,546)</u>	<u>(24,366)</u>	Income Tax Expense		<u>(25,630)</u>	<u>(21,025)</u>
<u>47,525</u>	<u>56,869</u>	Net Profit for the year ended June 30		<u>57,738</u>	<u>49,258</u>
0.59	0.70	Diluted/Basic earnings per share	20	0.71	0.61

The attached notes form part of these Financial Statements



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2007

Notes	Share Capital \$000	Share Premium \$000	Statutory Reserves \$000	Loan Loss Reserves \$000	General Reserves \$000	Revaluation Reserves \$000	Retained Earnings \$000	Shareholders' Equity \$000
Balance at June 30, 2005	81,000	3,877	34,955	7,500	43,729	2,714	14,895	188,670
- Income Tax	-	-	-	-	-	-	(420)	(420)
- As Restated	81,000	3,877	34,955	7,500	43,729	2,714	14,475	188,250
Net Income	-	-	-	-	-	-	49,258	49,258
Transfer to Reserve	17	-	15,045	4,500	17,108	-	(36,653)	-
Appreciation in Market Value of Investment Securities	17	-	-	-	-	92	-	92
Deferred Tax	17	-	-	-	-	(314)	-	(314)
Dividends	21	-	-	-	-	-	(10,935)	(10,935)
Balance at June 30, 2006	81,000	3,877	50,000	12,000	60,837	2,492	16,145	226,351
- Prior Year	-	-	-	-	-	-	(310)	(310)
- As Restated	81,000	3,877	50,000	12,000	60,837	2,492	15,835	226,041
Net Income	-	-	-	-	-	-	57,738	57,738
Transfer to Reserve	17	-	31,000	5,000	7,280	-	(43,280)	-
Appreciation in Market Value of Investment Securities	17	-	-	-	-	633	-	633
Deferred Tax	17	-	-	-	-	(222)	-	(222)
Dividends	21	-	-	-	-	-	(12,150)	(12,150)
Balance at June 30, 2007	81,000	3,877	81,000	17,000	68,117	2,903	18,143	272,040

The attached notes form part of these Financial Statement



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2007

BANK			GROUP	
2006	2007	Notes	2007	2006
\$000	\$000		\$000	\$000
Cash flows from operating activities				
68,071	81,235		83,368	70,283
Operating Income Before taxation				
Adjustments for:				
(103,489)	(109,304)		(110,235)	(104,120)
61,668	54,821	Interest Income	53,638	60,291
1,508	1,642	Interest Expense	2,004	1,974
3,480	1,673	Depreciation	1,673	3,480
-	(144)	Provision for loan Losses	(144)	-
23	-	Prior Year adjustments	-	23
<u>31,261</u>	<u>29,923</u>	Loss on disposal of fixed assets	<u>30,304</u>	<u>31,931</u>
Operating income before changes in operating assets and liabilities				
(Increase) decrease in operating assets:				
(157,765)	(134,688)	Net loans and advances	(136,424)	(153,483)
(234)	129	Interest receivable on loans and advances	130	(234)
(3,973)	(31,341)	Other accounts	(30,413)	(3,441)
Increase (decrease) in operating liabilities:				
(16,951)	45,450	Due to other banks	45,450	(16,523)
32,695	148,895	Customers' Deposits	142,334	22,669
(1,944)	-	Due to subsidiaries	-	-
<u>45,463</u>	<u>88,960</u>	Accumulated provisions, creditors, and accruals	<u>97,455</u>	<u>63,670</u>
(71,448)	147,328	Cash (used in) generated from operations	148,836	(55,411)
102,066	101,730	Interest received	101,970	102,769
(48,849)	(62,781)	Interest Paid	(62,781)	(59,628)
<u>(19,248)</u>	<u>(23,948)</u>	Income tax paid	<u>(25,504)</u>	<u>(23,996)</u>
<u>(37,479)</u>	<u>162,329</u>	Net cash (used in) generated from operating activities	<u>162,521</u>	<u>(36,266)</u>
Cash flows from investing activities				
(2,396)	(1,172)	Purchase of fixed assets	(1,372)	(2,664)
(23,422)	(71,454)	Increase in special term deposits	(71,454)	(23,421)
(45,314)	(97,048)	Net movement in investment securities	(97,048)	(45,314)
-	-	Increase in Investment Properties	-	(394)
(71,132)	(169,674)	Net cash used in generated from investing activities	(169,874)	(71,793)
Cash flow from financing activities				
(10,935)	(12,150)	Dividend paid	(12,150)	(10,935)
(119,546)	(19,495)	Decrease in cash and cash equivalents	(19,503)	(118,994)
<u>488,833</u>	<u>369,287</u>	Cash and cash equivalents at beginning of year	<u>368,818</u>	<u>487,812</u>
<u>369,287</u>	<u>349,792</u>	Cash and cash equivalents at end of year	<u>349,315</u>	<u>368,818</u>

The attached notes form part of these Financial Statements



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

1 INCORPORATION

(a) St Kitts-Nevis-Anguilla National Bank Limited

The Bank 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.

(b) National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited

The Trust Company was incorporated on the 26th day of January, 1972 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.

(c) National Caribbean Insurance Company Limited

The Insurance Company was incorporated on the 20th day of June, 1973 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

(d) St. Kitts and Nevis Mortgage and Investment Company Limited (MICO)

MICO was incorporated on the 25th day of May, 2001 under the Companies Act No. 22 of 1996. The Company commenced operations on the 13th day of May, 2002.

2 PRINCIPAL ACTIVITIES

(a) St. Kitts-Nevis-Anguilla National Bank Limited

The Bank provides a comprehensive and international range of banking, financial and related services. The Bank is listed on the Eastern Caribbean Securities Exchange.

(b) National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited

The principal activity of the Company is the provision of long-term mortgage financing, raising long-term investment funds, real estate development, property management and the provision of trustee services.

(c) National Caribbean Insurance Company Limited

The Insurance Company provides coverage of life assurance, non life assurance and pension schemes.

(d) St. Kitts and Nevis Mortgage and Investment Company Limited (MICO)

MICO acts as the real estate arm of the Bank and provides investment in the form of Bond Certificates and mutual funds.



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) 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.

Amendments to published standards effective in 2006

IAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting period beginning on or after July 1, 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains or losses, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

Standard issued but not yet adopted

IFRS 7, Financial Instruments, Disclosures (effective from January 1, 2007):

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosures requirements in IAS 32, Financial Instruments: Disclosure and Presentation. This standard will be applicable for the year ended June 30, 2008.

Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after January 1, 2006 but are not relevant or have no material impact to the Group's operations:

- IAS 21 (Amendment), Net Investment in Foreign Operations;
- IAS 39 (Amendment), Cash Flow Hedge Accounting Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and
- IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement Contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in Specific Market – Waste Electrical and Electronic Equipment.



ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

(a) Basis of preparation (cont'd)

Interpretations to existing standards that have not been early adopted by the Group (effective for annual periods beginning on or after November 1, 2006)

[IFRIC 10, Interim Financial Reporting and Impairment](#), is mandatory for the Group's accounting period beginning on or after July 1, 2006 or later periods but that the Group has not early adopted. IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investment in equity instruments and investments in financial assets carried at costs to be reversed at a subsequent balance sheet date. This standard will be applicable for the year ended June 30, 2008, and is not expected to have any impact on the Group's accounts.

[IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies](#) (Effective from March 1, 2006): IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period.

(b) Currency

All values are expressed in Eastern Caribbean Currency.

(c) 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, as well as short term funds and investments whose maturities are ninety days or less.

(d) Consolidation

The Group Accounts consolidate the Accounts of the Bank and its Subsidiaries, National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited, National Caribbean Insurance Company Limited and St. Kitts and Nevis Mortgage and Investment Company Limited for the accounting period ended June 30, 2007. The Group's Share of the profits of Subsidiary Companies is included in the Profit and Loss Account.

(e) Depreciation

Depreciation is provided on buildings on a straight line basis over the period of the lease or over forty (40) years for freehold premises. Equipment including the Computers, Furniture and Fittings, and Vehicles are depreciated on a straight line basis at rates which will facilitate writing off the Assets over their effective useful lives at rates ranging from 10% to 33 1/3%.

(f) Claims Equalization Reserves

Annually 10% of the value of Gross Premiums in the Insurance Company on Fires, Motor and Marine is transferred to a Claims Equalization Reserve Account.

(g) Insurance Funds

Annually 75% of accumulated surplus on Health, Public Liability and Sundry Insurance are carried forward as Insurance Fund Reserves.



ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Interest

Interest received in the Insurance Company has been distributed after providing 8¹/₂% on Pension Fund between Shareholders' and Policy Holders' Funds; 80% has been allocated to Life Revenue Account, the remaining 20% to Profit and Loss Account.

(i) Claims

Provision for outstanding claims is made for the estimated cost of claims to be paid in respect of incidents occurring up to the end of the financial year except for industrial claims in which case the provision is the higher of the actual claims or one month's average claim.

(j) Provision for Unexpired Risk

Provision for unexpired risk is the proportion of premiums written in the current year which relates to the cover provided in the following year. The basis being the 24th method applied to the sum of net premiums written and commission retained on all classes of non life insurances except for medical insurance where 40% is used. No provision is made with respect to the Group Pension.

(k) Expenses

Expenses of Management in the Insurance Company are allocated to the various revenue accounts as follows:-

- (i) on actual basis where the expenditure can be allocated,
- (ii) on the basis of 5% of the gross premiums of life and health premiums, and
- (iii) on the basis of premiums written for the others.

(l) 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 the 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.

(m) Investments

Investment securities are classified into the following four categories: financial assets at fair value through profit and loss; available-for-sale, held-to-maturity, and originated debts. Investment securities intended to be held for an indefinite time period, which may be sold in response to needs for liquidity or changes in interest rate or equity prices and are not financial assets at fair value through profit and loss 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 transactions 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.



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Investments (cont'd)

Unrealized 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 and quoted. When securities are disposed of, the resulting gain or loss is included in income.

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

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

An impairment loss on financial assets carried at amortized 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 as dividend income. All purchases and sales of investment securities are recognized at trade date – the date on which the Group commits to purchase or sell all financial assets.

(n) 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 or 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 related allowance for impairment. All subsequent recoveries are credited to the bad debt recovered income account.

(o) Taxation

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



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) 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.

(q) Comparative Figures

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

(r) 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.

(s) Employee benefits

Pension obligations

The Group operates a defined benefit pension plan, the assets of which are held in a separate administered fund. The pension plan is funded by each Company within the Group, taking account of the recommendations of independent qualified actuaries.

As at June 30, 2007 the administrators were unable to provide information on the Group's proportionate share of the defined benefit obligation and plan in accordance with IAS 19.

Gratuity

The Group provides a non-contributory gratuity plan to its employees after 15 years of employment. The amount of the gratuities paid to eligible employees at retirement is computed with reference to final salary and calibrated percentage rates based on the number of years of continuous service.

(t) Leases

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the consolidated statement of income.



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

BANK		Notes	GROUP	
2006 \$000	2007 \$000		2007 \$000	2006 \$000
4 CASH AND MONEY AT CALL				
11,413	9,767		9,771	11,416
189,260	150,937		152,216	192,953
3,517	3,891		3,891	1,113
66,255	79,694		79,694	66,255
<u>98,842</u>	<u>105,503</u>		<u>103,743</u>	<u>97,081</u>
369,287	349,792		349,315	368,818
<u>171,122</u>	<u>242,576</u>		<u>242,576</u>	<u>171,122</u>
<u>540,409</u>	<u>592,368</u>		<u>591,891</u>	<u>539,940</u>
		Included in Special Term Deposit are term Deposits pledged for the benefit of VISA International and MasterCard in support of the Bank's international card business	<u>75,024</u>	<u>69,176</u>
<u>69,176</u>	<u>75,024</u>			
5 LOANS AND ADVANCES				
801,861	939,429		928,936	787,829
<u>55,119</u>	<u>50,094</u>		<u>50,094</u>	<u>55,120</u>
856,980	989,523	Gross	979,030	842,949
541	411	Interest Receivable	411	541
<u>(11,050)</u>	<u>(10,577)</u>	Loss provision for doubtful debts	<u>(10,577)</u>	<u>(11,050)</u>
<u>846,471</u>	<u>979,357</u>	Net	<u>968,864</u>	<u>832,440</u>

Legal proceedings are ongoing with regard to a number of non-performing loans, and in some instances judgement has been obtained. A significant amount of these non-performing loans are secured by mortgage on real estate.

Liquidity analysis of gross loans and advances Based on contractual maturities

615,569	416,104	Within one year	416,104	615,569
27,163	15,726	One to three years	15,726	27,163
42,863	41,937	Three to five years	41,937	42,863
<u>171,385</u>	<u>515,756</u>	Over five years	<u>505,263</u>	<u>157,354</u>
<u>856,980</u>	<u>989,523</u>	Gross	<u>979,030</u>	<u>842,949</u>



**ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

	BANK			GROUP	
	2006	2007		2007	2006
	\$000	\$000		\$000	\$000
5	LOANS AND ADVANCES (cont'd)				
5.2	Sectoral Analysis				
	100,905	105,062	Consumers	94,569	86,874
	280,268	9,619	Agriculture, fisheries and manufacturing	9,619	280,268
	80,693	92,154	Construction and land development	92,154	80,693
	12,310	10,634	Distributive trade, transportation and storage	10,634	12,310
	28,436	31,305	Tourism, entertainment and catering	31,305	28,436
	26,224	23,459	Financial Institutions	23,459	26,224
	318,294	706,982	State, statutory bodies and public utilities	706,982	318,294
	<u>9,850</u>	<u>10,308</u>	Professional and other services	<u>10,308</u>	<u>9,850</u>
	<u>856,980</u>	<u>989,523</u>	Gross	<u>979,030</u>	<u>842,949</u>
			Provision for Doubtful Debts		
	8,302	11,050	Balance brought forward	11,050	8,302
	(732)	(2,146)	Charge-off and write-offs	(2,146)	(732)
	<u>3,480</u>	<u>1,673</u>	Specific charge against income	<u>1,673</u>	<u>3,480</u>
	<u>11,050</u>	<u>10,577</u>	Balance	<u>10,577</u>	<u>11,050</u>
6	INVESTMENTS				
			Financial Assets at fair value through Profit & Loss		
	<u>67,124</u>	<u>159,294</u>	U.S. Currency Investment	<u>159,294</u>	<u>67,124</u>
			Available-for-sale (quoted)		
	1,897	2,530	East Caribbean Financial Holding Company Ltd. 230,000 shares at market price \$11.00 each (2006- \$8.25)	2,530	1,897
	-	4,370	MasterCard Inc. 30,223 Class B Common Shares @ US\$53.50 each	4,370	-
	<u>1,897</u>	<u>6,900</u>		<u>6,900</u>	<u>1,897</u>



**ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

BANK			GROUP	
2006	2007		2007	2006
\$000	\$000		\$000	\$000
6 INVESTMENTS				
Available-for-sale (unquoted)				
80,768	80,768	Treasury Bills maturing August 21, 2007 with interest Rate at 6.5%	83,343	82,490
776	776	National Commercial Bank of Grenada Ltd 62,100 ordinary shares at a cost of \$10 each	776	776
2,618	2,618	Wireless Ventures (St. Kitts-Nevis) Ltd 969 Shares at a cost of US \$1000 each	2,618	2,619
550	550	Caribbean Credit Card Corporation 550 ordinary shares at a cost of \$1,000 each	550	550
1,566	1,630	Cable Bay Hotel Development Company Ltd 6,830 ordinary shares at a cost of US\$100.00 each	1,630	1,566
91	91	Eastern Caribbean Home Mortgage Bank 1,727 shares at a cost of \$100 each	173	173
100	100	Eastern Caribbean Securities Exchange 10,000 class "C" shares at a cost of \$10 each	100	100
1,351	1,351	TCI Bank Ltd 500,000 Shares at a cost of US \$1.00 each	1,351	1,351
5	5	Society for Worldwide Inter Bank Financial Telecommunication, 1 share at a cost of \$5,148	5	5
-	-	Cable and Wireless	185	185
555	999	Antigua Barbuda Investment Bank 333,000 shares at a cost of \$3 each	999	555
<u>3,718</u>	<u>3,718</u>	ECIC Holdings Ltd 632,200 ordinary shares at US \$1.00 each and 743,750-6% Preference Shares at US \$1.00 each.	<u>3,718</u>	<u>3,718</u>
<u>92,098</u>	<u>92,606</u>		<u>95,448</u>	<u>94,088</u>
Held-to-maturity				
<u>1,000</u>	<u>1,000</u>	Debentures – Government of St. Kitts and Nevis Maturing July 15, 2008 with interest at 8%	<u>1,000</u>	<u>1,000</u>



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

BANK			GROUP	
2006	2007		2007	2006
\$000	\$000		\$000	\$000
6 INVESTMENTS (cont'd)				
Originated debt				
		Eastern Caribbean Home Mortgage Bank Long-term Bond maturing July 1, 2010 with interest rate at 5.5%		
1,000	1,000		1,000	1,000
		Antigua Commercial Bank 10% interest rate Series A Bond maturing December 31, 2016		
1,497	1,497		1,496	1,496
<u>300</u>	<u>300</u>	Caribbean Credit Card Corporation unsecured loan with interest at 10% with no specific terms of repayment	<u>300</u>	<u>300</u>
<u>2,797</u>	<u>2,797</u>		<u>2,796</u>	<u>2,796</u>
<u>164,916</u>	<u>262,597</u>		<u>265,438</u>	<u>166,905</u>
Securities classified according to currency				
		United States Currency Securities		
67,124	159,294		159,294	67,124
<u>97,792</u>	<u>103,303</u>	Eastern Caribbean Currency Securities	<u>106,144</u>	<u>99,781</u>
<u>164,916</u>	<u>262,597</u>		<u>265,438</u>	<u>166,905</u>
7 INVESTMENTS PROPERTIES				
-	-	Land and Buildings	29,499	31,471
<u>-</u>	<u>-</u>	Other	<u>609</u>	<u>619</u>
<u>-</u>	<u>-</u>		<u>30,108</u>	<u>32,090</u>
8 INVESTMENT IN SUBSIDIARIES				
		National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited – 5,750,000 shares at \$1 each	-	-
5,750	5,750			
		St. Kitts and Nevis Mortgage and Investment Company Limited 12,000,000 shares at \$1 each –	-	-
<u>12,000</u>	<u>12,000</u>		<u>-</u>	<u>-</u>
<u>17,750</u>	<u>17,750</u>		<u>-</u>	<u>-</u>



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

BANK			GROUP	
2006	2007		2007	2006
\$000	\$000		\$000	\$000
9 CUSTOMERS' LIABILITY UNDER ACCEPTANCES, GUARANTEES AND LETTERS OF CREDIT				
981	889	Letters of Credit	889	980
<u>4,096</u>	<u>4,096</u>	Guarantees (credit cards)	<u>4,096</u>	<u>4,097</u>
<u>5,077</u>	<u>4,985</u>		<u>4,985</u>	<u>5,077</u>
10 PREMISES AND EQUIPMENT				
14,417	14,011	Freehold Premises	18,180	18,628
583	548	Furniture and Fittings	623	649
2,518	2,568	Equipment	2,863	2,852
<u>253</u>	<u>174</u>	Vehicles	<u>349</u>	<u>517</u>
<u>17,771</u>	<u>17,301</u>		<u>22,015</u>	<u>22,646</u>
11 OTHER ACCOUNTS				
4,646	12,221	Interest Receivable	12,269	4,672
412	378	Other Receivables	8,987	9,886
16,212	47,501	Prepayments	47,584	16,357
<u>303</u>	<u>388</u>	Stationery and Cards Stock	<u>388</u>	<u>303</u>
<u>21,573</u>	<u>60,488</u>		<u>69,228</u>	<u>31,218</u>
12 TAXATION				
Tax Expense				
20,460	24,361	Current Tax	25,626	20,939
<u>86</u>	<u>5</u>	Deferred Tax	<u>5</u>	<u>86</u>
<u>20,546</u>	<u>24,366</u>		<u>25,631</u>	<u>21,025</u>
<u>68,071</u>	<u>81,235</u>	Profit for the year before tax	<u>83,369</u>	<u>70,283</u>
23,825	28,432	Income tax at the applicable tax rate of 35%	29,179	24,599
1,444	1,855	Non-deductible expenses	1,855	1,444
25	82	Deferred tax over provided	82	25
<u>(4,748)</u>	<u>(6,003)</u>	Income not subject to tax	<u>(5,485)</u>	<u>(5,043)</u>
<u>20,546</u>	<u>24,366</u>		<u>25,631</u>	<u>21,025</u>



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

	BANK			GROUP	
	2006	2007		2007	2006
	\$000	\$000		\$000	\$000
12 TAXATION (cont'd)					
			Deferred Tax		
	(374)	(288)	Tax Assets	(288)	(374)
	85	5	Recovered during the year, net	5	85
	<u>314</u>	<u>535</u>	Tax Liabilities	<u>535</u>	<u>314</u>
	<u>25</u>	<u>252</u>		<u>252</u>	<u>25</u>
	(289)	(284)	Accelerated depreciation	(284)	(289)
	<u>314</u>	<u>536</u>	Available for sale securities	<u>536</u>	<u>314</u>
	<u>25</u>	<u>252</u>		<u>252</u>	<u>25</u>
13 CUSTOMERS' DEPOSITS					
			Analysis by Sector		
	266,573	298,178	Consumers	298,178	266,573
	307,153	384,836	Private Businesses and Subsidiaries	292,570	220,535
	470,017	507,101	State, Statutory Bodies and Non-Financial Institutions	507,101	470,017
	<u>98,170</u>	<u>100,693</u>	Others	<u>100,693</u>	<u>99,083</u>
	<u>1,141,913</u>	<u>1,290,808</u>		<u>1,198,542</u>	<u>1,056,208</u>
14 DEFERRED CREDIT					
	<u>11,474</u>	<u>11,474</u>	Balance brought forward	<u>11,474</u>	<u>11,474</u>
<p>St. Kitts and 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.</p>					
15 ACCUMULATED PROVISIONS, CREDITORS AND ACCRUALS					
	-	-	Insurance Funds	94,566	74,058
	34,568	26,609	Interest Payable	26,609	34,568
	15,110	15,523	Income Tax Payable	17,661	16,582
	945	1,761	Managers Cheques and Bankers Payments	1,761	945
	2,813	513	Unpaid Drafts on Other Banks	513	2,813
	93,540	93,540	Bonds Payable	93,540	93,540
	68,713	120,277	E-Commerce Payables	120,277	68,713
	<u>29,522</u>	<u>68,401</u>	Other Payables	<u>64,774</u>	<u>39,876</u>
	<u>245,211</u>	<u>326,624</u>		<u>419,701</u>	<u>331,095</u>



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

BANK			GROUP	
2006	2007		2007	2006
\$000	\$000		\$000	\$000
16 SHARE CAPITAL				
		Authorised:-		
<u>135,000</u>	<u>135,000</u>	135,000,000 Ordinary Shares of \$1 each	<u>135,000</u>	<u>135,000</u>
		Issued and Fully Paid:-		
<u>81,000</u>	<u>81,000</u>	81,000,000 Ordinary Shares of \$1 each	<u>81,000</u>	<u>81,000</u>
17 RESERVES				
50,000	81,000	Statutory Reserve	81,000	50,000
12,000	17,000	Loan Loss Reserve	17,000	12,000
45,000	50,000	General Reserve	68,117	60,837
<u>2,492</u>	<u>2,903</u>	Revaluation Reserve	<u>2,903</u>	<u>2,492</u>
<u>109,492</u>	<u>150,903</u>		<u>169,020</u>	<u>125,329</u>
Statutory Reserve				
34,955	50,000	Balance brought forward	50,000	34,955
15,045	31,000	Additions	<u>31,000</u>	15,045
<u>50,000</u>	<u>81,000</u>		<u>81,000</u>	<u>50,000</u>

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 profit of each year whenever the reserve fund is less than the Bank paid-up capital.

		General Reserve		
29,587	45,000	Balance brought forward	60,837	43,729
<u>15,413</u>	<u>5,000</u>	Amount transferred during the year	<u>7,280</u>	<u>17,108</u>
<u>45,000</u>	<u>50,000</u>		<u>68,117</u>	<u>60,837</u>



**ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

BANK			GROUP	
2006	2007		2007	2006
\$000	\$000		\$000	\$000
17 RESERVES (cont'd)				
Revaluation Reserve				
1,909	1,909	Property	1,909	1,909
552	552	Available-for-sale securities (on adoption of IAS 39)	552	552
345	978	Movement in Market value of investment securities	978	345
<u>(314)</u>	<u>(536)</u>	Deferred Tax on securities appreciation	<u>(536)</u>	<u>(314)</u>
<u>2,492</u>	<u>2,903</u>		<u>2,903</u>	<u>2,492</u>
Loan Loss Reserve				
7,500	12,000	Balance brought forward	12,000	7,500
<u>4,500</u>	<u>5,000</u>	Amount transferred during the year	<u>5,000</u>	<u>4,500</u>
<u>12,000</u>	<u>17,000</u>		<u>17,000</u>	<u>12,000</u>
18 NET INTEREST INCOME				
Interest Income				
75,104	68,757	Loans and Advances	68,757	75,104
1,928	1,917	Loan fees	1,917	1,928
10,786	17,306	Deposits with other financial institutions	17,306	10,786
15,640	21,293	Investments	22,223	16,271
<u>31</u>	<u>32</u>	Other	<u>32</u>	<u>31</u>
<u>103,489</u>	<u>109,305</u>		<u>110,235</u>	<u>104,120</u>
Interest Expense				
53,973	46,449	Customers' Deposits	45,266	52,596
<u>7,695</u>	<u>8,372</u>	Due to other Banks	<u>8,372</u>	<u>7,695</u>
<u>61,668</u>	<u>54,821</u>		<u>53,638</u>	<u>60,291</u>
<u>41,821</u>	<u>54,484</u>	Net Interest Income	<u>56,597</u>	<u>43,829</u>



ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

BANK		GROUP	
2006 \$000	2007 \$000	2007 \$000	2006 \$000
19 EXPENSES			
Included in this expense head are:			
72	72	170	170
281	278	583	583

20 EARNINGS PER SHARE

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

<u>47,525</u>	<u>56,869</u>	Profit attributable to shareholders	<u>57,738</u>	<u>49,258</u>
<u>81,000</u>	<u>81,000</u>	Weighted average number of ordinary shares in issue	<u>81,000</u>	<u>81,000</u>
<u>0.59</u>	<u>0.70</u>	Diluted/Basic earnings per share	<u>0.71</u>	<u>0.61</u>

21 DIVIDEND

The financial statements reflect a dividend of \$12,150,000 for the year ended June 30, 2006, which was approved at the Thirty-sixth Annual General Meeting held on January 25, 2007 and subsequently paid.

A dividend in respect of 2007 of \$0.175 per share (2006 - \$0.15 per share) amounting to \$14,175,000 (2006-12,150,000) is proposed. These financial statements do not reflect this proposed dividend which, if approved, will be accounted for as an appropriation of retained earnings in the year ending June 30, 2008.

22 CONTINGENT LIABILITIES

22.1 Litigations

Lynn Bass v. St. Kitts-Nevis-Anguilla National Bank Limited

The Claimant's employment with the Bank was terminated in August 2006. She has since sued the Bank for reinstatement to her position, and damages. The Bank's external solicitors believe that there is a very good chance that the claims against the Bank will be dismissed.

Dewelle, Cooremans and Maraziti v. St. Kitts-Nevis-Anguilla National Bank Limited

The Claimants sued the Bank for damage caused by the collapse of a retaining wall at Horizons Villas Development, Frigate Bay, St. Kitts. The Bank's external Solicitors believe that there is a very good chance that the claims against the Bank will be dismissed.

22.2 Financial Commitments

As at June 30, 2007, the Bank was committed to make loans and advances amounting to approximately **\$130,052,521** (June 30, 2006 - \$46,109,711)



ST KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

23 RELATED PARTIES

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making operational or financial decisions. A number of banking transactions are entered into with our subsidiaries and directors in the normal course of business. Those transactions, which include deposits, loans and other transactions, are carried out on commercial terms and conditions, at market rates.

SUBSIDIARIES

Advances outstanding as at June 30, 2007 amounted to **\$19,807,533** (2006 - \$24,462,628).

Deposits balances as at June 30, 2007 amounted to **\$97,337,364** (2006 - \$87,314,164).

DIRECTORS AND ASSOCIATES

Advances outstanding as at June 30, 2007 amounted to **\$482,311** (2006 - \$238,014).

Deposits balances as at June 30, 2007 amounted to **\$1,945,744** (2006 - \$4,435,376).

24 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 assumptions are relevant to their fair value:

ASSETS

Cash and money at call

Since these 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 rate 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 their current rates and are assumed to have discounted cash flow values that approximate carrying values.

25 FINANCIAL RISK MANAGEMENT

Financial risks have emerged as the greatest challenge that the Group faces. This challenge is tackled by developing new approaches in the management of such risks and by adjusting current processes and procedures.

The Group has taken up this challenge and has placed increased emphasis on the management of all financial risks through the systematic development of tools and strategies to improve their identification and measurement by an enterprise risk management system. Risks are continuously being evaluated in terms of the level of the negative impact they can have on the Groups income and asset values.



ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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

CURRENCY RISK

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

CURRENCY RISK EXPOSURE

<u>Amounts (\$000)</u>	<u>CAD</u>	<u>EUR</u>	<u>GBP</u>	<u>GUY</u>
2007	523	70,303	6,500	2
2006	1,224	29,396	1,625	38

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.

Interest Rates (%)

	<u>EC\$</u>	<u>US\$</u>	<u>EURO</u>
2007			
Assets			
Treasury Bills	6.50	-	-
Deposits with other banks	5.00-5.50	4.06-6.60	2.61-4.00
Deposits with non-bank financial Institutions	8.50-10.50	4.85-5.40	-
Originated Debt	5.50-14.00	-	-
Investment securities	6.50-8.00	3.00-15.75	-
Liabilities			
Due to customers	1.50-9.00	1.25-2.00	-
Borrowings	4.75-5.00	5.82-6.14	-
2006			
Assets			
Treasury Bills	6.50	-	-
Deposits with other banks	-	3.05-5.06	1.80-2.76
Deposits with non-bank financial Institutions	8.50-10.50	4.73	-
Originated Debt	5.50-14.00	-	-
Investment securities	6.50-8.00	3.00-7.20	-
Liabilities			
Due to customers	1.50-9.00	1.25-2.00	-
Borrowings	4.75-5.90	-	-



ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

INTEREST RATE RISK (cont'd)

Interest Sensitivity of Assets and Liabilities

	Up to 1 Year \$000	1 to 5 Years \$000	Over 5 Years \$000	Non- Interest Bearing \$000	Total \$000
As at June 30, 2007					
Assets					
Cash and money at call	390,676	1,125	1,269	199,298	592,368
Loan and advances	391,677	57,046	510,243	20,391	979,357
Investments	88,773	6,423	10,507	156,894	262,597
Other assets	-	-	-	100,808	100,808
Total assets	871,126	64,594	522,019	477,391	1,935,130
Liabilities					
Due to banks	45,535	-	-	-	45,535
Customers' deposits	826,992	198,418	-	265,398	1,290,808
Other liabilities	889	-	93,540	249,190	343,619
Total liabilities	873,416	198,418	93,540	514,588	1,679,962
Interest Sensitivity Gap	(2,290)	(133,824)	428,479		
As at June 30, 2006					
Total assets	1,081,502	80,169	179,461	273,124	1,614,256
Total liabilities	811,915	138,394	93,540	360,226	1,404,075
Interest Sensitivity Gap	269,587	(58,225)	85,921		

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 portions. 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.



ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

LIQUIDITY RISK (cont'd)

Analysis of assets and liabilities into relevant maturity grouping

	Up to 1 Year \$000	1 to 5 Years \$000	Over 5 Years \$000	Total \$000
As at June 30, 2007				
Assets				
Cash and money at call	589,974	1,125	1,269	592,368
Loans and advances	412,068	57,047	510,242	979,357
Investments	88,773	6,423	167,401	262,597
Other assets	61,086	7,960	31,762	100,808
Total assets	<u>1,151,901</u>	<u>72,555</u>	<u>710,674</u>	<u>1,935,130</u>
Liabilities				
Due to banks	45,535	-	-	45,535
Customers' deposits	1,092,389	198,419	-	1,290,808
Other liabilities	228,858	9,747	105,014	343,619
Total liabilities	<u>1,366,782</u>	<u>208,166</u>	<u>105,014</u>	<u>1,679,962</u>
Net Liquidity Gap	<u>(214,881)</u>	<u>(135,611)</u>	<u>605,660</u>	
As at June 30, 2006				
Total assets	1,261,162	88,056	265,038	1,614,256
Total Liabilities	<u>1,147,223</u>	<u>151,838</u>	<u>105,014</u>	<u>1,404,075</u>
Net Liquidity Gap	<u>113,939</u>	<u>(63,782)</u>	<u>160,024</u>	



ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

CREDIT RISK

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

The Bank exposure to credit risk is managed through regular analysis of the ability of its borrowers (current and potential) as well as counter parties 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 the risk geographically as well as over a diversity of personal and commercial customers.

Geographical Concentration of Assets and Liabilities

	Total Assets \$000	Total Liabilities \$000	Credit Commitments \$000	Total Income \$000	Capital Expenditure \$000
As at June 30, 2007					
St. Kitts and Nevis	1,355,849	1,278,085	130,053	135,449	113
North America	453,923	307,664	-	19,182	988
Europe	84,768	673	-	5,176	-
Other Caribbean States	40,590	93,540	-	1,450	71
	1,935,130	1,679,962	130,053	161,257	1,172
As At June 30, 2006					
St. Kitts and Nevis	1,174,187	1,024,947	46,110	140,610	509
North America	330,679	284,977	-	7,321	1,499
Europe	91,297	611	-	6,230	5
Other Caribbean States	18,093	93,540	-	795	432
	1,614,256	1,404,075	46,110	154,956	2,445

OPERATIONAL RISK

Operational risk is inherent in all business activities and is the potential for financial or reputational loss arising from failure in internal controls, operational processes or the systems 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 system 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.



MARKET RISK

Market risk is the risk of loss that results from the uncertainty in market prices and rates (including interest rates, equity prices, foreign exchange rates, credit spread and commodity prices), the correlations among them and their level of volatility. The significant market risk exposures within the Group are interest rate risk and foreign exchange risk.

The Group actively manages interest rate risk to protect the value of shareholders' funds while achieving an adequate rate of returns. Interest rate risk strategies are reviewed on a regular basis as interest rate expectations change. The respective business units as well as the Asset Liability Management Committee continually monitor foreign exchange exposures to ensure foreign holding are kept within assigned limits.

The Group holds overseas investment portfolio for liquidity, long term capital appreciation or attractive yields. These portfolios expose the Group to interest rate, foreign currency, credit spread and equity risks. The investment managers acting in accordance with established Group's investment policy control these portfolios.

All investments considered by the Group are subject to research, risk reviews and analysis to ensure that only investments grade quality are booked. Market risk arising from the Group's funding and investment activities are identified, managed and controlled through the Group's investment policy and Asset-liability management processes.



NOTES:



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