

Annual Report – 2005

1) Business

The Nevisian economy maintained steady growth during the year with the tourism and building sectors being the main engines of economic activity. Although there have been no major infrastructural projects taking place, employment has remained high. The offshore sector, though not buoyant, continues to make a significant contribution to the local economy.

There continues to be a strong demand for the services offered by the Bank, from the local and international community. Demand for loan financing continues to be high. Despite stiff competition in the financial sector the Bank was able to maintain its market share.

In response to the high liquidity in the region and the competitive interest rate environment Management adjusted its rates as following during the year.

- Reduced rate on residential housing to 8.5%
- Capped rate on fixed deposits at 5.5%

New Projects

During the year the Bank launched the following projects:

- The Bank of Nevis International Mutual Fund as a new investment vehicle for the public. At June 30, Bank of Nevis International, the promotion of the Fund, was the largest investor. Management is stepping up its efforts at marketing to attract additional investors.
- The Bank of Nevis debit card
- The Bank of Nevis credit card merchant acquiring service
- Online Banking Service

2) Properties

At June 30, the Bank owned the following properties.

- Land and buildings at Main Street, Charlestown, Nevis that houses the Bank's offices.
- A plot of land at the rear of Bank premises originally earmarked as the site of a second building to meet the Bank's need for additional space. The Board is currently considering possibilities for alternative use.
- Recently purchased building on Main Street, Charlestown, Nevis, adjacent to current Bank premises. The Bank plans to merge the two properties into a modern banking facility. This project still at the planning stage.

3) Legal Proceedings

The following legal proceedings were commenced/concluded during the accounting year.

- The previously reported lawsuit against Quantum Group Ltd (a customer) and the Bank was heard in October 2002. Judgment was entered against the Bank on July 11, 2003, and the estimated liability including costs of US\$27,000 was accrued for. The plaintiff has appealed and the Bank filed a Counter Notice of Appeal. The appeal filed by the plaintiff was dismissed and the Bank's counter appeal was upheld. The Bank was awarded costs of EC\$130,000 in relation to the plaintiff's appeal and EC86,666 in relation to their appeal. The amounts remain outstanding and have not been recognized in the accounts.
- A customer, Capital Resources Limited, has commenced an action against the Bank to recover a deposit, which they claim the Bank is holding in their name. These funds were frozen by a local court order and a further court order was issued in the United States which resulted in the equivalent funds being deducted from the Bank's account in the United States. The Bank holds the position that the funds deducted from the Bank's account in the United States represent a repayment of Capital Resources' deposit funds. The High Court in Nevis granted a stay of proceedings pending determination in the United States of the right of the claimants to the funds in issue. However, the claimant has indicated their intentions to appeal, hence the outcome of this contingency is not presently determinable.
- The Bank is a defendant in a lawsuit brought by the Nevis Central Company Limited for specific performance of a contract for the purchase of real estate in the sum US\$1 million. The Bank disputes the claim on the grounds that it did not enter into any purchase agreement. The matter is set for trial in October 2005. The outcome is not presently determinable.

4) **Submission of Matters to a Vote of Security Holders**

The Bank held only one general meeting during the year i.e. its Annual General Meeting for the year ended June 30, 2004. The meeting was held at the Old Manor Hotel, Nevis on December 9, 2004.

The following matters were submitted to a vote of the shareholders.

Appointment of Directors

The following directors retired by rotation, and were re-appointed:

Joseph Parry
Rawlinson Isaac
Wendell Huggins

The following directors continued in office:

Richard Lupinacci
Hanzel Manners
Reginald Kawaja
Spencer Howell
Kishu Chandiramani

Declaration of Dividend:

The meeting approved a dividend of 17.5% (17.5 cents per share).

Appointment of Auditors

PriceWaterhouseCoopers was re-appointed as auditors of the Bank.

- No settlement was made between the Bank and any other participant, and no other decisions were taken on any matters that would normally require a vote of the shareholders.

5) Market for Reporting issuer's Common Equity and Related Stockholder Matters

The Bank's share capital consists of \$7,478,150 common shares of \$1 each. No new shares were issued or stock dividend paid during the year.

The Bank's shares are listed on the Eastern Caribbean Securities Exchange. Trading during the year was slow with 69 trades totaling 294,048 shares, taking place during the year.

Latest share price is \$5.00. Market capitalization - \$37.4 million.

Total shareholders equity consists of:

Share capital	7,478,150
Minority interest	2,066,285
Revaluation reserves	989,151
Reserve Fund	5,866,333
Retained Earnings	<u>14,164,655</u>
	<u>\$30,564,574</u>

Capital

There was only a negligible change in shareholders' equity during the year – change made up as follows:

Minority interest	2.07
Change in Unrealised Losses on securities	1.04
Increase in Statutory Reserves	0.99
Earnings for year retained	3.63
2003 dividend paid	<u>(1.30)</u>
	<u>\$6.42m</u>

Capital at June 2005 includes proposed dividend for y/e June 30, 2005, which, according to International Accounting Standard No. 10, will be accounted for (deducted from equity) when paid. The Board expects to propose a dividend of at least 20%.

6) Financial statements and selected Financial Data

Consolidated Balance Sheet
As of June 30, 2005

	2005	2004
	\$	\$
Assets		
Cash and due from other banks	135,069,854	97,936,994
Treasury bills	54,676,814	32,240,183
Investment Securities	86,509,484	116,382,672
Income tax receivable	30,381	-
Loans and advances	96,895,684	70,156,992
Other assets	1,336,339	1,252,731
Property, plant and equipment	<u>8,667,665</u>	<u>8,420,161</u>
Total Assets	<u>383,186,221</u>	<u>326,389,733</u>
Liabilities		
Customers' deposits	342,283,932	295,183,338
Other liabilities and accrued expenses	9,836,762	6,333,876
Provision for income tax	60,282	252,825
Deferred tax	<u>440,671</u>	<u>486,007</u>
Total Liabilities	<u>352,621,647</u>	<u>302,256,046</u>
Shareholders' Equity		
Share capital	7,478,150	7,478,150
Minority interest	2,066,285	-
Revaluation (deficit) reserves	989,151	(57,030)
Reserve fund	5,866,333	4,877,869
Retained earnings	<u>14,164,655</u>	<u>11,834,698</u>
Total shareholders' equity	<u>30,564,574</u>	<u>24,133,687</u>
Total liabilities and shareholders' equity	<u>383,186,221</u>	<u>326,389,733</u>

Statement of Income

Interest Income

	2005	2004
	\$	\$
Interest from loans & advances	7,928,280	7,022,227
Income – deposits with	<u>9,582,163</u>	<u>6,688,793</u>
	<u>17,510,443</u>	<u>13,711,020</u>
Interest Expense		
Savings accounts	1,785,346	1,073,531
Time deposits & current accounts	<u>6,766,071</u>	<u>4,839,448</u>
	<u>8,551,417</u>	<u>5,912,979</u>
Net Interest Income	8,959,026	7,798,041
Gains/(losses) investment securities	(22,913)	(72,326)
Impairment loss on available for sales securities	(735,387)	(189,365)
Other Operating Income	<u>4,575,323</u>	<u>2,477,405</u>
Operating Income	12,776,049	10,013,755
Operating Expenses	<u>(8,027,522)</u>	<u>(6,991,810)</u>
Net Income before taxation	4,748,527	3,021,945
Taxation	<u>1,124,425</u>	<u>(231,975)</u>
Net Income for the year	<u>4,636,102</u>	<u>2,789,970</u>
Earnings per share	0.62	0.37

7) Disclosure About Risk Factors

The following risk factors are relevant to the Bank

- **The vagaries of the offshore industry.** Approximately 70% of the Bank's earnings come from its subsidiary, Bank of Nevis International which specializes in international banking. Any changes in the offshore industry, or changes in the Nevis market, could have a significant impact on the Bank's earnings.

- **The increasingly litigious environment of the offshore industry.** This is however, being counteracted and mitigated by attention to internal controls and sound Know Your Customer policies.
- The Bank operates a single branch on Nevis and as such its domestic operations could be adversely affected by concentration on a small market. The proposed St Kitts branch has not yet been established.
- Our investment portfolio is heavily dependent on the performance of the United States economy. The Bank has implemented measures to have the portfolio managed by investment professionals. This should mitigate these risks.

8) Changes in Securities and Use of Proceeds

There were no changes in securities during the year

9) Defaults upon Senior Securities

There were no defaults on securities during the year.

10) Management’s Discussion and Analysis of Financial Condition and Results of Operation

Financial

The Bank had an improvement in financial performance during the year characterized by the following:

- Increase in net income by \$1.8 million
- Increase in deposits by \$47 million
- Increase in loan portfolio by \$27 million
- Increase in total assets by \$57 million

The wholly owned subsidiary Bank of Nevis International was the major contributor to the Bank’s consolidated position.

Table of comparative statistics:

Balance Sheet

	Parent Co		Group.
	(\$)	(%)	(\$)
Cash & balances due from other banks	58.5m	(43.30)	135.0m
Treasury bills	35.9m	(65.63)	54.7m
Investments	4.1m	(4.73)	86.5m
Loans & Advances	88.7m	(91.53)	96.9m
Deposits	180.4m	(52.70)	342.3m
Total Assets	201.6m	(52.60)	383.2m

Income Statement

	Parent Co	Group.
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	(\$)	(%)	(\$)
Interest income	10.7m	(61.14)	17.5m
Fees & commission	2.8m	(60.86)	4.6m
Interest expense	7.1m	(83.52)	8.5m
Operating expense	4.8m	(60.00)	8.0m
Net income before tax	1.4m	(29.78)	4.7m

Earnings ratios

	2005	2004
	%	%
Return on Assets (ROA)	1.34	0.99
Return on Capital Employed (ROCE)	17.38	12.48
Earnings per share	0.62	0.37
Interest Expense: Interest Income	48.83	43.11
Fees & Commissions: Total Income	20.71	15.30
Operating Expenses: Total Income	36.34	43.19
Operating Expenses: Net Interest Income plus other Income	59.30	68.04
Total Expenses: Total Income	78.49	81.33

Liquidity

Liquidity continues to be strong, with balances due from other banks and other short-term funds totalling \$189.65 million at June 2004.

This is summarized as follows:

	<u>2005</u>	<u>2004</u>
Cash	1.65	1.53
Current accounts with other banks	51.59	33.36
Cheques in the course of collection	0.50	0.65
Statutory deposits with the ECCB	10.79	8.24
Other deposits with the ECCB	1.70	.85
Fixed deposits (restricted)	5.67	8.12
Fixed Deposits (other)	5.86	3.95
Treasury Bills (restricted)	1.00	1.00
Treasury Bill (Other)	53.20	30.98
Short term marketable securities (commercial paper)	57.00	41.04
Interest Receivable	<u>0.74</u>	<u>0.45</u>
	<u>\$189.70m</u>	<u>130.17m</u>

This strong liquidity, along with an investment portfolio that is publicly traded on major US stock exchanges, puts the Bank in a good position to meet demands for liquid funds.

Liquidity Ratios

	2005	2004
	(%)	(%)
Cash and balances due from other banks: Total Assets	15.63	11.93
Total Liquid Funds (excl Fixed deposits): Total Assets	46.93	36.69
Total Liquid Funds (incl unrestricted fixed deposits): Total Assets	48.50	36.98
Loans (Gross) to Deposits (Domestic Bank)	50.33	52.90
Loans (Gross) to Deposits (Consolidated)	28.97	23.80

Liquid funds include cash and current accounts with other banks, unrestricted fixed deposits and treasury bills, and short term marketable securities.

11. Changes in and Disagreements with Auditors on Accounting and Financial Disclosure

The Bank has had no disagreements with its Auditors, PricewaterhouseCoopers. We have complied with all disclosures required by International Accounting Standards.

12. OFFICERS AND KEY PERSONNEL OF THE COMPANY

1. EXECUTIVE OFFICERS

Position: **General Manager**

(1) Name: **Rawlinson Isaac**

Age: **53**

Mailing Address: **PO Box 450, Main Street**

Charlestown

Nevis

Telephone No.: **(869) 469-5564/5164**

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Bank of Nevis – General Manager: - 1990 to present

Education (degrees or other academic qualifications, schools attended, and dates):

- 1983 - BA – University of the Virgin Islands**
- 1996 - Fellow of the Chartered Institute of Bankers**
- 1996 - Institute of Financial Accountants**
- 1998 - MBA University of Wales**
- 1998 - Financial Studies Diploma**
- 1999 - Diploma in Trust and Estate Practice**

Also a Director of the company Yes No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

N/A

Position: **Chief Financial Officer**

(2) Name: **Hanzel Manners**

Age: **60**

Mailing Address: **P O Box 450, Main Street**
 Charlestown
 Nevis

Telephone No.: **(869) 469-5564/1618**

List jobs held during the last five years. Give brief description of responsibilities. Include names of employers.

Bank of Nevis – Chief Financial officer - 1999 to present

Education (degrees or other academic qualifications, schools attended, and dates):

- 1972 - Bachelor of Arts (Economic and History) University of the West Indies**
- 1982 - Fellow of Association of Chartered Certified Accounts (FCCA)**
- 1998 - Associate of The Chartered Institute of Bankers (ACIB)**

Also a Director of the company Yes No

If retained on a part time basis indicate amount of time to be spent dealing with company matters:

Position: Company Secretary/Manager of
Operations (Bank of Nevis International)

(3) Name: **Miss Lyra Richards**

Age: **56**

Mailing Address: **P O Box 450**
Main Street
Charlestown, Nevis

Telephone No.: **(869) 469-5564**

List jobs held during the past five years. Give brief description of responsibilities. Include names of employers.

Has been employed by the Bank since 1994

Education (degrees or other academic qualifications, schools attended, and dates):

Diploma in Financial Services

Also a Director of the company [] Yes [X] No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

N/A

NON EXECUTIVE DIRECTORS

(1) Name: **Mr Richard Lupinacci**

Position:

Age: **64**

Mailing Address: **P O Box 497**
Hermitage
Nevis

Telephone No.: **(869) 469-3477**

List jobs held during the past five years. Give brief description of responsibilities. Include names of employers.

Self-employed as hotelier for more than five (5) years

Education (degrees or other academic qualifications, schools attended, and dates):

1963 - BA Pennsylvania State University (USA)

(2) Name: **Mr. Reginald Kawaja**

Position:

Age: **73**

Mailing Address:

Chambers, Courtyard, Bank of Nevis Bldg.

Charlestown

Nevis

Telephone No.: **(869) 469-1819**

List jobs held during the past five years. Give brief description of responsibilities. Include names of employers.

Self-employed as a Solicitor for more than five (5) years

Education (degrees or other academic qualifications, schools attended, and dates):

Graduate: - Graduate School of Law – McGill University

Information concerning non-Executive Directors:

(3) Name: **Mr Spencer Howell** Position:
Age: **74**

Mailing Address: **Cane Garden**
St. John's Parish
Nevis

Telephone No.: **(869) 469-3464**

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Retired civil servant.

Self-employed businessman for more than five (5) years

Education (degrees or other academic qualifications, schools attended, and dates):

Senior Certified Valuator (SCV)

Registered International Real Estate Institute (RIM of IREI)

(4) Name: **Kishu Chandiramani** Position: **Non executive director**
Age: **63**

Mailing Address: **Fortlands, Basseterre, St Kitts**

Telephone No.: **466-7777**

List jobs held during the past five years. Give brief description of responsibilities. Include names of employers.

Self employed businessman for many years

(5) Name: **Mr. Wendell Huggins**

Position: **Non Executive Director**

Age: **60**

Mailing Address: **Vervain Estate
Gingerland
Nevis**

Telephone No.: **(869) 469-2937**

List jobs held during the past five years. Give brief description of responsibilities. Include names of employers.

Retired civil servant.

Has run own business for over five (5) years

Education (degrees or other academic qualifications, schools attended, and dates):

Bachelor of Arts Degree (UWI)

(6) Name: **Mr. Joseph Parry**

Position: **Non Executive Director**

Age: **58**

Mailing Address: **Beaumont Corporation
P O Box 717
Henville Plaza, Charlestown, Nevis**

Telephone No.: **(869) 469-1600**

List jobs held during the past five years. Give brief description of responsibilities. Include names of employers.

Self-employed businessman for more than five (5) years

Education (degrees or other academic qualifications, schools attended, and dates):

1972 – BA Degree (Economics and History) University of the West Indies

13. Security Ownership of Certain Beneficial Owners and Management

The only shareholder with more than 5% of the Bank's shares is as follows:

SUBSTANTIAL STOCKHOLDERS

1. (a) Principal owners of the company (those who beneficially own more than 5% of the common and preferred stock presently outstanding whether directly or indirectly) starting with the largest common stockholder. Indicate by endnote any transaction where the consideration was not cash. State the nature of any such consideration.

SECURITIES NOW HELD:

Name: Address:	Class of Securities:	No. of Securities:	% of Total
David Straz Jr. Revocable Trust of 1986	Ordinary	752,573	10.07

- (b) Include all common stock issuable upon conversion of convertible securities and show conversion rate per share as if conversion has occurred.

UPON CONVERSION:

* Current holding of securities if conversion option were exercised.

