

Quarterly Report – March 31, 2006

1) **Business**

During the nine months to March 31, 2006 the Bank experienced significant growth in earnings, compared to the previous year.

Though the Domestic bank has shown steady growth, our International bank continues to face challenges relating to the composition of its customer portfolio. This has led to the closure of one correspondent bank account during the reporting period, and the impending closure of another.

The group companies have been impacted as follows:

Bank of Nevis International

- Reduction of deposits of the Bank of Nevis International due to closure of customer accounts that do not meet our due diligence requirements.
- Steady performance of its investment portfolio, favourably affected by increase in US interest rates.

Bank of Nevis Ltd

- Steady growth in loan portfolio
- Continuing challenges relating to loan delinquency
- Closure of some fixed deposit accounts due to Bank's decision to lower interest rates

Other Subsidiaries

- During the period the Bank of Nevis Mutual Fund obtained a licence to commence business.
- Bank of Nevis International Mutual Fund has made very little progress to date.

2) **Properties**

At March 31, 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. Architects have been appointed, and construction is expected to begin shortly.

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 EC\$86,666 in relation to its (the Bank's) appeal. The amounts remain outstanding and have not been accrued by the Bank.
- 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.

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

No General meetings were held during the quarter ended March 31, and no matters were submitted to a vote of security holders.

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 quarter.

The Bank's shares are listed on the Eastern Caribbean Securities Exchange.

300,455 shares were traded the nine months ended March 31, 2006:

1 st quarter	6,000
2 nd quarter	1,265
3 rd quarter	<u>293,190</u>
Total	<u>300,455</u>

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

Total shareholders equity:

	Mar. 31 2005	June 2005
Share Capital	7,478,150	7,478,150
Revaluation Reserves	490,985	989,151
Other Reserves	5,866,333	5,866,333
Retained Earnings	12,655,515	14,164,655
Current Earnings	<u>5,254,110</u>	<u>-</u>
	<u>\$31,745,093</u>	<u>\$28,498,289</u>

Capital

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

Increase in Unrealised Losses on securities	(0.18)
Last quarter earnings	<u>1.80</u>
	<u>1.62mill</u>

6) Financial statements and selected Financial Data

Consolidated Balance Sheet

	Mar 2006	June 2005
Assets		
Cash and other liquid funds	92,246,513	135,069,854
Treasury bills	52,366,500	54,676,814
Investment securities	94,601,996	86,509,484
Income tax receivable	-	30,381
Loans & Advances	117,885,207	96,895,684
Other assets	952,412	1,336,339
Property, plant & equipment	<u>8,424,161</u>	<u>8,667,665</u>
Total Assets	<u>366,476,789</u>	<u>383,186,221</u>
Liabilities		
Customers' deposits	325,669,665	342,283,932
Other liabilities & accrued expenses	8,303,276	9,836,762
Provision for income tax	121,690	60,282
Deferred tax	440,671	440,671
Redeemable shares	<u>196,394</u>	<u>2,066,285</u>
Total Liabilities	<u>334,731,696</u>	<u>354,687,932</u>
Shareholders' Equity		
Share capital	7,478,150	7,478,150
Revaluation reserves	490,985	989,151
Reserve fund	5,866,333	5,866,333
Retained earnings	12,655,515	14,164,655
Current Earnings	<u>5,254,110</u>	<u>-</u>
Total shareholders' equity	<u>31,745,093</u>	<u>28,498,289</u>
Total liabilities and shareholders' equity	<u>\$366,476,789</u>	<u>\$383,186,221</u>

Statement of Income

	Nine months ended 31.03.06	Quarter ended 31.03.06	Year ended 30.06.05
Interest Income			
Interest Income	15,599,814	5,412,929	17,510,443
Interest Expense	(6,138,598)	(1,939,741)	(8,551,417)
Net Interest Income	9,461,216	3,473,188	8,959,026
Gains/(losses) investment securities	(383,770)	(73,543)	(22,913)
Impairment loss on available for sales securities	-	-	(735,387)
Other Operating Income	<u>2,915,779</u>	<u>987,315</u>	<u>4,575,323</u>
Total Income	11,993,225	4,386,960	12,776,049
Operating Expenses	(6,639,115)	(2,551,623)	(8,027,522)
Net Income before taxation	5,354,110	1,835,337	4,748,527
Taxation	<u>(100,000)</u>	<u>(30,000)</u>	<u>(124,425)</u>
Net Income for the year	<u>\$ 5,254,110</u>	<u>\$1,805,337</u>	<u>\$ 4,636,102</u>
Earnings per share	0.70	0.22	0.62

7) **Disclosure About Risk Factors**

The following risk factors are relevant to the Bank

- **The vagaries of the offshore industry.** Approximately 75% 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 quarter.

9) **Defaults upon Senior Securities**

There were no defaults on securities during the quarter.

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

Financial

Financial performance for the nine month ended March 31, 2006 summarized as follows:

- Net income of before tax of 5.3 million
- Decrease in deposits by \$16.6 million due mainly to closure of some offshore accounts
- Increase in loan portfolio by \$15.9 million
- Decrease in total assets by \$17.0 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	Share	Group
	(\$)	(%)	(\$)
Cash & balances due from other b	44.8m	(48.6)	92.2m
Treasury bills	33.6m	(64.1)	52.4m
Investments	8.1m	(9.9)	94.6m
Loans & Advances	103.8m	(88.0)	117.9m
Deposits	171.5m	(52.6)	325.7m
Total Assets	199.3m	(54.4)	366.3m

Income Statement

	Parent Co	Share	Group
	(\$)	(%)	(\$)
Interest income	9.3m	(59.6)	15.6m
Fees & commission	1.9m	(65.5)	2.9m
Interest expense	5.4m	(88.5)	6.1m
Operating expense	4.6m	(69.7)	6.6m
Net income before tax	1.3m	(24.5)	5.3m

Earnings ratios

	Mar 31	June 30
	2006	2005
	%	%
Return on Assets (ROA)	1.40	1.34
Return on Capital Employed (ROCE)	17.44	17.38
Earnings per share	0.70	0.62
Interest Expense: Interest Income	39.10	48.83
Fees & Commissions: Total Income	13.81	20.71
Operating Expenses: Total Income	36.46	36.34
Operating Expenses: Net Interest Income plus other income	55.00	59.30
Total Expenses: Total Income	70.70	78.49

Liquidity

Liquidity continues to be strong, with balances due from other banks and other short-term funds totaling \$144.60million at March 31, 2006.

This is summarized as follows:

	Mar. 31 2006	June 30 2005
Cash	2.76	1.65
Current accounts with other banks	27.23	51.59
Cheques in the course of collection	1.41	0.50
Statutory deposits with the ECCB	9.75	10.79
Other deposits with the ECCB	-	1.70
Fixed deposits (restricted)	5.66	5.67
Fixed deposits (other)	4.00	5.86
Treasury bills (restricted)	1.00	1.00
Treasury bill (other)	53.20	53.20
Short term marketable securities (commercial paper)	<u>39.59</u>	<u>57.78</u>
	<u>\$144.60m</u>	<u>\$189.74m</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

	Mar 31 2006 (%)	June 30 2005 (%)
Cash and near cash balances: Total Assets	25.17	35.24
Loans: Deposits	36.10	28.30

Liquid funds include cash and current accounts with other banks, unrestricted 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

I. EXECUTIVE OFFICERS

Position: **General Manager**

(1) Name: **Rawlinson Isaac**

Age: **53**

Mailing Address: **P O 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 (X) 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**

(1) Name: **Hanzel Manners**

Age: **61**

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

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

List jobs held during past 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 (Economics and History) University of the West Indies

1982 – Fellow of the Association of Chartered Certified Accountants (FCCA)

1998 - Associate of The Chartered Institute of Bankers (ACIB)

Also a Director of the company (X) Yes () No

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

N/A

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

(1) Name: Lyra Richards

Age: 57

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

Telephone No: **(869) 469-5564/2164**

List jobs held during 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

Position: **Director**

(1) Name: Richard Lupinacci

Age: 63

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

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

List jobs held during 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)

Position: **Director**

(1) Name: **Reginald Kawaja**

Age: **71**

Mailing Address: **Chambers, Courtyard, Bank of Nevis Building
Charlestown, Nevis**

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

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

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

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

Graduate – Graduate School of Law – McGill University

Position: **Director**

(1) Name: **Spencer Howell**

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)

Position: **Director**

(1) Name: **Kishu Chandiramani O.B.E**

Age: **63**

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

Telephone No: **(869) 466-7777**

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

Self-Employed as Businessman for many years

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

Position: **Director**

(1) Name: **Wendell Huggins**

Age: **60**

Mailing Address: **Vervain Estate
Gingerland, Nevis**

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

List jobs held during 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 - University of the West Indies

Position: **Director**

(1) Name: **Joseph Parry**

Age: **57**

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

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

List jobs held during 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	1,044,486	13.96

- (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.**