

## **Half Year Report – December 31, 2005**

### 1) **Business**

During the period the Bank has 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.

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 accounts.
- 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 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 EC\$86,666 in relation to its (the Bank's) 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 of 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 March 2006. 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, 2005. The meeting was held at the Old Manor Hotel, Nevis on December 15, 2005.

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

Appointment of Directors

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

Richard Lupinacci  
Hanzel Manners

The following directors continued in office:

Reginald Kawaja  
Spencer Howell  
Kishu Chandiramani  
Joseph Parry  
Rawlinson Isaac  
Wendell Huggins

Declaration of Dividend:

The meeting approved a dividend of 20.0% (20 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 half year.

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

7,265 shares were traded during the half year as follows:

1 <sup>st</sup> quarter	6,000
2 <sup>nd</sup> quarter	<u>1,265</u>
Total	<u>7,265</u>

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

Total shareholders equity:

	<b>Dec. 2005</b>	<b>June 2005</b>
Share Capital	7,478,150	7,478,150
Revaluation Reserves	662,184	989,151
Other Reserves	5,866,334	5,866,333
Retained Earnings	12,669,025	14,164,655
Current Earnings	<u>3,448,774</u>	<u>-</u>
	<u>\$30,124,467</u>	<u>\$28,498,289</u>

Capital

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

Change in Unrealised Losses on securities	( 326,966)
2005 Dividend paid	(1,495,630)
Current year earnings	<u>3,448,774</u>
	<u>1,626,178</u>

The Annual General Meeting held on December 15, 2005 approved a dividend of 20%.

Capital at June 2005 includes proposed dividend for y/e June 30, 2005, which, according to International Accounting Standard No. 10, is 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 December 31, 2005**

	<b>Dec 2005</b>	<b>June 2005</b>
<b>Assets</b>		
Cash and due from other banks	101,962,967	135,069,854
Treasury bills	54,679,232	54,676,814
Investment securities	85,420,492	86,509,484
Income tax receivable	30,381	30,381
Loans & Advances	112,804,975	96,895,684
Other assets	2,735,967	1,336,339
Property, plant & equipment	<u>8,433,147</u>	<u>8,667,665</u>
<b>Total Assets</b>	<b><u>366,067,162</u></b>	<b><u>383,186,221</u></b>
<b>Liabilities</b>		
Customers' deposits	329,772,270	342,283,932
Other liabilities & accrued expenses	5,397,266	9,836,762
Provision for income tax	130,282	60,282
Deferred tax	440,671	440,671
Redeemable shares	<u>202,206</u>	<u>2,066,285</u>
<b>Total Liabilities</b>	<b><u>335,942,696</u></b>	<b><u>354,687,932</u></b>
<b>Shareholders' Equity</b>		
Share capital	7,478,150	7,478,150
Revaluation reserves	662,184	989,151
Reserve fund	5,866,332	5,866,333
Retained earnings	12,669,025	9,528,553
Current Earnings	<u>3,448,774</u>	<u>4,636,102</u>
<b>Total shareholders' equity</b>	<b><u>30,124,466</u></b>	<b><u>28,498,289</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$366,067,162</u></b>	<b><u>\$383,186,221</u></b>

## Statement of Income

	<b>Half year ended 31.12.05</b>	<b>Quarter ended 31.12.05</b>	<b>Year ended 30.06.05</b>
<b>Interest Income</b>			
Interest from loans & advances	4,863,180	2,388,607	7,928,280
Income – deposits	<u>5,323,705</u>	<u>2,657,930</u>	<u>9,582,163</u>
	<u>10,186,885</u>	<u>5,046,537</u>	<u>17,510,443</u>
<b>Interest Expense</b>			
Savings accounts	1,023,214	526,334	1,785,346
Time deposits & current accounts	<u>3,175,643</u>	<u>1,509,456</u>	<u>6,766,071</u>
	<u>4,198,857</u>	<u>2,035,790</u>	<u>8,551,417</u>
<b>Net Interest Income</b>	5,988,028	3,010,747	8,959,026
Gains/(losses) investment securities	( 310,227)	(301,477)	( 22,913)
Impairment loss on available for sales securities	-	-	( 735,387)
Other Operating Income	<u>1,928,464</u>	<u>1,107,497</u>	<u>4,575,323</u>
<b>Operating Income</b>	7,606,266	3,816,767	12,776,049
Operating Expenses	<u>4,087,492</u>	<u>(2,157,176)</u>	<u>( 8,027,522)</u>
<b>Net Income before taxation</b>	<b>3,518,774</b>	<b>1,659,591</b>	<b>4,748,527</b>
Taxation	<u>(70,000)</u>	<u>( 34,000)</u>	<u>(1,124,425)</u>
<b>Net Income for the year</b>	<b><u>\$ 3,448,774</u></b>	<b><u>\$1,625,591</u></b>	<b><u>\$ 4,636,102</u></b>
Earnings per share	0.46	0.22	0.62

**THE BANK OF NEVIS LTD**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For six months to December 31, 2005  
*(Expressed on Eastern Caribbean Dollars)*

	<b>December 2005</b>
<b>Cash flows from operating activities</b>	
Income for the year before taxation	3,518,774
<i>Items not affecting cash</i>	
Provision for loan impairment (net)	210,000
Provision for doubtful receivables	1,354
Depreciation	340,835
Interest income	(10,186,885)
Interest expense	4,198,857
Impairment loss on available-for-sale investment securities	-
<b>Operating losses before changes in operating assets and liabilities</b>	(1,917,065)
Changes in operating assets and liabilities	
Decrease in restricted fixed deposits	-
Decrease / (Increase) in deposits held for regulatory purposes	1,471,686
(Increase) in loans and advances	(15,957,791)
(Increase) in other assets	(1,399,628)
(Decrease) / Increase customer deposits	(12,288,739)
(Decrease) / Increase in other liabilities and accrued expenses	(4,439,496)
<b>Cash generated from (used in) operations</b>	(34,531,033)
Interest paid	(4,421,781)
Interest received	10,123,566
Income tax paid	-
<b>Net cash from (used in) operating activities</b>	(28,829,249)
<b>Cash flows from investing activities</b>	
Purchase of property, plant and equipment	(106,314)
Decrease Investment securities	770,922
Decrease / (Increase) in Fixed Deposits	1,820,071
<b>Net cash from (used in) investing activities</b>	2,484,679
<b>Cash Flows from / (used in) financing activities</b>	
(Redemption) / Issue of redeemable shares	(1,864,079)
Dividends Paid	(1,495,630)
	(3,359,709)

<b>(Decrease) Increase in Cash &amp; Short term funds</b>	(29,704,279)
<b>Cash &amp; Short term Funds - Beginning of year</b>	<u>165,705,469</u>
<b>Cash &amp; Short term Funds - December 31, 2005</b>	<u><u>136,001,190</u></u>

**Represented by:**

Cash and balances due from other banks *	82,763,083
Treasury bills**	<u>53,238,107</u>
	<u><u>136,001,190</u></u>

\* Does not include ECS\$9,701,640 -Fixed Deposits; ECS\$9,309,741 -ECCB Op A/c; ECS\$188,503 -Interest Receivable

\*\* Does not include ECS\$1,000,000 T-Bill (NIA Regulatory Deposit); ECS\$441,125 -Interest Receivable

**7) Disclosure About Risk Factors**

The following risk factors are relevant to the Bank

- **The vagaries of the offshore industry.** Approximately 80% 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 first half of 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**

Financial performance for the half year summarized as follows:

- Net income of \$3.4 million
- Decrease in deposits by \$12.5 million due 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**

	<b>Parent Co</b>	<b>Group</b>
	<b>(\$)</b>	<b>(\$)</b>
	<b>(%)</b>	
Cash & balances due from other b	39.0m (38.2)	101.9m
Treasury bills	35.9m (65.6)	54.7m
Investments	4.1m ( 4.8)	85.4m
Loans & Advances	99.5m (88.2)	112.8m
Deposits	170.1m (51.9)	329.8m
Total Assets	190.2 (51.9)	366.0m

### **Income Statement**

	<b>Parent Co</b>	<b>Group</b>
	<b>(\$)</b>	<b>(\$)</b>
	<b>(%)</b>	
Interest income	5.9m (58.4)	10.1m
Fees & commission	1.3m (68.4)	1.9m
Interest expense	3.7m (90.2)	4.1m
Operating expense	2.7m (67.5)	4.0m
Net income before tax	.7m (20.0)	3.5m

### **Earnings ratios**

	<b>Dec 31</b>	<b>June 30</b>
	<b>2005</b>	<b>2005</b>
	<b>%</b>	<b>%</b>
Return on Assets (ROA)	0.94	1.34
Return on Capital Employed (ROCE)	12.00	17.38
Earnings per share	0.46	0.62

Interest Expense: Interest Income	41.21	48.83
Fees & Commissions: Total Income	16.33	20.71
Operating Expenses: Total Income	34.63	36.34
Operating Expenses: Net Interest Income plus other income	53.73	59.30
Total Expenses: Total Income	70.20	78.49

### **Liquidity**

Liquidity continues to be strong, with balances due from other banks and other short-term funds totaling \$156.6 million at December 31, 2005.

This is summarized as follows:

	<b>Dec. 31 2005</b>	<b>June 30 2005</b>
Cash	1.61	1.65
Current accounts with other banks	27.76	51.59
Cheques in the course of collection	1.72	0.50
Statutory deposits with the ECCB	9.30	10.79
Other deposits with the ECCB	1.89	1.70
Fixed deposits (restricted)	5.66	5.67
Fixed deposits (other)	4.04	5.86
Treasury bills (restricted)	1.00	1.00
Treasury bill (other)	53.24	53.20
Short term marketable securities (commercial paper)	49.75	57.00
Interest Receivable	0.63	0.74
	<u>\$156.60m</u>	<u>\$189.70m</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**

	<b>Dec 31 2005 (%)</b>	<b>June 30 2005 (%)</b>
Cash and balances due from other banks: Total Assets	8.28	15.63
Total Liquid Funds (excl Fixed deposit): Total Assets	86.82	87.30
Loans to Deposits	34.21	28.97

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**

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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

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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**

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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

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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**

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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

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**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**

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

1963 – BA – Pennsylvania State University (USA)

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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**

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

Graduate – Graduate School of Law – McGill University

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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**

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**Self-Employed businessman for more than five (5) years**

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

Senior Certified Valuator (SCV)

Registered International Real Estate Institute (RIM of IREI)

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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**

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

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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**

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**Has run own business for over five (5) years**



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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**

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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.**