

# *ST KITTS-NEVIS-ANGUILLA NATIONAL BANK LTD*



## RESEARCH REPORT NOVEMBER 2003

**PREPARED BY: COMPTROLLER DIVISION – SKNANB**

PERSONS WISHING TO PURCHASE SHARES ARE THEREFORE ADVISED TO CAREFULLY CONSIDER THEIR OWN PERSONAL AND/OR FINANCIAL CIRCUMSTANCES, AS WELL AS THEIR INVESTMENT OBJECTIVES, AND TO SEEK INDEPENDENT PROFESSIONAL ADVICE.

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## **EXECUTIVE SUMMARY**

*The St Kitts-Nevis-Anguilla National Bank Limited (the Bank) was Incorporated as a limited liability company under the Companies Act Chapter 335 on 15<sup>th</sup> February 1971. It was re-registered on 14<sup>th</sup> April 1999 under the new Companies Act No. 22 of 1996, and as such is subject to the provisions of the Banking Act of St. Kitts and Nevis No. 6 of 1991.*

*Today, after more than thirty-two (32) years of operations the Bank stands as the largest commercial bank in the Organization of Eastern Caribbean States (OECS) region with more than one billion dollars in total assets and, is widely regarded as an industry leader in its operating market. In financial year 2000-2001 the Bank recorded earnings in excess of \$83 million dollars, it's highest so far. Total shareholder earnings in the Bank has increased from \$10 million in 1981 to \$133.8 million in 2003, largely due to the first-rate dividend and capital management strategy maintained over the years. Since opening its doors on 15<sup>th</sup> September 1971, operations have expanded to include five (5) Branches, a Card Center, an Agency office, fifteen (15) Automated Teller Machines (ATMs), and three wholly owned subsidiaries.*

*The Bank utilizes advanced technology, trained and dedicated staff, and Bank specific innovative capabilities to fulfill its mission of being 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."***

Sound management and continuous growth have enabled the Bank to provide a comprehensive range of banking and financial services nationally, regionally and internationally.

The consistent financial performance of the institution is clearly reflected in earnings, assets and deposits, which have all shown positive growth over the years. To date, asset growth has averaged 18.0% per year since 1999, deposit and earnings growth have been steady same period.

## FINANCIAL HIGHLIGHTS

Table 1

### BALANCE SHEET INFORMATION

	2003	2002	2001	2000	1999
Total Assets	1,059,251	956,020	892,279	720,872	552,980
Deposits etc	847,318	768,732	769,550	626,352	475,010
Loans and Advances	416,791	498,562	510,658	473,053	396,429
Investment Securities & Term Deposits	303,842	250,998	229,418	126,687	80,719
Cash and Short Term Funds	217,287	124,371	72,410	64,210	14,492
<b>OPERATING RESULTS</b>					
Gross Operating Income	78,394	78,004	83,176	59,169	43,839
Interest Income	58,296	59,373	67,457	52,892	39,591
Interest Expense	36,570	34,810	34,594	25,785	21,302
Earnings Before Income Tax	24,280	27,587	32,274	17,261	6,511
Net Earnings	17,252	18,787	15,034	11,046	3,945
Operating Expenses/Provisions	17,543	15,606	16,308	16,123	16,206
Gross Revenue per Employee	509	527	635	473	359
<b>SHARE CAPITAL &amp; DIVIDEND INFORMATION</b>					
Paid up Share Capital	81,000	81,000*	45,000*	9,000	9,000
Shareholders' Equity	133,776	127,459	77,062	64,728	56,381
Risk weighted assets (%)	43.9	41.5	32.4	31.8	29.0
Dividends	10,935	8,100	2,700	2,700	2,025
Number of Shareholders	2,738	2,738	1,354	1,314	1,322
Earnings per Share (\$) (Diluted)	0.22	0.30	1.74 <sup>+</sup>	1.23	0.44

\* The Share Capital increased from \$9m to \$45m in 2001 by a 4 for 1 share dividend of 36,000,000 shares and further to \$81m in 2002 by a share issue of 36,000,000 shares.

Dividends per Share (\$)	0.135	0.135	0.30+	0.30	0.23
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Table 2

ANALYSIS OF INCOME AND EXPENDITURE

	2003	2002	2001	2000
<b>INCOME</b>				
Interest	60,763	61,878	67,187	52,743
Profit on Foreign exchange	2,450	1,865	1,505	1,125
Gain on Marketable Securities	118	196	774	----
Dividends	233	299	270	149
Service Charge	956	1,166	1,045	897
Commission	13,409	12,352	11,713	3,480
Miscellaneous	465	547	682	775
<b>Total</b>	<b>78,394</b>	<b>78,004</b>	<b>83,176</b>	<b>59,169</b>
<b>EXPENDITURE</b>				
Interest	36,570	34,810	34,594	25,785
Establishment Expenses	5,553	3,233	7,421	5,906
Staff Employment	8,445	8,953	7,464	7,463
Communications	339	347	252	228
Travelling	75	86	130	81
Stationery and supplies	506	486	330	499
Miscellaneous	408	241	221	92
Loss on Marketable Securities	----	----	----	1,137
Audit Fees and Expenses	69	67	67	67
Other Finance Charges	373	544	423	650
<b>Total</b>	<b>52,338</b>	<b>48,767</b>	<b>50,902</b>	<b>41,908</b>

+ The 36,000,000 bonus shares ranked for dividends from 1 July 2001

Table 3

PROFITABILITY

	2003	2002	2001	2000	1999
Loans and Advances to Deposits	49.5	64.9	66.4	75.5	83.5
Staff Cost/Total Cost	16.1	17.8	14.7	17.8	20.1
Cost/Income (Efficiency)	35.6	36.1	33.6	48.3	71.1
Return on Equity	18.6	17.4	22.1	18.2	6.9
Return on Assets	2.41	2.07	1.95	1.73	0.77
Equity Multiplier	7.7	9.0	11.4	10.5	9.0
Asset Utilization	7.8	8.4	10.3	9.3	8.5
Yield on Earning Assets	7.2	8.2	9.4	9.7	8.3
Cost to Fund Earning Assets	4.3	4.1	4.7	4.7	4.7
Net interest Margin	2.9	4.1	4.7	5.0	3.6

## **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 judgment, 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 fulfillment, 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 assigned

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.

### **CORPORATE PROFILE**

The St. Kitts Industrial Bank Limited was incorporated in March 1958. In 1970, that name was changed to the First Bank of St. Kitts, whose name subsequently was changed to the St. Kitts-Nevis-Anguilla National Bank Limited. The St. Kitts-Nevis-Anguilla National Bank Limited was incorporated under the Companies Act Chapter 335 on 15<sup>th</sup> February 1971. Operations commenced seven (7) months later on 13<sup>th</sup> September 1971 with one (1) branch located on Church Street, Basseterre, St. Kitts.

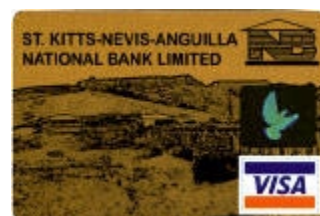
Since opening its doors in 1971, the Bank has grown from a single branch office into a financial institution with a network of branch offices strategically located throughout the two-island Federation of St Kitts and Nevis.

These offices comprise the Main Office and Headquarters on Central Street, Basseterre and branches in Nevis, Sandy Point, Saddlers and the Pelican Mall, each of which offers a full range of commercial banking services. The Bank also operates an agency office at the Robert Llewellyn Bradshaw International Airport and a Card Center that provides the Bank Card services, including International Visa Debit Card.

The NatBank International Visa Debit Card was officially launched on 21<sup>st</sup> December 2001. The Card gives customers access to their funds from anywhere in the world through more than 500,000 ATMs, and facilitates merchant transactions at over 19 million merchant locations worldwide.

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#### **Exhibit 1: NatBank Int'l Visa Debit Card**



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The Bank is the industry leader in systems and technology in the sub-region and is highly rated regionally and internationally for its technological sophistication and operational excellence. Over the years the Bank



has made substantial investment in technologies that provide enhanced benefits to its customers and increased overall staff productivity. This is clearly evident in the Bank being the only financial institution that maintains a network of ATM's throughout the Federation.

This endeavor commenced in 1991, when the Bank was the first in the Federation to introduce ATM's to its customers.

In subsequent years the Bank expended considerable resources to install this extensive network of ATMs. At present there are fifteen (15) ATMs in operation in the Federation.

National Online Banking Service, scheduled for launch in 2003, is the Bank first Internet Banking product. It will allow consumers to transfer funds between accounts, pay bills from anywhere in the world, and a complete balance and transaction history inquiries.

The Bank continues to focus on opportunities to utilize electronic banking technology to reduce the cost of transactions, improve convenience for its customers and remain a competitive leader in its market.

## **GOVERNANCE AND ACCOUNTABILITY**

### **BOARD OF DIRECTORS**

The Board of Directors of the Bank is responsible for the governance of the Bank. The Board of Directors monitors the business affairs of the Bank on behalf of the shareholders. In so doing the Directors are responsible for determining policies and strategies of the Bank. The management of the Bank is responsible for the implementation of the policies and strategies and the day-to-day administration of the Bank's operations within the framework determined by the Board of Directors. The Directors therefore focus their attention on accountability, risk management, ethical conduct, best practices and international standards.

The Managing Director is the Senior Officer of the Bank and is responsible for managing the operations of the Bank and reporting to the Board of Directors. The election of the Chairman of the Board of Directors requires a majority vote by the Board of Directors at the first meeting of the Board following an Annual General Meeting. The appointment of a Managing Director is done by a majority vote of the Board of Directors.

The Bank must have not less than five Directors and not more than ten. Each Director must own at least 100 shares in the Bank.

### *Approval thresholds by the Board of Directors*

The Board of Directors has the responsibility of approving the annual budget, large credit facilities, the appointment of senior officers, investment of surplus funds and all borrowings by the Bank.

### *Fiduciary Duties of Directors*

The Banking Act provides guidelines for the removal and disqualification of Directors, imposes requirements for the declaration and registration of related interest and conflict of interest. It outlines the Directors responsibility with respect to deceiving statements, obstruction of the audit or authorized examination. It imposes a duty to comply with the requirements of the laws, outlines liability under the Act and the requirement of confidentiality.

The Companies Act imposes a fiduciary duty on each Director to act honestly and in good faith in the best interest of the Bank and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. This requirement means that the primary duty of a Director is to the Bank, notwithstanding the interests of the shareholders electing such Director.

The ECCB provides guidelines for the fiduciary duties of Directors, which the

Bank has adopted. These include that the Directors must ensure competent management, which requires actively managing the selection process of the chief executive officer or the equivalent and other senior management officers and ensuring that the Bank has appropriate procedures and policies.

The procedures and policies cover lending, including the setting of approved lending limits and internal review procedures; investments; assets including liability and funds management; profit planning and budgeting; implementing internal controls and adequate audit programmes; human resource management and ethical codes of conduct; monitoring the operations of the Bank to ensure compliance, including a general awareness of the Bank's business performance and operating environment and being loyal to the Bank's interest.

### *Board Committees*

The Board of Directors currently has seven (7) Committees namely Audit, Budget, Executive, Investment, Credit, Asset/Liability Management, and Corporate Governance.

The Audit Committee oversees the auditing and supervision of the day-to-day operations of the Bank and considers the Internal Audit, Compliance, and Enforcement Unit's reports prepared by the Audit and

Compliance Unit. This Committee is also responsible for setting policies and procedures, which safeguard the operations, ensuring that the operations conform to the banking rules, regulations, prudential guidelines and procedures and are in compliance with local Banking Statutes.

The Budget Committee considers and approves the annual budget and reviews the Management Reports.

The Executive Committee is the overseer of the Bank activities; this Committee approves the activities and requires justification for specific actions, where necessary.

The Investment Committee is responsible for formulating policies for the allocation of each deposit dollar, the investment of the Bank surplus funds, and identifying areas in which the Bank may prudently invest its funds.

The Credit Committee is responsible for approving credit applications in excess of Management limit.

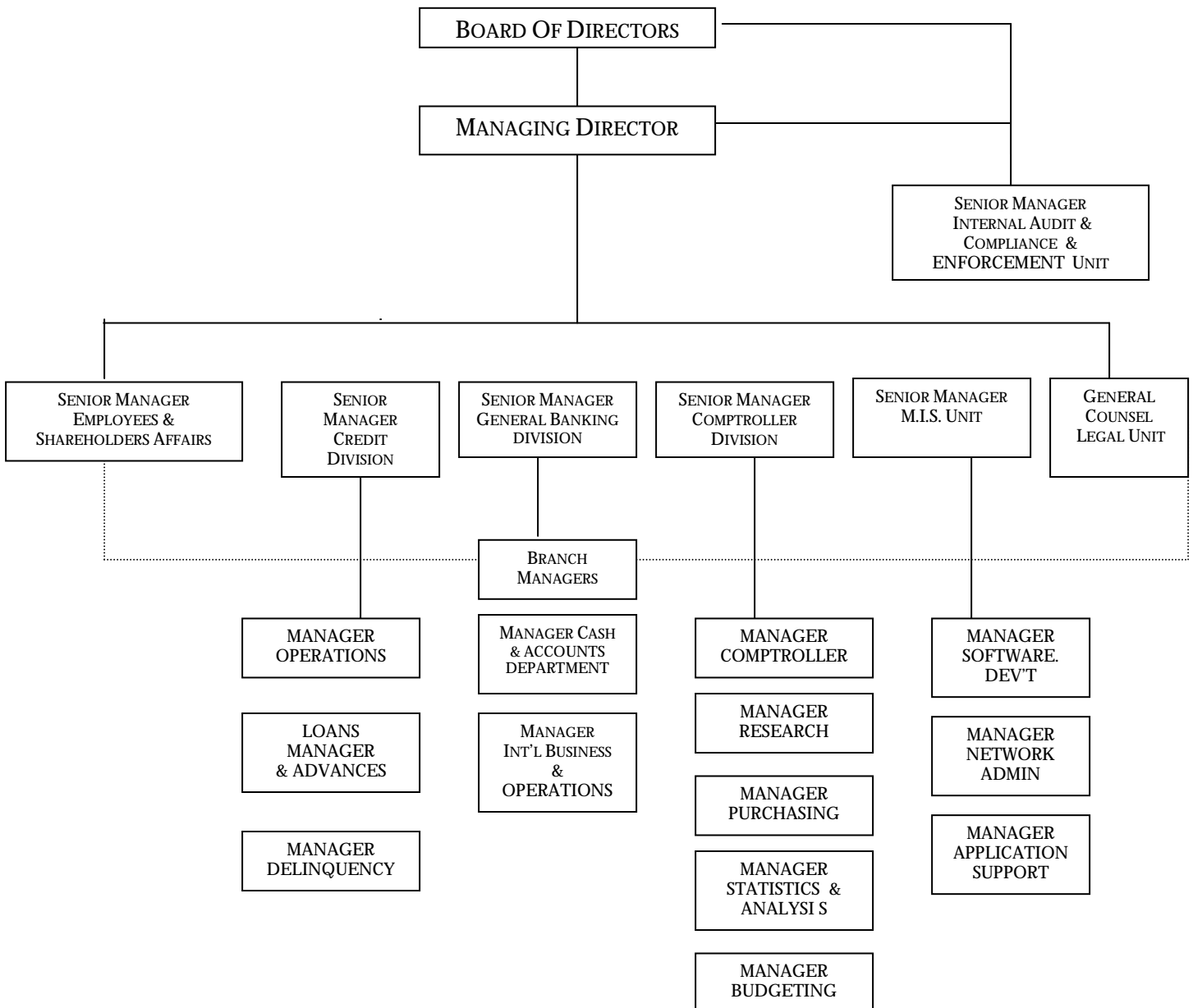
The Asset/Liability Management Committee establishes policy guidelines and monitors the systems under which the Credit and Investment Committees are to operate. In addition, the committee facilitates the process of planning, acquiring and directing the flow of funds through the bank.

Each Committee of the Board reports to the full Board of Directors and approval is required for all decisions of such committees.

The composition of any existing or future committee of the Board of Directors will reflect best practices in corporate governance principles.

The Board of Directors shall not delegate matters requiring special approval to any of its Committees such that a simple majority vote of the Committee would override the special levels as outlined in the Articles.

**ORGANIZATIONAL CHART**



**BOARD OF DIRECTORS**



**Rublin V Audain**  
Chairperson



**Mitchell G Gumbs**  
1<sup>st</sup> Vice Chairman



**Lionel A Berridge**  
2<sup>nd</sup> Vice Chairman



**Walford V Gumbs**  
Director



**Yvonne Merchant-Charles**  
Director



**E Elroy Christopher**  
Director



**Theresa Richardson**  
Director



**Clytie A Southwell**  
Director



**E Valentine Morris**  
Director



**Edmund W Lawrence**  
Managing Director

## SENIOR OFFICERS

**Edmund W Lawrence** - Managing Director

**Claudina V Davis** - Senior Manager, Employees and shareholders Affair

**Winston L Hutchinson** - Senior Manager, Comptroller Division

**Esrick A Lanns** - Senior Manager, Credit Division

**Warren D Nisbett** - Senior Manager, Management Information Systems Unit

**Ernest E Pistana** - Senior Manager, General Banking Division

**Donald S Thompson** - Senior Manager, Internal Audit, Compliance and Enforcement Unit

**Patricia A Haynes** - General Counsel, Legal Unit

**Pansyna Bailey** - Manager, Pelican Mall Branch

**Joan E Franks** - Manager, Nevis Branch

**Deirdre Venner** - Manager, Sandy Point Branch

**Sandrine Liburd** - Manager, Saddlers Branch

**A Anthony Galloway** - Manager, Comptroller Division

**Paula Morton** - Manager, Credit Division

**Sandra L Tweed** - Manager, Operations and International Department - General Banking Division

**Daisy O'Garro** - Manager, Customer Service and Accounts - General Banking Division

**Yvonne A C Williams** - Manager, Compliance and Enforcement Department - Internal Audit, Compliance and Enforcement Unit

**A J Patricia Wilkinson** - Manager, General Banking Division

**Patricia Mourillon** - Manager, Card Centre, General Banking Division

## ***PRODUCTS & SERVICES***

National Bank offers a full range of life cycle products and services nationally, regionally and internationally to meet the needs of today's informed and demanding customers.

Products and services include:

- Savings Account - Customers can open this type of account with a minimum amount of \$10. They can deposit to and make withdrawals from their accounts using either passbooks or one of our ATM services. Interest is paid every three months. Future planner and Horizon 55 savings accounts are offered to special age groups.
- Fixed Deposit - A minimum amount of US\$1,000 or EC\$500 is required to open this type of account.
- Chequing Account requires an initial deposit of \$100. The Bank pays interest on EC\$ chequing accounts with minimum monthly credit balances of \$5,000. Customers using this account may be allowed the use of an overdraft facility.

The aforementioned accounts are all available in United States, Canadian and EURO currencies.

- Loans - The bank offers a wide range of loans including demand, consumer, commercial and mortgage.
- International Business - The International Business Department offers a wide range of services utilizing the Bank worldwide network of Correspondent Banks. Services provided include: foreign drafts, travelers cheques, SWIFT, standing orders, letters of credit and bankers payments.
- Safe deposit boxes, safe custody and night safe deposits - these are ideal for keeping documents or valuables for overnight security or longer.

National Bank is unrivaled with respect to prices charged for services rendered. This has been somewhat of a tradition for the institution and dates back to its origins.

Many new products and services are scheduled for launch in the near future as the Bank continues to seek attractive opportunities to grow and diversify its revenue stream, increase shareholder value, and expand customer choice.

### **CAPITAL MANAGEMENT STRATEGY**

Capital management strategy focuses on maximizing the value of the shareholders' investment. This is clearly evident in the Bank shareholder-friendly dividend policy over its long history.

The recent four-for-one stock dividend of 36,000,000 and subsequent issue of a further 36,000,000 ordinary shares (an issue which was oversubscribed by 21%) substantially increased the Bank

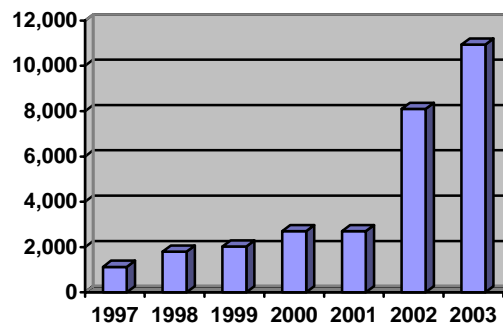
shareholder base. With this new issue the Bank's Capital was aligned with the level of assets held in the institution.

The Federal Government of St Kitts and Nevis holds a 51% of the outstanding shares of the Bank. Two other shareholders hold 6.667%, and 5.821% respectively. Individuals, businesses, and organizations hold the remaining 36.512% shares. Apart from the Government and the two institutional shareholders, the shareholding of the other shareholders is limited to 3.3% of the issued capital.

Over the last five years the Bank has paid a dividend averaging 23 cents per share (See Exhibit 2).

**Exhibit 2: DIVIDEND PAID 1997-2003**

Year	Dividends (\$'000)	DPS (\$)
2003	10,935	.135
2002	8,100	.135
2001	2,700	.30
2000	2,700	.30
1999	2,025	.23
1998	1,800	.20
1997	1,125	.13





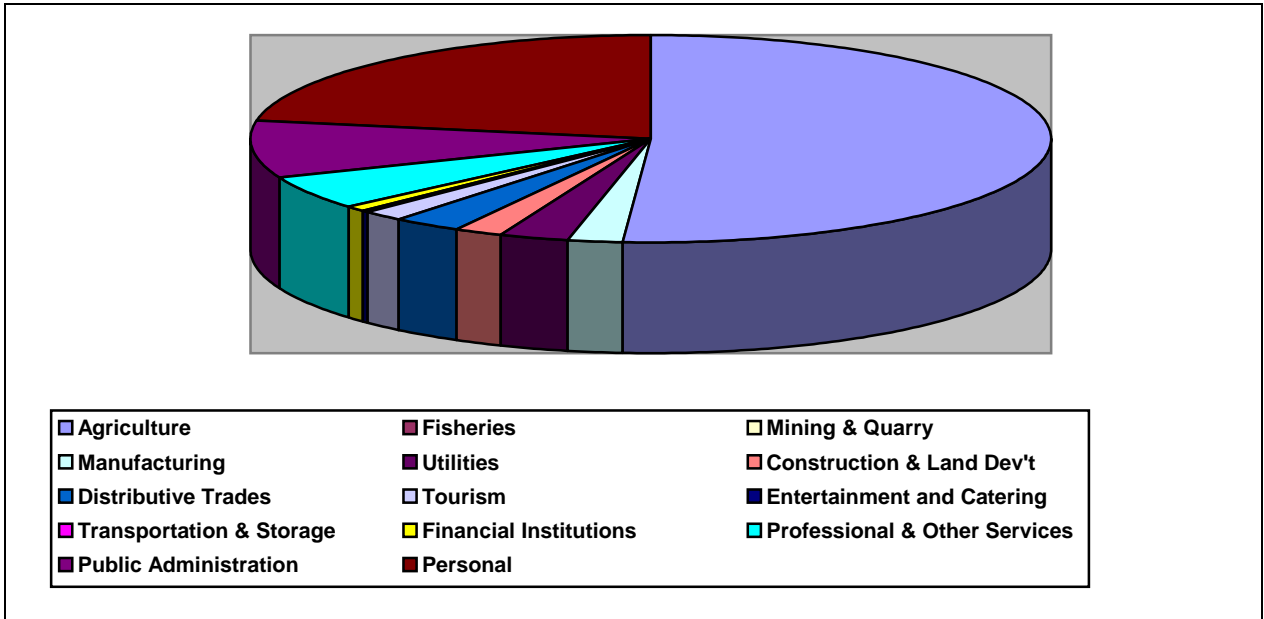
**LENDING ACTIVITIES**

At June 30, 2003, the value of the Bank's loan portfolio was \$416.8 million, including \$70.6 million of residential mortgage loans, or 16.7% of total loans. At such date, the remainder of the loan portfolio includes \$64.3 million of commercial loans, or 15.2% of the total loans; \$23.2 million of consumer

loans, or 5.5% of the total loans; \$214.9 million of Agriculture, or 50.9% of the total loans;

The following table sets forth the composition of the Bank's loan portfolio as a percentage of the respective portfolio at the date indicated:

Exhibit 3: Loan Mix - June 30,2003



The quality of the loan portfolio for the 2001-02 financial year showed improvement as the ratio of non-performing assets to total assets declined to 10% from 17% in 1995.

### ***SOURCES OF FUNDS***

Deposits, agreed repayments and prepayments of loans and cash flows generated from operations are the primary sources of funds for use in lending, investing and general purposes.

The Bank offers a variety of consumer and commercial deposit accounts with a range of interest rates and terms. (Please refer to the "Products and Services" section of this document)

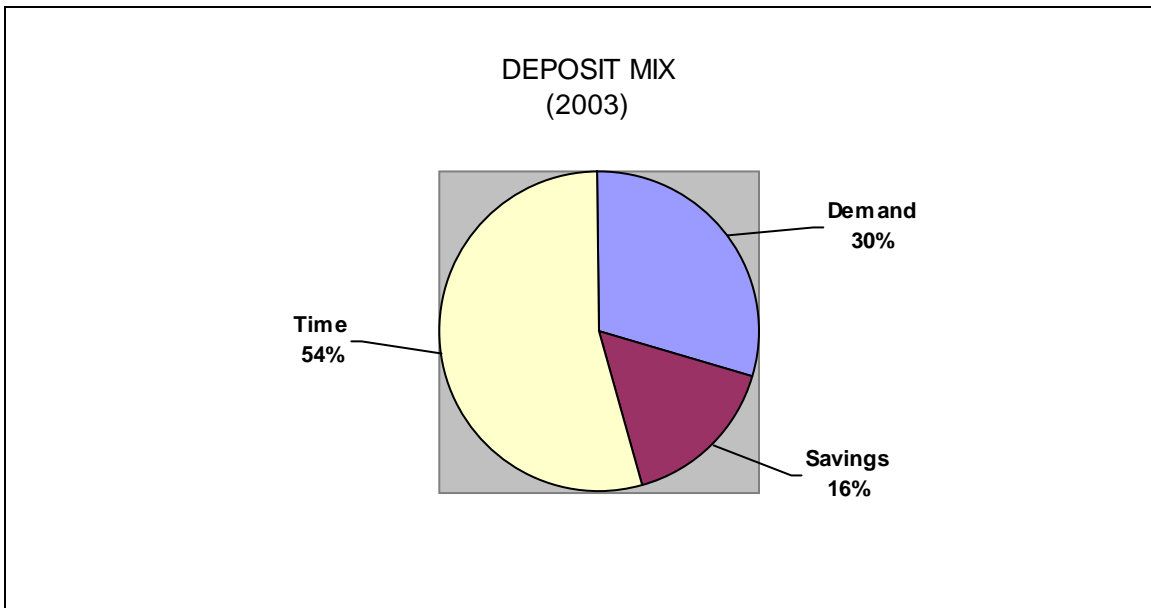
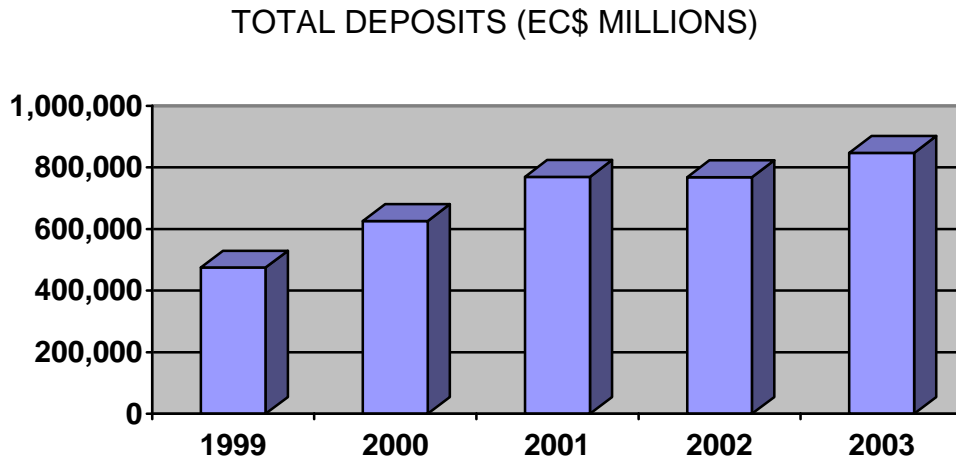
At June 30, 2003, the Bank held deposits totaling some \$828.4 million, or 89.5% of total liabilities. Deposit Mix, consisting of savings represented approximately 15% of total deposits and fixed deposits accounts represented 58% at the end of the financial year as compared to deposit mix, consisting of savings, representing 13.8% of total deposits and fixed deposit accounts representing 49.0% of deposits as of June 30, 2002. (See Exhibit 4)

The Bank recognizes the importance of its deposit base and closely monitors activity in this area. Based on historical experience and its current pricing strategy, the Bank believes these deposits will continue to grow.

The flow of deposits is influenced significantly by general economic conditions, prevailing interest rates and competition. Deposits with the Bank are obtained mainly from resident customers. However, nationals living abroad send regular remittances, and maintain significant deposit balances with the Bank.

The Bank relies primarily on customer service, advertising and long-standing relationships with customers to attract and retain deposits. It uses traditional and innovative tools to market and advertise its deposit products. The Bank also uses its website to attract deposit customers ([www.sknanb.com](http://www.sknanb.com)).

Exhibit 4: Total Deposit & Deposit Mix



### ***SUBSIDIARY ACTIVITIES***

National Bank Trust Company (St Kitts-Nevis-Anguilla) Limited (Trust Company), a wholly owned subsidiary was established in 1972 to raise long-term investment funds, undertake real estate development and property management, and provide trust services.

National Caribbean Insurance Company Limited (Insurance Company), a wholly owned subsidiary of the Trust Company was established in 1973 to offer a full range of life and general insurance products.

In 2001, the Bank established the St Kitts and Nevis Mortgage and Investment Company Limited (MICO). MICO was set up to carry on business as a realtor, investment services provider, and related activities.

Through its subsidiaries, the Bank has organized the provision of a wide range of trust, investment, corporate, Secretarial and trustee services, along with all classes of insurance coverage.

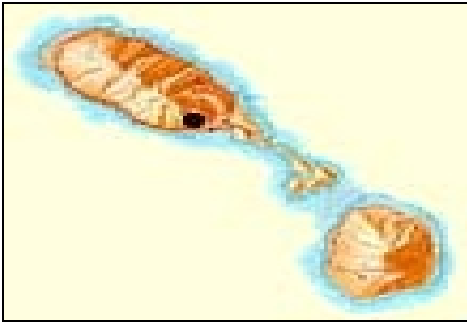
### ***GENERAL***

The results of operations of the Bank are to a large extent dependent on net interest income. The Bank also generates significant non-interest income from other financial services provided to its customers. Increasing non-interest income is anticipated through the provision of such services as the International Debit Card, the Pre-Paid Card, and Internet Banking.

The Bank operating expenses consist primarily of employee compensation and benefits, and other non-interest expenses. Like other financial institutions, the Bank cost of funds is affected to a great extent by the general economic conditions prevailing in the country and abroad including government and regulatory agencies policies.

## **LEGISLATURE & JUDICIARY**

Exhibit 5: St Kitts and Nevis



The Federation of St Kitts and Nevis became an independent sovereign state when it gained independence from Great Britain in 1983. The constitution provides for a Parliament headed officially by Queen Elizabeth II, who as the head of state is represented by a Governor-General. The Governor-General appoints the person who commands the support of the majority of the elected members of Parliament to be Prime Minister. Under the Constitution Nevis has a premier, legislature, cabinet representation in the Federal Government.

The Judicial system of the federation is based on English Common Law.

St Kitts and Nevis is a member of a number of regional and international organisations. These include the Organisation of Eastern Caribbean States, Eastern Caribbean Currency Union, CARICOM, OAS, the United Nations and its agencies, the International Monetary Fund, the World Bank, and the British Commonwealth.

The Federation is an investor friendly stable democracy with the fourth highest per capita income in CARICOM.

### **DEMOGRAPHY**

Preliminary estimates from the 2001 Population Census indicate that the population of St. Kitts and Nevis is 46,111. St. Kitts, the larger of the two islands has a population of 34,930 (75.8%) while the population of Nevis is 11,181 (24.2%). This represents a growth rate of 13.5% between 1991 and 2001 and an annual average rate of change of 1.3%. In 2001, males accounted for

49.7% of the population while females accounted for 50.3% indicating that at the last census the sex ratio of the population was almost equal.

The age distribution of the population for 2000 indicates that the economically active population (i.e. persons 15-64 years), of which the labour force as a subset, constituted 60.5% of the population.

The age group with the second largest population (20.1%) was the school going age group (i.e. persons 5-14 years). This group can be considered the future work force that would be involved in economic activity in the country. The remaining population includes persons in the 0-4 (10.5%) and the 65 and over (8.9%) age groups.

### ***ECONOMY***

The traditional economy for small-island states such as St Kitts and Nevis would have been characterised as a government dominated monoculture economy that relied on financial aid and preferential trade arrangements from developed countries.

However, concerted efforts by the Federal Government to transform the economic landscape through

diversification away from a sugar production to tourism, non-sugar agriculture, light industries, informatics, and financial services have been largely successful despite recent setbacks.

Tourism and its ancillary sectors have contributed to GDP growth at increasing rates throughout the last decade. However, the performance of the local economy will usually mirror the performance of economies in developed countries such as the United States and the United Kingdom, therefore, the ongoing global economic slowdown along with changes that resulted from the September 11 terrorists attacks events significantly curtailed growth in recent times.

### ***GDP GROWTH***

GDP growth rate during the period 1997-2002 exhibited significant fluctuation from a peak of 7.3% in 1997 to 1.0% in 1998 to 6.2% in 2000 to 2.34% in 2001 and 0.75 % in 2002. Real growth for 2002 was below the 2.34% level attained in 2001. This trend in economic growth has been influenced by a number of factors including the September 11 terrorist attacks in the United States and the impact from hurricanes and subsequent rehabilitation efforts.

Over the last few years the tourism and sugar sectors suffered significantly from the impact of hurricanes, but the light-manufacturing sector exhibited sufficient growth to maintain its contribution to GDP at an average of 11.6% of GDP.

The ability of the economy to record positive real economic growth in the midst of these difficulties is an indication of its resilience. The years ahead will undoubtedly present numerous challenges, in light of the fact that the prospect for economic growth is so closely tied to global economic activity and tourism. However, recent events suggest that prospects for increased tourism over the medium-term are good.

#### ***FINANCIAL SECTOR ANALYSIS***

Developments in the financial sector continued to reflect the growth trends in the economy. Over the review period (1997 - 2002), total assets of the commercial banking sector increased from \$1.17 billion to \$1.96 billion, reflecting an average annual rate of growth of 11%. At the same time, deposits held by the commercial banks grew at an average rate of 9% per annum to total \$1.37 billion at the end of 2002. The largest categories of depositors were Consumers,

Statutory Bodies and Government Corporations with 35.7%, and 26.4%, respectively.

Loans and advances grew at a slower rate of 8%, increasing from \$853.03 million to \$1.09 billion. The largest borrowing sectors in 2002 were Personal, Agriculture, and statutory Bodies with 39.9%, 17.2% and 13.1% respectively. Loans to persons, to finance House and Land purchases, rose by 8.8%.

#### ***INDUSTRY AND COMPETITION***

The retail banking industry in the Federation is comprised of six commercial banks, three credit unions and one finance company. These institutions offer similar core products/services and consumer choice is usually determined by such factors as interest rates, loan fees, service charges, the range of ancillary services offered, the efficiency and quality of the services provided, and the convenient locations of branch offices. Also, National is the only bank in the Federation with ATMs strategically placed throughout both islands.

The Bank conducts business throughout the Federation with strategically located branch offices on both islands. An integral part of

the Bank strategy to increase and maintain its deposit base is in the provision of convenient locations, competitive rates and high-quality personalized service to private and commercial consumers throughout the Federation.

### ***RISK MANAGEMENT***

The Bank manages a variety of risks in the ordinary course of business. The major risks associated with the Bank are credit risk, interest rate risk, liquidity risk, and operational risk. The Bank has established a comprehensive framework for managing these risks, which is continually evolving as the Bank's business activities change in response to market, credit, product and other developments.

#### Currency Risk

The Bank has no significant exposure to currency risk as substantially all its assets and liabilities as well as its transactions are denominated in Eastern Caribbean dollars or United States dollars.

#### 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.

#### 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's liquidity strategy relies on sufficient cash and marketable instruments such as treasury bills and other government securities to meet short term funding needs. Fallback techniques include access to the sub-regional inter-bank market and the ability to close out or liquidate market positions. The Bank ensures that it has sufficient funds to meet its obligations by not converting into



loans foreign deposits, demand deposits, reserves, provision for interest, provision for loan losses, and other net financial assets and liabilities.

#### Credit Risk

The Bank predominant activity is retail banking services. Exposures to credit risk are mainly concentrated in St. Kitts and Nevis. The Bank exposure to credit risk is managed through regular analysis of the ability of its borrowers (current and potential) to meet interest and principal repayment obligations. Credit risk is also managed in part by the taking of collateral and/or guarantees as securities on advances, and by the spreading of this risk geographically as well as over a diversity of personal and commercial customers.

#### Operational Risk

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

#### ***SHARE VALUATION***

The valuation of a company shares is not an exact science. It is therefore unlikely that any one method can be used in isolation. Several valuations must be made using different techniques. A comparison of the valuations can then be made and a final price arrived at as a compromise between the different values.

Two valuation methods namely the Net Asset Valuation and Over-the-Counter Market (OTC) valuation were used to arrive at a price for National Bank shares.

#### *Net Asset Valuation Method*

The net asset method of share valuation is one of the most common methods used to measure the intrinsic worth of the company.

To do this we first calculate the net value of all the company's assets and divide it by the number of shares outstanding.

For fiscal 2003, the net value of the bank assets was given as \$144.7 million cum div with 81 million ordinary shares outstanding. Thus the net worth of one share at 30 June 2003 was \$1.79.

The range of market price for trades of shares of the St Kitts-Nevis-Anguilla National Bank Limited as reflected in the most recent over the counter transactions is \$1.75 to \$3.50 per share.

By comparing the average market price for over the counter transactions and the results of the other valuation technique described above, it was concluded that the relevant range for National Bank share price is \$1.75 - \$3.50.

### ***SECONDARY MARKET FOR SHARES***

As a member of the Eastern Caribbean Securities Exchange (ECSE) the St Kitts-Nevis-Anguilla National Bank offers full brokerage services.

The Eastern Caribbean Securities Market (ECSM), the first regional securities market, is designed to

provide an alternative mechanism for institutions to raise capital within the regional financial system.

It gives issuers an opportunity to raise funds through new issues of securities and the option of a non-competitive and a competitive auction methodology whereby the issuer can either set the price of the issue or allow the investor set the price of the issue.

A secondary market can then be used to trade securities freely and to provide liquidity. The ECSE allows for an alternative source to invest their savings in order to secure their future and for the transfer of private sector savings to productive investment. This will essentially increase productive activity in the real sector, facilitate private sector development and create avenues for employment.

(see [www.ecseonline.com](http://www.ecseonline.com))

The services that the SKNA National Bank Ltd, in relation to the ECSE, offers include:

- The purchase and sale of securities, both stocks and bonds, for companies listed on the ECSE and government securities listed in the regional Government securities market (RGSM).

- The provision of personal and corporate financial advice, investment advice.
- The provision of relevant documentation including research reports, critical to your Initial Public Offerings.
- Professional and courteous advice relative to your investment objectives.

#### ***STAFF TRAINING AND DEVELOPMENT***

A well-trained, well-educated and skilled staff is a prerequisite for the delivery of superior service to our customers. To this end, the Bank continues its programme of investing in Staff through the provision of financial support for the pursuit of formal academic education and professional qualification in a wide range of disciplines including management, law, finance, banking and economics. The Bank employees also participate in on-site and off-site seminars and courses in keeping with our structured development programme.

In addition to the academic and professional courses of study, several staff members receive job training in various aspects of the Bank operations. Employees attend

seminars and conferences on Money Laundering, the Patriot Act, Compliance Management, VISA authorization issues and several other topics.

#### ***CONTRIBUTIONS***

The bank continued to be an exemplary corporate citizen, lending support through sponsorship and donations to a wide range of sporting, education, health, social and cultural activities.

#### ***FUTURE PRODUCTS & SERVICES***

- Online banking
- Re-engineer current products and services
- Nat News – National Banks newsletter that can be found on the website

#### ***EXPANSION PLANS***

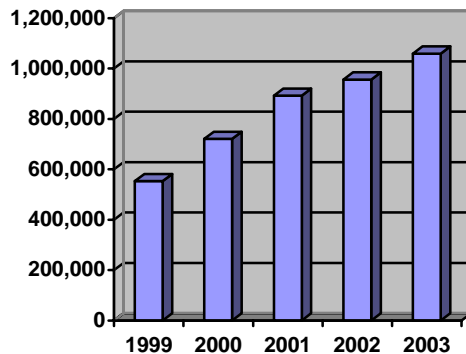
Going forward, the St Kitts-Nevis-Anguilla National Bank, in an effort to improve customer service, plans to expand the Basseterre branch.

## FINANCIALS

### TOTAL ASSETS

Total Assets increased \$506.3 million or 91.6% from \$553.0 million in 1999 to \$1.06 billion in 2003, due primarily to increases in cash and money at call, bank premises and equipment. This growth was funded by the issue of 36,000,000 ordinary shares in 2001, and the consistence deposit inflows of the Bank customers.

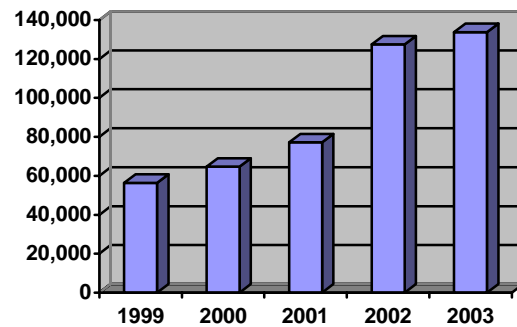
Exhibit 6: Total Assets



### SHAREHOLDERS' EQUITY

In recent years, the bank's shareholders' equity has been excellent, increasing from \$56.4 million in 1999 to \$133.8 million in 2003. This represents an impressive 137.3% increase.

Exhibit 7: Total Shareholders' Equity



*BALANCE SHEET AS AT JUNE 30, 2003*  
*Expressed in thousands of Eastern Caribbean Dollars (\$'000)*

<b>ASSETS</b>	<u><b>2003</b></u> \$	<u><b>2002</b></u> \$
Cash and Money at call	459,347	303,230
Loans and Advances	416,791	498,562
Investments	119,064	122,096
Investment in Subsidiaries	35,550	6,150
Customers' Liability under Acceptances, Guarantees and Letters of Credit (per contra)	4,276	4,580
Bank Premises and Equipment	18,317	16,938
Other Accounts	5,906	4,464
	-----	-----
<b>TOTAL ASSETS</b>	<b>1,059,251</b>	<b>956,020</b>
	=====	=====
 <b>LIABILITIES</b>		
Due to other Banks	18,938	45,103
Customers' Deposits	828,380	725,953
Due to Subsidiaries	688	-
Deferred Credit	21,474	10,000
Acceptances, Guarantees and Letters of Credit (per contra)	4,276	4,580
Accumulated Provisions, Creditors and Accruals	51,719	42,925
	-----	-----
Total Liabilities	<b>925,475</b>	<b>828,561</b>
 <b>Shareholders' Equity</b>		
Issued Share Capital	81,000	81,000
Share Premium	3,877	3,877
Reserves	47,364	40,000
Retained Earnings	1,535	2,582
	-----	-----
Total Shareholders' Equity	<b>133,776</b>	<b>127,459</b>
	-----	-----
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,059,251</b>	<b>956,020</b>
	=====	=====

**INCOME STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
*Expressed in thousands of Eastern Caribbean Dollars (\$'000)*

	<u>2003</u>	<u>2002</u>
	\$	\$
<b>INCOME</b>		
Interest – Loan & Advances and Fees	47,286	49,100
- Investments and deposits with other banks	13,477	12,480
	-----	-----
<b>Total Interest Income</b>	<b>60,763</b>	<b>61,580</b>
Less: Interest Expense	(36,570)	(34,810)
	-----	-----
<b>Net Interest Income</b>	<b>24,192</b>	<b>26,769</b>
 <b>Non-Interest Income</b>		
Gain on Foreign Exchange	2,450	1,865
Gain on Marketable Securities, net	118	196
Dividend	233	299
Service Charge	956	1,166
Commission	13,409	12,352
Miscellaneous	465	547
	-----	-----
<b>Total Non-Interest Income</b>	<b>17,631</b>	<b>16,424</b>
	-----	-----
<b>Operating Income</b>	<b>41,823</b>	<b>43,194</b>
 <b>NON-INTEREST EXPENSES</b>		
Establishment	5,553	3,233
Communication	339	347
Staff Employment	8,445	8,953
Travelling	75	86
Stationery and Supplies	506	486
Miscellaneous	408	241
Audit Fees and Expenses	69	67
Other finance Charges	373	544
	-----	-----
<b>Total Non-Interest Expenses before Depreciation</b>	<b>15,768</b>	<b>13,956</b>
	-----	-----
Net Operating Income before Depreciation and Tax	26,055	29,237
Depreciation	(1,775)	(1,650)
	-----	-----
<b>Net Operating Income before Tax</b>	<b>24,280</b>	<b>27,587</b>
Provision for Income Tax	(6,684)	(8,374)
	-----	-----
<b>Net Income for the year ended June 30</b>	<b>17,596</b>	<b>19,214</b>
	=====	=====

## ***CONCLUSION***

The St Kitts-Nevis-Anguilla National Bank Limited is extremely proud of its accomplishments over the years. The success of the bank is evident in its financial performance, operations and corporate governance. The bank has been able to overcome challenging times through increased emphasis on soundness, safety, efficiency and productivity. There has been a strong reliance on risk management, financial discipline and a keen awareness of the responsibility to enhance customer choice and satisfaction and increase shareholder added value. The bank will continue to face the future with confidence, maintaining consistent growth in assets and earning, efficiently managing costs and risks and introducing new products and services to its customers.

Detailed and comprehensive information with regards to the Bank past financial performances, as well as future projections are given in this report. Forward-looking statements represent the Bank own judgments and future expectations, and thus are subject to certain risk and uncertainties. Predicted financial statement results may differ materially from actual performance.

The report does not constitute a recommendation to trade the Bank shares. The purchase of shares may involve substantial risks and is only suitable for investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses that may result therefrom.

Persons wishing to purchase shares are therefore advised to carefully consider their own personal and/or financial circumstances, as well as their investment objectives, and to seek independent professional advice.