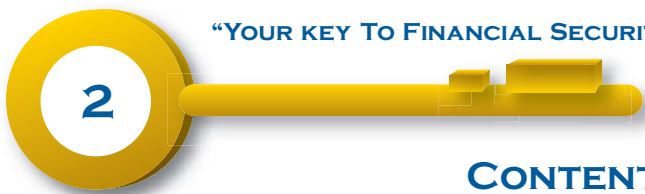


“YOUR KEY TO FINANCIAL SECURITY”

Financial security is an ideal often sought after even more than wealth. That is why building a successful future is the desire of every individual and corporation.

At St. Kitts-Nevis-Anguilla National Bank we have been able to capture this desire shared by our customers, shareholders and staff. Through years of innovation and integrity we have been able to build a sound yet flexible financial institution to meet the multiple needs of our diverse customer-base.

Our commitment remains firm that year after year we will be here, always growing and reaching for new markets as we continue to increase customer satisfaction, shareholder value, staff fulfillment and create a secure future for the nation.



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OUR VISION

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

OUR 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.

NOTICE OF MEETING

Notice is hereby given that the **THIRTY-THIRD ANNUAL GENERAL MEETING of St. Kitts-Nevis-Anguilla National Bank Limited** will be held at the Ocean Terrace Inn, Fortlands, Basseterre, on Thursday 29th January, 2004 at 5:00 p.m. for the following purposes:-

1. To read and confirm the Minutes of the Meeting held on Thursday 16th January, 2003.
2. To consider Matters Arising from the Minutes.
3. To receive the Directors' Report.
4. To receive the Auditors Report.
5. To receive and consider the Accounts for the year ended 30th June, 2003.
6. To declare a dividend.
7. To elect Directors.
8. To appoint Auditors for the year ending 30th June, 2004 and to authorize the Directors to fix their remuneration.
9. To discuss any other business for which notice in writing is delivered to the Company Secretary three clear banking days prior to the meeting.

By Order of the Board



Claudina V Davis
Secretary

15th December 2003

SHAREHOLDERS OF RECORD

All shareholders of record as at January 14, 2004 will be entitled to receive a dividend with respect to the financial year ended June 30, 2003.

PROXY

A member of the Company who is entitled to attend and vote at this meeting is entitled to appoint a proxy to vote in his stead. The proxy form must be delivered to the Company Secretary 48 hours before the meeting.

ARTICLES GOVERNING MEETINGS

ARTICLE 42

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

ARTICLE 43

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

ARTICLE 45

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

ARTICLE 56

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

ARTICLE 59

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

FINANCIAL HIGHLIGHTS

| | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| BALANCE SHEET INFORMATION | | |
| Total Assets | 1,059,251 | 956,020 |
| Deposits | 828,380 | 725,953 |
| Loans and Advances | 416,791 | 498,562 |
| Investments | 119,064 | 122,096 |
| Cash and Money at call | 459,347 | 303,230 |
| OPERATING RESULTS | | |
| Gross Operating Income | 78,394 | 78,004 |
| Interest Income | 60,763 | 61,580 |
| Interest Expense | 36,571 | 34,811 |
| Earnings Before Income Tax | 24,280 | 27,588 |
| Net Income | 17,596 | 19,214 |
| Operating Expenses/Provisions | 17,543 | 15,606 |
| Gross Revenue per Employee | 509 | 527 |
| SHARE CAPITAL & DIVIDEND INFORMATION | | |
| Paid up Share Capital | 81,000 | 81,000 |
| Shareholders' Equity | 144,836 | 127,459 |
| Dividend | 10,935 | 8,356 |
| Number of Shareholders | 2,738 | 2,738 |
| Earnings per Share (\$) (Diluted) | 0.22 | 0.30 |
| Dividend per Share (\$) | 0.135 | 0.135 |
| BALANCE SHEET AND OPERATING RESULTS RATIOS (%) | | |
| Loans and Advances to Deposits | 50.3 | 68.7 |
| Staff Cost/Total Cost | 15.7 | 17.8 |
| Cost/Income (Efficiency) | 41.7 | 36.1 |
| Return on Equity | 13.0 | 18.8 |
| Return on Assets | 1.8 | 2.1 |
| Risk Weighted Assets | 43.9 | 41.5 |
| Equity Multiplier | 7.4 | 9.0 |
| Asset Utilization | 7.8 | 8.4 |
| Yield on Earning Assets | 7.4 | 8.2 |
| Cost to Fund Earning Assets | 4.5 | 4.1 |
| Net interest Margin | 2.9 | 4.1 |

ANALYSIS OF INCOME AND EXPENDITURE

INCOME

Interest
Profit on Foreign exchange
Gain on Marketable Securities
Dividends
Service Charge
Commission
Miscellaneous

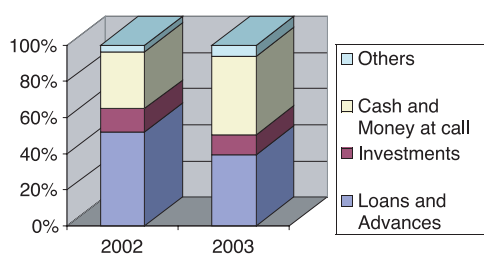
| 2003 \$'000 | % | 2002 \$'000 | % |
|----------------|--------------|----------------|--------------|
| 60,763 | 77.5 | 61,580 | 78.9 |
| 2,450 | 3.1 | 1,865 | 2.4 |
| 118 | 0.2 | 196 | 0.3 |
| 233 | 0.3 | 299 | 0.4 |
| 956 | 1.2 | 1,165 | 1.5 |
| 13,409 | 17.1 | 12,352 | 15.8 |
| 465 | 0.6 | 547 | 0.7 |
| 78,394 | 100.0 | 78,004 | 100.0 |

EXPENDITURE

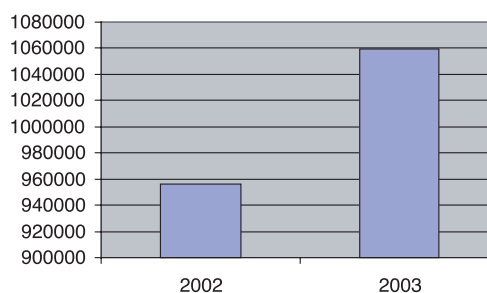
Interest
Establishment Expenses
Staff Employment
Stationery and supplies
Miscellaneous
Audit Fees and Expenses
Other Finance Charges

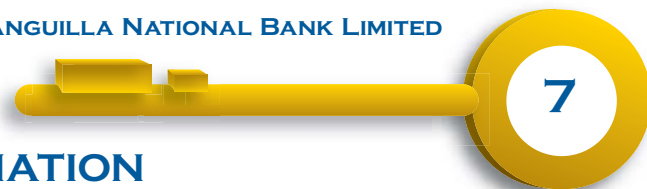
| | | | |
|---------------|--------------|---------------|--------------|
| 36,571 | 69.9 | 34,811 | 69.0 |
| 5,553 | 10.6 | 4,882 | 9.7 |
| 8,445 | 16.1 | 8,953 | 17.8 |
| 506 | 1.0 | 486 | 1.0 |
| 822 | 1.6 | 674 | 1.3 |
| 69 | 0.1 | 67 | 0.1 |
| 373 | 0.7 | 544 | 1.1 |
| 52,338 | 100.0 | 50,416 | 100.0 |

DISTRIBUTION OF ASSETS



TOTAL ASSETS (\$'000)





CORPORATE INFORMATION

BOARD OF DIRECTORS

| | |
|-------------------------|----------------------|
| Rublin V. Audain | Chairperson |
| Mitchell G. Gumbs | 1st Vice Chairman |
| Yvonne Merchant-Charles | 2nd Vice Chairperson |
| E. Elroy Christopher | Director |
| Walford V. Gumbs | Director |
| Lionel A. Berridge | Director |
| E. Valentine Morris | Director |
| Theresa Richardson | Director |
| Clytie A. Southwell | Director |
| Edmund W. Lawrence | Managing Director |

CORPORATE SECRETARY

Claudina V. Davis

SOLICITORS

Bryant & Liburd
Chambers
Shear Lane
BASSETERRE

Dublin & Johnson
Chambers
Sands Complex
George Street
BASSETERRE

AUDITORS

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

BOARD OF DIRECTORS



Mitchell G. Gumbs
1st VICE CHAIRMAN



Rublin V. Audain
CHAIRPERSON



Yvonne Merchant-Charles
2nd VICE CHAIRPERSON



Walford V. Gumbs
DIRECTOR



E. Elroy Christopher
DIRECTOR



E. Valentine Morris
DIRECTOR



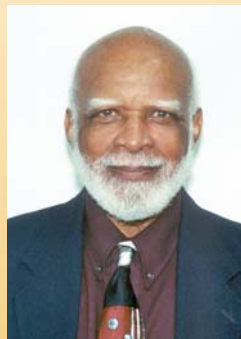
Theresa Richardson
DIRECTOR



Clytie A. Southwell
DIRECTOR



Lionel A. Berridge
DIRECTOR



Edmund W. Lawrence
MANAGING DIRECTOR

BRANCHES, ATMS AND SUBSIDIARIES

BRANCHES

Nevis Branch
Charlestown, Nevis

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

Saddlers Branch
Main Street, Saddlers, St. Kitts

Pelican Mall Branch
Bay Road, Basseterre, St. Kitts

Airport
RLB International Airport

ATMS

Old Road (1)
St. Paul's (1)
Cayon (1)
Lodge (1)
St. Peter's (1)
CAP Southwell Industrial Park (1)
Vance W Amory International Airport (1)
Nevis Branch (1)
Sandy Point Branch (1)
Saddlers Branch (1)
RLB International Airport (1)
Pelican Mall (2)
Basseterre Branch (2)

SUBSIDIARIES CONSOLIDATED

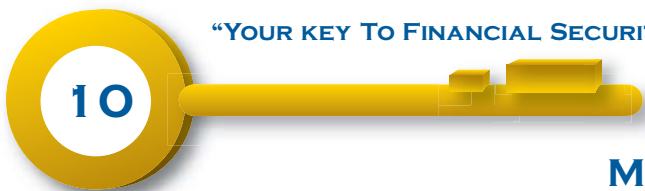
National Bank Trust Company
(St. Kitts-Nevis-Anguilla) Limited
Rosemary Lane, BASSETERRE, St. Kitts

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

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

REGISTERED OFFICE OF THE PARENT COMPANY

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



MANAGEMENT TEAM

| | |
|--------------------------|---|
| Edmund W. Lawrence | Managing Director |
| Claudina V. Davis | Senior Manager, Employees and Shareholders Affairs Unit |
| Patricia A. Haynes | General Counsel, Legal Unit |
| 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 |
| Pansyna R. A. Bailey | Manager, Pelican Mall Branch |
| Joan E. Franks | Manager, Nevis Branch |
| Daisy P. L. O'Garro | Manager, Customer Service - General Banking Division |
| A. Anthony Galloway | Manager, Comptroller Division |
| Sandrine Liburd | Manager, Saddlers Branch |
| Paula A. Morton | Manager, Credit Division |
| Patricia S. Mourillon | Manager, Card Centre - General Banking Division |
| Sandra L. Tweed | Manager, Operations - General Banking Division |
| Deirdre A. Venner | Manager, Sandy Point Branch |
| A. J. Patricia Wilkinson | Manager, General Banking Division |
| Yvonne A. C. Williams | Manager, Compliance and Enforcement Department |

CHAIRPERSON'S STATEMENT

I am pleased to report that St. Kitts-Nevis-Anguilla National Bank Limited has completed another successful year of operations. It was a year in which good corporate governance, effective risk management and sound strategic planning played a vital part in continuing the long tradition of success and growth of the Bank. The success that has been achieved during the year under review is even more gratifying because it has come despite an array of challenges that the Bank has had to surmount.



Rublin V. Audain

The recent spate of failures among publicly traded companies in the United States of America has heightened the need for corporate probity, transparency and accountability in companies globally. At National we have been and will continue to be steadfast in our resolve to develop and reinforce a culture of good corporate governance.

We believe that promulgating a strong corporate governance culture is an essential step in ensuring continued confidence in the Bank and sustained growth in shareholder value. The Board is therefore continually monitoring the

"We believe that promulgating a strong corporate governance culture is an essential step in ensuring continued confidence in the Bank and sustained growth in shareholder value."

business and affairs of the Bank in order to fulfill its fiduciary responsibilities to the stakeholders. Furthermore, policies and procedures are formulated to attain the highest standard of ethical conduct among the members of the Board of Directors, senior management and all other employees of the Company.

The significance of a strong corporate governance culture was clearly demonstrated by our response to the many challenges that the Bank faced during the past year. These challenges included a

protracted downturn in the global economy, increased competition from traditional and non-traditional sources, corporate failures that have brought added pressures and the lingering effects of the global reactions to the terrorist attacks that occurred on September 11, 2001.

During the year, the Bank experienced increased competition from traditional and non-traditional sources. At National Bank, we take pride in raising the bar of competition, thereby challenging the limits of our performance and so we responded by introducing innovative products and services to the market to enable us to maintain more than 50% of the local market in terms of total assets, and deposits.

As a reflection of the global interest rate environment, the Bank has reduced interest rates on certain classes of loans. In addition, there was a 16% decrease in the loan portfolio resulting in total loans falling to \$416.8 million on June 30, 2003 from

\$498.6 million on June 30, 2002. This reduction is attributable to a contraction in public sector borrowing. The combined effect of these developments was a diminution in income from our main revenue source.

The repercussions from the terrorist attacks of September 11, 2001 have created even greater pressures and have presented increased challenges to the banking industry, as institutions were required to implement enhanced due diligence procedures in an effort to combat money laundering. These requirements have not only increased the cost and burden of compliance with various laws and regulations, such as the USA Patriot Act, but have also caused some inconvenience for our customers. We believe, however, that we can achieve the dual aims of protecting our institution from being used as a conduit for financial impropriety while at the same time taking measures to increase shareholder wealth.

Confronted with these and other challenges, the Bank initiated a thorough strategic review to build on our strengths and fully exploit the opportunities that are available while taking measures to ensure that weaknesses and significant risk exposures are appreciated and managed appropriately within the context of an ever-changing banking environment. This review has helped us to improve the company performance metrics, including cash flow, return on investments and shareholder equity.

The Company will place renewed emphasis on innovation as we increase cash flow and profitability through measures that are designed to increase efficiencies and generate cost savings. In addition, we will continue to focus our efforts on maintaining good corporate governance, a strong capital structure, effective risk management, diversified revenues and an outstanding dividend payment record. In this regard, we have refocused the agendas of several committees comprising Board Members and Senior Management personnel with the explicit purpose of attaining these standards.

As Chairperson, I am pleased with the leadership that St. Kitts-Nevis-Anguilla National Bank Limited has shown in its financial performance, successes, operations and corporate governance. This is a reflection of the continued loyalty of our customers and the dedication and commitment of management and the employees whom we recognize for their continuing contribution to the growth and development of the institution. I would therefore like to applaud their efforts and accomplishments in meeting the challenges experienced over the year and encourage them to continue to aspire to keep National the leading bank in the sub-region.



Rublin V. Audain
Chairperson

October 28, 2003

MANAGING DIRECTOR'S REPORT

I am extremely delighted to report that St. Kitts-Nevis-Anguilla National Bank Limited made tremendous progress in fiscal year 2003 notwithstanding the many challenges that the institution encountered during this period.

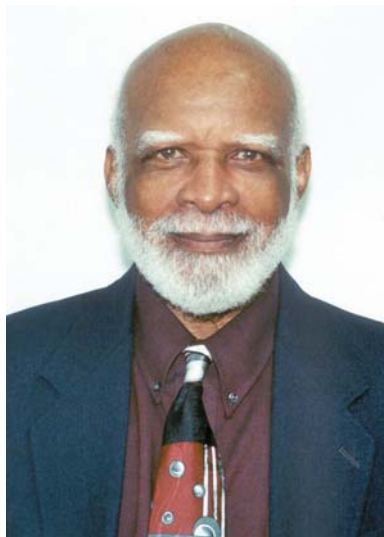
In 2001 we laid out a five-year plan and it is pleasing to know that, despite the challenges, we are well poised to see the realization of the goals and aspirations that were articulated in the plan.

CHALLENGES

As indicated earlier, the year has not been devoid of its challenges. The economic downturn that has gripped the global economy since 2000-2001 continued unabated through the 2003 financial year and the competitive pressures of the market have driven down interest rates on loans. Both of these circumstances have negatively impacted our reported earnings.

Further, in the wake of the tragic events of September 11, 2001 and the remarkable corporate failures that have occurred in the

"Total assets increased 10.8% over last year's figures, bringing the aggregate to \$1.1 billion. This is a record achievement as it makes National the first commercial bank in the OECS to amass more than one billion dollars in total assets."



Edmund W. Lawrence

United States of America, regulatory scrutiny has intensified and this has driven up the cost of doing business.

FINANCIAL PERFORMANCE

It is against this backdrop that we report another successful year of operations. Total assets increased 10.8% over last year figures, bringing the aggregate to \$1.1 billion. This is a record achievement as it makes National the first commercial bank in the

OECS to amass more than one billion dollars in total assets. The Bank also continues to occupy the position as the market leader in terms of total deposits, total loans and net income. In deposits and loans we command 50.4% and 48.5%, respectively of the local market.

Net Income was recorded at \$17.6 million or 0.22 per diluted share compared with \$19.2 million or \$0.30 per diluted share in 2002. This represents a decline of 8.33% compared with the previous year's figures but, given the adverse circumstances under which we operated, we consider this a noteworthy achievement.

At June 30, 2003, shareholders' equity increased to \$133.8 million compared with \$127.5 million at June 30, 2002. This increase resulted in the company's return on equity moving from 17.4% in 2002 to 18.6% in 2003, a demonstration of our goal to continue to strive to increase shareholder wealth.

We were able to achieve our objectives primarily through sound strategic planning, effective risk management and operational efficiency from our competent and dedicated management team.

SUBSIDIARIES

National Bank Trust Company

During the past year the Trust Company focused on the completion of the Ocean Gardens housing project and on putting plans in place to develop similar real estate projects. The Trust company is guided by a commitment to innovation, which is the key to the success of the company. We anticipate that the company will continue to achieve dynamic organic growth fuelled by an innovative product portfolio and an unwavering dedication to meet the challenges of the intensely competitive marketplace.

National Caribbean Insurance Company

National Caribbean Insurance Company (NCIC), in 2002 celebrated its 30th Anniversary of operations. The Company has experienced tremendous growth and success since its inception and the year under review was no exception despite the increasing competitive pressures. We were able to draw on the expertise and experience of management and staff, which enabled us to quickly recognize and respond to the many challenges that confronted the Company.

During the year, nine longstanding customers were each awarded with one year of free insurance coverage for their continued patronage of the Insurance Company. The Company also launched a new policy, the Home and Contents Insurance to provide customers with more comprehensive quality protection for their homes.

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

This subsidiary was established in May 2001 to provide mortgage facilities and investment services in the form of Bond Certificates and mutual funds. The company is still in its nascent stage of development but continues to position itself to take a leadership role in the financial landscape of St. Kitts-Nevis and the wider Eastern Caribbean region.

COMMUNITY INVOLVEMENT

In a time period when philanthropic donations, contributions and sponsorship by Companies are diminishing, National remains steadfastly committed to contributing to the growth and development of the community. We continue to give substantial financial support to social, cultural, sporting, religious and other organizations and associations across the Federation of St. Kitts and Nevis.

HUMAN RESOURCES

St. Kitts-Nevis-Anguilla National Bank Limited provides financial support not only to the community but also to its employees. We hold the view that a well-educated and trained staff is paramount for the success of any organization.

During the year under review, the Bank provided financial assistance to nine employees who undertook various programs of study including Master of Business Administration, Bachelor degrees and Associate degrees. Several others were enrolled in various certificate courses from banking institutes such as the Institute of Canadian Bankers.

Technical and operational training is also a key ingredient in the overall

development of our human resource capabilities. Several of our staff members were selected to participate in seminars and conferences held locally, regionally and internationally. The seminars covered such diverse topics as customer service, risk management, anti-money laundering policies and procedures and international financial reporting standards.

In all areas of the business, our staff fully demonstrated our corporate values of commitment, creativity and responsiveness. For their stewardship and valuable contributions, we are truly grateful. I therefore take this opportunity to commend their efforts and to encourage them to continue to strive for excellence taking into account the satisfaction of the needs of all of our stakeholders as an overarching objective.

OUTLOOK

The economic outlook for the major economies around the world is better than it has been for the past several years. Various economic growth figures ranging from 2% to 4% have been projected and this augurs well for the local economy. Much of this recovery is expected to be reflected in the tourism sector. Visitor arrivals are projected to increase based on the re-introduction of weekly flights from several metropolitan areas. In addition, the recent investment in a major hotel and convention center on the island of St. Kitts will serve as a further boost to the local economy.

The recovery of the local economy is expected to result in an increase in real GDP of 2% by the end of calendar year 2003 and

3% one year later. By contrast real GDP only grew by 0.75% in 2002. GDP per capita should expand slightly to US\$7,346 in 2003 from US\$7,191 in 2002, with inflation remaining low at 2.3%.

We expect that as the global economy rebounds, the banking industry will experience an upturn in business. National will work aggressively to capture a significant portion of this business and, in so doing, retain the deep market penetration that it now commands.

Looking ahead, the Company is poised for an exceptional future. With strength in the major performance metrics, the Company is taking the necessary steps to continually increase shareholder wealth. We will continue to improve operations by focusing on sustainable earnings growth.

The company will soon be launching its online banking service that will provide customers with the convenience of completing transactions in the comfort of their homes or offices and from anywhere in the world.

With these and other initiatives, we are not just reacting to a changing business climate, we are committed to leading change by setting new standards for the domestic industry and generating increased shareholder value, now and in the future.



Edmund W. Lawrence
Managing Director

October 28, 2003

DIRECTORS' REPORT

Your Directors have pleasure in submitting their Report for the financial year ended June 30, 2003.

DIRECTORS

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

The retiring Directors by rotation are:

Mr. E Elroy Christopher
Ms. Clytie A Southwell
Mrs. Theresa Richardson

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

BOARD COMMITTEES

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

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

FINANCIAL RESULTS AND DIVIDENDS

The Bank has a duty to its shareholders to protect their investment in the company and to provide them with an adequate return on their investment.

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

The Directors report that profit after taxation for the year ended 30th June 2003 amounted to \$17.6M, with earnings per diluted share of 0.22.

Further discussion of the performance of the company can be found in the Management Discussion and Analysis presented in a separate section of the annual report.

The Directors have decided to recommend a dividend of 13.5% for the financial year ended 30th June 2003. This recommendation, if approved at the Annual General Meeting, will mean a total dividend of \$10.9 million will be paid in 2003, compared with \$8.4M in 2002.

AUDITORS

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

By Order of the Board of Directors



Claudina Davis
Secretary

October 28, 2003

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following summarized financial data set forth the results of operations for the St Kitts-Nevis-Anguilla National Bank for the year ended June 30, 2003. The completed consolidated financial statements of the Company and related notes are presented on pages 26 to 44 of this annual report.

| | 2003 \$'000 | 2002 \$'000 | Change \$'000 | Change in % |
|---------------------------------------|----------------|----------------|------------------|----------------|
| Selected Income Statement Data | | | | |
| Net Interest Income | 24,192 | 26,769 | (2,577) | (9.63) |
| Dividends | 10,935 | 8,356 | 2,579 | 30.86 |
| Other Income | 17,631 | 16,425 | 1,206 | 7.35 |
| Operating Expense | 17,543 | 15,606 | 1,937 | 12.41 |
| Selected Balance Sheet Data | | | | |
| Total Assets | 1,059,251 | 956,020 | 103,231 | 10.80 |
| Loans and Advances | 416,791 | 498,562 | (81,771) | (16.40) |
| Total Deposits | 828,380 | 725,953 | 102,427 | 14.11 |
| Shareholders' Equity | 133,775 | 127,459 | 6,316 | 4.96 |
| Selected ratios | | | | |
| Earnings per share | 0.22 | 0.30 | | |
| Return on Assets | 2.41 | 2.07 | | |
| Return on Equity | 18.60 | 17.40 | | |
| Yield on Earning Assets | 7.19 | 8.20 | | |
| Cost to Fund Earning Assets | 4.30 | 4.10 | | |

RESULTS FROM OPERATIONS

Net Interest Income

Net interest income was \$24.2 million by the end of the financial year, down 9.63% from \$26.8 million in 2002, due primarily to the low interest rate environment and overall decline in loans. This negatively impacted the company's net interest margin as there was a larger decline in the average yield on earning assets compared to the decline on average cost of assets. Net interest margin fell 120 basis points from 4.1% to 2.9%, and yield on earnings assets decreased from 8.2% to 7.2%.

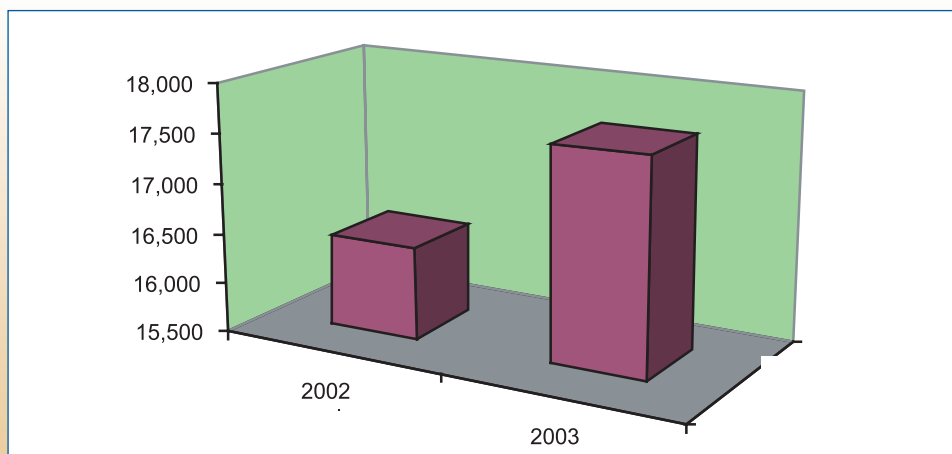
Non-Interest Income

The company achieved total non-interest income of \$17.6 million in 2003, compared to \$16.4 million in 2002. This increase stemmed primarily from commission and gain on foreign exchange, which were \$13.4 million and \$2.5 million, respectively at June 30 2003, compared with \$12.4 million and \$1.9 million, respectively at June 30, 2002.

Total non-interest income represented 22.5% of total revenues, compared with 21.1 % in the previous year, reflecting the result of our strategy to improve non-interest income.

The company remains committed to maintaining consistent growth in non-interest income by continuing to explore new avenues to diversify and enhance its product and service base.

Total Non-Interest Income 2002-2003 (\$'000)



Expenses

Interest expense rose 5.1% to \$36.6 million in 2003 from \$34.8 million in 2002 due mainly to increases in both public and private sector deposits.

Operating expenses were \$17.5 million at the end of the financial year, an increase of 12.4% over 2002, resulting from additional provision for loan losses.

The company anticipates lower operating expenses over the next financial year through continued emphasis on cost containment, operational efficiencies and economies of scale which will be attained through improvements in technology.

Net Income

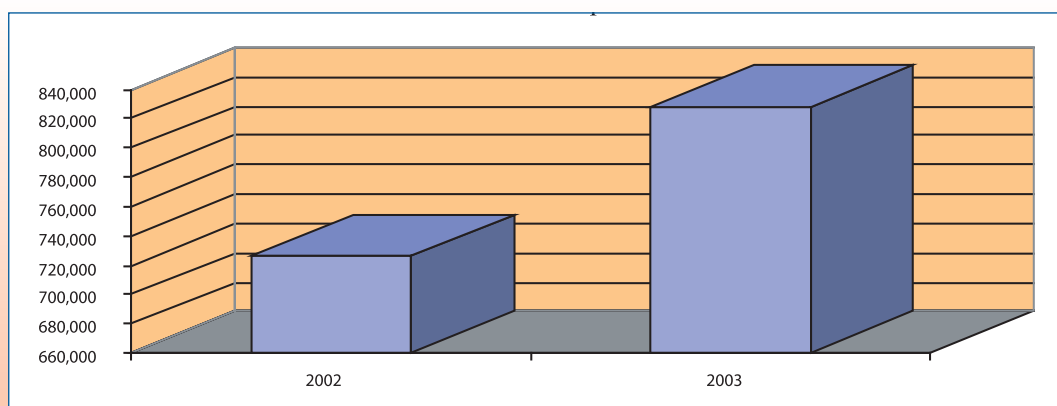
Net income decreased from \$ 19.2 million, or \$0.30 per diluted share in fiscal 2002 to \$17.6 million, or \$0.22 per diluted share in fiscal 2003. This decline in income is attributed to a 5.1% increase in interest expense and a 1.3% decline in interest income for the same period. For fiscal 2003, interest expense increased from \$34.8 million to \$36.5 million while interest income moved from \$61.6 million to \$60.8 million.

Deposits

Customer deposits are the company's primary source of funds. For fiscal 2003, total deposits were \$828.4 million, up 14.1% from \$726.0 million in 2002. Our deposits accounted for 89.5% of total liabilities in 2003 compared with 87.6% in 2002. This increase is attributed to the ongoing marketing drive.

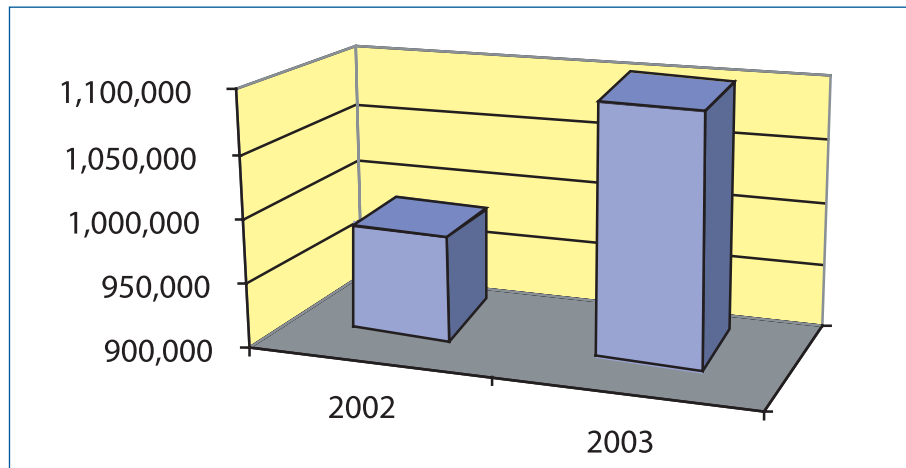
The bank recognizes the importance of its deposit base and as such management closely monitors activity in this area. Based on historical experience, and its current pricing strategy the company believes it will continue to retain a large portion of its deposit accounts.

Total Deposits (\$'000)



Assets

In 2003, National Bank reached a significant milestone in its 32 years of operation. The company became the first commercial bank in the Eastern Caribbean Currency Union to amass more than one billion dollars in total assets. At 30 June 2003, the bank recorded \$1.1 billion in total assets, an increase of 10.8%, compared with \$956.0 million in fiscal 2002. This increase was due primarily to increases in cash and money at call, total investments, bank premises and equipment. Return on assets was strong at 2.41% compared to 2.07% in 2002.

Total Assets (\$'000)

Loans and Advances

Total loans and advances were reduced to \$416.8 million at 30 June 2003, compared to \$498.6 at 30 June 2002. This was associated with a decrease in public sector borrowing. As a direct result, the bank saw decreases in interest from loans, advances and fees, which fell to \$47.3 million in 2003 from \$49.1 million at fiscal 2002.

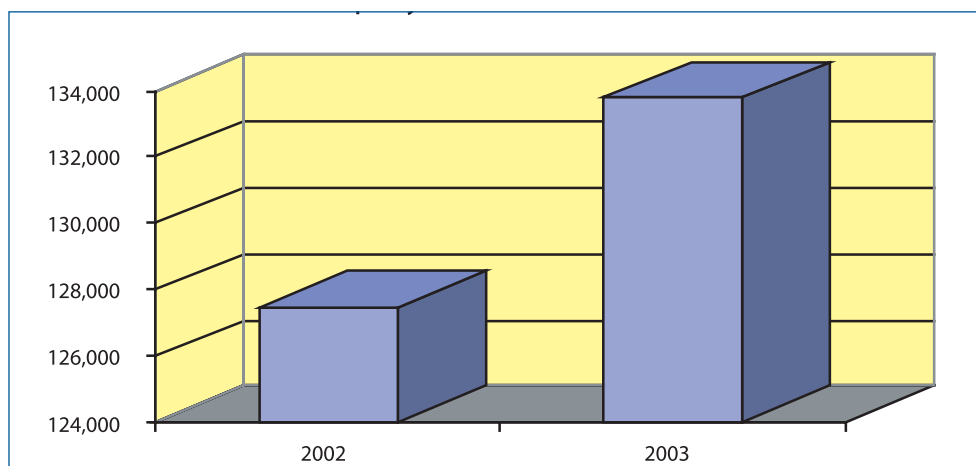
Non-performing loans and advances, which represented 15.8% of total loans and advances at fiscal year 2003, fell 26.75% from \$89.7 million in 2002 to \$65.7 million in 2003. This decrease is the result of continued efforts on the part of management and the Board to reduce non-performing loans, through intensified collection efforts and close monitoring of the portfolio.

The company continued its prudent policy in providing fully for potential loan losses. An additional loan loss provision of \$2.6 million was made by management to absorb the probable losses in our loan portfolio. The provision is made up of specific provisions for identified problem loans and general provisions for the remainder of the portfolio. Total probable loan loss provision declined from 5.21% of total loan portfolio in 2002 to 1.59% in 2003. This reduction is testimony to management's success in reducing non-performing loans.

Shareholders' Equity

The company continues to realize its goal of providing a satisfactory return to shareholders and increasing the value of their investment. Shareholder's equity was \$133.8 million at 30 June 2003, compared with \$127.5 million at 30 June 2002. This represents a 4.9% increase, resulting from a \$7.4 million or 18.4 % increase in reserves.

Total Shareholders' Equity (\$'000)



CAPITAL MANAGEMENT

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

The recent four-for-one share 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's 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 51% of the issued shares of the Bank. Two other entities hold 6.7%, and 5.8%, respectively. Individuals, organizations and businesses hold the remaining 36.5%. Apart from the Government and the two institutions, the holding of the other shareholders is limited to 3.3% of the issued capital.

Decisions with regards to capital management lie with the Board of Directors. The Board ensures that sufficient capital is on hand or readily available at reasonable cost for expansion and as a safeguard against unexpected events.

The Bank applies capital adequacy ratios to ensure the protection of its depositors and to promote stability and efficiency. We ensure that these ratios are well above the levels required by the Basle Capital Accord, the international standard for the calculation of capital adequacy ratios. The accord recommends minimum tier 1 capital ratio of not less than 4% and total capital ratio of not less than 8%.

National Bank tier 1 capital ratio was 45.76% at 30 June 2003 compared with 33.19% at 30 June 2002, and our total capital ratio was recorded as 43.86% in 2003, compared with 41.5% in 2002. These superior capital ratios mean that the company can absorb greater levels of credit risk. The Bank capital ratios will remain strong and well in excess of regulatory requirements.

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. A comprehensive framework for managing risk has been established, which is continually evolving as the Bank's business activities change in response to market, credit, product and other developments.

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 predominant activity of the Bank 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 supports 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.

FORWARD-LOOKING STATEMENTS

This discussion provides detailed and comprehensive information about the financial performance of St Kitts-Nevis-Anguilla National Bank Ltd. It describes many of the positive factors affecting the Company's future business prospects. Forward-looking statements represent the institution own judgments and future expectations, and thus are subject to certain risk and uncertainties. Predicted financial statements results may differ materially from actual performance. Factors, including the impact of technological and market changes, international growth and global economic conditions, competitive products, advertising and promotional activities which may cause differences are beyond the Bank's control. The Bank therefore disclaims any intention or obligation to update or revise any forward-looking statements.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

AUDITORS REPORT

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

We have audited the Financial Statements on pages 26 to 44 which have been prepared under the historical cost convention and the accounting policies set out on pages 30 to 33

As described on page 24 the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

We conducted our audit in accordance with Generally Accepted Auditing Standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with such evidence to give reasonable assurance as to whether the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall presentation of information in the financial statements.

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at June 30, 2003 and of the profit of the Group for the year then ended.



Simmonds and Associates
Chartered Accountant

ST KITTS
October 28, 2003

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP

BALANCE SHEET

AS AT JUNE 30, 2003

| BANK | | | Notes | GROUP | |
|---------------|---------------|---|-------|---------------|---------------|
| 2002 \$000 | 2003 \$000 | | | 2003 \$000 | 2002 \$000 |
| | | Assets | | | |
| 303,230 | 459,347 | Cash and Money at call | 1 | 458,208 | 306,376 |
| 498,562 | 416,791 | Loans and Advances | 2 | 424,402 | 506,648 |
| 122,096 | 119,064 | Investments | 3 | 121,064 | 124,093 |
| - | - | Investment Properties | 4 | 29,559 | 2,450 |
| 6,150 | 35,550 | Investment in Subsidiaries | 5 | - | - |
| | | Customers' Liability under Acceptances, Guarantees and Letters of Credit | 6 | 4,276 | 4,580 |
| 4,580 | 4,276 | | | | |
| 16,938 | 18,317 | Premises and Equipment | 7 | 23,842 | 22,908 |
| 4,464 | 5,906 | Other Accounts | 8 | 11,720 | 8,668 |
| 956,020 | 1,059,251 | Total Assets | | 1,073,071 | 975,723 |
| | | Liabilities | | | |
| 45,103 | 18,938 | Due to other Banks | | 18,938 | 45,103 |
| 725,953 | 828,380 | Customers' Deposits | 9 | 765,270 | 676,465 |
| - | 688 | Due to Subsidiaries | | - | - |
| 10,000 | 21,474 | Deferred Credit | 10 | 21,474 | 10,000 |
| | | Customers' Liability under Acceptances, Guarantees and Letters of Credit | 6 | 4,276 | 4,580 |
| 4,580 | 4,276 | | | | |
| 42,925 | 51,720 | Accumulated Provisions, Creditors and Accruals | 11 | 115,767 | 100,597 |
| 828,561 | 925,476 | Total Liabilities | | 925,725 | 836,745 |
| | | Shareholders' Equity | | | |
| 81,000 | 81,000 | Issued Share Capital | 12 | 81,000 | 81,000 |
| 3,877 | 3,877 | Share Premium | | 3,877 | 3,877 |
| 40,000 | 47,363 | Reserves | 13 | 59,409 | 50,843 |
| 2,582 | 1,535 | Retained Earnings | | 3,060 | 3,258 |
| 127,459 | 133,775 | Total Shareholders' Equity | | 147,346 | 138,978 |
| 956,020 | 1,059,251 | Total Liabilities and Shareholders' Equity | | 1,073,071 | 975,723 |

Director



Rublin Audain

Director



Mitchell Gumbs

The attached notes form part of these Financial Statements.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2003

| BANK | | Notes | GROUP | |
|---------------|---------------|-------|---------------|---------------|
| 2002 \$000 | 2003 \$000 | | 2003 \$000 | 2002 \$000 |
| 26,769 | 24,192 | 14 | 26,870 | 28,333 |
| 16,425 | 17,631 | | 29,415 | 26,413 |
| 43,194 | 41,823 | | 56,285 | 54,746 |
| (13,956) | (15,768) | | (26,687) | (22,670) |
| 29,238 | 26,055 | | 29,598 | 32,076 |
| (1,650) | (1,775) | | (2,303) | (2,128) |
| 27,588 | 24,280 | | 27,295 | 29,948 |
| (8,374) | (6,684) | | (7,639) | (8,832) |
| 19,214 | 17,596 | | 19,656 | 21,116 |
| 0.30 | 0.22 | 17 | 0.24 | 0.34 |

The attached notes form part of these Financial Statements

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2003

| | Notes | Share Capital \$'000 | Share Premium \$'000 | Statutory Reserves \$'000 | General Reserves \$'000 | Revaluation Reserves \$'000 | Retained Earnings \$'000 | Total Shareholders Equity \$'000 |
|--------------------------|-------|----------------------------|----------------------------|---------------------------------|-------------------------------|-----------------------------------|--------------------------------|--|
| Balance at June 30, 2001 | | 45,000 | 167 | 13,455 | 14,223 | 1,908 | 11,926 | 86,679 |
| - Provision | | | | | | | | |
| 0- Income Tax | 16 | - | - | - | - | - | (427) | (427) |
| - As Restated | | 45,000 | 167 | 13,455 | 14,223 | 1,908 | 11,499 | 86,252 |
| Net Income | | - | - | - | - | - | 21,116 | 21,116 |
| Transfer to Reserves | 13 | - | - | 6,000 | 15,257 | - | (21,257) | - |
| Dividend | 18 | - | - | - | - | - | (8,100) | (8,100) |
| Issue of Share Capital | | 36,000 | 3,710 | - | - | - | - | 39,710 |
| Balance at June 30, 2002 | | 81,000 | 3,877 | 19,455 | 29,480 | 1,908 | 3,258 | 138,978 |
| - Dividend (2002) | 18 | - | - | - | - | - | (256) | (256) |
| - Pension Scheme | | - | - | - | - | - | (471) | (471) |
| - Provision | | | | | | | | |
| - Income Tax | 16 | - | - | - | - | - | 374 | 374 |
| - As Restated | | 81,000 | 3,877 | 19,455 | 29,480 | 1,908 | 2,905 | 138,625 |
| Net Income | | - | - | - | - | - | 19,656 | 19,656 |
| Transfer to Reserves | 13 | - | - | 4,000 | 4,566 | - | (8,566) | - |
| Dividend | 18 | - | - | - | - | - | (10,935) | (10,935) |
| Balance at June 30, 2003 | | 81,000 | 3,877 | 23,455 | 34,046 | 1,908 | 3,060 | 147,346 |

The attached notes form part of these Financial Statements

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2003

| BANK | | | | GROUP | |
|----------|----------|---|------|----------|----------|
| 2002 | 2003 | | Note | 2003 | 2002 |
| \$000 | \$000 | | | \$000 | \$000 |
| | | Cash flows from operating activities | | | |
| 27,588 | 24,280 | Operating Income before taxation | | 27,296 | 29,947 |
| | | Adjustments for: | | | |
| 1,650 | 1,775 | Depreciation | | 2,303 | 2,128 |
| - | 2,638 | Provision for loan losses | | 2,638 | - |
| (427) | (344) | Prior year adjustments | | (353) | (427) |
| 71 | - | Loss on disposal of fixed assets | | - | - |
| | | Operating income before changes in operating assets and liabilities | | 31,884 | 31,648 |
| | | (Increase) decrease in operating assets: | | | |
| 11,796 | 79,133 | Loans and advances | | 79,608 | 13,059 |
| 838 | (1,442) | Other accounts | | (3,052) | 944 |
| | | Increase (decrease) in operating liabilities: | | | |
| (15,728) | (26,165) | Due to other banks | | (26,165) | (15,728) |
| 15,116 | 102,427 | Customers' deposits | | 88,805 | 10,985 |
| - | 688 | Due to subsidiaries | | - | - |
| - | 11,474 | Deferred credit | | 11,474 | - |
| 12,382 | 8,673 | Accumulated provisions, creditors, and accruals | | 14,192 | 14,576 |
| 53,286 | 203,137 | Cash generated from operations | | 196,746 | 55,484 |
| (7,393) | (9,142) | Income tax paid | | (9,241) | (7,409) |
| 45,893 | 193,995 | Net cash from operating activities | | 187,505 | 48,075 |
| | | Cash flows from investing activities | | | |
| (1,574) | (3,154) | Purchase fixed assets | | (3,237) | (1,855) |
| (26,501) | 3,032 | (increase) decrease in investments | | 3,029 | (17,874) |
| | | (increase) decrease in investment properties | | (27,109) | (984) |
| (400) | (29,400) | Investment in subsidiaries | | - | - |
| (28,475) | (29,522) | Net cash from (used in) investing activities | | (27,317) | (20,713) |
| | | Cash flows from financing activities | | | |
| 36,000 | - | Issue of shares | | - | 36,000 |
| 3,711 | - | Share premium | | - | 3,711 |
| (2,700) | (8,356) | Dividend paid | 18 | (8,356) | (2,700) |
| 37,011 | (8,356) | Net cash from (used in) financing activities | | (8,356) | 37,011 |
| 54,429 | 156,117 | Net increase in cash and cash equivalents | | 151,832 | 64,373 |
| 248,801 | 303,230 | Cash and cash equivalents at beginning of period | | 306,376 | 242,003 |
| 303,230 | 459,347 | Cash and cash equivalents at end of period | 1 | 458,208 | 306,376 |

The attached notes form part of these Financial Statements

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED JUNE 30, 2003**

1 INCORPORATION

- (a) **St. Kitts-Nevis-Anguilla National Bank Limited**
The Group was incorporated on the 15th day of February, 1971 under the Companies Act Chapter 335, but was re-registered under the new Companies Act No. 22 of 1996 on the 14th day of April 1999.
- (b) **National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited**
The Trust Company was incorporated on the 26th day of January, 1972 under the Companies Act Chapter 335, but was re-registered under the new Companies Act No. 22 of 1996 on the 14th day of April 1999.
- (c) **National Caribbean Insurance Company Limited**
The Insurance Company was incorporated on the 20th day of June, 1973 under the Companies Act Chapter 335, but was re-registered under the new Companies Act No. 22 of 1996 on the 14th day of April 1999.
- (d) **St. Kitts and Nevis Mortgage and Investment Company Limited (MICO)**
MICO was incorporated on the 25th day of May, 2001 under the Companies Act No.22 of 1996. The Company commenced operations on the 13th day of May, 2002.

2 PRINCIPAL ACTIVITIES

- (a) **St. Kitts-Nevis-Anguilla National Bank Limited**
The Bank provides a comprehensive and international range of banking, financial and related services.
- (b) **National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited**
The principal activity of the Company is the provision of long term mortgage financing, raising long term investment funds, real estate development, property management and the provision of trustee services.
- (c) **National Caribbean Insurance Company Limited**
The Insurance Company provides coverage of life assurance, non life assurance and pension schemes.
- (d) **St. Kitts and Nevis Mortgage and Investment Company Limited (MICO)**
MICO provides mortgage facilities and investment services in the form of Bond Certificates and mutual funds.

3 SIGNIFICANT ACCOUNTING POLICIES

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

- (a) **Basis of preparation**
These financial statements are prepared in accordance with the historical cost convention and International Accounting Standards.
- (b) **Currency**
All values are expressed in Eastern Caribbean Currency.

**ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED JUNE 30, 2003**

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Cash and Cash Equivalents

Cash and Cash Equivalents, as mentioned in the statement of cash flows, comprise of cash on hand, balances with other banks and the Eastern Caribbean Central Bank, as well as short term funds and investments whose maturities are ninety days or less.

(d) Consolidation

The Group Accounts consolidate the Accounts of the Bank and its Subsidiaries, National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited, National Caribbean Insurance Company Limited and St. Kitts and Nevis Mortgage and Investment Company Limited for the accounting period ended June 30, 2003.

The Group's Share of the profits of Subsidiary Companies is included in the Profit and Loss Account.

Two other subsidiaries, National Investments Limited and National Brokers Limited, have not been consolidated in these Accounts.

(e) Bad and Doubtful Debts

Bad Debts are written off when the extent of the loss incurred has been confirmed. Specific provisions are made against advances if in the opinion of the Directors recovery is doubtful. In addition general provisions are maintained to cover losses which, although not specifically identified, are known to be present in any portfolio of the Bank's Advances. The aggregate provisions which are made during the year are charged against operating profits.

(f) Depreciation

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

(g) Foreign Currency

Assets and Liabilities in foreign currencies have been converted to Eastern Caribbean Currency at the mid-rate of exchange ruling on June 30, 2003. Profits and Losses which arise from normal trading activities are included in the Profit and Loss Account for the year ended June 30, 2003.

(h) Claims Equalisation Reserves

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

(i) Insurance Funds

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

(j) Interest

Interest received in the Insurance Company has been distributed between Shareholders and Policy Holders Funds; 80% has been allocated to Life Revenue Account, the remaining 20% to Profit and Loss.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED JUNE 30, 2003

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Claims

Provision for outstanding claims is made for the estimated cost of claims to be paid in respect of incidents occurring up to the end of the financial year whether reported or not, together with related claims handling expenses. Anticipated reinsurance recoveries, are recorded separately as assets.

Provision for outstanding health claims is the higher of the actual claims or one month's average claim.

(l) Provision for Unexpired Risk

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

(m) Expenses

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

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

(n) Foreign Currency

Foreign currency transactions are accounted for at the mid-rate of exchange prevailing at the date of the transaction. Financial assets and liabilities denominated in foreign currencies at year-end are converted to Eastern Caribbean currency at the mid-rate of exchange ruling on that day. Gains and losses resulting from such transactions and from the translation of financial assets and liabilities denominated in foreign currencies are recognized in income.

(o) Investments

Investment securities are classified into the following three categories: available-for-sale, held-to-maturity, and originated debts assets. Investment securities intended to be held for an indefinite time period, which may be sold in response to needs for liquidity or changes in interest rate or equity prices are classified as available-for-sale. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity.

Investment securities are initially recognized at cost - which includes all transaction costs. Available-for-sale financial assets are subsequently re-measured to fair value based on quoted bid prices. As fair values for unquoted securities are not readily available, both equity and debt securities are measured at cost less any provision for impairment.

Unrealised gains and losses arising from changes in fair value of securities classified as available-for-sale are recognized in income. When securities are disposed of, the resulting gain or loss is included in income.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED JUNE 30, 2003

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(p) **Loans and Advances**

Loans originated by the Bank are financial assets created by providing money directly to a borrower and as such are carried at cost.

The accrual of interest ceases when the principal or interest is past due 90 days or when, in the opinion of management, full collection is unlikely. The allowance for loan impairment is based on continuous appraisal of all loans and advances together with an annual review of loan collateral. Specific provisions for losses are made against loans and advances when, in the opinion of management, credit risk or economic factors make recovery doubtful.

The allowance for loan impairment also covers general provisions for losses as required by the regulators, as there is always the possibility of losses within a loan portfolio that have not been specifically identified as non-performing at the balance sheet date.

The provision for loan impairment and recoveries of bad debts previously written off is charged to income. When a loan is uncollectable, it is written off against the related allowance for impairment. All subsequent recoveries are credited to the bad debt recovered income account.

(q) **Income**

Interest income is recognized on the accruals basis for productive loans and advances, Investment Securities, and Interest bearing deposits with other financial institutions. Non-Productive loans and advances relate to accounts whose repayments of principal or interest are 90 days or more in arrears. Interest on these accounts is taken to income when received. Other income, such as fees and commission, is recognized on the accruals basis.

(r) **Comparative Figures**

Certain changes in presentation have been made during the year and comparative figures have been restated accordingly. Some of these changes include dividend payment and provision for income tax. The effect of such changes is included in accumulated provisions, creditors and accruals, and retained earnings respectively. Other changes include the separation of term deposits from short-term investments, investment in subsidiaries from long-term investments, and balances due to other banks from customers' deposits.

(s) **Reserve Requirement**

In accordance with Article 33 of the Eastern Caribbean Central Bank (Central Bank) Agreement 1983, The St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain reserves against deposits through cash holdings and or by deposits held with the Central Bank.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

1 CASH AND MONEY AT CALL

| BANK | | | GROUP | |
|----------------|----------------|---|----------------|----------------|
| 2002 \$000 | 2003 \$000 | | 2003 \$000 | 2002 \$000 |
| 5,764 | 8,032 | Cash in Hand | 8,035 | 5,767 |
| 118,094 | 47,789 | Deposits with other financial institutions | 47,789 | 118,094 |
| 571 | 215 | Items in the course of collection | 215 | 571 |
| 43,032 | 50,248 | Deposit balance with ECCB* | 50,248 | 43,032 |
| <u>135,769</u> | <u>353,063</u> | Term Deposits | <u>351,921</u> | <u>138,912</u> |
| <u>303,230</u> | <u>459,347</u> | | <u>458,208</u> | <u>306,376</u> |
| | | Term deposits pledged for the benefit of visa international and mastercard in support of the bank's international card business | | |
| <u>66,859</u> | <u>67,010</u> | | <u>67,010</u> | <u>66,859</u> |

*Eastern Caribbean Central Bank

2 LOANS AND ADVANCES

| | | | | |
|----------------|----------------|-----------------------------------|----------------|----------------|
| 434,875 | 360,385 | Performing loans and advances | 367,996 | 442,961 |
| <u>89,687</u> | <u>65,696</u> | Non-performing loans and advances | <u>65,696</u> | <u>89,687</u> |
| 524,562 | 426,081 | Gross | 433,692 | 532,648 |
| <u>26,000</u> | <u>9,290</u> | Less provision for doubtful debts | <u>9,290</u> | <u>26,000</u> |
| <u>498,562</u> | <u>416,791</u> | Net | <u>424,402</u> | <u>506,648</u> |

Legal proceedings are ongoing with regards to a number of non-performing loans, and in some instances judgement has been obtained.

Liquidity analysis of loans and advances/(gross) based on contractual maturities

| | | | | |
|----------------|----------------|--------------------------------|----------------|----------------|
| 424,912 | 319,366 | Within one year | 319,900 | 425,374 |
| 21,449 | 23,636 | One to three years | 23,626 | 21,449 |
| 17,604 | 12,865 | Three to five years | 12,865 | 17,604 |
| <u>60,597</u> | <u>70,214</u> | Over five years | <u>77,301</u> | <u>68,221</u> |
| <u>524,562</u> | <u>426,081</u> | Gross | <u>433,692</u> | <u>532,648</u> |
| | | Provision for Doubtful Debts | | |
| 26,000 | 26,000 | Balance brought forward | 26,000 | 26,000 |
| - | (19,348) | Charge-offs and Write-offs | (19,348) | - |
| <u>-</u> | <u>2,638</u> | Specific charge against income | <u>2,638</u> | <u>-</u> |
| <u>26,000</u> | <u>9,290</u> | | <u>9,290</u> | <u>26,000</u> |

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

3 INVESTMENTS

| BANK | | | GROUP | |
|---------------|---------------|--|---------------|---------------|
| 2002 \$000 | 2003 \$000 | | 2003 \$000 | 2002 \$000 |
| | | Available-for-sale – quoted | | |
| 12,060 | 9,984 | Corporate Bonds | 9,984 | 12,060 |
| 21,559 | 20,518 | U. S. Government Securities | 20,518 | 21,559 |
| <u>1,249</u> | <u>760</u> | Mortgage Backed Securities | <u>760</u> | <u>1,249</u> |
| <u>34,868</u> | <u>31,262</u> | | <u>31,262</u> | <u>34,868</u> |
| | | Available-for-sale – unquoted | | |
| | | Treasury Bills maturing August 26, 2003 with Interest rate at 6.6% (2003 and 2002 - Nominal value of \$82,101,500) | | |
| 80,304 | 80,768 | | 81,751 | 81,284 |
| | | National Commercial Bank of Grenada Ltd 62,100 ordinary shares at a cost of \$10 each | | |
| 776 | 776 | | 776 | 776 |
| | | Caribbean Credit Card Corporation 550 shares at a cost of \$1,000 each | | |
| 550 | 550 | | 550 | 550 |
| | | Cable Bay Hotel Development Company Ltd 3,500 shares at a cost of \$270.26 each | | |
| 946 | 1,056 | | 1,056 | 946 |
| | | Bank of St. Lucia Ltd. 230,000 shares at a cost of \$5 each | | |
| 1,000 | 1,000 | | 1,000 | 1,000 |
| | | Eastern Caribbean Home Mortgage Bank 1,727 shares at cost of \$100 each | | |
| 91 | 91 | | 173 | 173 |
| | | Eastern Caribbean Securities Exchange 10,000 Class "C" shares at a cost of \$10 each | | |
| 100 | 100 | | 100 | 100 |
| | | Society for Worldwide Inter Bank Financial Telecommunication 1 share at a cost of \$5,148 | | |
| 5 | 5 | | 5 | 5 |
| | | Cable and Wireless 111,000 shares at a cost of \$1 each | | |
| - | - | | 185 | 185 |
| | | Antigua Barbuda Investment Bank 185,000 shares at a cost of \$3 each | | |
| <u>555</u> | <u>555</u> | | <u>555</u> | <u>555</u> |
| <u>84,327</u> | <u>84,901</u> | | <u>86,151</u> | <u>85,574</u> |

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

3 INVESTMENTS (cont'd)

| BANK | | | GROUP | |
|----------------|----------------|---|----------------|----------------|
| 2002 \$000 | 2003 \$000 | | 2003 \$000 | 2002 \$000 |
| | | Held-to-maturity | | |
| <u>1,000</u> | <u>1,000</u> | Debentures – Government of St. Kitts-Nevis maturing July 15, 2008 with interest rate at 8% | <u>1,000</u> | <u>1,000</u> |
| | | Originated debt | | |
| 250 | 250 | Eastern Caribbean Home Mortgage Bank Long-term bond maturing October 18, 2009 with interest rate at 6.75% | 1,000 | 1,000 |
| 1,351 | 1,351 | Antigua Commercial Bank 10% interest rate Series A bond maturing December 31, 2016 | 1,351 | 1,351 |
| <u>300</u> | <u>300</u> | Caribbean Credit Card Corporation Unsecured loan with interest at 10% with no specific terms of repayment | <u>300</u> | <u>300</u> |
| <u>1,901</u> | <u>1,901</u> | | <u>2,651</u> | <u>2,651</u> |
| <u>122,096</u> | <u>119,064</u> | | <u>121,064</u> | <u>124,093</u> |
| | | Securities classified according to currency | | |
| 34,868 | 31,262 | Foreign Currency Securities | 33,262 | 36,865 |
| <u>87,228</u> | <u>87,802</u> | Eastern Caribbean Currency Securities | <u>87,802</u> | <u>87,228</u> |
| <u>122,096</u> | <u>119,064</u> | | <u>121,064</u> | <u>124,093</u> |

4 INVESTMENT PROPERTIES

| | | | | |
|----------|----------|-----------|---------------|--------------|
| - | - | Land | 14,559 | 482 |
| - | - | Buildings | 14,307 | - |
| <u>-</u> | <u>-</u> | Other | <u>693</u> | <u>1,968</u> |
| <u>-</u> | <u>-</u> | | <u>29,559</u> | <u>2,450</u> |

During the year, St. Kitts and Nevis Mortgage and Investment Company Limited (MICO), a subsidiary of the Bank, acquired the remaining properties used by Trafalgar Development Limited as security for advances made to it by the Bank.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

5 INVESTMENT IN SUBSIDIARIES

| BANK | | | GROUP | |
|---------------|---------------|---|---------------|---------------|
| 2002 \$000 | 2003 \$000 | | 2003 \$000 | 2002 \$000 |
| 5,750 | 5,750 | National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited - 5,750,000 shares at \$1 each | - | - |
| 400 | 29,800 | St. Kitts and Nevis Mortgage and Investment Company Limited 29,800,000 shares at \$1 each – (2002 – 400,000 shares at \$1 each) | - | - |
| <u>6,150</u> | <u>35,500</u> | | <u>-</u> | <u>-</u> |

6 CUSTOMERS' LIABILITY UNDER ACCEPTANCES, GUARANTEES AND LETTERS OF CREDIT

| | | | | |
|--------------|--------------|---------------------------|--------------|--------------|
| 484 | 180 | Letters of Credit | 180 | 484 |
| <u>4,096</u> | <u>4,096</u> | Guarantees (credit cards) | <u>4,096</u> | <u>4,096</u> |
| <u>4,580</u> | <u>4,276</u> | | <u>4,276</u> | <u>4,580</u> |

7 PREMISES AND EQUIPMENT

| | | | | |
|---------------|---------------|------------------------|---------------|---------------|
| 13,614 | 14,870 | Freehold Premises | 19,381 | 18,224 |
| 309 | 293 | Furniture and Fittings | 612 | 600 |
| 2,807 | 2,935 | Equipment | 3,607 | 3,813 |
| <u>208</u> | <u>219</u> | Vehicles | <u>242</u> | <u>271</u> |
| <u>16,938</u> | <u>18,317</u> | | <u>23,842</u> | <u>22,908</u> |

8 OTHER ACCOUNTS

| | | | | |
|--------------|--------------|----------------------------|---------------|--------------|
| 1,827 | 2,663 | Interest Income Receivable | 2,667 | 2,726 |
| 515 | 787 | Other Receivables | 6,597 | 3,820 |
| 1,775 | 2,091 | Prepayments | 2,091 | 1,775 |
| <u>347</u> | <u>365</u> | Stationery and Cards Stock | <u>365</u> | <u>347</u> |
| <u>4,464</u> | <u>5,906</u> | | <u>11,720</u> | <u>8,668</u> |

9 CUSTOMERS' DEPOSITS

Analysis by Sector

| | | | | |
|----------------|----------------|--|----------------|----------------|
| 150,400 | 154,591 | Consumers | 154,591 | 150,400 |
| 199,899 | 210,059 | Private Businesses and Subsidiaries | 146,949 | 150,411 |
| 326,695 | 382,116 | State, Statutory Bodies and Non-Financial Institutions | 382,116 | 326,695 |
| <u>48,959</u> | <u>81,614</u> | Others | <u>81,614</u> | <u>48,959</u> |
| <u>725,953</u> | <u>828,380</u> | | <u>765,270</u> | <u>676,465</u> |

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

10 DEFERRED CREDIT

| BANK | | | GROUP | |
|---------------|---------------|-------------------------|---------------|---------------|
| 2002 \$000 | 2003 \$000 | | 2003 \$000 | 2002 \$000 |
| 10,000 | 10,000 | Balance brought forward | 10,000 | 10,000 |
| <u>-</u> | <u>11,474</u> | Addition | <u>11,474</u> | <u>-</u> |
| <u>10,000</u> | <u>21,474</u> | | <u>21,474</u> | <u>10,000</u> |

During the year ended June 30, 2001 the Directors took a decision to defer a portion of the outstanding interest obligation (\$10,000,000) arising from the Sugar Industry until a final decision is taken on the industry's future and the effect on the accounts of the Bank is known.

St. Kitts and Nevis Mortgage and Investment Company Limited (MICO), a subsidiary of the Bank, acquired in December 2002 the remaining properties used by Trafalgar Development as security for advances made to it by the Bank. As a result, interest accrued on those advances is deferred until MICO disposes of the said properties to outside buyers

11 ACCUMULATED PROVISIONS, CREDITORS AND ACCRUALS

| | | | | |
|---------------|---------------|---------------------------------------|----------------|----------------|
| - | - | Insurance Funds | 52,515 | 46,637 |
| 10,377 | 11,607 | Interest Payable | 11,607 | 10,377 |
| 9,586 | 6,746 | Income Tax Payable | 8,162 | 10,139 |
| 8,100 | 10,935 | Proposed Dividend | 10,935 | 8,100 |
| 1,936 | 468 | Managers Cheques and Bankers Payments | 468 | 1,936 |
| 1,363 | 2,267 | Unpaid Drafts on other banks | 2,267 | 1,363 |
| - | 5,113 | Note Payable | 5,113 | - |
| <u>11,563</u> | <u>14,584</u> | Other Payables | <u>24,700</u> | <u>22,045</u> |
| <u>42,925</u> | <u>51,720</u> | | <u>115,767</u> | <u>100,597</u> |

12 SHARE CAPITAL

| | | | | |
|----------------|----------------|--|----------------|----------------|
| <u>135,000</u> | <u>135,000</u> | Authorised: - 135,000,000 Ordinary Shares of \$1 each | <u>135,000</u> | <u>135,000</u> |
| <u>81,000</u> | <u>81,000</u> | Issued and Fully Paid: - 81,000,000 Ordinary Shares of \$1 each | <u>81,000</u> | <u>81,000</u> |

13 RESERVES

| | | | | |
|---------------|---------------|---------------------|---------------|---------------|
| 19,455 | 23,455 | Statutory Reserve | 23,455 | 19,455 |
| 18,637 | 22,000 | General Reserve | 34,046 | 29,480 |
| <u>1,908</u> | <u>1,908</u> | Revaluation Reserve | <u>1,908</u> | <u>1,908</u> |
| <u>40,000</u> | <u>47,363</u> | | <u>59,409</u> | <u>50,843</u> |

Statutory Reserve

In accordance with Section 14 (1) of Saint Christopher and Nevis Banking Act No. 6 of 1991, the St. Kitts-Nevis-Anguilla National Bank Limited is required to maintain a reserve fund into which it shall transfer not less than 20% of its net profit of each year whenever the reserve fund is less than the Bank paid-up capital.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

13 RESERVES (cont'd)

| BANK | | | GROUP | |
|---------------|---------------|---|---------------|---------------|
| 2002 \$000 | 2003 \$000 | | 2003 \$000 | 2002 \$000 |
| | | General Reserve | | |
| 4,637 | 18,637 | Balance brought forward | 29,480 | 14,223 |
| <u>14,000</u> | <u>3,363</u> | Amount transferred during year | <u>4,566</u> | <u>15,257</u> |
| <u>18,637</u> | <u>22,000</u> | | <u>34,046</u> | <u>29,480</u> |
| | | Revaluation Reserve | | |
| | | During December 1996 a valuation on property was carried out on the Bank's land and buildings by Vincent Morton & Associates Limited - an independent valuer. | | |
| 1,908 | 1,908 | | 1,908 | 1,908 |

14 NET INTEREST INCOME

| | | | | |
|---------------|---------------|------------------------------|---------------|---------------|
| | | Interest Income | | |
| 46,594 | 44,586 | Loans and Advances | 44,436 | 46,482 |
| 2,506 | 2,700 | Loan Fees | 2,700 | 2,506 |
| 3,863 | 4,212 | Deposits with other Banks | 4,221 | 3,881 |
| 8,556 | 9,230 | Investments | 9,706 | 9,051 |
| <u>61</u> | <u>35</u> | Other | <u>35</u> | <u>61</u> |
| <u>61,580</u> | <u>60,763</u> | | <u>61,098</u> | <u>61,981</u> |
| | | Interest Expense | | |
| 32,625 | 34,550 | Customers' Deposits | 32,207 | 31,462 |
| <u>2,186</u> | <u>2,021</u> | Due to other Banks | <u>2,021</u> | <u>2,186</u> |
| <u>34,811</u> | <u>36,571</u> | | <u>34,228</u> | <u>33,648</u> |
| <u>26,769</u> | <u>24,192</u> | Balance as at June 30 | <u>26,870</u> | <u>28,333</u> |

15 EXPENSES

| | | | | |
|-----|-------|--------------------------------------|-------|-----|
| | | Included in this expense head are: - | | |
| 67 | 69 | Auditors Fees | 150 | 147 |
| 262 | 282 | Directors' Fees | 583 | 566 |
| - | 2,638 | Provision for loan losses | 2,638 | - |

16 OVER (UNDER) PROVISION FOR INCOME TAX

| | | | | |
|--------------|------------|---------------------------------------|------------|--------------|
| <u>(427)</u> | <u>382</u> | Over (Under) Provision for Income Tax | <u>374</u> | <u>(427)</u> |
|--------------|------------|---------------------------------------|------------|--------------|

The amount represents a net over provision for Income Tax for the year of Assessment 2003/2002 – (2002 - under provision for Income Tax for the year of Assessment 2002/2001). Under provisions are mainly amounts disallowed by the Comptroller of Inland Revenue.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

17 EARNINGS PER SHARE

| BANK | | | GROUP | |
|---------------|---------------|---|---------------|---------------|
| 2002 | 2003 | | 2003 | 2002 |
| \$000 | \$000 | | \$000 | \$000 |
| <u>19,214</u> | <u>17,596</u> | Net income attributable to shareholders | <u>19,656</u> | <u>21,116</u> |
| <u>63,000</u> | <u>81,000</u> | Weighted average number of ordinary shares in issue | <u>81,000</u> | <u>63,000</u> |
| <u>0.30</u> | <u>0.22</u> | Diluted/Basic earnings per share | <u>0.24</u> | <u>0.34</u> |

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

18 PROPOSED DIVIDEND

A dividend in respect of the year just ended of 13.5% of issued share capital is proposed. (2002 – 13.5% was proposed). Actual dividend paid for the financial year ended June 30, 2002 was \$8,355,644, which represented the 13.5% proposed, and therefore, created an adjustment to retained earnings of \$255,644.

19 CONTINGENT LIABILITIES

Pending litigation

HIGH COURT SUIT SKBHCV2002/0015

A former corporate customer filed a lawsuit in the amount of US\$1.8 million against the Bank. The case is being defended as the Bank denies any liabilities to the customer.

Professional legal advice indicates that the claim will not succeed, and therefore, no provisions were made.

SKBHCV2002/0250

A claim for the return of a Certificate of Title was filed against the Bank by two customers. The customers also claimed damages in an unspecified sum.

The Bank defended the claim on the grounds that it has a lien on the Certificate of Title for the monies owing to it by the customers. The Bank further counterclaimed for the sum of EC\$6,000 from the said customers.

The Bank was successful at the trial, but the customers have appealed. It is believed that the Bank will once again be successful once the Appeal is heard.

Financial Commitments

As at June 30, 2003, the Bank was committed to make loans and advances amounting to approximately \$185,818,000 (2002 - \$105,054,000).

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

20 RELATED PARTIES

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making operational or financial decisions.

A number of banking transactions are entered into with our subsidiaries and directors in the normal course of business. Those transactions, which include deposits, loans and other transactions, are carried out on commercial terms and conditions, at market rates.

Advances outstanding from directors and associates as at June 30, 2003 amounted to \$204,233 – (2002 - \$743,562).

Deposits balances of directors and associates as at June 30, 2003 amounted to \$2,236,840 – (2002 - \$1,492,279).

21 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities not carried at fair value include cash and money at call, originated debts, investment securities held to maturity, investment in subsidiaries, due to other banks, customers' deposits and due to subsidiaries. The following methods and assumptions are relevant to their fair value:

Assets

Cash and money at call

Since these assets are short-term in nature, the values are taken as indicative of realizable value.

Loans and advances

Loans and advances are net of provision for loan losses. These assets result from transactions conducted during the normal course of business and their values are not adversely affected by unusual terms. The inherent rates of interest in the portfolio approximate market conditions and yield discounted cash flow values that are substantially equal to the carrying value.

Investment securities held to maturity and Investment in subsidiaries

The fair value of these items is assumed to be equal to their carrying values.

Liabilities

Due to other banks, customers' deposits and due to subsidiaries

The fair value of financial liabilities with no stated maturity is assumed to be equal to their carrying values.

Deposits with fixed rate characteristics are at rates that are not significantly different from current rates and are assumed to have discounted cash flow values that approximate carrying values.

22 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.

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

23 INTEREST RATE RISK - BANK

Interest Sensitivity of Assets and Liabilities

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.

| As at June 30, 2003 | Up to 1 Year | 1 to 5 Years | Over 5 Years | Non-interest Bearing | Total |
|---------------------------------|----------------|------------------|-----------------|-------------------------|------------------|
| Assets | | | | | |
| Cash and money at call | 351,303 | - | - | 108,044 | 459,347 |
| Loans and advances | 317,246 | 32,313 | 67,185 | 47 | 416,791 |
| Investments | 112,816 | - | 2,601 | 3,647 | 119,064 |
| Other assets | 6,818 | - | 300 | 56,931 | 64,049 |
| Total assets | 788,183 | 32,313 | 70,086 | 168,669 | 1,059,251 |
| Liabilities | | | | | |
| Due to banks | 18,938 | - | - | - | 18,938 |
| Customers' deposits | 499,319 | 214,902 | - | 114,159 | 828,380 |
| Other liabilities | 25,732 | - | - | 52,426 | 78,158 |
| Total liabilities | 543,989 | 214,902 | - | 166,585 | 925,476 |
| Interest Sensitivity Gap | 244,194 | (182,589) | 70,086 | | |
| As at June 30, 2002 | | | | | |
| Total assets | 672,052 | 39,323 | 64,339 | 180,306 | 956,020 |
| Total liabilities | 434,973 | 193,569 | - | 200,019 | 828,561 |
| Interest Sensitivity Gap | 237,079 | (154,246) | 64,339 | | |

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

24 LIQUIDITY RISK - BANK

The Bank is exposed to daily calls on its available cash resources from current accounts, overnight deposits, maturing deposits, loan draw downs and other calls on cash settled items. A range of wholesale and retail funds are managed to ensure that liquidity requirements are met. The Bank liquidity strategy relies on sufficient cash and marketable instruments such as treasury bills and other government securities to meet short term funding needs. Fallback techniques include access to the sub-regional inter-bank market and the ability to close out or liquidate market 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.

Analysis of assets and liabilities into relevant maturity grouping

| As at June 30, 2003 | Up to 1 Year | 1 to 5 Years | Over 5 Years | Total |
|----------------------------|-----------------|------------------|-----------------|------------------|
| Assets | | | | |
| Cash and money at call | 455,450 | - | 3,897 | 459,347 |
| Loans and advances | 317,246 | 32,313 | 67,232 | 416,791 |
| Investments | 112,029 | - | 7,035 | 119,064 |
| Other assets | 6,526 | 2,907 | 54,616 | 64,049 |
| Total assets | 891,251 | 35,220 | 132,780 | 1,059,251 |
| Liabilities | | | | |
| Due to banks | 18,938 | - | - | 18,938 |
| Customers' deposits | 608,698 | 219,682 | - | 828,380 |
| Other liabilities | 51,754 | 2,965 | 23,439 | 78,158 |
| Total liabilities | 679,390 | 222,647 | 23,439 | 925,476 |
| Net Liquidity Gap | 211,861 | (187,427) | 109,341 | |
| As at June 30, 2002 | | | | |
| Total assets | 833,406 | 36,551 | 86,063 | 956,020 |
| Total Liabilities | 614,658 | 199,806 | 14,097 | 828,561 |
| Net Liquidity Gap | 218,748 | (163,255) | 71,966 | 127,459 |

ST. KITTS-NEVIS-ANGUILLA NATIONAL BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

25 CREDIT RISK - BANK

Geographical Concentrations of Assets and Liabilities

The Bank's predominant activity is retail banking services. Exposures to credit risk are mainly concentrated in St. Kitts and Nevis.

The Bank's 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.

| | Total Assets | Total Liabilities | Credit Commitments | Total Income | Capital Expenditure |
|----------------------------|------------------|----------------------|-----------------------|-----------------|------------------------|
| As at June 30, 2003 | | | | | |
| St. Kitts and Nevis | 666,182 | 760,581 | 185,818 | 72,069 | 1,761 |
| North America | 313,447 | 146,138 | - | 4,726 | 1,354 |
| Europe | 73,324 | 674 | - | 1,107 | 25 |
| Other Caribbean States | 6,298 | 18,083 | - | 492 | 14 |
| | <u>1,059,251</u> | <u>925,476</u> | <u>185,818</u> | <u>78,394</u> | <u>3,154</u> |

As at June 30, 2002

| | | | | | |
|------------------------|----------------|----------------|----------------|---------------|--------------|
| St. Kitts and Nevis | 683,686 | 641,306 | 105,054 | 71,430 | 338 |
| North America | 195,977 | 175,206 | - | 5,137 | 1,236 |
| Europe | 73,425 | 377 | - | 1,000 | - |
| Other Caribbean States | 2,932 | 11,672 | - | 437 | - 6 |
| | <u>956,020</u> | <u>828,561</u> | <u>105,054</u> | <u>78,004</u> | <u>1,574</u> |

26 SIGNIFICANT EVENT

The St. Kitts-Nevis-Anguilla National Bank Limited held certain deposits with Hamilton Bank NA of Miami, Florida.

On January 11, 2002 Hamilton Bank NA was closed and the Federal Deposit Insurance Corporation was appointed Receiver.

Subsequent to the year ended June 30, 2003 the St. Kitts-Nevis-Anguilla National Bank Limited received certain dividends from the Receiver.

27 SUBSEQUENT EVENT

On November 13, 2003 the St. Kitts-Nevis-Anguilla National Bank Limited was listed on the Eastern Caribbean Securities Exchange in St. Kitts.