



06

## Annual Report



PROFITING FROM OUR  
RELATIONSHIP



# PROFITING FROM OUR RELATIONSHIP

Another record year for us at the Bank - record profits and outstanding performances in all our portfolios.

Our success year after year is a reflection of the quality of the relationships we continue to forge with all our stakeholders - staff, customers, shareholders and the community.

This year's Annual Report is a recognition that the alliances built over time through the growth of the bank continues to make us a better financial institution which stands out in the Caribbean as a beacon.

# 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 judgement, 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 fulfilment, 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 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.

The policies set out above inform and inspire our customer relationships, staff interactions and public communication; guide our corporate decision making process; influence the manner in which we perform our daily tasks; and direct our recruitment, organisational, operational and development policies, plans and programmes.

Our Directors, Management and Staff are unreservedly committed to the observance of the duties and responsibilities stated above for the fulfilment of our Mission.

# 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.



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# Notice of Meeting

Notice is hereby given that the **THIRTY-SIXTH ANNUAL GENERAL MEETING of St. Kitts-Nevis-Anguilla National Bank Limited** will be held at the Ocean Terrace Inn, Fortlands, Basseterre on Thursday 25th January 2007 at 5.00pm for the following purposes:-

- 1 To read and confirm the Minutes of the Meeting held on 12th January, 2006
- 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 2006
- 6 To declare a dividend
- 7 To elect Directors
- 8 To appoint Auditors for the year ending 30th June 2007, 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

10 November 2006

## SHAREHOLDERS OF RECORD

All shareholders of record as at 15th November 2006 will be entitled to receive a dividend in respect of the financial year ended 30th June, 2006.

## 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. No person shall be appointed a proxy who is not entitled to vote at the meeting for which the proxy is given. 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 every 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 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

	<u>2006</u> \$ '000	<u>2005</u> \$ '000	<u>2004</u> \$ '000	<u>2003</u> \$ '000	<u>2002</u> \$ '000
<b>BALANCE SHEET INFORMATION</b>					
Total Assets	1,614,256	1,504,155	1,309,433	1,059,376	956,020
Deposits	1,141,913	1,109,218	984,235	828,380	725,953
Loans and Advances	846,303	691,953	517,158	416,791	498,562
Investment	164,916	119,510	119,179	119,064	122,096
Cash and Money at call	540,409	636,534	603,239	459,347	303,230
<b>OPERATING RESULTS</b>					
Gross Operating Income	154,956	110,660	88,229	78,246	78,004
Interest Income	103,489	78,355	62,170	60,763	61,580
Interest Expense	61,668	50,423	43,022	36,570	34,811
Earnings Before Income Tax	68,071	40,624	23,848	24,280	27,588
Net Income	47,525	27,120	16,687	17,722	19,214
Operating Expenses/Provisions	25,217	19,613	21,359	17,395	15,606
Gross Revenue per Employee	1,013	748	584	509	527
<b>SHARE CAPITAL &amp; DIVIDEND INFORMATION</b>					
Paid up Share Capital	81,000	81,000	81,000	81,000	81,000
Shareholders' Equity	210,181	173,814	157,412	144,836	127,459
Dividends	12,150	10,935	10,935	8,356	2,700
Number of Shareholders	5,083	3,226	2,738	2,738	2,738
Earnings per Share (\$) (Diluted)	0.59	0.33	0.21	0.22	0.30
Dividends per Share (\$)	0.150	0.135	0.135	0.135	0.135
<b>BALANCE SHEET AND OPERATING RESULTS RATIOS (%)</b>					
Loans and Advances to Deposits	74.1	62.4	52.5	50.3	68.7
Staff Cost/Total Cost	14.6	16.8	14.4	15.7	17.8
Cost/Income (Efficiency)	27.0	32.6	47.3	41.7	36.1
Return on Equity	24.8	16.4	11.0	13.0	18.8
Return on Assets	3.1	1.9	1.4	1.8	2.1
Risk weighted assets	61.9	47.4	25.9	43.9	41.5
Equity Multiplier	8.1	8.5	7.8	7.4	9.0
Asset Utilization	9.9	7.9	7.5	7.8	8.4
Yield on Earning Assets	8.2	6.7	6.2	7.4	8.2
Cost to Fund Earning Assets	4.9	4.3	4.3	4.5	4.1
Net interest Margin	3.3	2.4	1.9	2.9	4.1

# ANALYSIS OF INCOME AND EXPENDITURE

	<u>2006</u> \$`000	<u>2005</u> \$`000	<u>2004</u> \$`000	<u>2003</u> \$`000	<u>2002</u> \$`000
<b>INCOME</b>					
Interest	103,489	78,355	62,170	60,763	61,580
Gain on Foreign Exchange	4,690	1,944	1,960	2,450	1,865
Gain on Marketable Securities (Net)	-	-	-	118	196
Dividends	330	389	529	233	299
Service Charge	1,311	1,509	1,504	956	1,165
Commission	44,342	27,352	21,124	13,261	12,352
Miscellaneous	794	1,111	942	465	547
	<b>154,956</b>	<b>110,660</b>	<b>88,229</b>	<b>78,246</b>	<b>78,004</b>
<b>EXPENDITURE</b>					
Interest	61,668	50,423	43,022	36,570	34,811
Establishment Expenses	9,209	5,207	5,362	7,328	4,882
Staff Employment	12,654	11,755	9,245	8,445	8,953
Stationery and Supplies	622	594	568	506	486
Loss on Marketable Securities	1,078	490	1,244	-	-
Miscellaneous	784	772	652	674	674
Audit Fees and Expenses	72	72	107	69	67
Other Finance Charges	798	723	4,181	373	544
	<b>86,885</b>	<b>70,036</b>	<b>64,381</b>	<b>53,965</b>	<b>50,417</b>

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Walford V. Gumbs  
Mitchell Gumbs  
Yvonne Merchant-Charles  
Linkon Willcove Maynard  
Halva Maurice Hendrickson  
Elsie Eudorah Mills  
Sharylle V. I. Richardson  
Sonia Romelia Carr  
Dr Mervyn Laws  
Edmund W. Lawrence

Chairperson  
1st Vice Chairperson  
2nd Vice Chairperson  
Director  
Director  
Director  
Director  
Director  
Director  
Managing Director

## CORPORATE SECRETARY

Claudina V. Davis

## SOLICITORS

Kelsick, Wilkin & Ferdinand  
Chambers  
South Independence Square  
BASSETERRE

Dublin and Johnson  
Chambers  
Sands Complex  
George Street  
BASSETERRE

## AUDITORS

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

# PROFITING FROM OUR RELATIONSHIP

## Island Purified Water

"National Bank truly supports local business. I am an example of this. The Bank was with me from the beginning, providing support and the financing needed. Today we are a leader in our business. None of this would have been possible without the bank's partnership".

Leroy Powell (Left) - Owner of Island Purified Water and Sidris Phipps (Right) - Acting Manager of Sandy Point Branch



## Mortgages

"National Bank is into more than providing mortgages, to us they are into building homes and lives. To us they have been real friends and partners for life. They provided us with the financing to build our home where we could raise our family and make memories that last a lifetime. Thank You National Bank".

Deidre Venner (left) - Manager, General Banking Division with Ervin and Elizabeth Woodley - Senior Clerk and Nurse.



## PROFITING FROM OUR RELATIONSHIP

"We own a gift shop in Nevis. Though we are a small business National Bank treats us like we are special. That means alot to us. Our bank has been here for us from the very beginning and thanks to them we have grown from strength to strength."

Wendell and Brenda Huggins with  
Bank Official



### Ocean Edge Resort (Cable Bay Development)

"National Bank understands the importance of Tourism Investment to the country. This is why they have been so committed in providing the financing for Ocean Edge Resort – a USD 100 million five star resort of 300 rooms to be spread over 40 acres".

Nicolas Menon (left) - Director of  
Cable Bay Hotel Development Inc.,  
Esrick Lanns (middle) - Senior  
Manager, Credit Division and Owen  
Pritchard (Right) - Regional Director  
New Found Development



# PROFITING FROM OUR RELATIONSHIP

## La Vallee Greens Golf Course and Resort

"National Bank continues to show its foresight and commitment to the development of the country's leisure, travel and tourism industry. They have partnered with us in the development of this premiere golf course and resort which will be a major plus not only for the country but also for the region".

From left...Wayne Delphechee ( ), Hermier Morton-Anthony (Director), Oswald Martin (Chairman), Caroline Adams (Manager - Loans & Advances, (NATIONAL BANK) & Eurick Dorsett (Project Manager).



## Hills Surveys and Mapping

"I take my profession seriously and approach it with passion and pride. This is why I am fortunate to have a Bank that serve me with the same level of professionalism and care. They see me not just a customer but truly as a partner in progress."

Sherming Lewis (left) - Manager, Nevis Branch and Simeon Hills, owner of Hills Surveys and Mapping



# BRANCHES 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 Branch  
RLB International Airport

## ATMS

Old Road  
St. Paul's  
Cayon  
Lodge  
St. Peter's  
CAP Southwell Industrial Park  
Vance W Amory International Airport  
Nevis Branch  
Sandy Point Branch  
Saddlers Branch  
RLB International Airport  
Pelican Mall  
Basseterre Branch  
Camps  
Port Zante  
Tabernacle

## 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

# Chairperson's Statement



# Chairperson's Statement

This year as the St Kitts-Nevis-Anguilla National Bank Limited continues to celebrate 35 years of operations, I am pleased to report that the year under review was another successful year.

In fiscal 2006 total assets increased to \$1,614,256,000 or 7% from \$1,504,155,000 in 2005. Deposits grew from \$1,109,218,000 in 2005 to \$1,141,913,000 or 3% in 2006. Our loan portfolio increased by \$154,350,000 or 22% to \$846,303,000 from \$691,953,000 in 2005. Net operating income before depreciation and tax increased by 66% to \$70,045,000 from \$42,224,000 in 2005.

The financial result for the year when measured against the current competitive banking environment is outstanding, and National has truly been "Building on its Strengths" as each year it has recorded significant growth.

The strong foundation of National has enabled it to contribute enormously in every sphere of development and economic activity in the Federation: housing, education, health, tourism, commerce, industry, infrastructure development, sports and culture.

The success of the Bank is due in large measure to its institutional structure, and the harmonious relationships among the Board, Management and Staff.

The Bank places high value on its human resources and although it has invested substantially in appropriate equipment and technology, this must be driven by a workforce that is adaptable and well trained. We shall continue to up-grade the skills of the staff while we encourage and assist them in their personal development. On behalf of the Board of Directors I wish to thank them all for their contribution to the success of the Bank.

I wish to thank all of our shareholders, particularly those who have remained with the Bank over the 35 years. I am sure that their investment in National was fully justified.

I thank all of our valued customers for their patronage for without them we could not have achieved the level of success recorded.

I must also thank my fellow Directors for their cooperation and contribution during the past year. It is my hope that we can achieve even greater success in the next 35 years, as we continuously work together for the benefit of the institution.



Walford V. Gumbs  
Chairperson

November 10, 2006

# MANAGING DIRECTOR'S REPORT

The Bank performed satisfactorily during financial year 2006. Assets grew to \$1.614 billion from \$1.504 billion in 2005, an increase of \$110 million or 7%. Loans increased by \$155 million or 22% to \$846 million from \$691 million in 2005. Profit before depreciation and tax increased by \$28 million or 66% to \$70 million from \$42 million in 2005. Profit after depreciation and tax grew by \$20 million or 74% to \$47 million in 2006 from \$27 million in 2005.

Interest income of \$103 million in 2006 was \$25 million or 32% more than interest income of \$78 million in 2005, and non-interest income of \$51 million in 2006 was \$19 million or 59% more than non-interest income of \$32 million in 2005.

Interest expense of \$61 million in 2006 was \$11 million or 22% higher than interest expense of \$50 million in 2005, and non-interest expense of \$19 million in 2006 was \$2 million or 11% higher than non-interest expense of \$17 million in 2005.

Total income of \$154 million in 2006 was \$44 million or 40% more than total income of \$110 million in 2005. Total expense in 2006 was \$81 million compared with \$68 million in 2005. The increase in total expense in 2006 over 2005 was \$13 million or 19%.

In 2006 the rate of increase in total income was more than twice the rate of increase in total expense. Thus for every \$1 increase in expense in 2006 over 2005, there was \$3.38 increase in income, and \$1.53 increase in net profit in 2006 over 2005.

In 2006 if non-interest income of \$51 million were ignored, and total expense of \$81 million (which included the expense incurred in earning the non-interest income) were deducted from the interest income of \$103 million only, the Bank would still have shown a profit of \$18 million before depreciation and tax for fiscal 2006.

These results produced a substantial growth of 21% in shareholder value, year-on-year, and points to unreserved customer confidence in the safety, soundness and strength of the Bank.

During the year under review deposits grew to \$1.142 billion from \$1.109 billion in 2005, an increase of \$33 million or 3%. The rate of increase in deposits in 2006 was slower than in 2005 and preceeding years. In 2006 the rate of dissaving by customers (individuals and businesses) affected by the closure of the sugar industry, to meet their financial obligations and maintain their standard of living, was almost as high as the rate of increase in deposits by other customers.

# MANAGING DIRECTOR'S REPORT

Shareholders equity increased by \$36 million or 20% to \$210 million in 2006 from \$174 million in 2005. The dividend recommended for 2006 is 15%, an increase of 1.5% over the 13.5% paid in 2005.

A shareholder who bought 100 shares for \$100 (at the issue price of \$1 per share) in the first share issue by the Bank in 1970, and who has neither bought nor sold any shares since, now owns 1,500 shares in the Bank. The additional 1,400 shares resulted from share dividend distributions of one for two in 1994, one for one in 1997 and four for one in 2001. The shareholder is paid cash dividends on his entire shareholding of 1,500 shares.

At a dividend of 15% or 15 cents a share, the shareholder will be paid a cash dividend of \$225 for 2006 on his 1,500 shares. Therefore the income return in 2006 on the shareholder's original investment of \$100 is \$225 or 225% tax free.

Additionally the capital growth of the \$100 invested by the shareholder in 1970 was worth \$4,500 on the Eastern Caribbean Securities Exchange on 30 June 2006. This translates into a tax free capital growth at the average rate of 11.5% per annum compounded over 35 years.

The Bank is being lauded effusively for continuously producing added value for the shareholders.

During the year under review the Bank contracted for the installation of specialized state-of-the-art technology to complement its specific human resource capacity.

This strategic policy implementation enables the Bank to fully automate its Anti-Money Laundering system, enhance its Due Diligence and Compliance programme, and upgrade its procedures for identifying politically exposed persons. The combined infrastructural sophistication and personnel competencies position the Bank in the top ranking of fully compliant financial institutions globally.

The factors most responsible for the survival and success of the Bank are leadership, strategy and vision. During the year under review the Bank accelerated the execution of its carefully calibrated programme for leadership progression and succession; energetically pursued its focused strategy to re-orientate its information, communication and operational logistics; kept its long-term planning horizons constantly in clear view.

# MANAGING DIRECTOR'S REPORT

Thus the Bank ensured its long-term survival and success; assured its flexibility and efficiency; insured its resilience and stability against exogenous shocks.

The Bank is acknowledged as a market leader in the sub-region and beyond.

In 2006 the economy was driven by activities in the construction and services sectors mainly. Performance in the tourism sector was mixed with an increase in the number of stay over visitors and a decline in cruise ship passengers, compared with 2005. Output in the agricultural sector declined as a result of the closure of the sugar industry. Manufacturing was steady, and registered improvements in exports and imports substitution. We expect sustained improvements in all of the sectors over the foreseeable future.

Looking ahead the Bank will continue to build a solid superstructure on the firm foundation that has been laid, so that the institutional attributes and characteristics, ideas and ideals, that made it strong during the first 35 years, will make it stronger yet over the next 35 years.



Edmund W. Lawrence  
Managing Director

10 November 2006

# Directors' Report

Your Directors have pleasure in submitting their Report for the financial year ended June 30, 2006.

## 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. Linkon Maynard  
Ms. Elsie Mills  
Mrs. Sonia Carr

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 Asset/Liability Management, Audit, Budget, Corporate Governance, Credit, Executive and Investment.

All committees meet regularly and work closely with management to deal with the many challenges facing the 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 on the increase, moving from \$56.4 million in 1999 to \$210.2 million in 2006. This represents an impressive 272.7% increase.

The Directors report that profit after taxation for the year ended June 30, 2006 amounted to \$47.5 million, with earnings per diluted share of \$0.59.

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 15% for the financial year ended June 30, 2006. This recommendation, if approved by the Annual General Meeting, will mean that a total dividend of \$12.2 million will be paid in 2006 compared with \$10.9 million in 2005.

## AUDITORS

The retiring auditors, Simmonds and Associates, Chartered Accountant, 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 V. Davis  
Secretary  
November 10, 2006

# Directors' Responsibilities in Respect Of the Preparation of 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 judgements 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 at any time the financial position of the company to enable them to ensure that the financial statements comply with International Financial Reporting 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 accompanying balance sheet of the St Kitts-Nevis-Anguilla National Bank Limited and its subsidiaries (the Group) as of June 30, 2006, and the related profit and loss account and cash flow statement of the group for the year then ended.

These financial statements set out on pages 22 to 44 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We read the other information published with the financial statements and considered whether it was consistent with the audited financial statements. We considered the implications for our audit if we became aware of any apparent misstatements or material inconsistencies with the financial statements.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentations.

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Company and the Group as at June 30, 2006 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.



SIMMONDS AND ASSOCIATES  
Chartered Accountant

ST. KITTS

10 November 2006

# BALANCE SHEET

AS AT JUNE 30, 2006

BANK		GROUP			
2005 \$000	2006 \$000		Notes	2006 \$000	2005 \$000
<b>ASSETS</b>					
636,534	540,409	Cash and Money at call	4	539,940	635,513
691,953	846,303	Loans and Advances	5	832,272	678,957
119,510	164,916	Investments	6	166,905	121,499
-	-	Investment in Properties	7	32,090	31,781
17,750	17,750	Investment in Subsidiaries	8	-	-
4,950	5,077	Customers' Liability under Acceptances			
16,906	17,771	Guarantees and Letters of Credit	9	5,077	4,950
16,178	21,741	Premises and Equipment	10	22,646	21,979
374	289	Other Accounts	11	31,386	27,777
		Deferred Tax Asset	12	289	374
<b>1,504,155</b>	<b>1,614,256</b>	<b>Total Assets</b>		<b>1,630,605</b>	<b>1,522,830</b>
<b>Liabilities</b>					
17,037	86	Due to Other Banks		86	16,609
1,109,218	1,141,913	Customers' Deposits	13	1,056,208	1,033,539
1,944	-	Due to Subsidiaries		-	-
11,474	11,474	Deferred Cost	14	11,474	11,474
4,950	5,077	Acceptance, Guarantees and			
		Letters of Credit	9	5,077	4,950
185,718	245,211	Accumulated Provisions, Creditors			
-	314	and Accruals	15	331,095	267,588
		Deferred Tax Liability	12	314	-
<b>1,330,341</b>	<b>1,404,075</b>	<b>Total Liabilities</b>		<b>1,404,254</b>	<b>1,334,160</b>
<b>Shareholders' Equity</b>					
81,000	81,000	Share Capital	16	81,000	81,000
3,877	3,877	Share Premium		3,877	3,877
74,756	109,492	Reserves	17	125,329	88,898
14,181	15,812	Retained Earnings		16,145	14,895
<b>173,814</b>	<b>210,181</b>	<b>Total Shareholders' Equity</b>		<b>226,351</b>	<b>188,670</b>
<b>1,504,155</b>	<b>1,614,256</b>	<b>Total Liabilities and Shareholders' Equity</b>		<b>1,630,605</b>	<b>1,522,830</b>

Director: \_\_\_\_\_

Walford V. Gumbs

Director: \_\_\_\_\_

Mitchell Gumbs

The attached notes form part of these Financial Statements

BANK				GROUP	
<u>2005</u> \$000	<u>2006</u> \$000		Notes	<u>2006</u> \$000	<u>2005</u> \$000
27,932	41,821	NET INTEREST INCOME	18	43,829	30,095
<u>32,305</u>	<u>51,467</u>	NON-INTEREST INCOME		<u>66,012</u>	<u>48,797</u>
<b>60,237</b>	<b>93,288</b>			<b>109,841</b>	<b>78,892</b>
(322)	(3,480)	Loan Loss Provision		(3,480)	(322)
<u>(17,691)</u>	<u>(19,763)</u>	Non-Interest Expense		<u>(34,104)</u>	<u>(31,784)</u>
<b>42,224</b>	<b>70,045</b>	Net Operating Income before Depreciation and Tax		<b>72,257</b>	<b>46,786</b>
<u>(1,600)</u>	<u>(1,974)</u>	Depreciation		<u>(1,974)</u>	<u>(2,066)</u>
<b>40,624</b>	<b>68,071</b>	Net Operating Income before Tax		<b>70,283</b>	<b>44,720</b>
<u>(13,504)</u>	<u>(20,546)</u>	Income Tax Expense		<u>(21,025)</u>	<u>(15,063)</u>
<u><b>27,120</b></u>	<u><b>47,525</b></u>	Net Profit for the year ended June 30		<u><b>49,258</b></u>	<u><b>29,657</b></u>
0.33	0.59	Diluted/Basic earnings per share	20	0.61	0.37

The attached notes form part of these Financial Statements

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED JUNE 30, 2006

	Notes	Share Capital \$000	Share Premium \$000	Statutory Reserves \$000	Loan Loss Reserves \$000	General Reserves \$000	Revaluation Reserves \$000	Retained Earnings \$000	Shareholders' Equity \$000
<b>Balance at June 30, 2004</b>		<b>81,000</b>	<b>3,877</b>	<b>26,955</b>	<b>7,500</b>	<b>36,074</b>	<b>2,461</b>	<b>13,624</b>	<b>171,491</b>
- Prior Year		-	-	-	-	-	-	(1,723)	(1,723)
- Income Tax		-	-	-	-	-	-	(73)	(73)
- As Restated		<b>81,000</b>	<b>3,877</b>	<b>26,955</b>	<b>7,500</b>	<b>36,074</b>	<b>2,461</b>	<b>11,828</b>	<b>169,695</b>
Net Income		-	-	-	-	-	-	29,657	29,657
Gains from changes in fair value		-	-	-	-	-	253	-	253
Transfer to Reserves	17	-	-	8,000	-	7,655	-	(15,655)	-
Dividends	21	-	-	-	-	-	-	(10,935)	(10,935)
<b>Balance at June 30, 2005</b>		<b>81,000</b>	<b>3,877</b>	<b>34,955</b>	<b>7,500</b>	<b>43,729</b>	<b>2,714</b>	<b>14,895</b>	<b>188,670</b>
- Income Tax		-	-	-	-	-	-	(420)	(420)
As Restated		<b>81,000</b>	<b>3,877</b>	<b>34,955</b>	<b>7,500</b>	<b>43,729</b>	<b>2,714</b>	<b>14,475</b>	<b>188,250</b>
Net Income		-	-	-	-	-	-	49,258	49,258
Transfer to Reserve	17	-	-	15,045	4,500	17,108	-	(36,653)	-
Appreciation in Market Value of Investment Securities	17	-	-	-	-	-	92	-	92
Deferred Tax	17	-	-	-	-	-	(314)	-	(314)
Dividends	21	-	-	-	-	-	-	(10,935)	(10,935)
<b>Balance at June 30, 2006</b>		<b>81,000</b>	<b>3,877</b>	<b>50,000</b>	<b>12,000</b>	<b>60,837</b>	<b>2,492</b>	<b>16,145</b>	<b>226,351</b>

The attached notes form part of these Financial Statements

BANK		Notes	GROUP	
2005 \$000	2006 \$000		2006 \$000	2005 \$000
		<b>Cash flows from operating activities</b>		
40,624	68,071	Operating Income Before taxation	70,283	44,720
		Adjustments for:		
(78,355)	(103,489)	Interest Income	(104,120)	(78,821)
50,423	61,668	Interest Expense	60,291	48,726
1,600	1,508	Depreciation	1,974	2,066
322	3,480	Provision for loan Losses	3,480	322
(36)	-	Prior Year adjustments	-	2,348
57	23	Loss on disposal of fixed assets	23	57
<b>14,635</b>	<b>31,261</b>	Operating income before changes in operating assets and liabilities	<b>31,931</b>	<b>19,418</b>
		(Increase) decrease in operating assets:		
(174,809)	(157,765)	Net loans and advances	(153,315)	(155,477)
(49)	(66)	Interest receivable on loans and advances	(66)	(49)
(8,969)	(3,907)	Other accounts	(3,609)	(8,987)
		Increase (decrease) in operating liabilities:		
13,029	(16,951)	Due to other banks	(16,523)	12,600
124,983	32,695	Customers' Deposits	22,669	118,848
1,944	(1,944)	Due to subsidiaries	-	-
40,679	45,463	Accumulated provisions, creditors, and accruals	63,670	46,141
<b>11,443</b>	<b>(71,214)</b>	Cash (used in) generated from operations	<b>(55,243)</b>	<b>32,494</b>
78,204	101,832	Interest received	102,601	80,914
(56,351)	(48,849)	Interest Paid	(59,628)	(56,897)
(7,984)	(19,248)	Income tax paid	(23,996)	(9,567)
<b>25,312</b>	<b>(37,479)</b>	<b>Net cash (used in) generated from operating activities</b>	<b>(36,266)</b>	<b>46,944</b>
		<b>Cash flows from investing activities</b>		
(803)	(2,396)	Purchase of fixed assets	(2,664)	(1,004)
(37,747)	(23,422)	Increase in special term deposits	(23,421)	(37,747)
(78)	(45,314)	Net movement in investment securities	(45,314)	(724)
19,800	-	Investment in subsidiaries	-	-
-	-	Increase in Investment Properties	(394)	(1,020)
<b>(18,828)</b>	<b>(71,132)</b>	<b>Net cash used in investing activities</b>	<b>(71,793)</b>	<b>(40,495)</b>
		<b>Cash flow from financing activities</b>		
(10,935)	(10,935)	Dividend paid	(10,935)	(10,935)
(4,451)	(119,546)	Decrease in cash and cash equivalents	(118,994)	(4,486)
<b>493,284</b>	<b>488,833</b>	<b>Cash and cash equivalents at beginning of year</b>	<b>487,812</b>	<b>492,298</b>
<b>488,833</b>	<b>369,287</b>	<b>Cash and cash equivalents at end of year</b>	<b>368,818</b>	<b>487,812</b>

The attached notes form part of these Financial Statement

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### **1 INCORPORATION**

#### **(a) St Kitts-Nevis-Anguilla National Bank Limited**

The Bank 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 acts as the real estate arm of the Bank and provides investment in the form of Bond Certificates and mutual funds.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### 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.

(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 financial institutions 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, 2006. The Group's Share of the profits of Subsidiary Companies is included in the Profit and Loss Account.

(e) **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 at rates ranging from 10% to 33 1/3%.

(f) **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.

(g) **Insurance Funds**

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### 3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (h) Interest

Interest received in the Insurance Company has been distributed after providing 81/2% on Pension Fund between Shareholders' and Policy Holders' Funds; 80% has been allocated to Life Revenue Account, the remaining 20% to Profit and Loss Account.

#### (i) 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.

#### (j) 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 the 24th method applied to the sum of net premiums written and commission retained on all classes of non life insurances except for medical insurance where 40% is used. No provision is made with respect to the Group Pension.

#### (k) 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.

#### (l) 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 the 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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### 3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (m) Investments

Investment securities are classified into the following four categories: financial assets at fair value through profit and loss; available-for-sale, held-to-maturity, and originated loans. 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 and are not financial assets at fair value through profit and loss 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 transactions costs. Financial assets at fair value through profit and loss and 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 are recognized in income if such securities are “Financial Assets At Fair Value Through Profit and Loss” or equity if they are Available-for-Sale and quoted. When securities are disposed of, the resulting gain or loss is included in income.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount of a financial instrument measured at fair value is the present value of future cash flows discounted at the current market rate of interest for a similar financial asset. When securities become impaired the related impairment loss is charged to income as a loss.

Held-to-maturity and originated loan investments are carried at amortised cost using the effective yield method, less any provision for impairment.

An impairment loss on financial assets carried at amortised cost is the difference in the asset's carrying amount and the present value of future cash flows discounted at the financial instrument's original effective interest rate.

Interest earned on all investment securities is reported in interest income.

Dividend on equity securities, when received, is reported separately in dividend income. All purchases and sales of investment securities are recognized at trade date – the date on which the Group commits to purchase or sell all financial assets.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### **3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **(n) 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 principle 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 related allowance for impairment. All subsequent recoveries are credited to the bad debt recovered income account.

#### **(o) Taxation**

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

#### **(p) Income**

Interest Income is recognized on the accrual 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 principle 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 accrual basis.

#### **(q) Comparative Figures**

Certain changes in presentation have been made during the year and comparative figures have been restated accordingly.

#### **(r) 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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

BANK			GROUP	
<u>2005</u>	<u>2006</u>		<u>2006</u>	<u>2005</u>
\$000	\$000		\$000	\$000
<b>4 CASH AND MONEY AT CALL</b>				
11,354	11,413	Cash in Hand	11,416	11,357
82,112	191,664	Deposits with other Financial Institutions	192,953	82,430
1,247	1,113	Items in the course of collection	1,113	1,247
102,876	66,255	Deposit balance with ECCB	66,255	102,876
291,244	98,842	Term Deposit	97,081	289,902
<b>488,833</b>	<b>369,287</b>	<b>Cash and cash equivalents</b>	<b>368,818</b>	<b>487,812</b>
147,701	171,122	Special Term Deposit	171,122	147,701
<b>636,534</b>	<b>540,409</b>		<b>539,940</b>	<b>635,513</b>
		Included in Special Term Deposit are term Deposits pledged for the benefit of VISA International and MasterCard in support of the Bank's international card business		
<b>67,808</b>	<b>69,176</b>		<b>69,176</b>	<b>67,808</b>
<b>5 LOANS AND ADVANCES</b>				
627,855	801,861	Performing loans and advances	787,829	614,859
72,092	55,119	Non-performing loans and advances	55,120	72,092
<b>699,947</b>	<b>856,980</b>	<b>Gross</b>	<b>842,949</b>	<b>686,951</b>
308	373	Interest Receivable	373	308
(8,302)	(11,050)	Loss provision for doubtful debts	(11,050)	(8,302)
<b>691,953</b>	<b>846,303</b>	<b>Net</b>	<b>832,272</b>	<b>678,957</b>

Legal proceedings are ongoing with regard to a number of non-performing loans, and in some instances judgement has been obtained. A significant amount of these non-performing loans are secured by mortgage on real estate.

### Liquidity analysis of gross loans and advances Based on contractual maturities

542,233	615,569	Within one year	615,569	544,293
11,911	27,163	One to three years	27,163	11,911
12,397	42,863	Three to five years	42,863	12,397
133,406	171,385	Over five years	157,354	118,350
<b>699,947</b>	<b>856,980</b>	<b>Gross</b>	<b>842,949</b>	<b>686,951</b>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

BANK		GROUP		
<u>2005</u> \$000	<u>2006</u> \$000	<u>2006</u> \$000	<u>2005</u> \$000	
5 LOANS AND ADVANCES (cont'd)				
5.2		Sectoral Analysis		
104,257	100,905	Consumers	86,874	91,261
285,843	280,268	Agriculture, fisheries and manufacturing	280,268	285,843
94,427	80,693	Construction and land development	80,693	94,427
12,559	12,310	Distributive trade, transportation and storage	12,310	12,559
27,421	28,436	Tourism, entertainment and catering	28,436	27,421
25,329	26,224	Financial Institutions	26,224	25,329
137,156	318,294	State, statutory bodies and public utilities	318,294	137,156
12,955	9,850	Professional and other service	9,850	12,955
<u>699,947</u>	<u>856,980</u>	Gross	<u>842,949</u>	<u>686,951</u>
		Provision for Doubtful Debts		
7,980	8,302	Balance brought forward	8,302	7,980
-	(732)	Charge-off and write-offs	(732)	-
322	3,480	Specific charge against income	3,480	322
<u>8,302</u>	<u>11,050</u>	Balance	<u>11,050</u>	<u>8,302</u>
6 INVESTMENTS		Financial Assets at fair value through Profit & Loss		
8,714	7,910	Corporate Bonds	7,910	8,714
21,266	19,031	U.S. Government Securities	19,031	21,266
-	10,621	Equities	10,621	-
-	21,181	Mutual Funds	21,181	-
-	8,381	Other	8,381	-
<u>29,980</u>	<u>67,124</u>		<u>67,124</u>	<u>29,980</u>
		Available-for-sale (quoted)		
1,805	1,897	East Caribbean Financial Holding Company Ltd. 230,000 shares at \$8.25 each (market price) (2005- \$7.85)	1,897	1,805

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

BANK		GROUP	
<u>2005</u> \$000	<u>2006</u> \$000	<u>2006</u> \$000	<u>2005</u> \$000
<b>6 INVESTMENTS (cont'd)</b>			
<b>Available-for-sale (unquoted) - cont'd</b>			
80,768	80,768		
		Treasury Bills maturing August 22, 2006 with interest Rate at 6.5% (2006 and 2005 – Nominal value of \$82,101,500)	
		82,490	82,490
776	776		
		National Commercial Bank of Grenada Ltd 62,100 ordinary shares at a cost of \$10 each	
		776	776
-	2,618		
		Wireless Ventures (St. Kitts-Nevis) Ltd 969 Shares at a cost of US \$1000 each	
		2,619	-
550	550		
		Caribbean Credit Card Corporation 550 ordinary shares at a cost of \$1,000 each	
		550	550
1,083	1,566		
		Cable Bay Hotel Development Company Ltd 5,794 ordinary shares at a cost of US\$100.00 each	
		1,566	1,083
91	91		
		Eastern Caribbean Home Mortgage Bank 1,727 shares at a cost of \$100 each	
		173	173
100	100		
		Eastern Caribbean Securities Exchange 10,000 class "C" shares at a cost of \$10 each	
		100	100
-	1,351		
		TCI Bank Ltd 500,000 Shares at a cost of US \$1.00 each	
		1,351	-
5	5		
		Society for Worldwide Inter Bank Financial Telecommunication, 1 share at a cost of \$5,148	
		5	5
-	-		
		Cable and Wireless	
		185	185
555	555		
		Antigua Barbuda Investment Bank 185,000 shares at a cost of \$3 each	
		555	555
-	3,718		
		ECIC Holdings Ltd 632,200 ordinary shares at US \$1.00 each and 743,750-6%Preference Shares at US \$1.00 each.	
		3,718	-
<b>83,928</b>	<b>92,098</b>	<b>94,088</b>	<b>85,917</b>
<b>Held-to-maturity</b>			
1,000	1,000		
		Debentures – Government of St. Kitts and Nevis Maturing July 15, 2008 with interest at 8%	
		1,000	1,000

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

BANK			GROUP	
<u>2005</u>	<u>2006</u>		<u>2006</u>	<u>2005</u>
\$000	\$000		\$000	\$000
<b>6 INVESTMENTS (cont'd)</b>				
<b>Originated debt</b>				
1,000	1,000	Eastern Caribbean Home Mortgage Bank Long-term Bond maturing July 1, 2010 with interest rate at 5.5% (2005-6.75%)	1,000	1,000
1,497	1,497	Antigua Commercial Bank 10% interest rate Series A Bond maturing December 31, 2016	1,496	1,496
300	300	Caribbean Credit Card Corporation unsecured loan with interest at 10% with no specific terms of repayment	300	300
<u>2,797</u>	<u>2,797</u>		<u>2,796</u>	<u>2,796</u>
<u>119,510</u>	<u>164,916</u>		<u>166,905</u>	<u>121,499</u>
<b>Securities classified according to currency</b>				
29,980	67,124	United States Currency Securities	67,124	29,980
89,530	97,792	Eastern Caribbean Currency Securities	99,781	91,519
<u>119,510</u>	<u>164,916</u>		<u>166,905</u>	<u>121,499</u>
<b>7 INVESTMENTS PROPERTIES</b>				
-	-	Land and Buildings	31,471	31,162
-	-	Other	619	619
<u>-</u>	<u>-</u>		<u>32,090</u>	<u>31,781</u>

During the year ended June 30, 2003, St. Kitts and Nevis Mortgage and Investment Company Limited (MICO), a subsidiary of the Bank, acquired the remaining properties used by an entity as security for advances made to it by the Bank.

### 8 INVESTMENT IN SUBSIDIARIES

5,750	5,750	National Bank Trust Company (St. Kitts-Nevis-Anguilla) Limited – 5,750,000 shares at \$1 each	-	-
12,000	12,000	St. Kitts and Nevis Mortgage and Investment Company Limited 12,000,000 shares at \$1 each –	-	-
<u>17,750</u>	<u>17,750</u>		<u>-</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

## BANK

<u>2005</u>	<u>2006</u>
\$000	\$000

### 9 CUSTOMERS' LIABILITY UNDER ACCEPTANCES, GUARANTEES AND LETTERS OF CREDIT

854	981	Letters of Credit
4,096	4,096	Guarantees (credit cards)
<u>4,950</u>	<u>5,077</u>	

## GROUP

<u>2006</u>	<u>2005</u>
\$000	\$000

980	854
4,097	4,096
<u>5,077</u>	<u>4,950</u>

### 10 PREMISES AND EQUIPMENT

14,609	14,417	Freehold Premises
264	583	Furniture and Fittings
1,829	2,518	Equipment
204	253	Vehicles
<u>16,906</u>	<u>17,771</u>	

18,628	18,920
649	356
2,852	2,287
517	416
<u>22,646</u>	<u>21,979</u>

### 11 OTHER ACCOUNTS

3,223	4,814	Interest Receivable
646	412	Other Receivables
12,007	16,212	Prepayments
302	303	Stationery and Cards stock
<u>16,178</u>	<u>21,741</u>	

4,840	3,223
9,886	12,234
16,357	12,019
303	301
<u>31,386</u>	<u>27,777</u>

### 12 TAXATION

#### Tax Expense

13,604	20,460	Current Tax
(100)	86	Deferred Tax
<u>13,504</u>	<u>20,546</u>	

20,939	15,163
86	(100)
<u>21,025</u>	<u>15,063</u>

#### Profit for the year before tax

14,218	23,825	Income tax at the applicable tax rate of 35%
1,397	1,444	Non-deductible expenses
62	25	Deferred tax over provided
(2,173)	(4,748)	Income not subject to tax
<u>13,504</u>	<u>20,546</u>	

70,283	44,720
24,599	15,652
1,444	1,397
25	62
(5,043)	(2,048)
<u>21,025</u>	<u>15,063</u>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

BANK		GROUP	
2005 \$000	2006 \$000	2006 \$000	2005 \$000
<b>12 TAXATION (con't)</b>			
		<b>Deferred Tax</b>	
(274)	(374)	(374)	(274)
(100)	85	85	(100)
-	314	314	-
(374)	25	25	(374)
(374)	(289)	(289)	(374)
-	314	314	-
(374)	25	25	(374)
<b>13 CUSTOMERS' DEPOSITS</b>			
		<b>Analysis by Sector</b>	
243,872	266,573	266,573	243,872
283,156	307,153	220,535	207,059
439,344	470,017	470,017	439,344
142,846	98,170	99,083	143,264
<b>1,109,218</b>	<b>1,141,913</b>	<b>1,056,208</b>	<b>1,033,539</b>
<b>14 DEFERRED CREDIT</b>			
<b>11,474</b>	<b>11,474</b>	<b>11,474</b>	<b>11,474</b>
		Balance brought forward	
<b>15 ACCUMULATED PROVISIONS, CREDITORS AND ACCRUALS</b>			
-	-	74,058	65,748
21,749	34,568	34,568	21,749
13,938	15,110	16,582	16,745
1,361	945	945	1,361
2,535	2,813	2,813	2,535
93,540	93,540	93,540	93,540
32,382	68,713	68,713	32,382
20,213	29,522	39,876	33,528
<b>185,718</b>	<b>245,211</b>	<b>331,095</b>	<b>267,588</b>

St. Kitts and Nevis Mortgage and Investment Company Limited (MICO), a subsidiary of the Bank, acquired in December 2002 the remaining properties used by a customer 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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### BANK

2005	2006
\$000	\$000

### GROUP

2006	2005
\$000	\$000

#### 16 SHARE CAPITAL

135,000	135,000
---------	---------

#### Authorised:-

135,000,000 Ordinary Shares of \$1 each

135,000	135,000
---------	---------

81,000	81,000
--------	--------

#### Issued and Fully Paid:-

81,000,000 Ordinary Shares of \$1 each

81,000	81,000
--------	--------

#### 17 RESERVES

34,955	50,000
7,500	12,000
29,587	45,000
2,714	2,492

Statutory Reserve  
Loan Loss Reserve  
General Reserve  
Revaluation Reserve

50,000	34,955
12,000	7,500
60,837	43,729
2,492	2,714

74,756	109,492
--------	---------

125,329	88,898
---------	--------

#### Statutory Reserve

26,955	34,955
8,000	15,045

Balance brought forward  
Additions

34,955	26,955
15,045	8,000

34,955	50,000
--------	--------

50,000	34,955
--------	--------

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 profit of each year whenever the reserve fund is less than the Bank paid-up capital.

#### General Reserve

23,587	29,587
6,000	15,413

Balance brought forward  
Amount transferred during the year

43,729	36,074
17,108	7,655

29,587	45,000
--------	--------

60,837	43,729
--------	--------

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### BANK

2005	2006
\$000	\$000

### GROUP

2006	2005
\$000	\$000

#### 17 RESERVES (cont'd)

##### Revaluation Reserve

1,909	1,909	Property	1,909	1,909
552	552	Available-for-sale securities (on adoption of IAS 39)	552	552
253	345	Movement in Market value of investment securities	345	253
-	(314)	Deferred Tax on securities appreciation	(314)	-
<u>2,714</u>	<u>2,492</u>		<u>2,492</u>	<u>2,714</u>

During December 1996 a valuation on property was carried out on the Bank's land and building by Vincent Morton & Associates Limited – an independent valuer.

##### Loan Loss Reserve

7,500	7,500	Balance brought forward	7,500	7,500
-	4,500	Amount transferred during the year	4,500	-
<u>7,500</u>	<u>12,000</u>		<u>12,000</u>	<u>7,500</u>

#### 18 NET INTEREST INCOME

##### Interest Income

56,711	75,104	Loans and Advances	75,735	56,727
3,216	1,928	Loan fees	1,928	3,216
11,111	10,786	Deposits with other financial institutions	10,786	11,111
7,282	15,640	Investments	15,640	7,732
35	31	Other	31	35
<u>78,355</u>	<u>103,489</u>		<u>104,120</u>	<u>78,821</u>

##### Interest Expense

43,144	53,973	Customers' Deposits	52,596	41,447
7,279	7,695	Due to other Banks	7,695	7,279
<u>50,423</u>	<u>61,668</u>		<u>60,291</u>	<u>48,726</u>
<u>27,932</u>	<u>41,821</u>	Net Interest Income	<u>43,829</u>	<u>30,095</u>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### BANK

<u>2005</u>	<u>2006</u>
<u>\$000</u>	<u>\$000</u>

### GROUP

<u>2006</u>	<u>2005</u>
<u>\$000</u>	<u>\$000</u>

## 19 EXPENSES

Included in this expense head are:

72	72	Audit Fees and Expenses	160	160
355	281	Directors' Fees	583	631

## 20 EARNINGS PER SHARE

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

<u>27,120</u>	<u>47,525</u>	Profit attributable to shareholders	<u>49,258</u>	<u>29,657</u>
<u>81,000</u>	<u>81,000</u>	Weighted average number of ordinary shares in issue	<u>81,000</u>	<u>81,000</u>
<u>0.33</u>	<u>0.59</u>	Diluted/Basic earnings per share	<u>0.61</u>	<u>0.37</u>

## 21 DIVIDEND

The financial statements reflect a dividend of \$10,935,000 for the year ended June 30, 2005, which was approved at the Thirty-fifth Annual General Meeting held on January 12, 2006 and subsequently paid.

A dividend in respect of 2006 of \$0.15 per share (2005 - \$0.135 per share) amounting to \$12,150,000 is proposed. These financial statements do not reflect this proposed dividend which, if approved, will be accounted for as an appropriation of retained earnings in the year ending June 30, 2007.

## 22 CONTINGENT LIABILITIES

### 22.1 Financial Commitments

As at June 30, 2006, the Bank was committed to make loans and advances amounting to approximately \$46,109,711 (2005 - \$ 42,742,242).

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### 23 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.

#### SUBSIDIARIES

Advances outstanding as at June 30, 2006 amounted to \$24,462,628 (2005 - \$23,279,266).

Deposits balances as at June 30, 2006 amounted to \$87,314,164 (2005 - \$77,747,370).

#### DIRECTORS AND ASSOCIATES

Advances outstanding as at June 30, 2006 amounted to \$238,014 (2005 - \$397,626).

Deposits balances as at June 30, 2006 amounted to \$4,435,376 (2005 - \$3,645,197).

### 24 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 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 rate 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 their current rates and are assumed to have discounted cash flow values that approximate carrying values.

### 25 CURRENCY RISK

The Bank is exposed to currency risk through its international card business receipts and settlements. Various strategies to hedge the key risk have been devised, ensuring at all times that its actions are in keeping with the Bank's overall objective.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### 25 CURRENCY RISK (cont'd)

#### CURRENCY RISK EXPOSURE

Amounts (\$000)	CAD	EUR	GBP	GUY
2006	1,224	29,396	1,625	38
2005	897	65,390	2,147	19

### 26 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.

#### Interest Rates (%)

	EC\$	US\$	EURO
<b>2006</b>			
<b>Assets</b>			
Treasury Bills	6.50	-	-
Deposits with other banks	-	3.05-5.06	1.80-2.76
Deposits with non-bank financial institutions	8.50-10.50	4.73	-
Originated Debt	5.50-14.00	-	-
Investment securities	6.50-8.00	3.00-7.20	-
<b>Liabilities</b>			
Due to customers	1.50-9.00	1.25-2.00	-
Borrowings	4.75-5.90	-	-
<b>2005</b>			
<b>Assets</b>			
Treasury Bills	6.50	-	-
Deposits with other banks	4.50	1.80-3.23	2.00-2.02
Deposits with non-bank financial institutions	8.50-9.00	4.73	-
Originated Debts	5.50-14.00	-	-
Investment securities	6.50-8.00	3.00-7.50	-
<b>Liabilities</b>			
Due to customers	1.50-9.00	1.25-2.00	-

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### 26 INTEREST RATE RISK (cont'd)

#### Interest Sensitivity of Assets and Liabilities

	Up to 1 Year \$000	1 to 5 Years \$000	Over 5 Years \$000	Non- Interest Bearing \$000	Total \$000
<b>As at June 30, 2006</b>					
<b>Assets</b>					
Cash and money at call	401,437	946	1,306	136,720	540,409
Loan and advances	587,185	69,255	169,498	20,365	846,303
Investments	92,880	9,968	8,657	53,411	164,916
Other assets	-	-	-	62,628	62,628
Total assets	1,081,502	80,169	179,461	273,124	1,614,256
<b>Liabilities</b>					
Due to other banks	86	-	-	-	86
Customers' deposits	810,848	138,394	-	192,671	1,141,913
Other liabilities	981	-	93,540	167,555	262,076
Total liabilities	811,915	138,394	93,540	360,226	1,404,075
<b>Interest Sensitivity Gap</b>	<b>269,587</b>	<b>(58,225)</b>	<b>85,921</b>		
<b>As at June 30, 2005</b>					
Total assets	1,043,465	43,270	139,165	278,255	1,504,155
Total liabilities	697,031	269,302	93,540	270,468	1,330,341
<b>Interest Sensitivity Gap</b>	<b>346,434</b>	<b>(226,032)</b>	<b>45,625</b>		

### 27 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 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 portions. 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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### 27 LIQUIDITY RISK (cont'd)

#### Analysis of assets and liabilities into relevant maturity grouping

	Up to 1 Year \$000	1 to 5 Years \$000	Over 5 Years \$000	Total \$000
<b>As at June 30, 2006</b>				
<b>Assets</b>				
Cash and Money at call	538,157	946	1,306	540,409
Loans and advances	607,551	69,254	169,498	846,303
Investments	92,880	9,968	62,068	164,916
Other assets	22,574	7,888	32,166	62,628
Total assets	1,261,162	88,056	265,038	1,614,256
<b>Liabilities</b>				
Due to other banks	86	-	-	86
Customers' deposits	1,003,519	138,394	-	1,141,913
Other Liabilities	143,618	13,444	105,014	262,076
Total liabilities	1,147,223	151,838	105,014	1,404,075
<b>Net Liquidity Gap</b>	<b>113,939</b>	<b>(63,782)</b>	<b>160,024</b>	
<b>As at June 30, 2005</b>				
Total assets	1,277,417	50,148	176,590	1,504,155
Total liabilities	944,182	281,145	105,014	1,330,341
<b>Net Liquidity Gap</b>	<b>333,235</b>	<b>(230,997)</b>	<b>71,576</b>	

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2006

### 28 CREDIT RISK

Credit risk is the potential to incur losses due to failure of a counter party or borrower to meet its financial obligations. Credit risk is inherent in lending and investing activities. Exposures to credit risk are mainly concentrated in St. Kitts and Nevis, North America, Europe, and other Caribbean States

The Bank exposure to credit risk is managed through regular analysis of the ability of its borrowers (current and potential) as well as counterparties 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 the risk geographically as well as over a diversity of personal and commercial customers.

#### Geographical Concentration of Assets and Liabilities

	Total Assets \$000	Total Liabilities \$000	Credit Commitments \$000	Total Income \$000	Capital Expenditure \$000
<b>As at June 30, 2006</b>					
St. Kitts and Nevis	1,174,187	1,024,947	46,110	134,619	509
North America	330,679	284,977	-	14,549	1,499
Europe	91,297	611	-	5,298	5
Other Caribbean States	18,093	93,540	-	490	432
	<b>1,614,256</b>	<b>1,404,075</b>	<b>46,110</b>	<b>154,956</b>	<b>2,445</b>
<b>As At June 30, 2005</b>					
St. Kitts and Nevis	1,021,900	1,066,741	42,742	103,925	451
North America	169,770	220,249	-	3,523	288
Europe	300,072	-	-	2,659	7
Other Caribbean States	12,413	43,351	-	553	57
	<b>1,504,155</b>	<b>1,330,341</b>	<b>42,742</b>	<b>110,660</b>	<b>803</b>

### 29 OPERATIONAL RISK

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

# Management Discussion and Analysis of Financial Condition and Results of Operations

Management Discussion and Analysis provides an overview of the performance of St. Kitts-Nevis-Anguilla National Bank for the year ended June 30, 2006 compared with the year ended June 30, 2005. This should be read in conjunction with the financial statements and notes presented on pages 22 to 44 of this annual report.

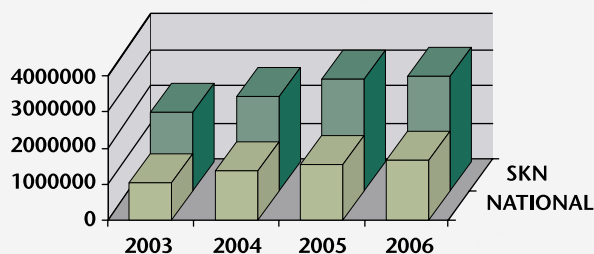
## Operating Environment

St. Kitts-Nevis-Anguilla National Bank (National) commands the largest share of the domestic market in assets, deposits, and loans and advances. National's position within the domestic market is set out below:

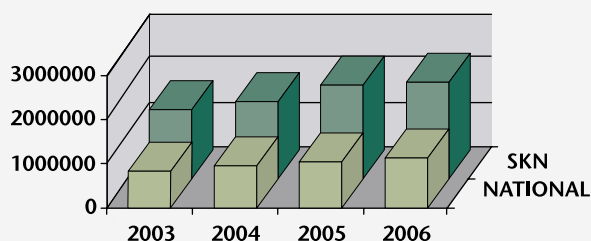
These graphs show that while the growth in the St Kitts-Nevis market was significant from one year to the next, National has been able to maintain its dominant position. In 2006, National assessed market share of total assets was 51%, total deposits were placed at 51% as well, and another 51% of the market for loans and advances. The remaining market share was allocated among the other five commercial banks at various percentages.

*National Bank versus St. Kitts-Nevis Market (in thousands of EC\$)*

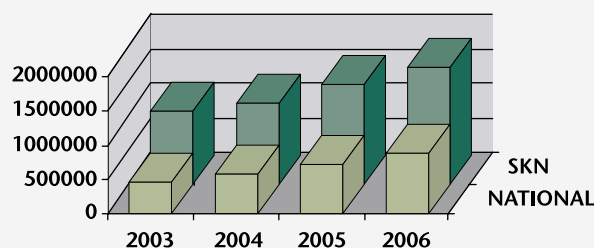
**Total Assets**



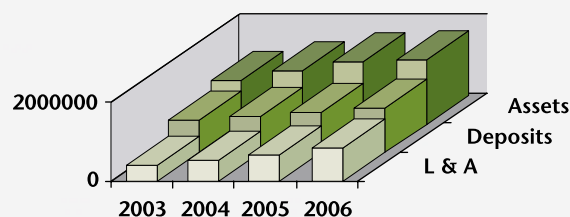
**Total Deposits**



**Loans & Advances**



**National Assets, Deposits and  
Loans & Advances**



# Management Discussion and Analysis of Financial Condition and Results of Operations

## Review Of Operations

### Net Interest Income

The Company's operational results are largely influenced by the interplay of the different global economic elements and how they impact our local economy. In fiscal year 2006, net interest income was \$41.8 million compared with \$27.9 million for fiscal year 2005. This represents a 49.8% increase.

The increase in net interest income was due mainly to the growth in loans and advances along with an increase in investments. Interest income from advances to customers grew by 28.5% to \$77.0 million while interest income from investments rose 113.7% to \$15.6 million as a result of a larger investment portfolio accompanied by higher interest rates.

The movement in interest income significantly impacted the yield on earnings assets as it grew 150 basis points higher in 2006 to 8.2% whilst the cost to fund earnings assets increased by 60 basis points to 4.9%. As a result of this 90 basis points difference in spread, net interest margin rose to 3.3% in 2006 from 2.4% in 2005.

### Non-Interest Income

As at June 30 2006, non-interest income was 59.3% or \$19.2 million higher than the 2005 figure. This increase was due mainly to commission income on international transactions and foreign currency gains. The growth in 2006 of this subhead accounted for 69.8% of the increase in total operating income before tax.

This upward trend in non-interest income is expected to continue as the Bank adds new avenues in diversifying and enhancing its products while strengthening its customer base. By fully employing our competitive advantages and capitalizing on our superior internal processes, non-interest income will remain an important component of profitability for the Bank.

### Expenses

Containment of total operating expenses remains a critical factor in the strategic direction of the Bank. However, along with this focus on operating expenses, the Bank believes that depositors must be adequately compensated for the funds they placed with the Bank. In this regard, National continues to pay the highest interest on all funds deposited with the Bank by its many and loyal customers.

In 2006 financial year, interest paid to depositors increased by 22.3% on 2005 payments of \$50.4 million to \$61.7 million. In addition, the non-interest expenses increase on 2005 expenses amounted to 12.7% or \$2.4 million. The increase in non-interest expenses resulted from increases in utility costs, a loss on marketable securities, and staff employment. The loss on marketable securities was a direct result of rising interest rates in the U.S as the market value of fixed income securities falls with each increase in interest rates.

# Management Discussion and Analysis of Financial Condition and Results of Operations

Our efficiency ratio strengthened in 2006, falling to 23.2% from 32.6% in 2005. This indicates a highly profitable Bank where expenses account for a small percentage of total revenue.

## Financial Condition

### Earnings

In fiscal year 2006, the Company generated after-tax profit of \$47.5 million, an increase of \$20.4 million, or 75.3%, over fiscal year 2005. Earnings per share in fiscal year 2006 were \$0.59, based on weighted average outstanding shares of 81,000,000 compared to \$0.33 in fiscal year 2005, based on the same number of outstanding shares.

### Deposits

Deposits remain the key source of funding for the Bank. At June 30, 2006 total deposits grew by 2.9% to \$1.14 billion. The growth in deposits was fueled mainly by an increase in savings and fixed deposits. At the end of fiscal year 2006, savings and fixed deposits accounted for 73.9% of total deposits compared with 71.5% a year ago.

### Assets

Total assets moved slightly to \$1.6 billion at the end of the financial year; a 6.7% increase over the previous year's figure of \$1.5 billion. The growth came mainly from a small increase in local funding along with an increase in foreign business.

### Liquidity

The Company remained highly liquid throughout financial year 2006. At June 30, 2006 one-year assets remained fairly constant at \$1.3 billion compared with those at June 30, 2005. On the other hand, liabilities expiring within one year amounted to \$1.1 billion at June 30, 2006, compared with \$0.9 billion at June 30, 2005. This positive net liquidity gap compares well with the model set out by the Asset/Liability Management Committee.

### Capital

Shareholders' Equity grew by 20.9% to \$210.2 million at the end of June 2006 compared with \$173.8 million in the previous year. Return on equity (ROE) was 24.4% for fiscal year 2006 compared with 11.0% for fiscal year 2005.

Based on the Basel Capital Accord, bank regulators recommend minimum requirements for capital adequacy of their member banks as a protection to depositors as well as to promote stability and efficiency in the financial sector.

**Tier 1 Capital:** The Accord recommends a minimum Tier 1 Capital ratio of 4%. As of June 30, 2006 the Bank Tier 1 Capital ratio was 44.0% compared with 38.9% at June 30, 2005.

**Total Capital:** The Total Capital ratio of the Bank at June 30, 2006 was 62.0% - 54 points above the 8% minimum required by the Accord.

# Management Discussion and Analysis of Financial Condition and Results of Operations

These results show the capacity within the Bank to strengthen its position in the sub-regional banking industry.

## **Risk Management**

The management of risks has emerged as one of the greatest challenges that the Bank now face. This challenge must be tackled by developing new approaches and by adjusting current processes.

The Bank has taken up this challenge and has placed increased emphasis on the management of risks through the systematic development of tools and strategies to mitigate these risks. In fiscal year 2006, the Company conducted due diligence on a number of companies offering Anti-Money Laundering Solutions and has chosen one of these providers to further enhance its risk management strategies.

The risk management solution adopted offers the Company the ability to further detect and prevent all attempts to use the Company for unlawful activities. The new Anti-money laundering solution monitors and analyses all customer transactions and assist in the detection of suspicious and unlawful activities. The Company continues to develop relationships with providers of innovative solutions to combat terrorist and anti-money laundering activities as a protection to all stakeholders especially its correspondent banks.

## **Corporate Governance**

The Board of Directors continues to monitor the business affairs of the Bank to ensure compliance with relevant statutes and regulations. They are charged with the oversight responsibility of increasing operational efficiency, strengthening shareholder and customer confidence, and the investment attractiveness of the Company. The Board is constantly reviewing material developments in governance practices, issues and requirements, and where necessary, policy and strategic actions are taken to safeguard the interest of the Company.

## **Going Forward**

With significant improvement in key areas of development, productivity and profitability, the Company has set new strategies and objectives maintaining the high standards achieved during fiscal year 2006. In the upcoming year, the Company will continue to embrace and combat the challenges that are ahead and monitor and measure financial targets in meeting shareholders, customers and employees objectives.

