THE BANK OF NEVIS LIMITED

Annual Report 2004

Mission:

To create wealth for all stakeholders by providing world-class financial services.

Vision:

To be a world-class bank.

TABLE OF CONTENTS

NOTICE OF MEETING

Notice is hereby given that the Eighteenth Annual General Meeting of the Bank of Nevis Limited will be held at Old Manor Hotel on Thursday December 9, 2004 at 5:00pm.

AGENDA

1. To approve Minutes of the Seventeenth Annual General Meeting held on January 8, 2004.
2. To receive the report of the directors.
3. To receive and consider the Accounts for the year ending June 30, 2004.
4. To elect Directors. Messrs Joseph Parry, Rawlinson Isaac and Wendell Huggins retire by rotation and, being eligible, offer themselves for re-election.
5. To declare a dividend of 17.50 cents per share.
6. To appoint Auditors for the year ending June 30, 2005. PricewaterhouseCoopers, Chartered Accountants, retire and, being eligible, offer themselves for reappointment.
7. Any other business.

BY ORDER OF THE BOARD

....

LYRA P.S. RICHARDS (MISS)
Secretary

Notes

1. **All shareholders of record as at November 18, 2004, will be entitled to receive a dividend with respect to the financial year ended June 30, 2004.**
2. **A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/her. No person shall be appointed by proxy who is not a member of the company and qualified to vote, save that a corporation being a member of the Company may appoint as a proxy one of its officers or any other person though not a member of the Company (Article 79).**
3. **No person not being a retiring Director shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any General Meeting unless he, or some other member intending to propose him, has at least seven clear days before the meeting left at the office a notice in writing, duly signed, specifying his candidature for the office and the intention of such member to propose him (Article 97).**

THE BANK OF NEVIS LTD.
CORPORATE INFORMATION

DIRECTORS

Reginald L. Kawaja	Barrister-at-Law/Chairman
Rawlinson Isaac, B.A. (Hons), MBA, AFA, Dip FS, DTEP, FCIB	General Manager
Hanzel Manners, B.A. (Hons), FCCA, ACIB	Chartered Accountant/Chief Financial Officer
Richard Lupinacci, B.A.	Hotelier
Spencer Howell, SCV. RIM	Real Estate Agent
Joseph Parry, B.A. (Hons), JP, Notary Public	Businessman
Wendell Huggins, B.A. (Hons)	Businessman
Kishu Chandiramani	Businessman

SECRETARY

Lyra P. S. Richards

REGISTERED OFFICE:

Bank of Nevis Building
Main Street, Charlestown
Nevis, West Indies

AUDITORS:

PricewaterhouseCoopers
11 Old Parham Road
P O Box 1531
St John's
Antigua, West Indies

LEGAL COUNSEL:

Kawaja & Associates
Barristers-at-Law & Solicitors Chambers
The Courtyard, Bank of Nevis Building
Nevis, West Indies

INVESTMENT BROKERS:

Caribbean Money Market Brokers
RBTT Merchant Bank
Charles Schwab

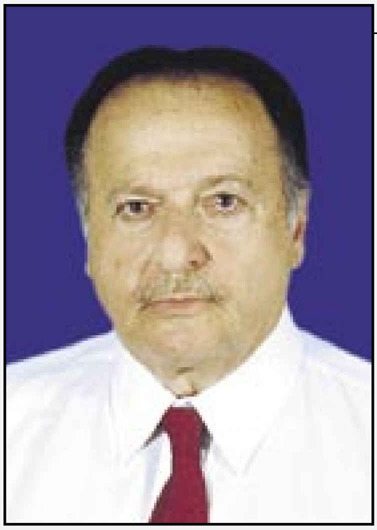
SUBSIDIARY:

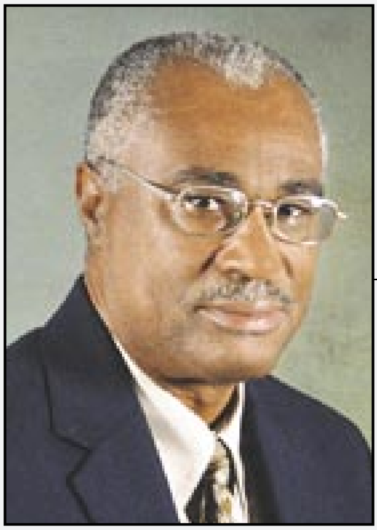
Bank of Nevis International Ltd.

CORRESPONDENT BANKS

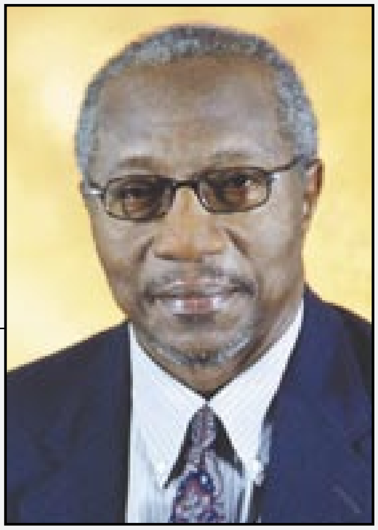
Antigua	Antigua Commercial Bank
Barbados	Barbados National Bank
Canada	Toronto Dominion Bank
St Kitts	SKNA National Bank
St Kitts	First Caribbean International Bank
St Kitts	Royal Bank of Canada
St Lucia	Bank of St Lucia
St Maarten	Windward Island Bank
St Vincent	National Commercial Bank
United Kingdom	ABN-AMRO (London)
United Kingdom	Lloyds TSB Bank PLC
United States	Bank of America
United States	The International Bank of Miami N.A

BOARD OF DIRECTORS





Reginald Kawaja
Chairman



Kishu Chandiramani

Hanzel Manners

Lyra Richards
Secretary

Wendell Huggins

Rawlinson Isaac

Joseph Parry

Richard Lupinacci

Spencer H. Howell

THE BANK OF NEVIS LIMITED

Consolidated Financial Highlights

expressed in Eastern Caribbean Dollars

	2004 ($'000)	2003 ($'000)	2002 ($'000)	2001 ($'000)	2000 ($'000)
Assets / Liabilities					
Total Assets	**326,390**	283,112	228,726	201,027	230,995
Total Deposits	**295,183**	253,856	203,976	175,914	209,725
Loans & Advances (Net)	**70,157**	62,087	58,674	49,776	44,602
Cash & Short Term Funds	**97,937**	104,675	104,324	121,238	122,594
Short-Term Investment	**32,240**	15,040	12,284	2,948	2,948
Investment Securities	**116,382**	93,873	46,051	18,522	53,059
Premises & Equipment (Net)	**8,420**	5,476	3,579	3,605	3,783
Operating Results					
Gross Operating Income	**16,188**	15,978	13,909	15,150	15,639
Total Expense/Provisions	**13,166**	11,436	11,608	9,759	9,133
Earnings Before Taxation	**3,022**	4,542	2,301	5,390	6,506
Interest Expense	**5,913**	5,135	4,748	4,325	3,286
Provision for Income Tax	**232**	185	421	475	332
Net Earnings	**2,790**	4,357	1,880	4,915	6,174
Shareholders' Funds					
Paid-up Share Capital	**7,478**	7,478	7,478	7,478	7,478
Revenue & Capital Reserves	**16,656**	16,795	9,296	12,248	7,332
Shareholders' Equity	**24,134**	24,273	16,774	19,726	14,811
Performance Indicators					
Return on Average Assets (%)	**0.92**	1.70	0.87	2.28	3.02
Return on Average Equity (%)	**11.53**	21.23	10.30	28.46	48.86
Earnings per Share ($)	**0.37**	0.58	0.25	0.66	0.83
Dividend per Share (cts)	**17.5**	17.5	12.5	30.0	30.0
Number of Employees	**44**	38	36	32	30

Chairman's Remarks - 2004

I am pleased to welcome you to our 2004 meeting and to introduce and remark on the Financial Statements and affairs of the Bank for the period to June 30, 2004.

The statements and record will include the following and other information for the period: -

1. A Net Income of $2.79 million down from $4.36 million in 2003 and up from $1.88 million in 2002, with earnings per share of 37 cents in 2004, compared with 58 cents per share in 2003 and 25 cents per share in 2002;

2. Shareholders Equity of $24.13 million, roughly equal to $24.27 million in 2003 and up from $16.77 million in 2002;

3. A Total Asset increase in 2004 of $43.3 million up from $283.1 million to $326.4 million, with a $41.3 million increase in customer deposits from $253.8 million in 2003 to $295.1 million in 2004;

4. An Operating Expense increase from $6.30 million in 2003 to $6.99 million in 2004;

5. A Cash Dividend Proposal of 17.5 cents per share as in 2003, with shares trading evenly at $5.10 each (up from $3.90 in 2003);

6. The Acquisition of a strategically valuable adjacent property at a cost of $2.5 million plus related costs and a temporary lease of premises to accommodate Credit Card and our subsidiary's business.

Generally and specifically, I am pleased to report that there were significant improvements, in technical systems, manuals, staff training, customer services and protection procedures.

Chairman's Remarks - 2004

Continued

The Bank's current Equity and Asset base, and its record of the past five (5) years, now provide adequate foundation for management to achieve a consistent net profit return of the greater of 1.70% on assets or 22% on equity (approx. consistent with the 2003 record). This is part of the vision by which performance will and should be measured in future.

Therefore in our journey forward, we must continue to subscribe to sound business practices and principles, to abide by prudent guidelines and be bound by the highest standards of accountability and corporate governance. We must in particular continue our resolve to serve the best interests of the shareholders who are the owners of the company and continue to: -

1. Maintain, without exception, all costs and expenses, at the lowest possible cost efficient levels;

2. Regularly revisit our performance, standards and policies to allow for timely, wise and accurate governance;

3. Continue to improve and to manage to the highest standards, all our lending, investment and other policies and goals;

4. Manage our plan for greater shareholder value and dividend;

5. Recognize that to be credible we must succeed in making our vision a reality.

Conditions continue to be challenging, but with sound and dedicated management, our vision will become a reality for our shareholders and for the community.
On behalf of the Board, I thank our shareholders and customers, our management and staff for their ongoing support and contribution and achieving the above and more.

We wish you and your families a Happy Holiday and a very successful new year.

REGINALD KAWAJA
Chairman

DIRECTORS' REPORT

At the commencement of the financial year ended June 30, 2004, the directors and management articulated the following key objectives: -

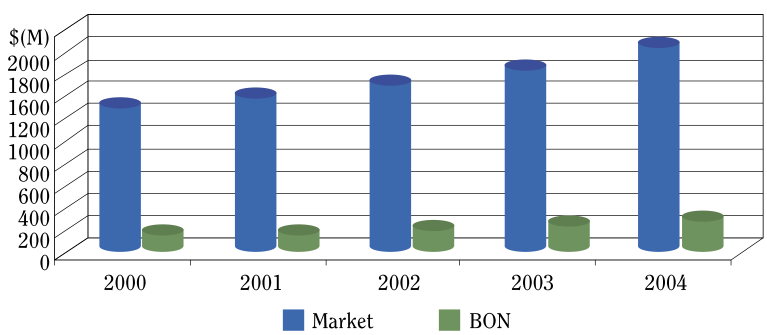
(a) To increase market share of deposits
(b) To increase the share price
(c) To provide new premises for the accommodation of staff and customers
(d) To develop new products and services to meet the growing needs and wants of the marketplace
(e) To build human resource capacity
(f) To be customer centric in our approach to building customer loyalty and retention
(g) To improve financial performance indicators

These key objectives were established against the economic landscape of St. Kitts-Nevis with the prospects for an increase in tourism and construction activities. The growth in Gross Domestic Product (GDP) is projected at 3.4% for period ending 2004. Liquidity in the banking system remained at a high level and interest rates on deposits were generally stable.
The Global economy continued to exhibit signs of uncertainty with interest rates at their lowest in decades.

During the year under review, the following objectives were achieved: -

MARKET SHARE

The Bank increased its market share from 15.5% in 2003 to 16.0% in 2004. The market deposits grew by $202.0 million or 12.3% in 2004 compared with the growth rate of 9% or $135.0 million in 2003.



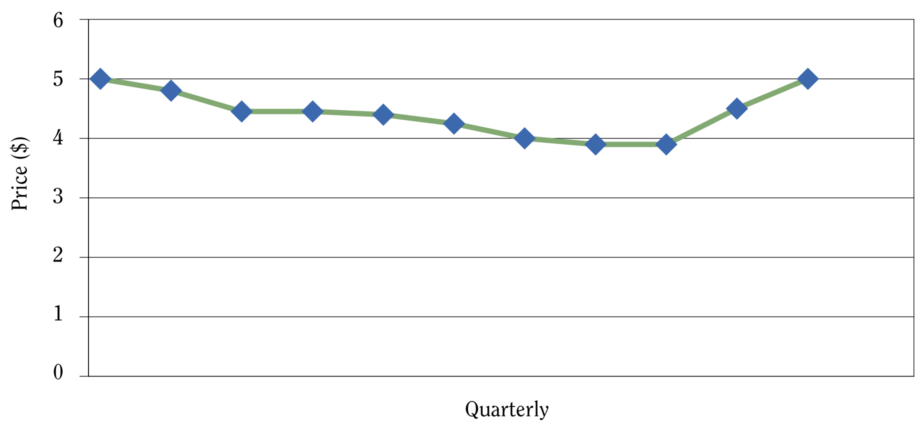
DIRECTORS' REPORT
Continued

SHARE PRICE

At June 30th 2004 the share price stood at EC$5.10 per share up from $3.90 as at June 30th 2003, an increase of $1.20 per share or 30.8%. The table below shows the activities on the exchange since listing on October 19, 2001.

	2004	**2003**	**2002**
Number of Trades	50	46	72
Volume	551,499	17,532	41,144
End of year share price ($)	5.10	3.90	4.45

SHARE PRICE MOVEMENT 2001-2004



NEW PREMISES

The Bank outgrew its existing premises and our search for new premises to accommodate the expanding operations and provide comfort and convenience for the staff and customers was accorded priority.

During the year, the building adjacent to the existing premises on Main Street, a perfect fit for the Bank, was acquired at a cost of $2.7 million including taxes, legal and other related costs.

Work is expected to commence shortly to modernize the building.

New Products

Our efforts to bring new products to the marketplace have been successful. Our ATM facility was commissioned during the year and customers now have access to our 24-hour banking service.

Our internet banking facility, BONonline, was introduced to our offshore customers with the following capabilities: -

1. Download of account history
2. Account inquiries
3. Internal transfers
4. Stop payments

Our computer system has been upgraded and our BONonline product will be available to the domestic market shortly. Our gold card is proving to be the credit card of choice and our debit card platform is well advanced. The credit card acquiring program has experienced some delays, but is receiving attention.

The Nevis Island Government (NIG) has licensed our Mutual Fund Product. This product will be issued to our International customers in three categories:

Class 'A'	-	US$ money market investments
Class 'B'	-	US$ fixed income securities
Class 'C'	-	EC$ OECS Government Securities

A similar product is being developed for the domestic market which we hope will be licensed by the Eastern Caribbean Securities Exchange (ECSE) to provide alternative investment opportunities within the OECS region.

DIRECTORS' REPORT

Continued

HUMAN RESOURCE CAPACITY

Building Human Resource capacity is critical to the development of the Bank. To this end, an Investment and Product Development Manager and an Investment Analyst were employed to meet the investment needs of our growing customers.

Training was received in the following areas: - effective credit administration, fraud prevention, anti-money laundering, internal controls and fraud detection, new technology, credit and debit cards, ECSE Operations and investment products.

Staff received training locally and overseas. Miss Bronte Swanston successfully completed a Diploma in Financial Services Management, (Dip FSM) from the Institute of Financial Services, U.K. Other members of staff are pursuing professional studies leading to the CPA, CGA and the AIB/degree programs, as well as academic degrees in Management, Technology and Finance. The Bank contributed significantly to the training initiatives. Investment in staff training during the year amounted to $83,390 compared with $30,148 in 2003, an increase of $53,242 or 176.6%.

CUSTOMER FOCUS

The delivery of customer service beyond expectation is a prime focus of the Bank. Staff members participated in several workshops in customer care, and building customer loyalty and retention.

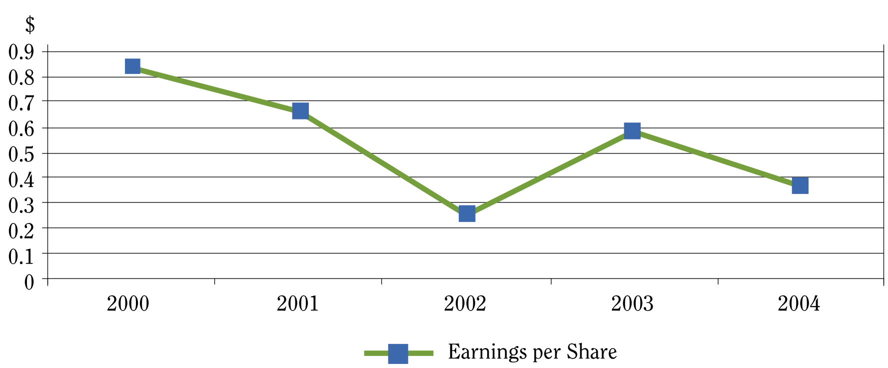
A consultant was hired to assist with the design and development of programs aimed at changing the culture of the organization to an effective customer centric model. The design necessitated a change in the reward system from an annual incremental system to a performance based pay system, with key result areas determined and performance benchmarks established. Already, we have seen improvements in this area and our efforts will be sustained.

PERFORMANCE INDICATORS

	2004	2003	2002	2001	2000
Return on Average Equity (ROE) %	11.53	21.23	10.30	28.46	48.86
Return on Average Assets (ROA) %	0.92	1.70	0.87	2.28	3.02
Profit Margin %	17.23	27.27	13.52	32.44	39.48
Earnings Per Share (EPS) $	0.37	0.58	0.25	0.66	0.83
Net Asset Backing (NAB) $	3.23	3.25	2.24	2.64	1.98

Two key performance indicators are the Return on Average Assets (ROA) and the Earnings Per Share (EPS). The ROA declined from 1.70% in 2003 to 0.92% in 2004 compared with an increase of 0.83% in 2003 over 2002.

The EPS fell from $0.58 in 2003 to $0.37 in 2004, a 36.2% drop. In 2003, EPS increased by $0.33 over 2002.



At the end of the financial year, the shares traded at 1.58 times book value compared with 1.2 times in 2003.

The financial performance measures fell short of expectation. However, the Bank achieved all its other key objectives.

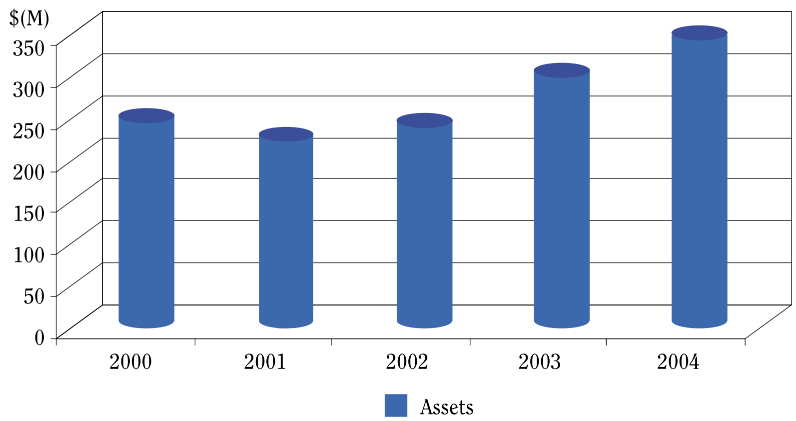
DIRECTORS' REPORT

Continued

BALANCE SHEET PERFORMANCE

Assets

Total assets grew by EC$43.3 million or 15.3% compared with $54.1 million or 23.6% in 2003.



An Analysis of the Balance Sheet reveals the following % components: -

	2004	2003
	%	%
ASSETS		
Cash and due from other banks	30.0	37.0
Treasury Bills	9.9	5.3
Investment Securities	35.7	33.2
Loans and Advances	21.5	21.9
Property, Plant and Equipment	2.5	1.9
Other Assets	0.4	0.7
	100.0	100.0
LIABILITIES & SHAREHOLDERS' FUNDS		
Customers' Deposits	90.4	89.7
Other Liabilities	2.2	1.7
Shareholders' Funds	7.4	8.6
	100.0	100.0

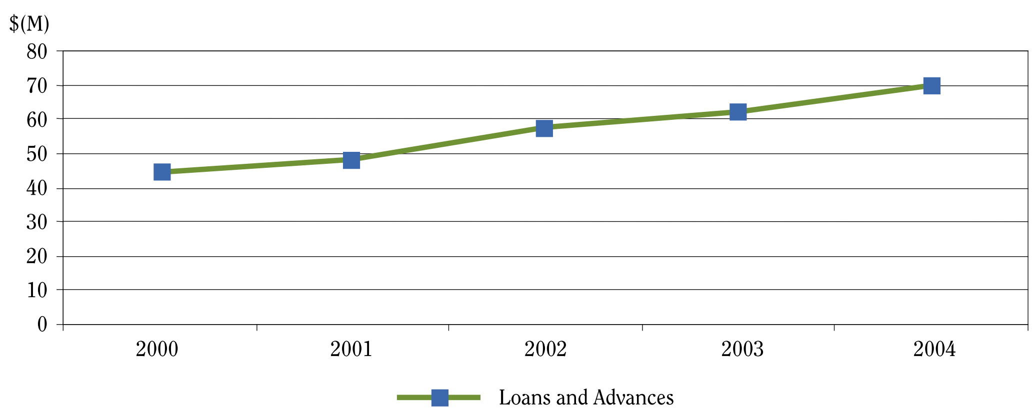
The Bank continues to show a strong liquidity position with cash and bank balances at 30.0% of the Balance Sheet in 2004 compared with 37.0% in 2003.

Investment in treasury bills increased from 5.3% in 2003 to 9.9% in 2004, while investment in securities increased marginally from 33.2% of total assets in 2003 to 35.7%.
Cash, bank balances, treasury bills and investment securities account for 75.6% of the total assets in 2004, (marginally up from 75.5% in 2003).

Except for EC$ treasury bills with a yield of 6 – 7% per annum, all other investments, particularly our fixed income portfolio, yielded relatively low returns due to low US interest rates and our short duration policy. Investment in securities is guided by the investment policy under the direction of the Investment Committee.

LOANS & ADVANCES

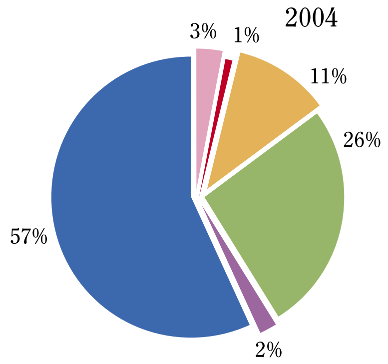
Loans to deposits ratio stood at 23.8% in 2004 compared with 24.5% in 2003. Loans and advances represent a major source of interest income and are granted primarily within the domestic market.

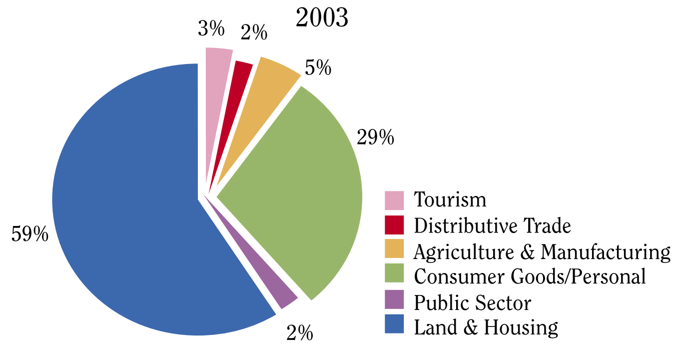


DIRECTORS' REPORT

Continued

Our primary lending is to the land and housing sector which continues to reflect our desire to promote land and home ownership followed by lending for consumer goods and other personal activities. Lending to the other sectors combined represents 17% in 2004 compared with 12% in 2003.



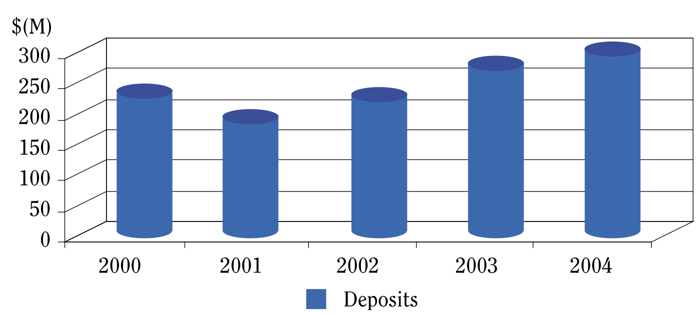


PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment showed a net of depreciation and revaluation increase of $2.9 million in 2004 compared with $1.9 million in 2003. In addition to the property acquisition, during the year the Bank invested $0.5 million in equipment and computer upgrades.

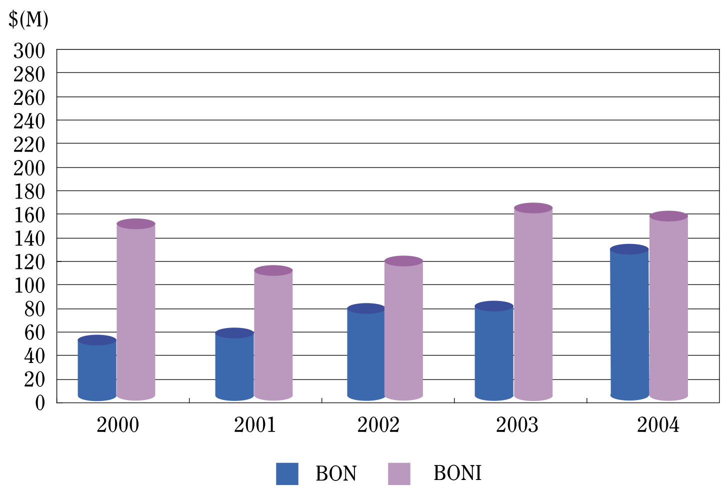
DEPOSITS

Deposits increased by $41.3 million or 16.3% in 2004 compared with $48.5 million or 23.6% in 2003.



Deposits are distributed between the two Banks as follows:

	2004	%	2003	%	Change	%
Domestic Bank (BON)	134.2	45.5	85.7	33.8	48.5	56.6
International Bank (BONI)	161.0	54.5	168.2	66.2	(7.2)	(4.3)
	295.2	100.0	253.9	100.0	41.3	16.3



The table shows a significant shift in domestic deposits from 33.8% of total deposits in 2003 to 45.5% in 2004.

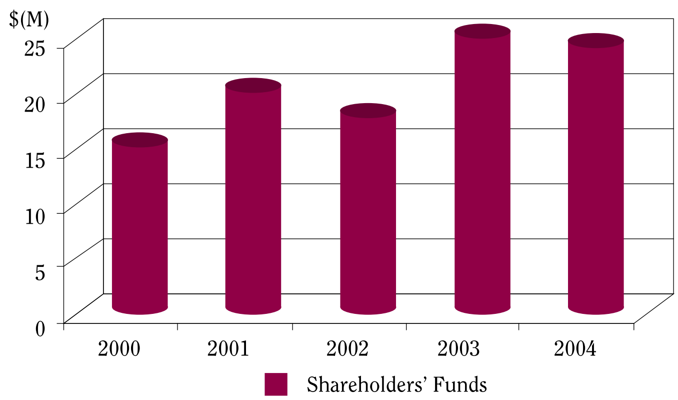
The domestic deposits grew by $48.5 million or 56.6% compared with a marginal increase of $3.3 million or 4.0% in 2003. International Deposits fell by $7.2 million or 4.3% in 2004 compared with an increase of $45.2 million or 36.1% in 2003.

DIRECTORS' REPORT

Continued

SHAREHOLDERS' FUNDS

Shareholders' funds declined marginally by $0.14 million or 0.6% from $24.3 million to $24.1 million in 2004 compared with an increase of $7.5 million or 44.7% in 2003.



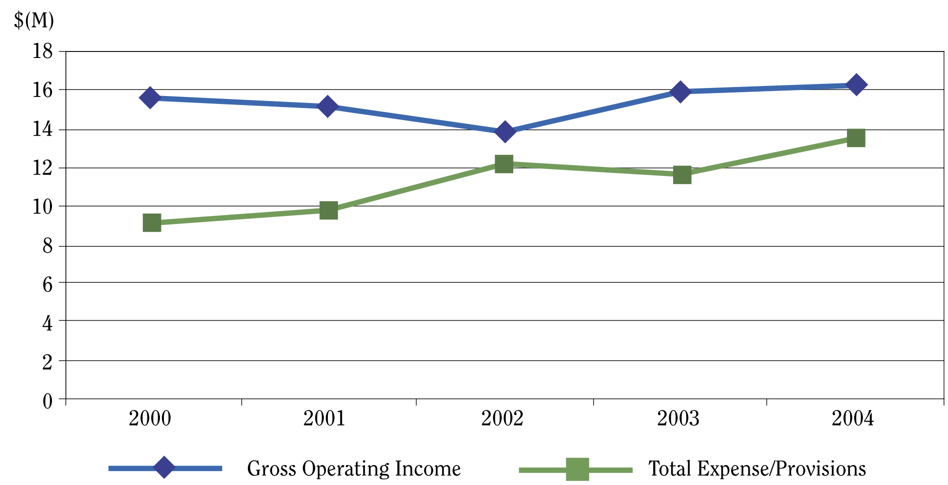
The revaluation reserve account impacted adversely on shareholders' funds from an increase of $4.1 million in 2003 to a decline of $1.6 million in 2004. Property revaluation accounted for $1.6 million of the 2003 increase, with $2.5 million attributed to the appreciation of market value of investment securities. During 2004, the significant decline in market values was reflective of the US Securities market conditions.

At the end of the financial year 2004, market capitalization of the Bank stood at $38.1 million compared with $29.2 million in 2003. Shareholders' funds now represent 7.4% of total assets compared with 8.6% in 2003.

GROUP'S EARNING PERFORMANCE

The Group recorded an increase in total revenue of $0.21million or 1.3% from $15.98 million in 2003 to $16.19 million in 2004.

Total expenses and provisions increased by $1.7 million in 2004, compared with a decrease of $0.17 million in 2003.



INTEREST INCOME

Interest on loans and advances increased by $0.53 million to reach $7.02 million in 2004 compared with an increase of $0.52 million in 2003, while interest from deposits and other investments stood at $6.69 million in 2004, representing an increase of $0.21 million (up from $6.48 in 2003).

Interest yield on loans and advances for 2004 was 10.1% compared with 10.7% in 2003.

DIRECTORS' REPORT

Continued

GAIN/LOSS – INVESTMENT SECURITIES

During the year, the Bank experienced a net loss of $72,326 on the disposal of some of its financial assets, compared with a net gain of $702,272 in 2003.

A summary of the gain or loss position for the last four accounting periods is given in the table below: -

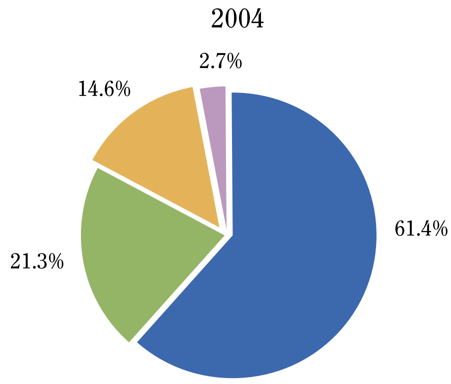
	2004	**2003**	**2002**	**2001**
Gain (Loss) Investment Securities	(72,326)	702,272	(183,264)	162,451

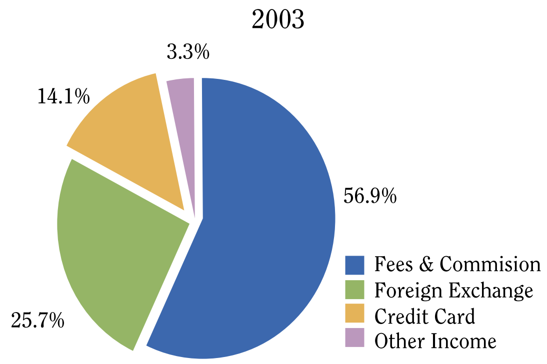
OTHER INCOME

Other income category increased by $0.17 million to $2.5 million in 2004 compared with an increase of $0.09 million in 2003.

The chart below shows the other income percentage distribution for 2004 and 2003.

Fees and commission represent 61.4% of other income in 2004 compared with 56.9% in 2003.





Two other significant contributors to other income are foreign exchange of 21.3% in 2004 (25.7% in 2003) and credit cards with 14.6% in 2004 (14.1% in 2003).

Due to increases in interest payments, and operating expenses, net income fell by $1.57 million or 36.0% in 2004 compared with an increase of $2.48 million or 131.9% in 2003.

OPERATING EXPENSES

The expenses as a percentage of Total Revenue were as follows: -

	2004	2003
	%	%
General & Administrative Expenses	42.5	34.9
Interest Expenses	36.5	32.1
Investment loss and impairment	1.6	-
Loan Loss Provision	0.7	4.6
Taxation	1.4	1.2
SubTotal	82.7	72.8
Profit Margin	17.3	27.2
	100	100

General and Administrative expenses increased by $1.2 million or 28.7% compared with a decline of $0.5 million or 10.8% in 2003. General and Administrative expenses represent 42.5% of the total revenue generated, up from 34.9% in 2003.

Three significant expense items were staff cost, credit card expenses, and professional fees. Staff cost increased by $0.7 million in 2004 compared with $0.3 million in 2003. This increase was due mainly to the hiring of an investment and product development manager, general salary increases and staff training.

Staff costs represent 49.1% of general and administrative expenses in 2004 compared with

DIRECTORS' REPORT
Continued

46.3% in 2003. In relation to average total assets, staff costs represent 0.9% in 2004 compared with 0.8% in 2003.

Credit Card expenses increased by $0.25 million in 2004, compared to an increase of $0.12 million in 2003.

A substantial part of the increase in 2004 was due to the soft costs associated with the building of the debit card and credit card processing platforms. These costs which had to be expensed are developmental in nature. Other costs are related to VISA and MasterCard network and processing fees.

During the year, the bank sustained a loss of $0.15 million on its credit card operations due to fraud. The Bank is pursuing a legal course of action to recover the amount.

A substantial part of our credit card activities is managed in-house, with the potential to contribute significantly to future income streams.

The Bank outsourced some of its technical functions to professionals during the year.
Areas contracted were:
Executive talent search
The Production of Policy and Procedures manuals
Due diligence and investigative reports
Development of new products
Website Development and maintenance

Other expenses categories which showed significant increase were: -

Travel and entertainment
Repairs and maintenance
Subscriptions and fees
Insurance Expense

INTEREST EXPENSE

Interest expense increased by $0.8 million or 15.7% in 2004 up from $0.4 million or 8.1% in 2003, while the interest expense ratio increased marginally from 0.40% in 2003 to 0.43% in 2004. Interest expenses, as a percentage of total revenue, stood at 36.5% in 2004, up from 32.1% in 2003.

Provision for loans impairment declined from $0.7 million in 2003 to $0.1 million in 2004 and our tax liability ratio increased from 1.2% of total revenue in 2003 to 1.4% in 2004.

IMPAIRMENT – INVESTMENT SECURITIES

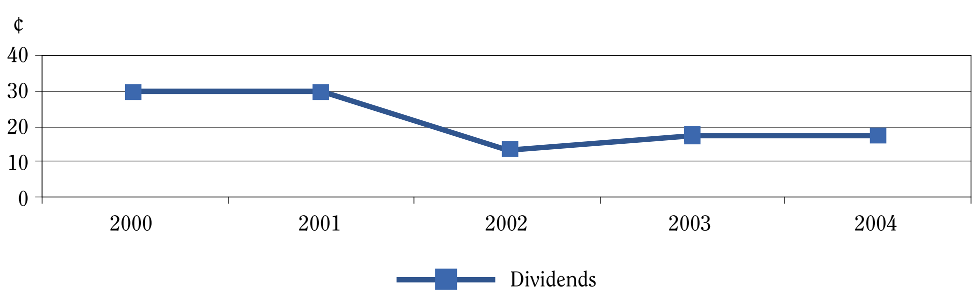
During the year, a Dominican Republic Government Security was impaired to the extent of $0.19 million. This impairment was due to the default by government in meeting its interest obligations on the securities outstanding. The cost of our investment in this security was US$0.5 million.

Overhead efficiency ratio, which is a measure of non-interest income expressed over non-interest expenses stood at 0.34 in 2004 compared with 0.48 in 2003.

DIVIDEND

A cash dividend of 17.5 cents per share is being proposed by the Board for the financial year ended June 30th 2004 (17.5 cents in 2003).

The cash dividend amounts to $1,308,676 and represents a pay out ratio of 47.0% compared with 30.0% in 2003.



DIRECTORS' REPORT

Continued

DIRECTORATE

Messrs. Joseph Parry, Wendell Huggins and Rawlinson Isaac retire by rotation and being eligible, offer themselves for re-election. The three directors must be commended for their invaluable and sterling contribution to the development of the Bank over the years. The Board supports their re-election.

At the 17th Annual General Meeting held on January 8th 2004, Mr. Kishu Chandiramani was elected to serve on the Board of the Parent Company.

Mr. Chandiramani is the principal shareholder of Rams Group of Companies and has held the top position in the Rotary Club, the Chamber of Commerce and Hotel and Tourism Association.

In 1999, he was awarded an MBE (Member of the British Empire) for his service to the St. Kitts and Nevis Community.

Hensley Daniel

Also during the year the Board appointed Mr. Hensley Daniel as a Director of the Bank of Nevis International Limited, our subsidiary.

Mr. Daniel holds a Bachelor Degree (Hons.) from the University of the West Indies (UWI) in Education and Social Work. He has had over twenty two (22) years as a public servant and has worked extensively with UNICEF, UNESCO, CDB, the OECS and Family Health International (FHI) as a consultant.

He specializes in human resource development and social policy formulation and is the executive director of the Centre for Human Development.

OUTLOOK FOR 2005

The Bank has invested significant sums in its debit and credit card platforms, new products, and its resource capabilities.

During the year ending June 2005, we intend, through our marketing initiatives, to increase the use of our products among our existing customers and to develop new markets while strengthening relationships both internal and external.

We intend to increase shareholders' value through the provision of high quality products and services at competitive prices.

We will continue to monitor the environmental changes affecting the financial services industry and to adopt policies, programs and actions, where necessary, to achieve the desired outcomes.

Directors' Report

Continued

CONCLUSION

The financial services industry continues to face many economic, regulatory and competitive challenges which require new thinking coupled with adaptive and creative leadership in order to achieve and maintain a competitive advantage in the marketplace.

The local and global economies are showing signs of improvement and we must position ourselves so as to benefit from the opportunities that will be presented.

We must continue with the implementation of our strategic plan to realize our goal of becoming a world-class bank and to improve our financial performance indicators.

We must continue our training programs which are geared to the improvement of our staff capabilities so that we can more effectively identify and respond to the needs and wants of our customers.

Sincere appreciation and thanks to our Shareholders, Customers, Directors, Management and Staff for their continued support and loyalty as we seek to gain competitive advantage through relationships.

On behalf of the Board

....

LYRA P. S. RICHARDS (MISS)
Secretary

AUDITORS' REPORT

To the Shareholders of The Bank of Nevis Limited

We have audited the accompanying consolidated balance sheet of The Bank of Nevis Limited as of June 30, 2004 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
Old Parham Road,
St. John's, Antigua
October 22, 2004

Consolidated Balance Sheet

As of June 30, 2004
expressed in Eastern Caribbean Dollars

	2004	2003
Assets		
Cash and due from other banks (note 4)	**97,936,994**	104,675,485
Treasury bills (note 5)	**32,240,183**	15,040,886
Investment securities (note 6)	**116,382,672**	93,872,739
Loans and advances (note 7)	**70,156,992**	62,086,690
Other assets (note 8)	**1,252,731**	1,960,026
Property, plant and equipment (note 9)	**8,420,161**	5,475,737
Total assets	**326,389,733**	283,111,563
Liabilities		
Customers' deposits (note 10)	**295,183,338**	253,855,661
Other liabilities and accrued expenses (note 11)	**6,333,876**	4,311,027
Provision for income tax (note 12)	**252,825**	526,109
Deferred tax (note 12)	**486,007**	145,326
Total liabilities	**302,256,046**	258,838,123
Shareholders' Equity		
Share capital (note 13)	**7,478,150**	7,478,150
Revaluation (deficit) reserves (note 14)	**(57,030)**	1,564,016
Reserve fund (note 15)	**4,877,869**	4,541,778
Retained earnings	**11,834,698**	10,689,496
Total shareholders' equity	**24,133,687**	24,273,440
Total liabilities and shareholders' equity	**326,389,733**	283,111,563

The accompanying notes form an integral part of these financial statements.

Approved by the Board of Directors on 22 October, 2004.

_______________ Chairman

_______________ Director

_______________ Director

Consolidated Statement of Income

For the year ended June 30, 2004
expressed in Eastern Caribbean Dollars

	2004	2003
Interest income		
Income from loans and advances	**7,022,227**	6,490,737
Income from deposits with other banks and investments	**6,688,793**	6,480,786
	13,711,020	12,971,523
Interest expense		
Savings accounts	**1,073,531**	917,591
Time deposits and current accounts	**4,839,448**	4,217,068
	5,912,979	5,134,659
Net interest income	**7,798,041**	7,836,864
Gains less losses from investment securities (note 6)	**(72,326)**	702,272
Impairment loss on available-for-sale investment securities	**(189,365)**	–
Other operating income (note 16)	**2,477,405**	2,303,807
Operating income	**10,013,755**	10,842,943
Operating expenses		
General and administrative expenses (note 23)	**5,443,065**	4,229,844
Provision for loan impairment	**117,038**	731,568
Directors' fees and expenses	**550,765**	535,105
Depreciation (note 9)	**423,132**	424,656
Correspondent bank charges	**253,543**	218,535
Audit fees and expenses	**204,267**	161,519
	6,991,810	6,301,227
Operating income for the year before taxation	**3,021,945**	4,541,716
Taxation (note 12)		
Current tax expense	**66,349**	183,014
Prior year tax expense	**64,779**	1,978
Deferred tax expense	**100,847**	–
	231,975	184,992
Net income for the year	**2,789,970**	4,356,724
Earnings per share (note 18)	**0.37**	0.58

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended June 30, 2004
expressed in Eastern Caribbean Dollars

	Share capital	Revaluation reserve - available for sale investments	Revaluation reserve - property	Reserve fund	Retained earnings	Total
	$	$	$	$	$	$
Balance, June 30, 2002	7,478,150	(2,588,697)	74,955	4,155,460	7,653,859	16,773,727
Net Income for the year	-	-	-	-	4,356,724	4,356,724
Appreciation in market value of investment securities	–	3,388,314	–	–	–	3,388,314
Available for sale investments, transfer from equity to income, net	–	(822,233)	–	–	–	(822,233)
Dividends (note 21)	–	–	–	–	(934,769)	(934,769)
Property revaluation surplus (note 14)	–	–	1,511,677	–	–	1,511,677
Transfer to reserve fund (note 15)	–	–	–	386,318	(386,318)	–
Balance, June 30, 2003	7,478,150	(22,616)	1,586,632	4,541,778	10,689,496	24,273,440
Net income for the year	–	–	–	-	2,789,970	2,789,970
Available-for-sale investments, transfer from equity to income, net	–	28,890	–	–	–	28,890
Depreciation in market value of investment securities, net of tax	–	(1,649,936)	–	–	–	(1,649,936)
Dividends (note 21)	–	–	–	–	(1,308,677)	(1,308,677)
Transfer to reserve fund (note 15)	–	–	–	336,091	(336,091)	–
Balance, June 30, 2004	**7,478,150**	**(1,643,662)**	**1,586,632**	**4,877,869**	**11,834,698**	**24,133,687**

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2004
expressed in Eastern Caribbean Dollars

	2004 $	2003 $
Cash flows from operating activities		
Operating income for the year	**3,021,945**	4,541,716
Items not affecting cash		
Provision for loan impairment, net	**117,038**	731,568
Depreciation	**423,132**	424,656
Gain on disposal of property, plant and equipment	**(35,001)**	–
Interest income	**(13,711,020)**	(12,971,523)
Interest expense	**5,912,979**	5,134,659
Impairment loss on available-for-sale investment securities	**189,365**	–
Operating losses before changes in operating assets and liabilities	**(4,081,562)**	(2,138,924)
Changes in operating assets and liabilities		
(Increase) decrease in restricted fixed deposits	**(2,698,062)**	10,141,818
Increase in deposits held for regulatory purposes	**(2,619,890)**	(901,729)
Increase in loans and advances	**(8,137,780)**	(3,801,641)
Decrease (increase) in other assets	**707,295**	(349,462)
Increase in customer deposits	**41,114,942**	48,198,231
Increase (decrease) in other liabilities and accrued expenses	**2,022,849**	(1,750,194)
Cash generated from operations	**26,307,792**	49,398,099
Interest paid	**(5,700,244)**	(4,828,277)
Interest received	**13,433,319**	13,593,832
Income tax paid	**(404,412)**	(371,634)
Net cash from operating activities	**33,636,455**	57,792,020
Cash flows from investing activities		
Purchase of property, plant and equipment	**(3,367,556)**	(809,449)
Proceeds from sale of property, plant and equipment	**35,001**	–
Increase in investment securities	**(23,855,592)**	(44,149,083)
Increase in fixed deposits	**(113,401)**	(119,999)
Net cash from (used in) investing activities	**(27,301,548)**	(45,078,531)
Cash flows used in financing activities		
Dividends paid	**(1,308,677)**	(934,769)
Increase in cash and cash equivalents	**5,026,230**	11,778,720
Cash and cash equivalents, beginning of year	**105,595,982**	93,817,262
Cash and cash equivalents, end of year (note 22)	**110,622,212**	105,595,982

The accompanying notes form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

June 30, 2004
expressed in Eastern Caribbean Dollars

1. Incorporation and principal activity

The Bank is a public company incorporated on August 29, 1985 under the laws of the Federation of St. Christopher and Nevis. It is licensed to conduct banking activities under the Banking Act of St. Christopher and Nevis of 1991.

In July 1998, the Bank's offshore activities and operations were transferred into a newly formed subsidiary company, Bank of Nevis International Limited which is licensed to carry on the business of Offshore Banking as contemplated by the Nevis Offshore Banking Ordinance No. 1 of 1996.

The Bank employed 44 persons during the year (2003: 38 employees). The registered office of the Bank is located on Main Street, Charlestown, Nevis.

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

2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below:

a) Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards and under the historical cost convention, as modified by the revaluation of property and available-for-sale investment securities.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

2. Significant accounting policies (continued)

b) Basis of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Bank of Nevis International Limited. A subsidiary is a company in which the Bank, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations.

c) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents consist of cash on hand, non-mandatory deposits with the Central Bank and other banks, unrestricted treasury bills, short-term funds and investments with original maturities of less than or equal to 90 days.

d) Investment securities

Investment securities are classified into the following categories: held to maturity, originated debt and available-for-sale securities. Investments with fixed maturity where the bank has the positive intent and ability to hold them to maturity are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at cost (which includes transaction costs). Originated debt and held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Available-for-sale securities are subsequently re-measured at fair value based on quoted bid prices. Equity and debt securities for which fair values cannot be measured reliably are recognised at cost or amortised cost respectively less any provision for impairment.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When the securities are disposed of, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities. If a security is impaired, the difference between the security's original cost and its recoverable amount (for debt instruments) or its current fair value (for equity instruments) is recognised in the income statement.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

2. Significant accounting policies (continued)

d) Investment securities (continued)

An investment security is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for securities carried at amortised cost is calculated as the difference between the securities' carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rates. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

All purchases and sales of investment securities are recognised at trade date, which is the date the Bank commits to purchase or sell the asset.

e) Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower at draw down are categorised as originated loans and are carried at amortised cost which is defined as the fair value of cash consideration given to originate those loans as is determined by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to borrowers.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. The allowance for loan impairment is deducted in arriving at the balance sheet figure for loans and advances. When a loan is uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the provision for loan impairment in the income statement.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

2. Significant accounting policies (continued)

e) Originated loans and provisions for loan impairment (continued)

Statutory and other regulatory loan loss reserve requirements that exceed these amounts are dealt with in the general banking reserve as an appropriation of retained earnings.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for loan impairment in the income statement.

f) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

g) Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost or valuation, less accumulated depreciation. Depreciation is calculated on the straight-line method at rates estimated to write down the cost or valuation of such assets to their residual values over their estimated useful lives at the following annual rates:

Buildings	2.5%
Furniture and fixtures	15%
Equipment	15%
Computer equipment	20%
Motor vehicle	20%

Land is not depreciated.

Property, plant and equipment are periodically reviewed for impairment. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

Revaluations of property are carried out every 3-5 years based on independent valuations.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

2. Significant accounting policies (continued)

h) Treasury shares

Where the Bank or its subsidiaries purchases the Bank's equity share capital, the consideration paid including any attributable transaction costs, net of income taxes, is shown as a deduction from shareholders' equity. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

i) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

The principal temporary differences arise from the depreciation of property, plant and equipment and the revaluation of certain financial assets and liabilities.

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax related to fair value re-measurements of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

j) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by shareholders. Dividends for the year which are approved after the balance sheet date, are noted as a subsequent event.

k) Interest income and expense

Interest income and expense are recognised in the income statement on an accruals basis using the effective yield method. Interest income includes coupons earned on fixed income investments and discounts or premiums on treasury bills.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

2. Significant accounting policies (continued)

l) Fees and commissions income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of shares or other securities are recognised on completion of the underlying transaction.

m) Foreign currency translation

Items included in the financial statements of Bank of Nevis International Limited are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in Eastern Caribbean dollars which is the measurement currency of the parent.

Income statements and cash flows are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling at the year end.

Foreign currency transactions are translated into the measurement currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

n) Pension costs

The Bank's contributions to the defined contribution pension plan are charged to the statement of income in the period to which the contributions relate.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

3. Financial risk management

a) Strategy in using financial instruments

By its nature the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing.

Financial assets of the Bank include cash and deposits with other banks, treasury bills, investments, interest receivable and loans and advances. Financial liabilities of the Bank include customers' deposits, certain other liabilities and interest payable.

b) Credit risk

Cash deposits with other banks and short-term investments are placed with reputable regional and international financial institutions and Governments.

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved by management.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

3. Financial risk management (continued)

b) Credit risk (continued)

Credit related commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, overdraft facilities or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of authorized loans and advances being drawn by the customer and, second, from these drawings subsequently not being repaid as due. The total outstanding contractual amount of commitments to extend credit may not necessarily represent future cash requirements specifically in the case of advances, but usually tend to result in such, in the case of loans.

Commercial letters of credit, which are written undertakings by the bank on behalf of a customer authorizing a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions are collateralised and therefore carry less risk than direct borrowing.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

3. Financial risk management (continued)

Geographical concentration of assets, liabilities and off balance sheet items

	Total assets $	%	Total liabilities $	%	Interest and other operating income $	%	Credit commitments $	%	Capital expenditure $	%
As at June 30, 2004										
St. Christopher & Nevis	147,849,480	45	121,544,461	40	10,980,983	68	6,383,807	100	3,367,556	100
U.S.A. and Canada	173,918,048	53	177,328,487	59	4,918,351	31	–	–	–	–
Other Caribbean states	2,449,621	1	975,169	–	188,989	1	–	–	–	–
Europe	2,172,584	1	2,407,929	1	35,116	–	–	–	–	–
	326,389,733	**100**	**302,256,046**	**100**	**16,123,439**	**100**	**6,383,807**	**100**	**3,367,556**	**100**
As at June 30, 2003										
St. Christopher & Nevis	110,203,809	39	77,918,344	30	10,066,849	66	2,623,421	93	809,449	100
U.S.A. and Canada	166,420,348	59	180,919,779	70	4,997,705	33	202,118	7	–	–
Other Caribbean states	3,295,176	1	–	–	210,776	1	–	–	–	–
Europe	3,192,230	1	–	–	–	–	–	–	–	–
	283,111,563	100	258,838,123	100	15,275,330	100	2,825,539	100	809,449	100

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

3. Financial risk management (continued)

Geographical concentration of assets, liabilities and off balance sheet items (continued)

The Bank's exposure to credit risk is concentrated as detailed above. St. Christopher and Nevis is the home country of the Bank. In the above countries, the predominant activity is corporate banking services.

As one of the largest banks in St. Christopher and Nevis, the Bank accounts for a significant share of credit exposure to many sectors of the economy. However, credit risk is spread over a diversity of personal and commercial customers.

With the exception of St. Christopher and Nevis, and the United States of America and Canada, no other individual country contributed more than 10% of consolidated income or assets.

Capital expenditure is shown by the geographical area in which the buildings and equipment are located.

Geographic sector risk concentrations within the customer loan portfolio are as follows:

	2004	2004	2003	2003
	$	%	$	%
St. Christopher & Nevis	**72,543,515**	**99**	61,836,161	94
U.S.A. and Canada	**31,838**	**1**	4,231,947	6
	72,575,353	**100**	66,068,108	100

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2004	2004	2003	2003
	$	%	$	%
Tourism	**1,860,994**	**3**	1,914,084	3
Government bodies	**7,170,171**	**10**	2,098,156	3
Manufacturing	**506,054**	**1**	301,006	1
Agricultural	**90,256**	**–**	98,024	–
Commercial and personal	**52,460,738**	**72**	53,745,579	81
Other	**10,487,140**	**14**	7,911,259	12
	72,575,353	**100**	66,068,108	100

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

3. Financial risk management (continued)

c) Interest rate risk

The bank advances loans and receives deposits as a part of its normal course of business from both related and third parties. The interest rates on loans generally attract interest based on market rates. Investment securities and customer deposits generally attract fixed interest rates. The company mitigates its interest rate risk by matching the maturity periods of its assets and liabilities.

	2004 %	2003 %
Loans and advances		
Demand loans	**10.18%**	13.0%
Discount loans	**14.0%**	13.8%
Mortgage loans	**10.05%**	9.31%
Overdrafts	**8.09%**	11.1%
Investment securities		
Government treasury bills	**6.3%**	6.8%
Investment securities, fixed deposits and other investments	**5.9%**	6.6%
Fixed rate bonds	**4.0%**	11.2%
Customer deposits		
Demand deposits	**0.68%**	0.56%
Savings deposits	**2.97%**	3.21%
Time deposits	**4.94%**	5.73%

d) Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions.

Substantially all of the bank's transactions and assets and liabilities are denominated in Eastern Caribbean dollars or United States dollars. Therefore, the bank has no significant exposure to currency risk.

3. Financial risk management (continued)

e) Liquidity risk

The bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts and maturing deposits. Management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below analyses assets and liabilities of the bank into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

3. Financial risk management (continued)

Maturities of assets and liabilities, June 30, 2004

	Up to 1 year	1-5 years	Over 5 years	Total
Assets				
Cash and due from other banks	97,936,994	–	–	97,936,994
Treasury bills	32,240,183	–	–	32,240,183
Investment securities	19,429,891	55,520,079	41,432,702	116,382,672
Loans and advances	21,372,557	43,027,264	5,757,171	70,156,992
Other assets	1,252,731	–	–	1,252,731
Property, plant and equipment	–	–	8,420,161	8,420,161
	172,232,356	98,547,343	55,610,034	326,389,733
Liabilities				
Customer deposits	286,474,578	8,708,760	–	295,183,338
Other liabilities and accrued expenses	6,333,876	–	–	6,333,876
Provision for income tax	252,825	–	–	252,825
Deferred tax	–	486,007	–	486,007
	293,061,279	9,194,767	–	302,256,046
Net liquidity gap, June 30, 2004	**(120,828,923)**	**89,352,576**	**55,610,034**	**24,133,687**

Maturities of assets and liabilities, June 30, 2003

Total assets	130,648,569	112,664,644	39,798,350	283,111,563
Total liabilities	256,414,294	2,423,829	–	258,838,123
Net liquidity gap, June 30, 2003	(125,765,725)	110,240,815	39,798,350	24,273,440

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be ever completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

3. Financial risk management (continued)

f) Fair value

	Carrying value		Fair value	
	2004	2003	2004	2003
	$	$	$	$
Financial assets				
Cash and due from other banks	**97,936,994**	104,675,485	**97,936,994**	104,675,485
Treasury bills	**32,240,183**	15,040,886	**32,240,183**	15,040,886
Loans and advances to customers	**70,156,992**	62,086,690	**70,156,992**	62,086,690
Investment securities	**116,382,672**	93,872,739	**116,382,672**	93,872,739
Other assets	**1,252,731**	1,960,026	**1,252,731**	1,960,026
	317,969,572	277,635,826	**317,969,572**	277,635,826
Financial liabilities				
Customers' deposits	**295,183,338**	253,455,661	**295,183,338**	253,455,661
Other liabilities and accrued expenses	**6,333,876**	4,311,027	**6,333,876**	4,311,027
	301,517,214	257,766,688	**301,517,214**	257,766,688

The following methods and assumptions have been used to estimate the fair value of each class of financial instruments for which it is practical to estimate a value:

- **Short-term financial assets and liabilities**

The carrying value of these assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets are comprised of cash resources and short-term investments, fixed deposits, interest receivable and other assets. Short-term financial liabilities are comprised of interest payable and certain other liabilities.

- **Investment securities**

Fair value is based on quoted market values.

- **Loans and advances**

These assets result from transactions conducted in 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 which are substantially in accordance with financial statement amounts.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

3. Financial risk management (continued)

f) Fair value (continued)

- **Customers' deposits**
  The fair value of items with no stated maturity are assumed to be equal to their carrying values. Deposits with fixed rate characteristics are at rates which are not significantly different from current rates and are assumed to have discounted cash flow values which approximate carrying values.

4. Cash and due from other banks

	2004 $	2003 $
Cash on hand	**1,527,730**	1,087,491
Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits	**849,365**	213,759
Cash and current accounts with other banks	**33,363,340**	62,933,986
Fixed deposits	**2,219,690**	3,091,357
Cheques in the course of collection	**648,089**	737,594
Short-term marketable securities	**41,035,873**	23,766,795
Included in cash and cash equivalents (note 22)	**79,644,087**	91,830,982
Mandatory reserve deposits with the ECCB	**8,246,417**	5,626,527
Restricted fixed deposits	**8,121,995**	5,423,933
Fixed deposit	**1,733,400**	1,619,999
	97,745,899	104,501,441
Interest receivable	**191,095**	174,044
	97,936,994	104,675,485

Commercial banks doing banking business in member states of the OECS are required to maintain a non-interest-bearing reserve with the ECCB equivalent to 6% of their total deposit liabilities (excluding inter-bank deposits, denominated deposits and foreign currencies). This reserve deposit is not available for use in the Bank's day-to-day operations, and is non-interest bearing.

The fixed deposit of $1,733,400 is a certificate of deposit held at the Grenada Co-operative Bank and accrues interest at 5% (2003: 7%) per annum. The restricted fixed deposits comprise deposits held with Bank of America of $269,490 (2003: $269,490) and $2,694,900 bearing interest of 1.05% and 1% per annum respectively; a deposit held with Caribbean Credit Card Corporation of $2,462,705 (2003: $2,459,543) bearing interest of 4% (2003: 4%) per annum; and a deposit with ABN AMRO of $2,694,900, which is not interest-bearing. These deposits are not available for use in the company's day-to-day operations.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

5. Treasury bills

	Nominal Value 2004 $	Cost 2004 $	Nominal Value 2003 $	Cost 2003 $
Treasury bills – Government of Saint Christopher and Nevis, maturing August 4, 2004 with interest rate of 6.5%.	**23,500,000**	**23,118,125**	11,000,000	10,821,250
Treasury bills – Nevis Island Government maturing July 27, 2004 with interest rate of 7%.	**8,000,000**	**7,860,000**	3,000,000	2,943,750
Included in cash and cash equivalents (note 22)	**31,500,000**	**30,978,125**	14,000,000	13,765,000
Treasury bill – Nevis Island Government maturing July 27, 2004 with interest rate of 7%	**1,017,813**	**1,000,000**	1,018,839	1,000,000
	32,517,813	**31,978,125**	15,018,839	14,765,000
Interest receivable	**–**	**262,058**	–	275,886
	32,517,813	**32,240,183**	15,018,839	15,040,886

The treasury bill with nominal value $1,017,813 and cost $1,000,000 acts as a statutory deposit with the Nevis Island Government and is not available to finance the bank's day to day operations.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

6. Investment securities

	2004 $	2003 $
Originated debt		
Taurus Services Limited		
Fixed rate bond bearing interest at 10.125%	**3,187,797**	3,013,445
Government of Saint Christopher and Nevis		
Fixed rate bond bearing interest at 7.5%	**5,000,000**	5,000,000
Caribbean Credit Card Corporation Limited		
Unsecured loan bearing interest at a rate of 10%, with no specific terms of repayment.	**150,000**	150,000
Eastern Caribbean Home Mortgage Bank		
Long-term bond bearing interest at 6%	**100,000**	100,000
Total investment securities – originated debt	**8,437,797**	8,263,445
Available for sale		
Debt securities:		
- unquoted, at amortised cost	**2,327,813**	3,119,700
- quoted, at market value	**103,943,302**	80,957,350
Equity securities at market value	**531,606**	425,643
Total investment securities – available for sale	**106,613,356**	84,502,693
Interest receivable	**1,331,519**	1,106,601
Total investment securities	**116,382,672**	93,872,739

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

6. Investment securities (continued)

	Originated debt $	Available for sale $	Total $
Balance as of June 30, 2003	8,263,445	84,502,693	92,766,138
Additions	174,352	55,849,413	56,023,765
Disposals (sale and redemption)	–	(32,145,557)	(32,145,557)
Loss from change in fair value, net	–	(1,403,828)	(1,403,828)
Impairment loss	–	(189,365)	(189,365)
Balance as of June 30, 2004	**8,437,797**	**106,613,356**	**115,051,153**

Gains less losses from investment securities comprise:

	2004 $	2003 $
Net realised gains (losses) from disposal of available-for-sale financial assets	**(72,326)**	702,272

7. Loans and advances

	2004 $	2003 $
Reducing balance loans	**59,751,901**	54,515,670
Overdrafts	**11,089,378**	9,528,877
Discount loans	**290,563**	1,138,693
Credit card advances	**1,051,073**	541,990
Interest receivable	**392,438**	342,878
	72,575,353	66,068,108
Less: Allowance for loan impairment	**(2,418,361)**	(3,981,418)
	70,156,992	62,086,690

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

7. Loans and advances (continued)

Allowance for loan impairment

	2004 $	2003 $
The movement in allowance for loan impairment is as follows:		
Balance, beginning of year	**3,981,418**	4,463,223
Provision for loan impairment	**309,694**	731,568
Recoveries during the year	**(192,656)**	–
Loans and advances written off during the year as uncollectible	**(1,680,095)**	(1,213,373)
Balance, end of year	**2,418,361**	3,981,418

8. Other assets

	2004 $	2003 $
Due from merchant processor	**2,128,947**	2,128,947
Restricted funds	–	1,376,447
Items in-transit	**854,785**	318,200
Other receivables	**117,720**	133,391
Prepayments	**191,583**	30,282
Credit card and stationery stock	**50,124**	53,993
Miscellaneous	**38,519**	47,713
	3,381,678	4,088,973
Less: Provision for amounts due from merchant processor	**(2,128,947)**	(2,128,947)
	1,252,731	1,960,026

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

9. Property, plant and equipment

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicles $	Total $
At 1 July 2002							
Cost	600,000	2,924,414	562,974	360,387	1,119,296	55,000	5,622,071
Accumulated depreciation	–	(463,753)	(403,591)	(186,511)	(944,948)	(44,000)	(2,042,803)
Net book amount	600,000	2,460,661	159,383	173,876	174,348	11,000	3,579,268
Year ended 30 June 2003							
Opening net book amount	600,000	2,460,661	159,383	173,876	174,348	11,000	3,579,268
Additions	163,752	27,407	27,526	19,301	571,462	–	809,448
Revaluation adjustment	1,508,248	(534,122)	–	–	–	–	974,126
Disposals	–	–	–	–	–	–	–
Depreciation charge	–	(73,797)	(55,846)	(58,282)	(225,731)	(11,000)	(424,656)
Revaluation adjustment	–	537,551	–	–	–	–	537,551
Closing net book amount	2,272,000	2,417,700	131,063	134,895	520,079	–	5,475,737
At 30 June 2003							
Cost	2,272,000	2,417,700	590,500	379,688	1,690,758	55,000	7,405,646
Accumulated depreciation	–	–	(459,437)	(244,793)	(1,170,679)	(55,000)	(1,929,909)
Net book amount	2,272,000	2,417,700	131,063	134,895	520,079	–	5,475,737

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)

expressed in Eastern Caribbean Dollars

9. **Property, plant and equipment (continued)**

	Land	Buildings	Furniture & fixtures	Equipment	Computer equipment	Motor vehicles	Total
	$	$	$	$	$	$	$
Year ended 30 June 2004							
Opening net book amount	2,272,000	2,417,700	131,063	134,895	520,079	–	5,475,737
Additions	1,487,086	1,239,166	47,728	176,728	333,848	83,000	3,367,556
Disposals	–	–	–	–	–	(55,000)	(55,000)
Writeback of depreciation charge	–	–	–	–	–	55,000	55,000
Depreciation charge	–	(68,677)	(60,390)	(63,229)	(214,236)	(16,600)	(423,132)
Closing net book amount	**3,759,086**	**3,588,189**	**118,401**	**248,394**	**639,691**	**66,400**	**8,420,161**
At 30 June 2004							
Cost	3,759,086	3,656,866	638,228	556,416	2,024,606	83,000	10,718,202
Accumulated depreciation	–	(68,677)	(519,827)	(308,022)	(1,384,915)	(16,600)	(2,298,041)
Net book amount	**3,759,086**	**3,588,189**	**118,401**	**248,394**	**639,691**	**66,400**	**8,420,161**

The land and buildings were revalued at open market value effective July 22, 2003 by an independent valuer. The surplus on revaluation at that date was taken to the revaluation surplus account (note 14).

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of June 30, 2004:

	Land	Buildings	Total
	$	$	$
Cost	382,279	2,758,340	3,140,619
Accumulated Depreciation	–	(538,791)	(538,791)
Net book values	**382,279**	**2,219,549**	**2,601,828**

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

10. Customer deposits

	2004	2003
	$	$
Current accounts	**157,374,767**	163,583,550
Time deposits	**93,074,653**	57,697,823
Savings accounts	**41,854,168**	30,218,773
Merchant reserve accounts	**985,694**	674,194
Interest payable	**1,894,056**	1,681,321
	295,183,338	253,855,661

11. Other liabilities and accrued expenses

	2004	2003
Items-in-transit	**3,997,800**	1,937,336
Accounts payable and accrued expenses	**1,765,242**	1,856,631
Manager's cheques	**380,725**	364,572
Government stamp duty	**190,109**	152,488
	6,333,876	4,311,027

12. Taxation

	2004	2003
Deferred income tax		
Balance, beginning of year	**145,326**	145,326
Current tax expense	**100,847**	–
Deferred tax on revaluation of available for sale investments	**239,834**	–
Balance, at end of year	**486,007**	145,326
Income tax payable		
Income tax payable, beginning of year	**526,109**	712,751
Payments made during year	**(404,412)**	(371,634)
Current tax expense	**66,349**	183,014
Prior year tax expense	**64,779**	1,978
Income tax payable, end of year	**252,825**	526,109

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

12. Taxation (continued)

	2004 $	2003 $
Income tax expense		
Operating income for the year	**3,021,945**	4,541,716
Income tax expense at standard rate of 35% (2003: 37%)	**1,057,681**	1,680,435
Non-deductible expenses	**67,771**	17,125
Withholding tax	**15,200**	13,867
Untaxed interest income	**(402,480)**	(264,813)
Effect of lower tax rate in subsidiary company	**(804,167)**	(1,252,248)
Deferred tax effect of revaluation of depreciable assets	–	1,269
Prior year income tax adjustment	**64,779**	1,978
Deferred tax over (under) provided	**(4,598)**	(12,621)
Effect of losses carried forward	**237,789**	–
Actual income tax expense	**231,975**	184,992

13. Share capital

	2004 $	2003 $
Authorised share capital		
10,000,000 shares of $1 each	**10,000,000**	10,000,000
Issued and fully paid		
7,478,150 shares of $1 each	**7,478,150**	7,478,150

14. Revaluation reserves (deficit)

	2004 $	2003 $
Balance, beginning of year	**1,564,016**	(2,513,742)
(Depreciation) appreciation in market value of investment securities, net of tax and transfers to income	**(1,621,046)**	2,566,081
Revaluation of land and building	–	1,511,677
Balance, end of year	**(57,030)**	1,564,016
Represented by revaluation reserves attributable to:		
Available for sale investments	**(1,643,662)**	(22,616)
Property	**1,586,632**	1,586,632
	(57,030)	1,564,016

An independent valuation of land and buildings was conducted in July 2003 (see note 9).

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

15. Reserve fund

Section 14 (1) of the Saint Christopher and Nevis Banking Act No. 6 of 1991 provides that not less than 20% of each year's net earnings shall be set aside to a reserve fund whenever the fund is less than the paid-up capital of the Bank.

Section 23 (1) of the Nevis Offshore Banking Ordinance 1996 provides that the Bank is to maintain a reserve fund and shall out of its net profits of each year and before any dividend is paid, transfer to the said fund a sum equal to not less than 25% of those profits whenever the amount of the reserve fund is less than the paid up capital of the Bank.

16. Other operating income

	2004 $	2003 $
Fees and commissions	**1,520,130**	1,309,776
Foreign exchange	**528,099**	591,320
Credit card fees	**361,653**	325,798
Rental income	**14,000**	12,000
Dividend income	**53,389**	37,413
Miscellaneous revenue	**134**	27,500
	2,477,405	2,303,807

17. Related party transactions

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

A number of banking transactions were entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

17. Related party transactions (continued)

The volumes of related party transactions, outstanding balances at the year end and related expenses and income for the year are as follows:

	2004 $	2003 $
Loans to Directors		
Loans outstanding at beginning of year	**4,074,621**	4,369,999
Loans issued during the year	**515,000**	196,064
Loans repayment during the year	**(805,758)**	(491,442)
Loans outstanding at end of year	**3,783,863**	4,074,621

Interest income earned on directors' loans and advances during the year is $300,337 (2003: $373,418). Interest earned on directors' loans ranges from 6.5% to 11%.

	2004 $	2003 $
Deposits by Directors		
Deposits at beginning of year	**4,937,192**	3,912,147
Deposits received during the year	**8,835,976**	269,474
Deposits repaid during the year	**(363,346)**	(244,428)
Deposits at end of year	**13,409,822**	3,937,193

Interest expense paid on directors' deposits during the year is $442,524 (2003: $427,695). Interest paid on directors' deposits ranges from 2% to 8%.

Legal fees paid on normal commercial terms to R. L. Kawaja and Associates, a law firm controlled by the Chairman, amounted to $100,816 (2003: $161,421).

18. Earnings per share

Basic 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.

	2004 $	2003 $
Net profit attributable to shareholders	**2,789,970**	4,356,724
Weighted average number of ordinary shares in issue	**7,478,150**	7,478,150
Basic and diluted earnings per share	**0.37**	0.58

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

19. Pension liability

In 2003 the Bank introduced a defined contribution pension scheme for its employees. Total contributions made by the Bank in 2003 amounted to $117,456. Following the introduction of the scheme, the prior year provision for past service required adjustment based on calculations as determined by the new scheme rules. The credit of $197,021 was therefore accounted for in the income statement during 2003.

	2004	2003
	$	$
Pension provision, beginning of year	–	554,106
Provision during the year	–	108,814
Write back of provision	–	(197,021)
Amounts paid to pension scheme	–	(465,899)
Pension provision, end of year	–	–

Contributions to the pension scheme for the year ended June 30, 2004 amounted to $80,682 (2003: $117,456).

20. Contingencies and commitments

Pending litigation

The previously reported lawsuit against Quantum Group Ltd. (a customer) and the Bank was heard in October 2002. Judgement was entered against the Bank on July 11, 2003, and the estimated liability of US$27,000 was accrued for. The plaintiff has appealed and the Bank filed a Counter Notice of Appeal. The appeal is pending.

A customer, Capital Resources Limited, has commenced an action against the Bank to recover a deposit which they claim the Bank is holding in their name. These funds were frozen by a local court order and a further court order was issued in the United States which resulted in the equivalent funds being deducted from the Bank's account in the United States. The Bank holds the position that the funds deducted from the Bank's account in the United States represent a repayment of Capital Resources' deposit funds. The High Court in Nevis granted a stay of proceedings pending determination in the United States of the right of the claimants to the funds in issue. However, the claimant has indicated their intentions to appeal, hence the outcome of this contingency is not presently determinable.

The Bank is a defendant in a lawsuit brought by the Nevis Central Company Limited for specific performance of a contract for the purchase of real estate in the sum of US$1 million. The Bank disputes the claim on the grounds that it did not enter into any purchase agreement. The matter is set for trial in late 2004 or early 2005. The outcome is not presently determinable.

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

20. Contingencies and commitments (continued)

Contractual dispute

Subsequent to the year end, a prospective credit card processor has written to the Bank requesting payment of US$85,000 as compensation for early termination of its contract with the Bank. The Bank is refuting the amount of the claim. The ultimate outcome of this dispute is not presently determinable.

Credit related commitments

The following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers:

	2004 $	2003 $
Undrawn commitments to extend advances	**6,383,807**	2,623,421
Commercial letter of credit	–	202,118
	6,383,807	2,825,539

21. Dividends

The financial statements reflect a dividend of $1,308,677 for the year ended June 30, 2003 which was approved at the seventeenth Annual General Meeting held on January 8, 2004 and paid subsequently.

A dividend in respect of 2004 of EC$0.175 per share (2003 actual dividend EC$0.175 per share) amounting to a total of EC$1,308,677 (2003 actual EC$1,308,677) is proposed. The financial statements for the year ended June 30, 2004 do not reflect this proposed dividend which, if ratified, will be accounted for in equity as an appropriation of retained earnings in the year ending June 30, 2005.

22. Cash and cash equivalents

Cash and due from other banks (note 4)	**79,644,087**	91,830,982
Treasury bills (note 5)	**30,978,125**	13,765,000
	110,622,212	105,595,982

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

23. General and administrative expenses

	2004	2003
	$	$
Salaries and related costs	**2,672,285**	1,960,195
Credit card processing expense	**350,290**	270,235
Professional fees	**297,784**	354,811
Credit card start up expense	**282,656**	110,915
Stationery and supplies	**228,841**	235,816
Advertisement and promotion	**189,540**	140,958
Telephone, telex and cables	**167,923**	130,669
Travel and entertainment	**165,349**	99,996
Legal fees	**147,218**	256,622
Credit card chargeback loss	**146,242**	657
Insurance expense	**130,499**	91,348
Equipment repairs	**108,121**	94,953
Utilities	**89,413**	77,885
Subscriptions and fees	**84,906**	48,368
Repairs and maintenance	**75,749**	54,452
Taxes and licences	**66,354**	61,180
Printing costs	**49,144**	50,723
Stamps and postage	**48,486**	62,351
Miscellaneous expenses	**44,692**	35,202
Rent	**44,228**	–
ECSE fees and expenses	**30,118**	49,841
Cleaning	**20,600**	16,410
Provision for lawsuit	**13,475**	110,773
Secretarial	**12,234**	12,234
Security services	**9,071**	2,631
Cash shorts	**2,848**	2,415
Gain on disposal of assets	**(35,001)**	–
Provision for amounts due from merchant processor	–	53,071
Strategic planning	–	33,776
Operational (recoveries) losses	–	(188,643)
	5,443,065	4,229,844

Notes to the Consolidated Financial Statements

June 30, 2004 (continued)
expressed in Eastern Caribbean Dollars

24. Comparative figures

Certain items in the balance sheet and statement of income have been classified differently in order to achieve a clearer or more appropriate presentation. The comparative figures have been similarly reformatted and reclassified in order to achieve comparability with the current period. The items which have been reclassified are as follows:

- Items in-transit of $318,200 have been reclassified from other liabilities to other assets;
- Financial assets totalling $2,221,460 were reclassified from originated debt to available for sale (unquoted) investment securities.
- Financial assets totalling $500,040 were reclassified from available-for-sale (unquoted) to available-for-sale (quoted) following the listing of the investment on the ECSE.
- Credit card start-up expense of $110,915 and credit card chargeback loss of $657 has been reclassified from credit card processing expense.
- Interest receivable of $174,044, $275,886 and $1,106,601 has been reclassified to cash and due from other banks, treasury bills and investment securities respectively.

Non-Consolidated Balance Sheet

As of June 30, 2004
expressed in Eastern Caribbean Dollars

	2004 $	2003 $
Assets		
Cash and balances with the Central Bank	10,623,512	6,927,777
Due from other banks	35,926,889	19,405,336
Treasury bills	26,276,765	9,013,750
Investment securities	1,841,577	1,148,240
Loans and advances	68,712,941	60,780,149
Other assets	828,293	422,442
Investment in subsidiary	1,000,000	1,000,000
Property, plant and equipment	8,188,860	5,412,701
Due from subsidiary	947,360	–
Total assets	154,346,197	104,110,395
Liabilities		
Customers' deposits	134,170,659	85,672,395
Other liabilities and accrued expenses	4,442,749	2,435,808
Provision for income tax	85,820	401,928
Deferred tax	486,007	145,326
Due to subsidiary	–	1,111,160
Total liabilities	139,185,235	89,766,617
Shareholders' Equity		
Share capital	7,478,150	7,478,150
Revaluation reserve	2,032,038	1,586,632
Reserve fund	3,677,869	3,341,778
Retained earnings	1,972,905	1,937,218
Total shareholders' equity	15,160,962	14,343,778
Total liabilities and shareholders' equity	154,346,197	104,110,395

Chairman

Director

Director

Non-Consolidated Statement of Income

As of June 30, 2004
expressed in Eastern Caribbean Dollars

	2004 $	2003 $
Interest income		
Income from loans and advances	6,777,430	6,311,497
Income from deposits with other banks and investments	1,431,843	1,173,164
	8,209,273	7,484,661
Interest expense		
Savings accounts	946,631	877,696
Time deposits and current accounts	3,595,657	3,122,179
	4,542,288	3,999,875
Net interest income	3,666,985	3,484,786
Other operating income	2,891,769	2,627,026
Operating income	6,558,754	6,111,812
Operating expenses		
General and administrative expenses	3,532,780	2,767,250
Depreciation	355,980	392,309
Directors' fees and expenses	209,750	130,784
Provision for loan impairment	309,694	544,604
Correspondent bank charges	163,035	130,367
Audit fees and expenses	132,909	112,747
	4,704,148	4,078,061
Operating income for the year	1,854,606	2,033,751
Taxation		
Current tax expense	8,525	100,184
Prior year tax expense	64,779	1,978
Deferred tax expense	100,847	–
	174,151	102,162
Net income for the year	1,680,455	1,931,589
Earnings per share	0.22	0.26

Non-Consolidated Statement of Cash Flows

As of June 30, 2004
expressed in Eastern Caribbean Dollars

	2004 $	2003 $
Cash flows from operating activities		
Operating income for the year	1,854,606	2,033,751
Items not affecting cash		
Provision for loan impairment	309,694	544,604
Depreciation	355,980	392,309
Interest income	(8,209,273)	(7,484,661)
Interest expense	4,542,288	3,999,875
Operating losses before changes in operating assets and liabilities	(1,146,705)	(514,122)
Changes in operating assets and liabilities		
Increase in restricted deposits with other banks	(2,698,062)	(1,985,232)
(Increase) decrease in mandatory deposits held with Central Bank	(2,619,890)	98,270
(Increase) decrease in other assets	(405,851)	393,005
Increase in loans and advances, net of repayments received	(8,229,876)	(4,175,189)
Increase in customers' deposits	48,290,657	3,013,902
Increase (decrease) in other liabilities and accrued expenses	2,006,941	(552,932)
Cash generated from (used in) operations before interest and tax	35,197,214	(3,722,298)
Interest paid	(4,334,681)	(3,696,843)
Interest received	8,170,448	7,640,296
Income tax paid	(389,412)	(264,531)
Net cash from (used in) operating activities	38,643,569	(43,376)
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,132,139)	(787,636)
Net cash used in investing activities	(3,132,139)	(787,636)
Cash flows from financing activities		
Dividends paid	(1,308,677)	(934,769)
Repayments to subsidiary company	(2,058,520)	(3,528,704)
Net cash used in financing activities	(3,367,197)	(4,463,473)
Increase (decrease) in cash and cash equivalents	32,144,233	(5,294,485)
Cash and cash equivalents, beginning of year	26,778,153	32,072,638
Cash and cash equivalents, end of year	58,922,386	26,778,153

NON-CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As of June 30, 2004
expressed in Eastern Caribbean Dollars

	Share capital $	Revaluation reserve: property $	Revaluation reserve: available for sale investments $	Reserve fund $	Retained earnings $	Total $
Balance, June 30, 2002	7,478,150	74,955	–	2,955,460	1,326,716	11,835,281
Net income for the year	–	–	–	–	1,931,589	1,931,589
Dividends	–	–	–	–	(934,769)	(934,769)
Increase in revaluation surplus	–	1,511,677	–	–	–	1,511,677
Transfer to reserve fund	–	–	–	386,318	(386,318)	–
	–					
Balance, June 30, 2003	7,478,150	1,586,632	–	3,341,778	1,937,218	14,343,778
Net income for the year	–	–	–	–	1,680,455	1,680,455
Dividends	–	–	–	–	(1,308,677)	(1,308,677)
Appreciation in market value of investment securities, net of tax	–	–	445,406	–	–	445,406
Transfer to reserve fund	–	–	–	336,091	(336,091)	–
Balance, June 30, 2004	7,478,150	1,586,632	445,406	3,677,869	1,972,905	15,160,962

Notes

NOTES

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