VISION

To be a world-class bank

MISSION

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

THE BANK OF NEVIS LIMITED

CONTENTS

NOTICE OF MEETING

Notice is hereby given that the Nineteenth Annual General Meeting of the Bank of Nevis Limited will be held at Old Manor Hotel on Thursday, December 15, 2005 at 5:00 p.m.

AGENDA

1. To approve Minutes of the eighteenth Annual General Meeting held on December 9, 2004.
2. To receive the report of the directors.
3. To receive and consider the Accounts for the year ended June 30, 2005.
4. To elect Directors. Messrs Richard Lupinacci and Hanzel Manners retire by rotation and, being eligible, offer themselves for re-election.
5. To declare a dividend of 20 cents per share.
6. To appoint Auditors for the year ending June 30, 2006. 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 24, 2005, will be entitled to receive a dividend with respect to the financial year ended June 30, 2005.
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 (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).

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	R L Kawaja & Associates Barristers-at-Law & Solicitors Chambers The Courtyard, Bank of Nevis Building Nevis, West Indies
Subsidiaries	Bank of Nevis International Ltd. Bank of Nevis International Fund Ltd. Bank of Nevis International Fund Managers Ltd. Bank of Nevis Mutual Fund Ltd. Bank of Nevis Fund Managers Ltd.
Correspondent Banks	
Antigua	Antigua Commercial Bank
Barbados	Barbados National Bank
Canada	Toronto Dominion Bank
St Kitts	SKNA National Bank
St Kitts	Royal Bank of Canada
St Lucia	Bank of St Lucia
St Maarten	Windward Island Bank
St Vincent	National Commercial Bank (SVG) Ltd.
United Kingdom	ABN-AMRO N.V. (London)
United Kingdom	Lloyds TSB Bank PLC
United States	Bank of America
United States	Union Planters Bank
Investment Brokers	Caribbean Money Market Brokers Charles Schwab
Board Committees	Human Resources Audit & Compliance Loans & Advances Investment Building

Group Financial Highlights (2001–2005)

(Expressed in Eastern Caribbean Dollars)

	2005 (000)	2004 (000)	2003 (000)	2002 (000)	2001 (000)
ASSETS/LIABILITIES					
Total Assets	**383,186**	326,390	283,116	228,726	201,027
Total Deposits	**342,284**	295,183	253,856	203,976	175,914
Loans & Advances (Net)	**96,895**	70,157	62,087	58,674	49,776
Cash & Short Term Funds	**135,070**	97,937	104,675	104,324	121,238
Short-Term Investments	**54,676**	32,240	15,040	12,284	2,948
Investment Securities	**86,509**	116,382	93,873	46,051	18,522
Premises & Equipment (Net)	**8,668**	8,420	5,476	3,579	3,605
OPERATING RESULTS					
Gross Operating Income	**22,085**	16,188	15,978	13,909	15,150
Total Expense/Provisions	**17,337**	13,166	11,436	11,608	9,759
Earnings Before Taxation	**4,749**	3,022	4,542	2,301	5,390
Interest Expense	**8,551**	5,913	5,135	4,748	4,325
Provision for Income Tax	**112**	232	185	421	475
Net Earnings	**4,636**	2,790	4,357	1,880	4,915
SHAREHOLDERS' FUNDS					
Paid-up Share Capital	**7,478**	7,478	7,478	7,478	7,478
Revenue & Capital Reserves	**21,020**	16,656	16,795	9,296	12,248
Shareholders' Equity	**28,498**	24,134	24,273	16,774	19,726
PERFORMANCE INDICATORS					
Return on Average Assets (%)	**1.31**	0.92	1.70	0.87	2.28
Return on Average Equity (%)	**17.62**	11.53	21.23	10.30	28.46
Earnings per share ($)	**0.62**	0.37	0.58	0.25	0.66
Dividend per share (cts)	**20.0**	17.5	17.5	12.5	30.0
Number of Employees	**48**	44	38	36	32

Chairman's Remarks

I am pleased to welcome you and to add these remarks to the 2005 Financial Statements and Report, which include the following information:-

- That net income increased to $4.63 Million, up by $1.84 Million or 39.84% from last year's figure of $2.79 Million, with earnings per share of 62 cents compared to 37 cents per share in 2004.
- That Shareholders equity increased to $28.49 Million, up by $4.36 Million or 18.07% from 2004, with an increase in Book value per share to $4.09 from$3.23 per share in 2004.
- That total assets increased by 17.48% to $383 Million from $326 Million in 2004.

The above figures indicate that we are moving in the direction of the profit returns we set out to achieve, namely the higher of 22% on equity or 1.70% on assets.

We must now redouble our efforts to promote real operating efficiencies to control costs and to increase our capacity to do business by exploring areas and opportunities for new business and alliances.

This year witnesses the 20th anniversary of the Bank and as such it provides us an opportunity, not only to celebrate, but to re-commit to the highest standards of business achievement and good governance.

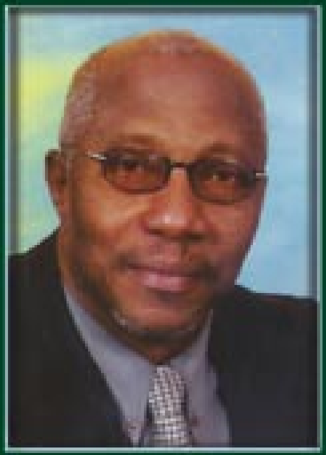
We thank you for your patience and support and for continuing to share our vision.

Reginald Kawaja
Chairman
Bank of Nevis Limited

Board of Directors

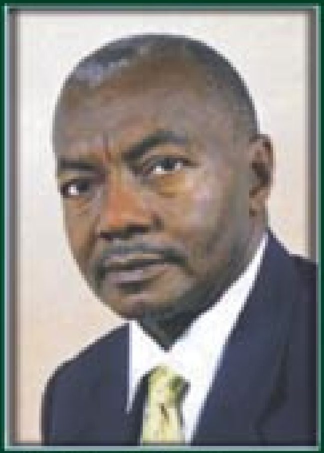
Reginald Kawaja
Chairman

Kishu Chandiramani



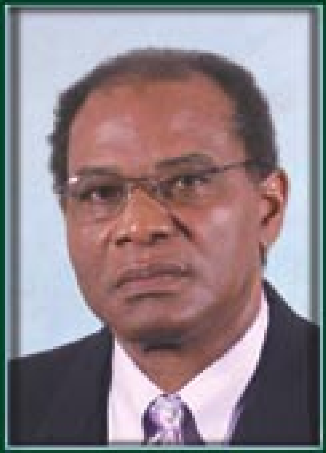
Hanzel Manners

Lyra Richards
Secretary

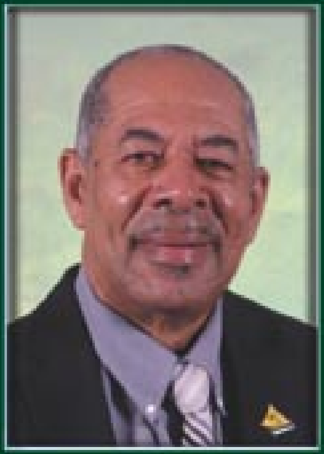


Rawlinson Isaac

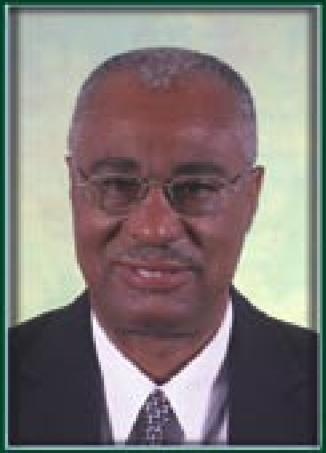
Richard Lupinacci



Wendell Huggins



Spencer H. Howell



Joseph Parry

OVERVIEW

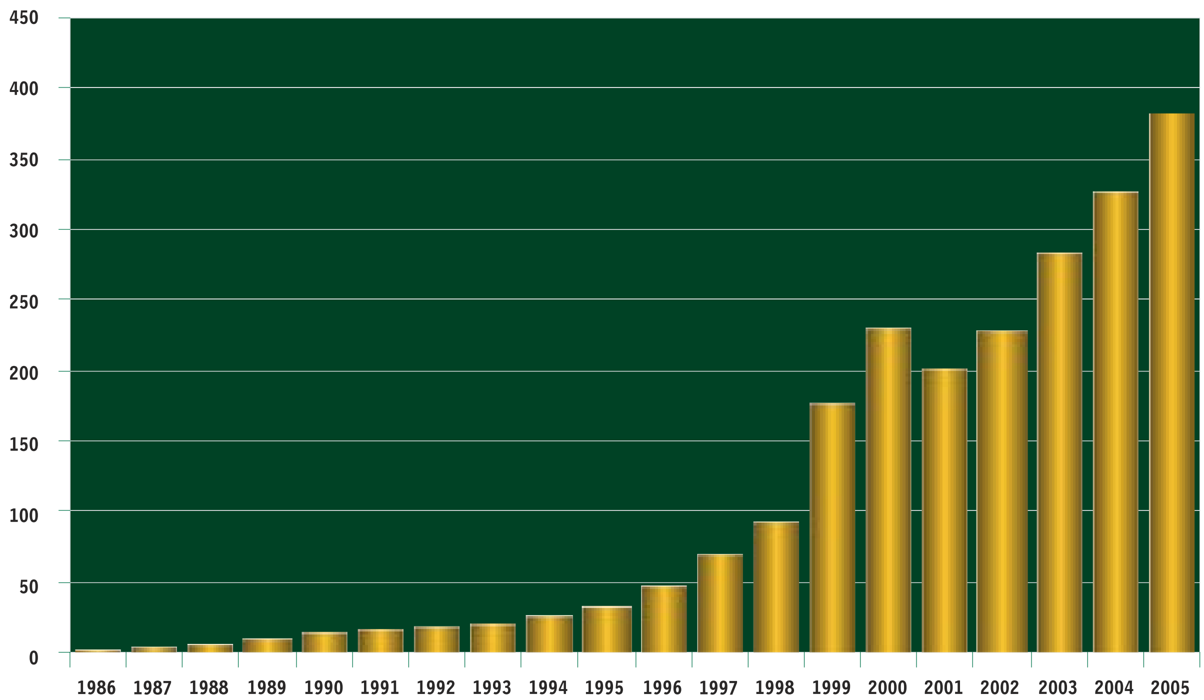
This year, the Bank celebrates twenty (20) years of service to the people of St Kitts – Nevis and the shareholders can be proud of the Banks' sterling contribution to the development of the economy in general and the improvement of the quality of life of Nevisians, in particular.

With three (3), banks operating on Nevis in 1985, and with economic activity and job opportunities limited, the pioneers with only EC$250,000 embarked on a journey with the stated objectives:-

- Job creation
- Development of Business and Industry
- Improvement in the housing stock
- Mobilization of Savings – Local and Foreign

At the end of June 2005 the assets of the Bank had grown to EC$383.0 million and the objectives of the pioneers realised.

Total Assets $ (M)



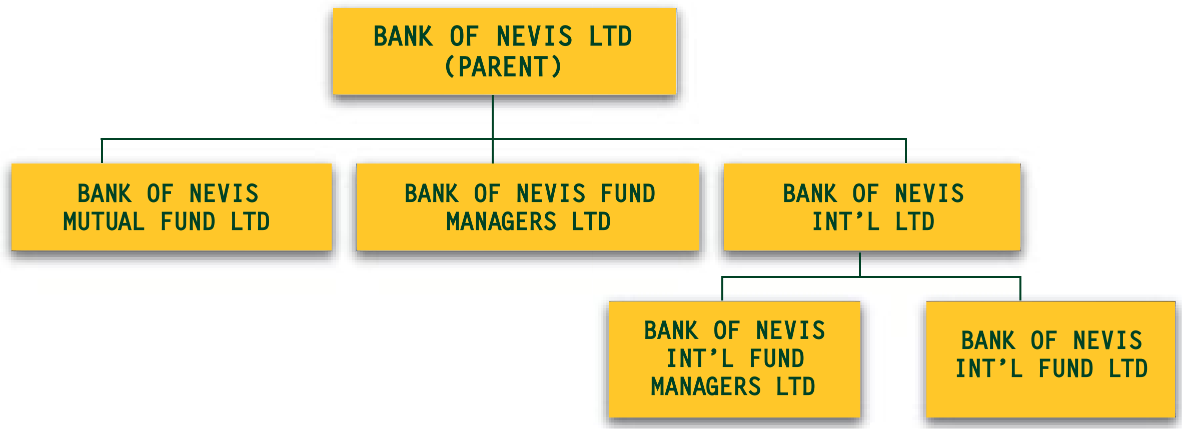
The phenomenal growth period after 1998 was due mainly to the increase in deposits and other business activities from our international customers operating from within the Nevis financial services jurisdiction.

The Bank has always been at the forefront of change and was the first institution to list on the Eastern Caribbean Securities Exchange (ECSE) on 19th October 2001 and so provided a market for its shares.

The Bank has made a foray into the Mutual Fund market and now has the following subsidiaries:-

- Bank of Nevis International Ltd
- Bank of Nevis International Fund Managers Ltd
- Bank of Nevis International Fund Ltd
- Bank of Nevis Fund Managers Ltd
- Bank of Nevis Mutual Fund Ltd

GROUP'S CHART



The bank now ranks #3 among the banks operating in St Kitts-Nevis based on total assets.

Below is a table which shows the Bank's annual compound growth rate in relation to the growth in total deposits in the banking systems within St Kitts and Nevis for the period 1986 through 2005.

TABLE 1

YEAR	INDUSTRY DEPOSITS $M	BON $M	BON SHARE %	ACGR (SKN) %	ACGR (BON) %
1986	249	0.7	0.3	——	——
1995	660	28.0	4.2	11.4	50.6
2005	2139	342.0	16.0	12.3	28.4

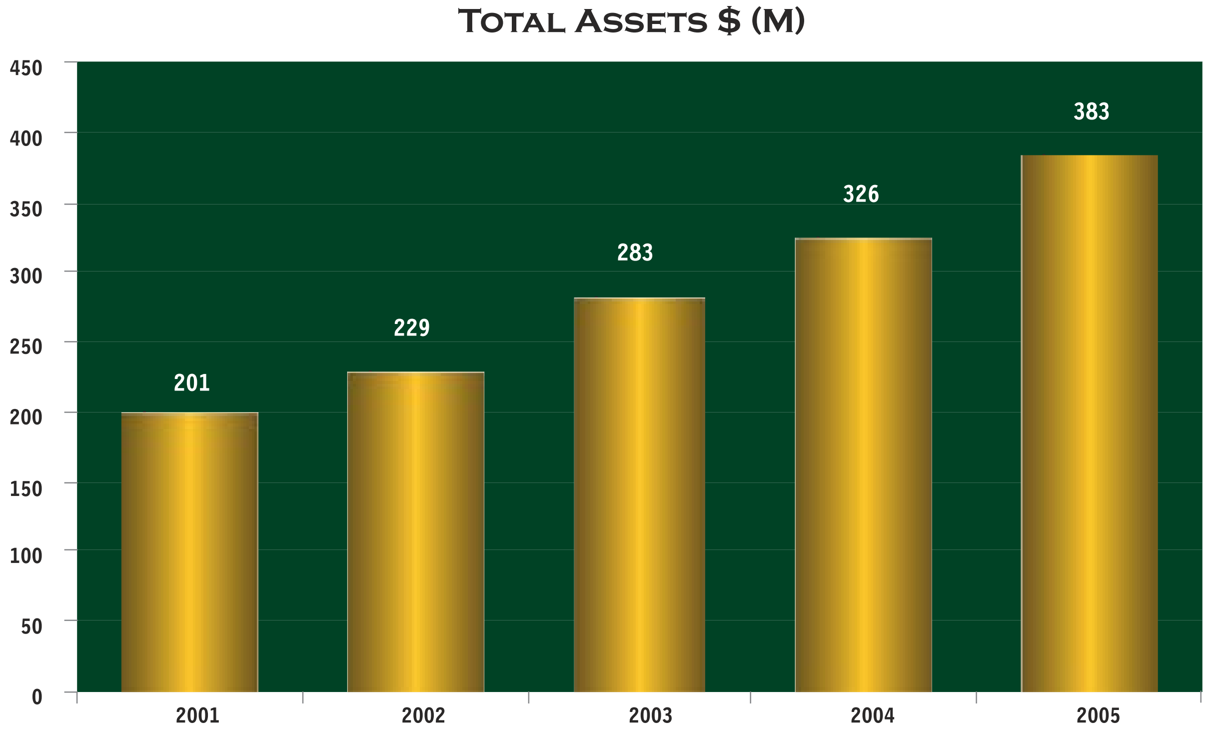
ACGR = ANNUAL COMPOUND GROWTH RATE

The statistics confirm that the Bank of Nevis has achieved a faster growth rate in deposit than the industry as a whole.

GROUP'S FINANCIAL REVIEW

BALANCE SHEET PERFORMANCE

The group enjoyed a significant growth in total assets of $56.8 million or 7.4% to reach $383.2 million compared with an increase of $43.3 million or 15.3% in 2004. The annual compound growth rate achieved during the past five years was 13.8%.



The growth was organic with the main contribution being customers' deposits. At the end of June 2005 the components of the balance sheet were represented by the following percentages:-

TABLE 2

ASSETS	2005 %	2004 %
Cash and due from Banks	35.2	30.0
Treasury Bills	14.3	9.9
Investments Securities	22.6	35.7
Loan & Advances	25.3	21.5
Property, Plant & Equipment	2.3	2.5
Other Assets	0.3	0.4
	100	**100**

LIABILITIES & SHAREHOLDERS' FUNDS		
Deposits	89.3	90.4
Other Liabilities	3.2	2.2
Shareholders' Funds	7.5	7.4
	100	**100**

CASH AND BALANCES DUE FROM BANKS

Cash and balances due from banks increased by $37.2 million or 38.0% over the previous year and represents 35.2% of the total assets, compared with 30.0% in 2004.

This strong liquidity position is central to our investment strategy to deploy a significant portion of funds in short-term marketable securities in a market environment charactarised as uncertain.

Included in this category are mandatory reserve deposits held at the ECCB of $10.8 million and other restricted fixed deposits of $5.7 million as security for our Visa and MasterCard operations.

TREASURY BILLS

Treasury Bills grew by $22.5 million or 69.9% compared with $17.2 million or 53.4% in 2004. Investment in Government Treasury Bills is considered a safe investment with an average interest yield of 6.7%. Treasury Bills represent 14.3% of the balance sheet compared with 9.9% in 2004.

INVESTMENT SECURITIES

Investment securities fell by $29.9 million or 25.7% from $116.4 million in 2004 to $86.5 million in 2005. The bank pursued a short duration policy and consequently disposed of a portion of its securities consistent with its policy. The proceeds were reinvested in Treasury Bills and other short-term marketable securities.

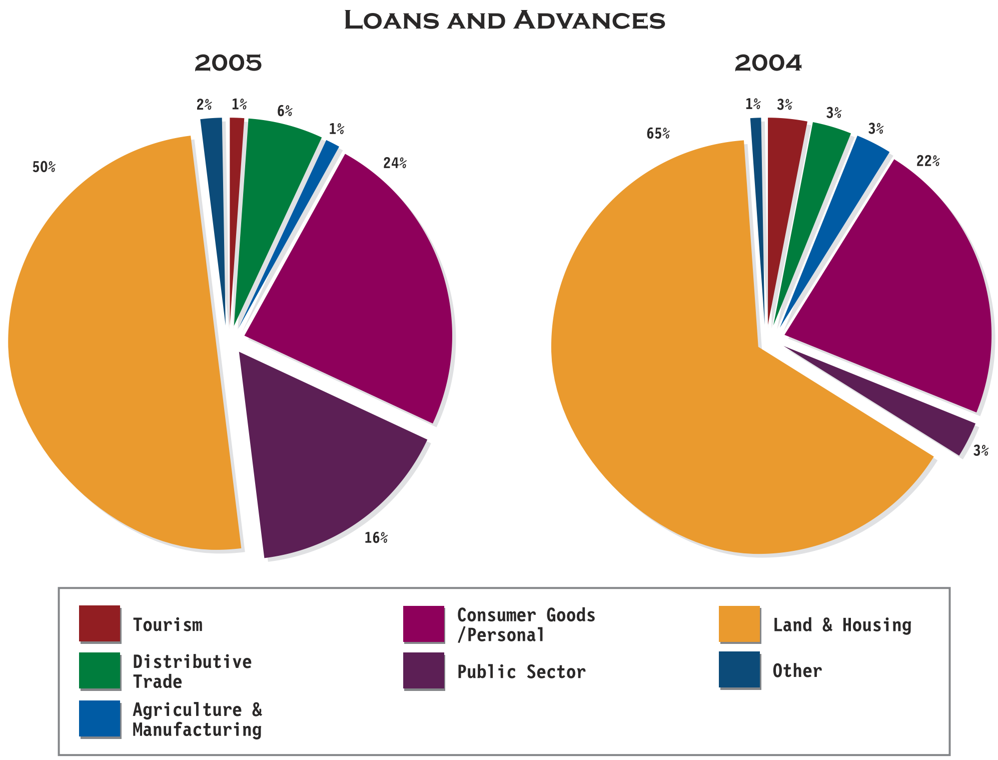
Investment Securities were impaired to the extent of $0.7 million which was written off against income for the year 2005 in accordance with International Financial Reporting Standards.

LOANS AND ADVANCES

Loans and advances grew by $26.7 million or 38.0% from $70.2 million in 2004 to $96.9 million in 2005 compared with $8.1 million or 13.0% over the previous year.

Loans and advances are allocated by economic activity as shown by the Chart below:-

In an effort to diversify the economic sector risks, the bank focused its lending to other public sectors which grew from 3% of loans portfolio in 2004 to 16% in 2005. Distributive trade also benefited from an increase from 3% in 2004 to 6% in 2005.



At the end of the year, non-productive loans to total loans stood at 9.8% compared to 13.1% in the previous year, with loan loss provision representing 23.3% of the non-performing loans compared with 25.4% in 2004. The remaining portion of the non-performing loans is adequately secured and the prospect of recovery is good.

PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment (net of depreciation) increased by $0.25 million compared with an increase of $2.9 million in 2004.

Additional land was acquired contiguous to the existing premises for $0.27 million and investment in computer equipment and upgrades totaled $0.46 million.

Fixed assets to shareholders' funds ratio stood at 0.28:1.0 in 2005 compared with 0.34:1.0 in 2004.

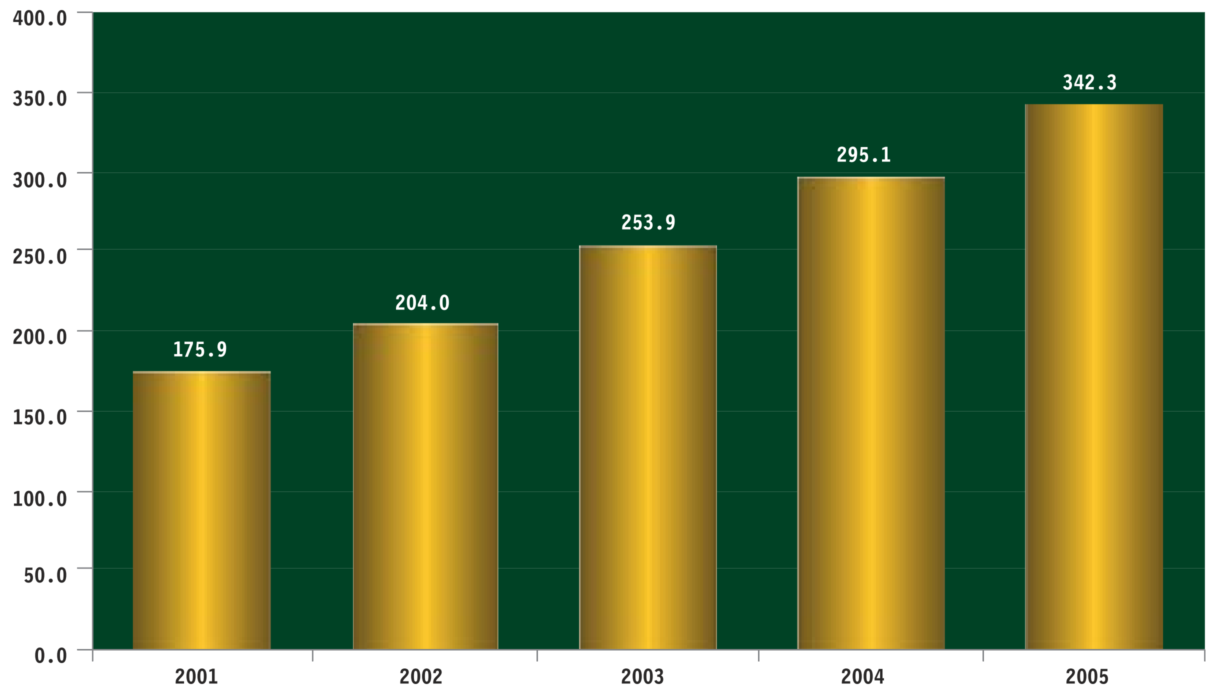
DEPOSITS

Customers' deposits continue to provide the main source of funding for lending and investment activities.

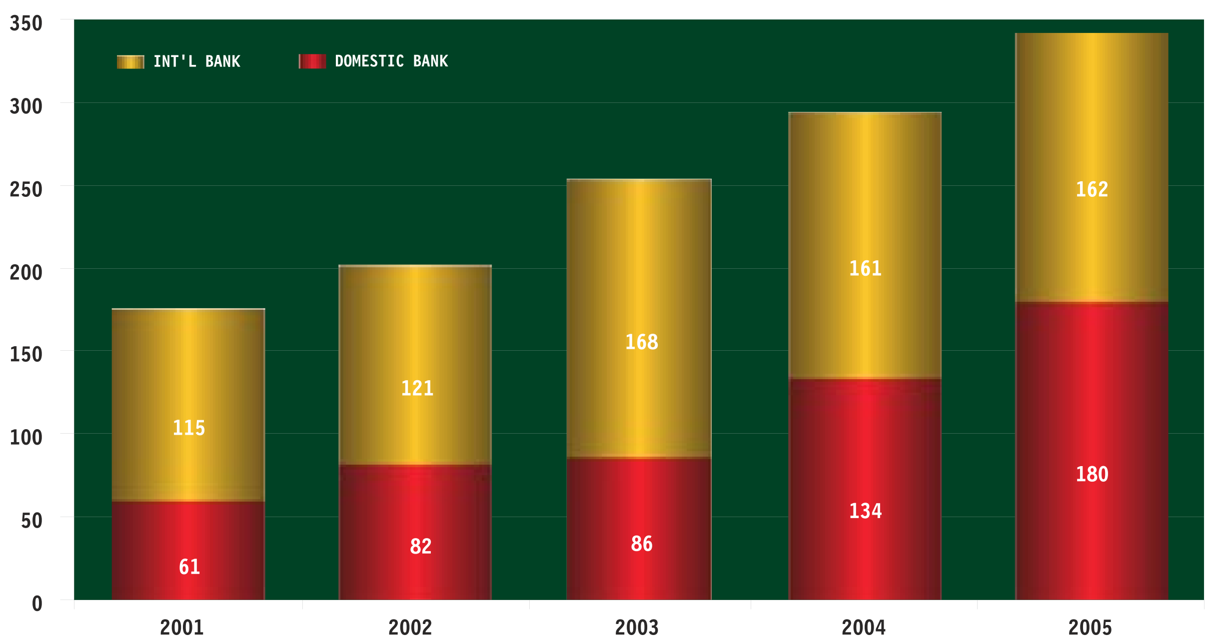
Total deposits grew by $47.1 million or 16.0% in 2005 compared with an increase of $41.3 million or 16.3% in 2004.

During the last five (5) years, deposits grew at a compound annual growth rate of 14.2%.

Total Deposits $ (M)



Deposits Between Banks $ (M)



Deposits are distributed between the two (2) banks as follows:-

TABLE 3

	2005		2004		2003		2002		2001	
	$ M	%	$ M	%	$ M	%	$ M	%	$ M	%
Domestic Bank	180	53	134	45	86	34	82	40	61	35
International Bank	162	47	161	55	168	66	121	60	115	65
	342	**100**	**295**	**100**	**254**	**100**	**203**	**100**	**176**	**100**

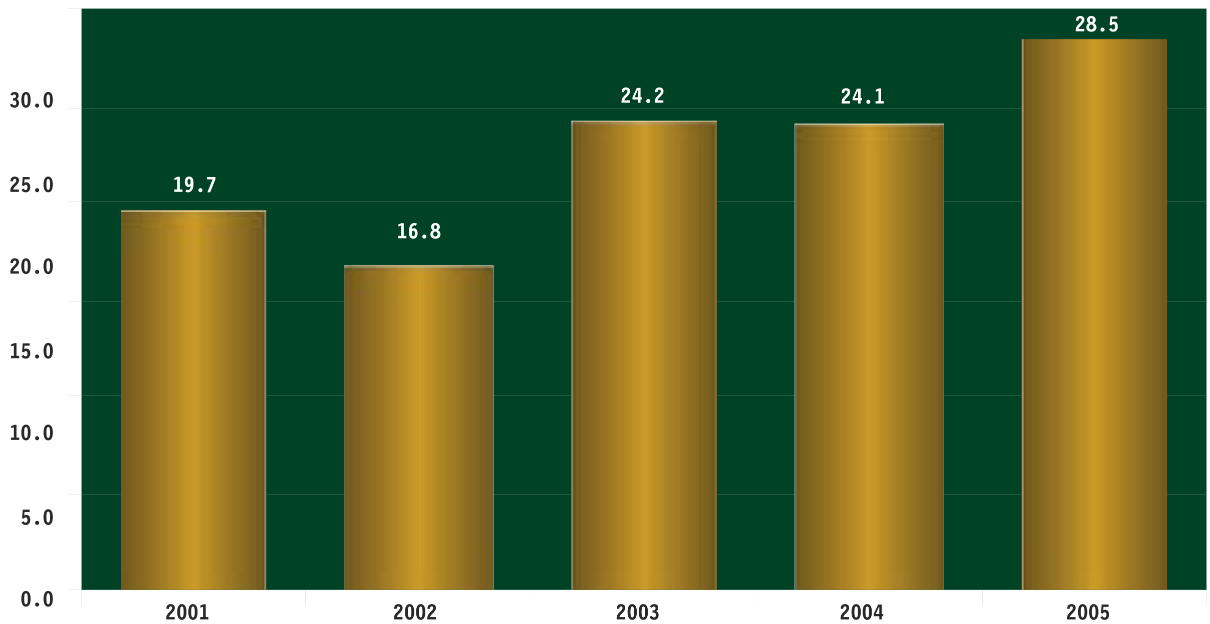
Table 3 shows the growth of the domestic deposits relative to international deposits which stood at 53% of the total deposits in 2005 compared with 42% in 2004.

The group's average cost of funds stood at 2.7% compared with 2.2% in 2004. Domestic deposits carry a higher average interest cost which stood at 4.5% in 2005 compared with 4.1% in 2004.

SHAREHOLDERS' EQUITY

Total shareholders' equity grew by $4.4 million or 18.07% compared with a marginal decrease of $0.14 million or 0.6% in 2004.

Shareholders' Equity $ (M)



The change in shareholders' equity in 2005 is analysed in Table 4 below:-

TABLE 4

	2005 $M	2004 $M	Change $M
Share Capital	7.48	7.48	-
Revaluation Reserves	0.99	(0.06)	1.05
Other Reserves	5.86	4.88	0.98
Retained Earnings	14.16	11.83	2.33
	28.49	**24.13**	**4.36**

The net asset backing (NAB) in 2005 stood at $3.81 compared with $3.22 in 2004 an increase of $0.59 or 18.3%. The market capitalization of the bank as at the financial year ended June 30, 2005 was $37.4 million down from $38.1 million in 2004.

PERFORMANCE INDICATORS

TABLE 5

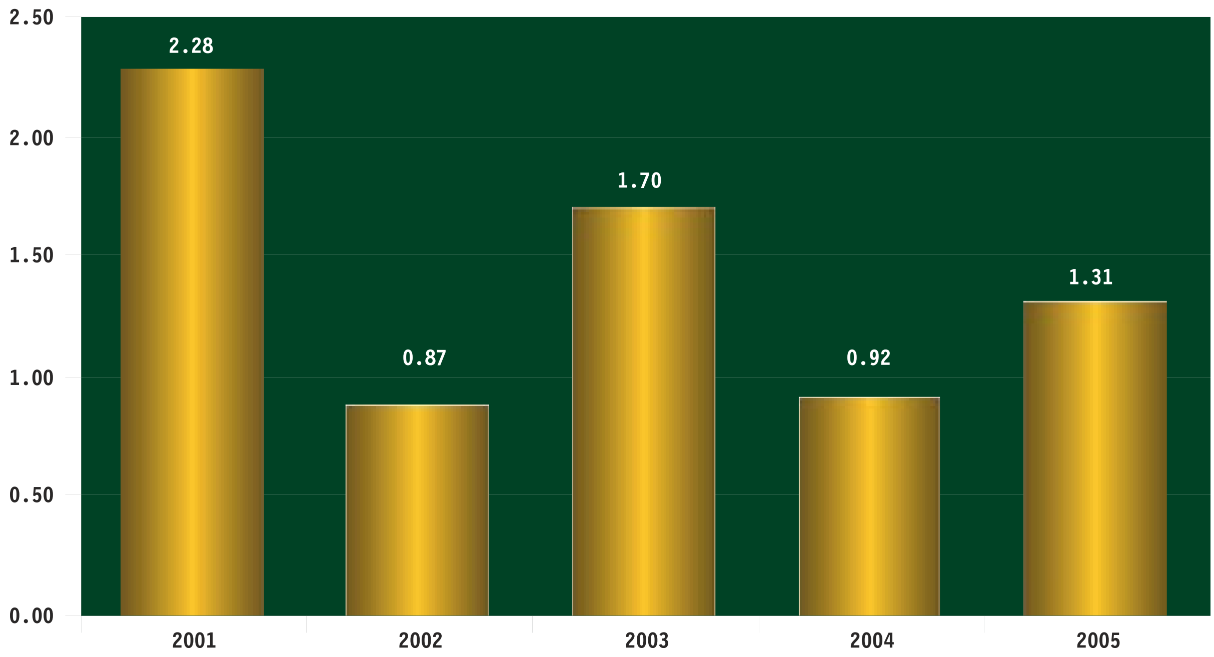
	2005	2004	2003	2002	2001
Return on Average Equity (ROE) %	17.62	11.53	21.23	10.30	28.46
Return on Average Assets (ROA) %	1.31	0.92	1.70	0.87	2.28
Profit Margin %	21.00	17.23	27.27	13.82	32.44
Earnings Per Share (EPS) $	0.62	0.37	0.58	0.25	0.66
Net Asset Backing (NAB) $	3.81	3.23	3.25	2.24	2.64

Two significant indicators are the return on average assets (ROA) and the earnings per share (EPS). The ROA is a measure of the net income per dollar of average assets owned during the year. The ROA increased by 42.4% in 2005 compared with a decline of 45.9% in 2004.

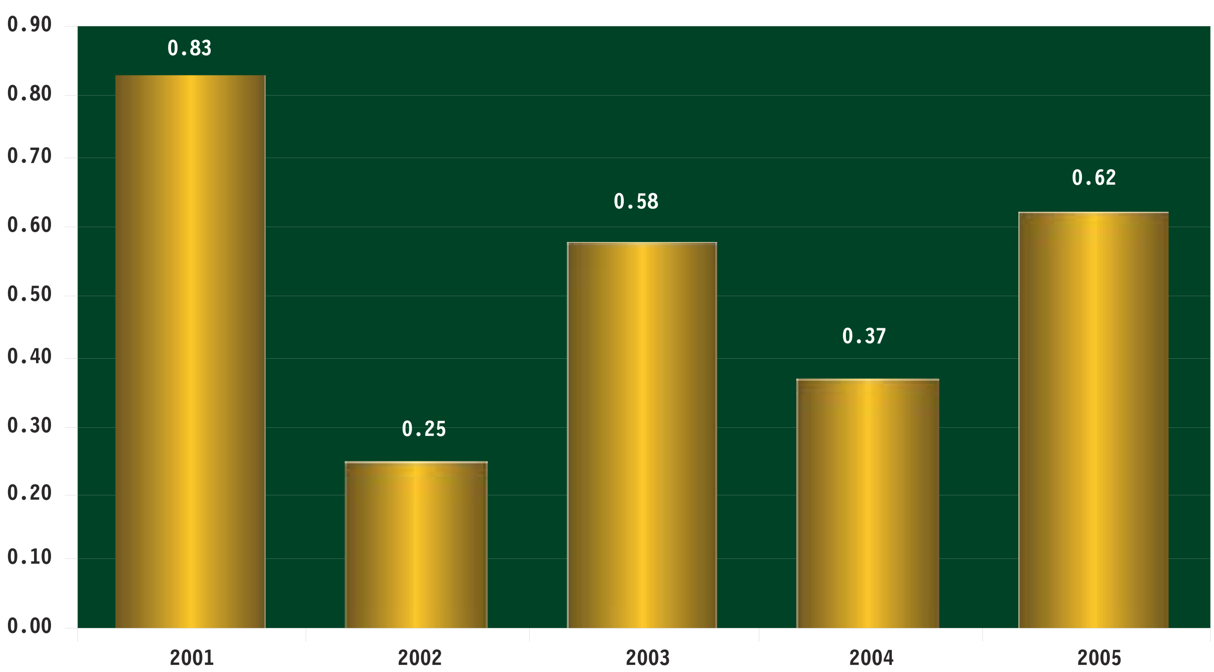
The earnings per share (EPS) is perhaps the most widely used and publicized measure of a company's current and future growth.

EPS increased by $0.25 or 67.6% during 2005 compared with a decline of $0.21 or 36.2% in the previous year.

Return on Assets (ROA) %



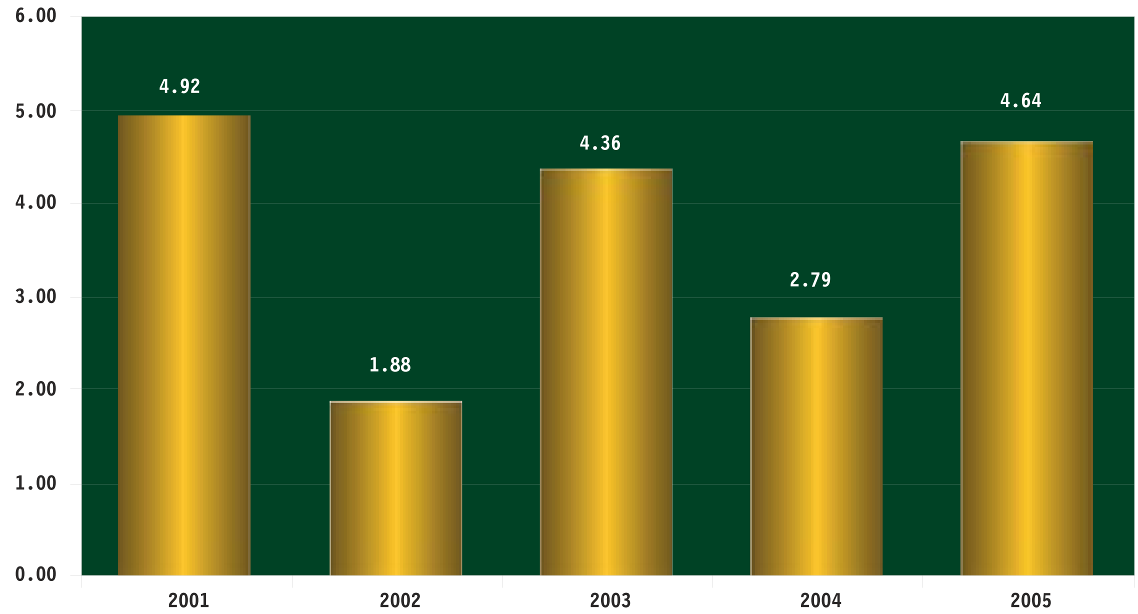
Earnings per Share $



GROUP'S PROFITABILITY

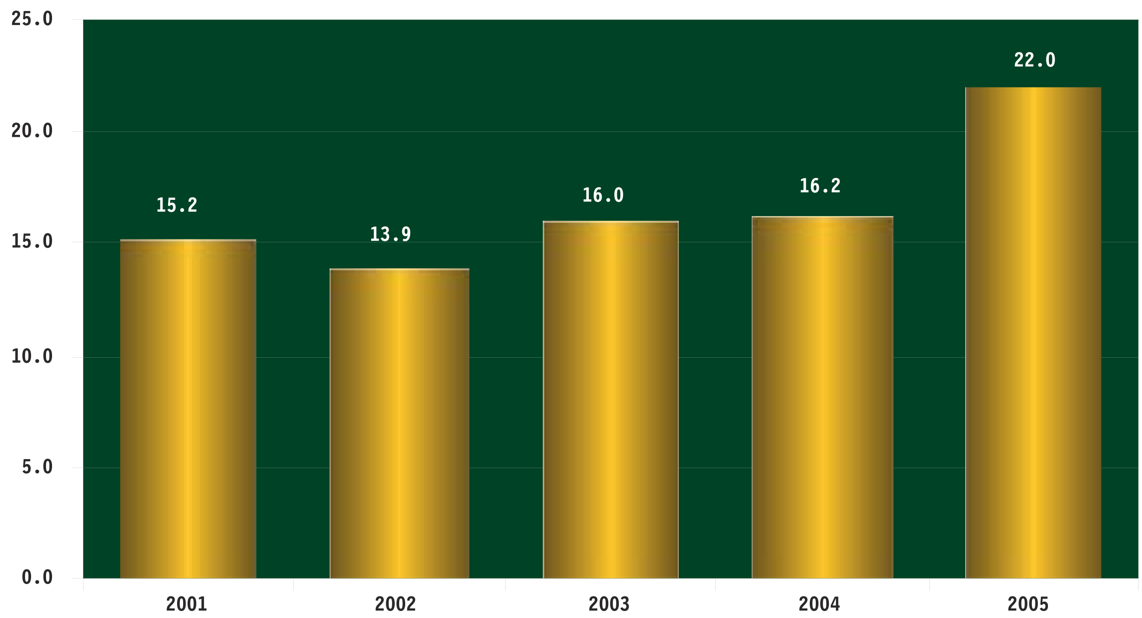
The group achieved a net profit attributable to shareholders of $4.64 million in 2005 compared with $2.79 million in 2004.

Group's Net Profit $ (M)



Gross revenue for the year under review grew by $6.71 million to reach $22.09 million compared with $16.19 million in the previous year.

Gross Revenue $ (M)



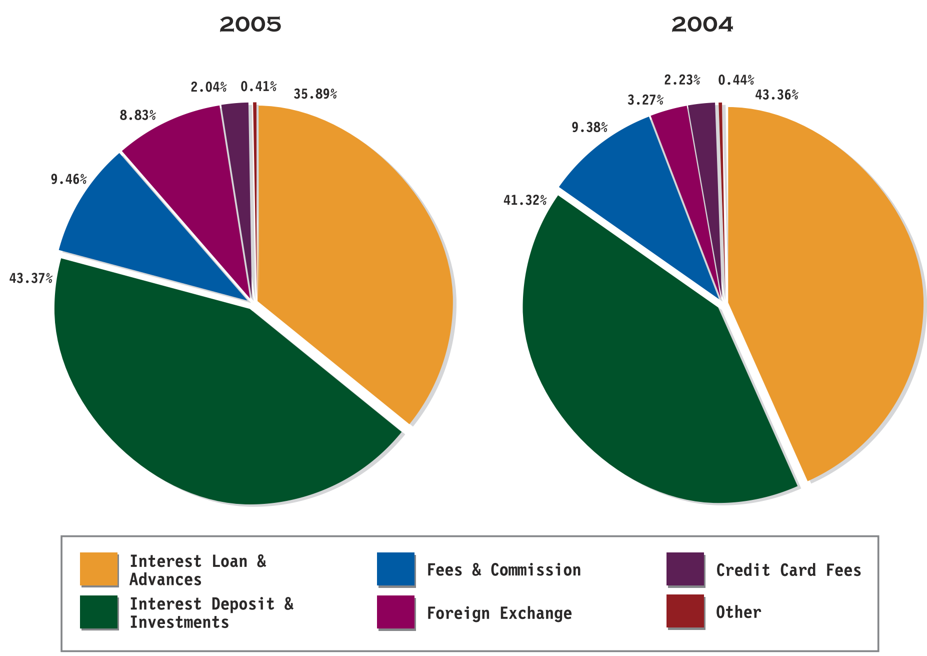
The source of income can be seen from the income distribution Table 6 below:-

TABLE 6

	2005		2004	
	$ M	%	$ M	%
Interest on Loan & Advances	7.93	35.89	7.02	43.36
Interest on Deposits & Investments	9.58	43.37	6.69	41.32
Fees & Commissions	2.09	9.46	1.52	9.38
Foreign Exchange	1.95	8.83	.53	3.27
Credit Card Fees	.45	2.04	.36	2.23
Other	.09	0.41	.07	0.44
	22.09	**100**	**16.19**	**100**

Interest on deposits and investments accounted for 43.4% of the total revenue in 2005 compared with 41.3% in 2004, while interest on loans and advances represented 35.9% compared with 43.4% in 2004. Interest yield on loans and advances for the year under review was 9.2% down from 10.1% in 2004. The decline in yield was attributed to the drop in interest rates caused by competitive pressure.

Fees and commissions increased by $0.57 million or 37.5% over the previous year, while foreign exchange gain increased by $1.42 million or 267.9% in 2005 compared with a decline of $0.06 million or 10.7% in 2004. The strong gain in foreign exchange resulted from the banks' holdings of foreign balances primarily in Euros and Sterling currencies, which appreciated against the US currency during the review period.



Total expenses grew by $4.05 million or 30.2% compared with $1.78 million in 2004.

Total Expenses and Revenues $ (M)

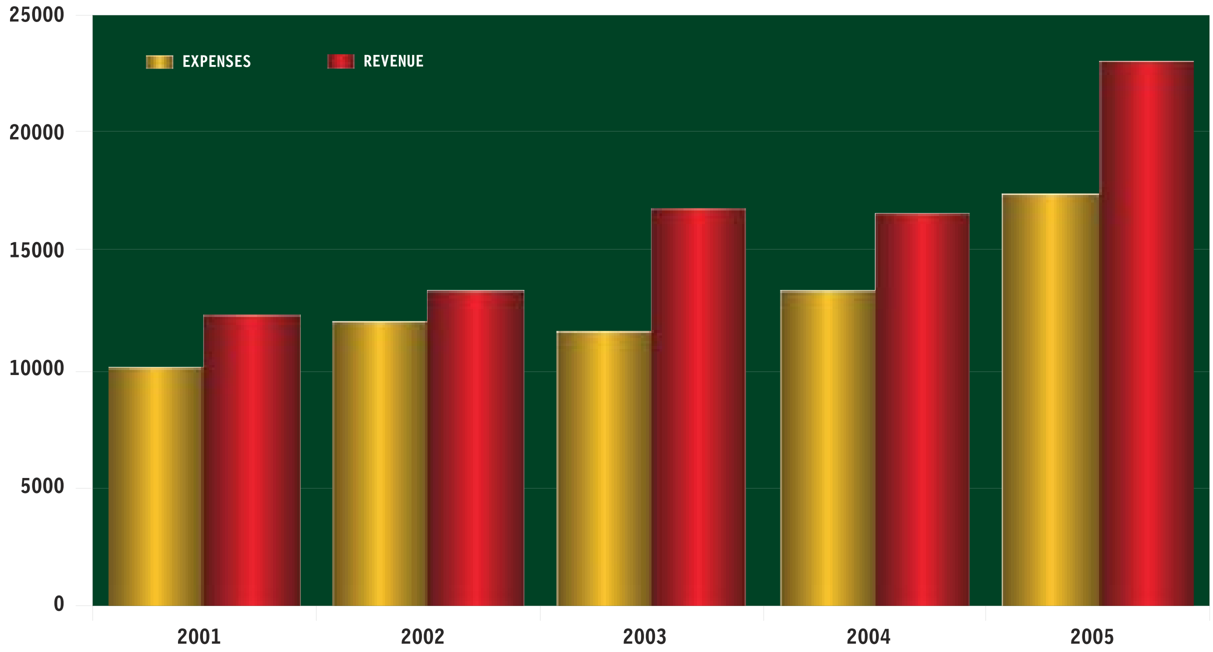


Table 7 below shows expenses expressed in dollars and percentage terms:-

TABLE 7

EXPENSES	2005		2004	
	$ M	%	$ M	%
Interest Expense	8.55	49.0	5.91	44.1
General Administrative Expenses	6.31	36.2	5.44	40.6
Provision for Loan Impairment	0.03	0.2	.12	0.9
Securities Loss & Impairment	0.79	4.5	0.26	1.9
Other Expenses	1.66	9.5	1.44	10.8
Taxation	0.11	0.6	0.23	1.7
	17.45	**100**	**13.40**	**100**

Interest expense increased by $2.64 million or 44.7% in 2005 compared with $0.78 million in 2004. Interest expense ratio stood at 0.49 in 2005 up from 0.43 in 2004. This ratio is monitored closely as it represents the amount paid on deposits relative to the interest yield on earning assets.

General and Administrative expense increased $0.87 million or 16% to reach $6.31 million in 2005 compared with $1.2 million or 28.7% in 2004. General and Administrative expenses represent 36.2% of total expenses, down from 40.6% in 2004. Staff and related costs totaling $3.18 million represent 50% of the General and Administrative expenses in 2005 compared with $2.67 million or 49.1% in 2004.

Staff employment at June 2005 stood at 48 (44 in 2004) with staff cost representing 0.9% of the average assets in 2005 compared with 0.8% in 2004.

Net income per employee stood at $96,585 in 2005 compared with $63,408 in 2004.

Credit card expenses increased by $41,473 or 5.2% in 2005 to reach $839,768 ($798,295 in 2004). The credit card unit of the bank now offers the following products and services: gold card, classic cards, debit cards, e-commerce and other traditional merchant processing services. With increased marketing effort, the bank should be able to recover the investment in its credit card initiatives.

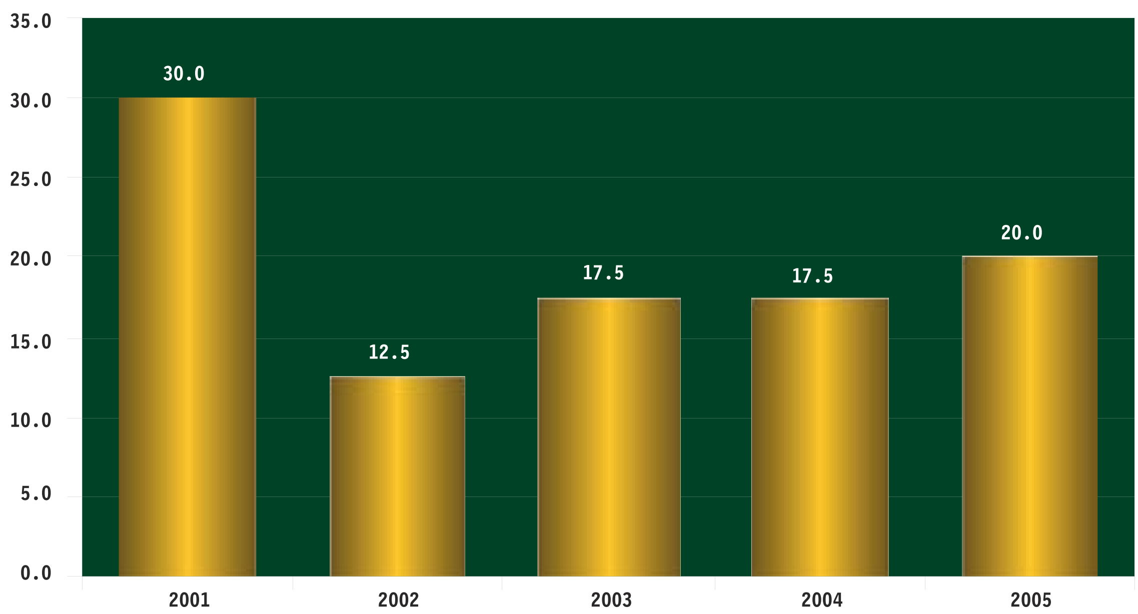
The overhead efficiency ratio, which is the non-interest expenses covered by the non-interest income, showed a strong improvement. At the end of the financial year 2005, the overhead efficiency stood at 0.51 compared with 0.35 in 2004.

Expenses as a percentage of Total Revenue were as follows:

TABLE 8

	2005 %	2004 %
Interest Expenses	38.7	36.5
General Administrative Expenses	28.6	33.6
Provision for Loan Impairment	0.1	0.8
Securities Loss and Impairment	3.6	1.6
Other Expenses	7.5	8.9
Taxes	0.5	1.4
	79.0	82.8
Profit Margin (%)	21.0	17.2
	100	**100**

Dividends (Cents)



DIVIDENDS

The Board is pleased to propose to shareholders a cash dividend of 20.0 cents per share in 2005 up from 17.5 cents in 2004. This increase represents 14.3% over the previous year. The cash dividend proposed amounts to $495,630, an increase of $186,953 and represents a dividend payout ratio of 32.3% compared with 46.9% in 2004.

HUMAN RESOURCE DEVELOPMENT

The financial services sector is becoming more competitive and increasingly complex and the market place global and liberalised. Banks are required to perform at the highest level of efficiency and effectiveness and therefore must invest in their most important asset, the human resource capacity, if they are to survive.

During the year under review, the Bank invested in the following areas of skill enhancement: mortgage underwriting, loan recoveries, securities administration, customer service and work ethics, anti-money laundering, credit and debit card processing and computer and systems technology.

The following staff members received their professional designations:-

- Miss Lisa Jones – Certified Public Accountant (CPA)
- Miss Wanda Pinney- Certified General Accountant (CGA)
- Mr. Spencer Hanley – Mortgage Underwriting Certificate (CRU)

The Board and management would like to take this opportunity again to express congratulations to the three deserving individuals and to wish every success as they seek to make their contribution to the fast changing financial services industry.

Other staff members are pursuing academic courses at the Bachelors and Masters Levels as well as banking diplomas. The bank continues to provide financial and moral support to all staff.

SOCIAL RESPONSIBILITY

During the year the Bank made significant contributions to the development of education, health, sports, culture and religious activities as a demonstration of its social responsibillity.

The Banks' Social Club, which is the community out reach arm of the Bank should be commended for its efforts in identifying and meeting the social needs of the community.

CORPORATE GOVERNANCE

In an effort to demonstrate a commitment to a strong Corporate Governance culture, which is critical to the Bank's reputation, integrity, public trust and corporate image, the Bank has considered the adoption of the Corporate Governance Principles for Caribbean countries. These principles are consistent with those of the OECD and reflect international best practices.

Corporate Governance is about promoting corporate fairness, transparency and accountability and is the primary responsibility of the Directors and Officers of the Bank.

MARKET SHARE ST. KITTS – NEVIS

The groups' deposits of $342.3 million represent 16% of the total market size of $2.1 billion as at June 2005. The market deposits grew by $299.0 million or 16.3% during the review period.

ECONOMIC DEVELOPMENTS

During the review period, economic activity accelerated with major developments in the Tourism and the construction sectors. There was an increase in stayover arrivals due partly to additional air lift from the USA and the UK. The number of cruise ship calls increased, which resulted in a significant increase in passenger arrivals.

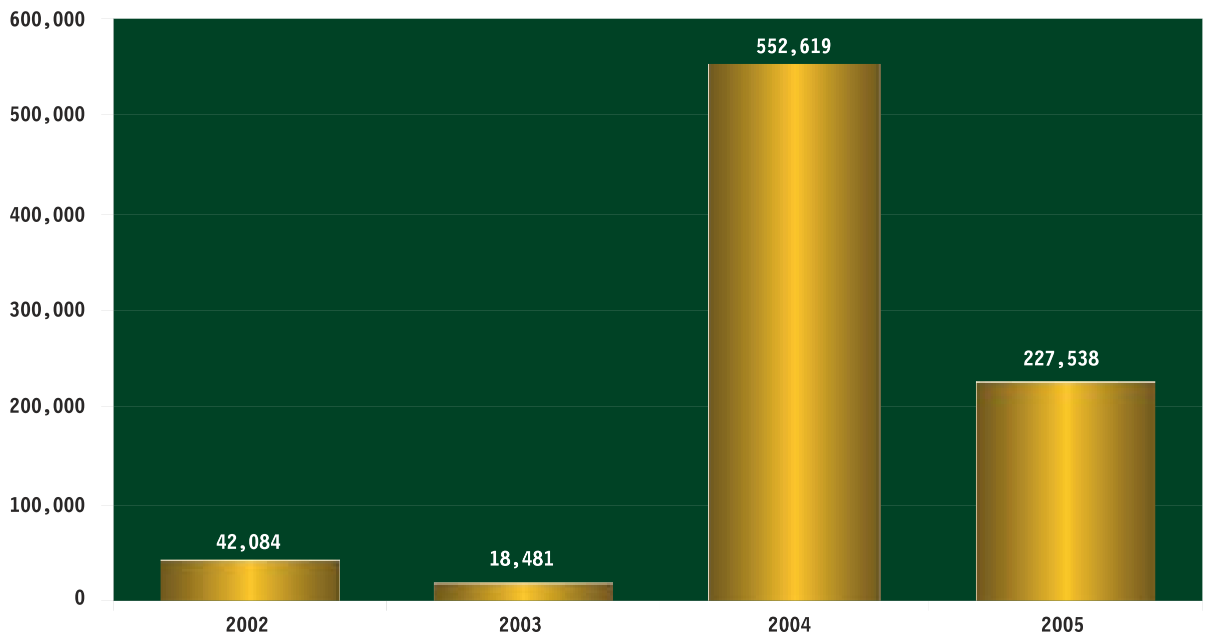
Several construction projects within the public and private sectors were ongoing. Liquidity remained high in the commercial banking sector and interest rates on time deposits declined consistent with the drop in lending rates. The overall fiscal deficit of the government widened and the consumer price index (CPI) increased.

With respect to the US economy, interest rates increased gradually from 1% to 3.5% during the year and contributed significantly to the increase in the interest yields on our deposits with other banks and short-term marketable securities.

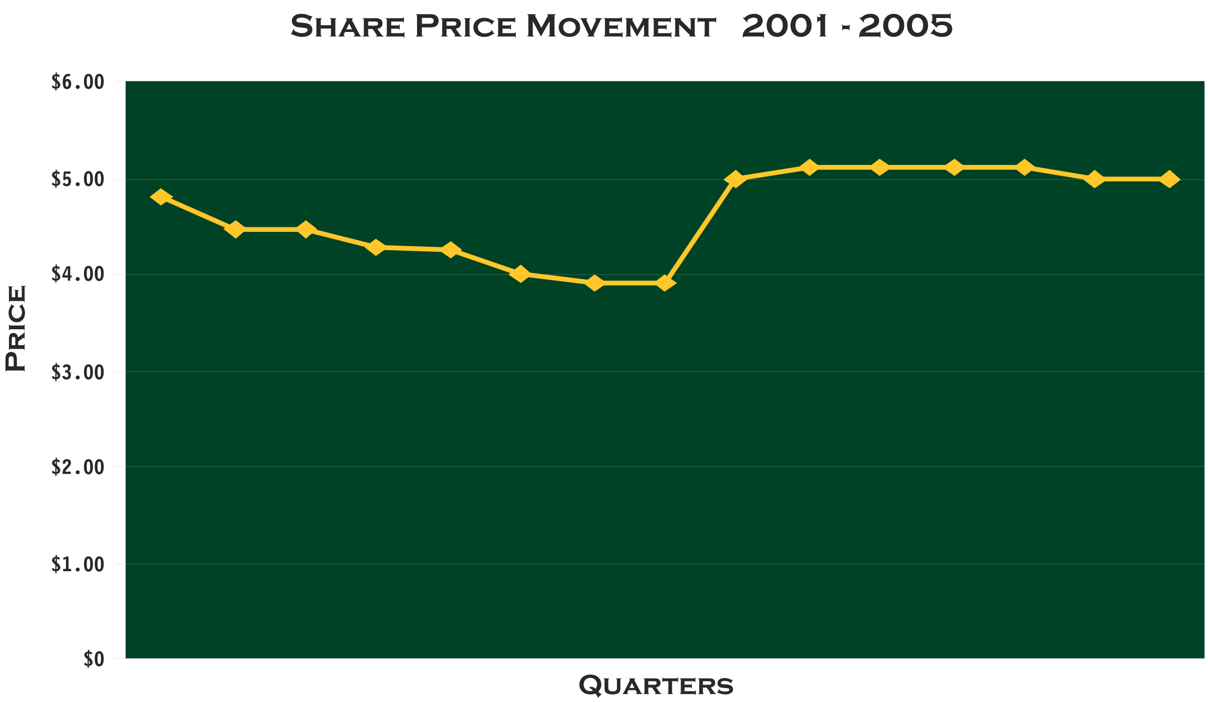
SHARE PERFORMANCE ON ECSE

The Bank listed its shares on the ECSE on October 19, 2001 and confirmed a market price for its shares at $5.00 per share. At the end of the financial year June 30, 2005, the share price stood at $5.00 down from EC$5.10 in 2004. The chart below shows the market activity for the period 2001 – 2005.

MARKET ACTIVITY FOR BON SHARES



The market continues to be characterised as thin where there are few buyers and sellers. The following chart shows the quarterly share price movements for the same period.



MUTUAL FUND

We take this opportunity to advise shareholders of some important developments as The Bank of Nevis pursues its vision of a world-class Bank.

As a cornerstone of this strategy the Bank has launched a range of Mutual Funds. The Bank has chosen Nevis as the location for registration, regulation and operation of its Funds, in the belief that this will be an important milestone in the development of both the Bank, and the Nevis financial services sector.

Bank of Nevis International Fund Limited is a Nevis International Business Corporation and will be offered to the international clients of the Bank. A Nevis domestic corporation has also been incorporated, (Bank of Nevis Mutual Fund Limited) and application has been made to the Eastern Caribbean Securities Regulatory Commission (ECSRC) for a license to promote this Fund within the Organisation of Eastern Caribbean States (OECS).

Strategically, some of the benefits to the region are the offering of attractive opportunities to local investors including relatively small investors, and the encouragement of savings (the Funds are suitable for pension plans), whilst facilitating the raising of capital for regional governments and corporations. The Funds also have the potential to attract significant overseas investment which will have a positive effect on regional development.

The Bank of Nevis International Fund Limited is a multi-strategy investment fund open to members of the public and comprising three classes of Shares, each operating as a separate 'sub-fund' with separate investment strategies.

Class 'A' US$ Denominated Shares adopting a US$ Money Market investment strategy.

Class 'B' US$ Denominated Shares adopting an investment strategy involving a diversified range of short-term US Dollar denominated fixed income securities. These securities will include a wide range of Caribbean government, other government, corporate and money market instruments of investment grade quality.

Class 'C' EC$ Denominated Shares adopting an OECS government securities investment strategy.

The Bank of Nevis Mutual Fund Limited, when licensed and launched, will have similar classes of shares. It is envisaged that further classes will be added to both Funds, e.g. Bond and Equity Classes, as opportunities arise.

In a further exciting development, Bank of Nevis International Ltd is now able to offer custody and securities dealing facility through one of its international partners. Thus, the Bank, on behalf of its clients, can hold and trade in virtually any global securities, bonds, equities and hedge funds.

THE NEXT DECADE

Banks are at the commercial epicenter of the community and they play a vital role in economic development since they are the repositories of the nations' savings and the vehicles for financing of investment opportunities.

The past twenty (20) years have seen enormous and wide-ranging changes to the face of banking driven mainly by competition, technology, regulation and the changing nature of society itself.

The next decade will usher in collaborative ATMs networks with other banks and the use of advanced internet banking technology as customers seek a higher level of utility.

Competition will drive consolidation as banks engage in the battle for supremacy in an increasingly competitive market, where resources will be required to provide solutions to meet the needs of customers. With consolidation comes economies of scale, risk diversification, improvement in service quality and the attraction of the best human resources.

New laws and regulations will be enacted as governments and banking authorities seek to ensure the safety and soundness of the banks and financial instruments, as well as the efficient allocation of resources and the reliability of the payment systems. These factors will significantly impact The Bank of Nevis.

CONCLUSION

As the region moves toward a Caribbean Single Market and Economy (CSME), the Bank will be required to rethink its strategies in response to new market demands both locally and internationally. The financial services sector is not without challenges and the Bank must provide the appropriate responses and leadership to convert the inevitable challenges into opportunities.

The Bank recorded another year of financial success as shown by the performance indicators and a dividend of $0.20 per share has been proposed, which represents a satisfactory return on shareholders' investments.

To the Directors, Management and Staff we salute you for another year of dedication, loyalty and trust, as well as a strong commitment to the vision, mission and values of the Bank. Through our organisation transformation initiatives, the entire staff have become results-oriented and we look forward to their continued contribution to the future development and success of the Bank during the next decade.

To our shareholders and customers we would like to express our sincere gratitude for your continued support and loyalty as we continue a trajectory of stability, growth and leadership.

On behalf of The Bank of Nevis Ltd

Lyra P S Richards
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, 2005 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, 2005 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

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

Consolidated Balance Sheet

As of June 30th, 2005

(expressed in Eastern Caribbean dollars)

	2005 $	2004 $
Assets		
Cash and balances due from other banks (note 5)	**135,069,854**	97,936,994
Treasury bills (note 6)	**54,676,814**	32,240,183
Investment securities (note 7)	**86,509,484**	116,382,672
Income tax receivable (note 13)	**30,381**	–
Loans and advances (note 8)	**96,895,684**	70,156,992
Other assets (note 9)	**1,336,339**	1,252,731
Property, plant and equipment (note 10)	**8,667,665**	8,420,161
Total assets	**383,186,221**	326,389,733
Liabilities		
Customers' deposits (note 11)	**342,283,932**	295,183,338
Other liabilities and accrued expenses (note 12)	**9,836,762**	6,333,876
Provision for income tax (note 13)	**60,282**	252,825
Deferred tax (note 13)	**440,671**	486,007
Redeemable shares (note 14)	**2,066,285**	–
Total liabilities	**354,687,932**	302,256,046
Shareholders' Equity		
Share capital (note 15)	**7,478,150**	7,478,150
Revaluation reserves (deficit) (note 16)	**989,151**	(57,030)
Other reserves (note 17)	**5,866,333**	4,877,869
Retained earnings	**14,164,655**	11,834,698
Total shareholders' equity	**28,498,289**	24,133,687
Total liabilities and shareholders' equity	**383,186,221**	326,389,733

The accompanying notes form an integral part of these financial statements

Approved by the Board of Directors on September 30, 2005.

Chairman **Director**

Director

Consolidated Statement of Income

For the year ended June 30th, 2005

(expressed in Eastern Caribbean dollars)

	2005 $	2004 $
Interest income		
Income from loans and advances	**7,928,280**	7,022,227
Income from deposits with other banks and investment securities	**9,582,163**	6,688,793
	17,510,443	13,711,020
Interest expense		
Savings accounts	**1,785,346**	1,073,531
Time deposits and current accounts	**6,766,071**	4,839,448
	8,551,417	5,912,979
Net interest income	**8,959,026**	7,798,041
Gains less losses from investment securities (note 7)	**(22,913)**	(72,326)
Impairment loss on available-for-sale investment securities (note 7)	**(735,387)**	(189,365)
Other operating income (note 18)	**4,575,323**	2,477,405
Operating income	**12,776,049**	10,013,755
Operating expenses		
General and administrative expenses (note 25)	**6,313,590**	5,443,065
Provision for loan impairment (note 8)	**24,965**	117,038
Directors' fees and expenses	**693,992**	550,765
Depreciation (note 10)	**509,369**	423,132
Correspondent bank charges	**250,144**	253,543
Audit fees and expenses	**235,462**	204,267
	8,027,522	6,991,810
Operating income for the year before taxation	**4,748,527**	3,021,945
Taxation (note 13)		
Current tax expense	**95,745**	66,349
Prior year tax expense	**5,463**	64,779
Deferred tax expense	**11,217**	100,847
	112,425	231,975
Net income for the year	**4,636,102**	2,789,970
Earnings per share (note 20)	**0.62**	0.37

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended June 30th, 2005

(expressed in Eastern Caribbean dollars)

	Share capital $	Revaluation reserve - available for sale investments $	Revaluation reserve -property $	Reserve fund $	Retained earnings $	Total $
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 investment, transferred from equity	–	28,890	–	–	–	28,890
Depreciation in market value of investment securities, net of tax	–	(1,649,936)	–	–	–	(1,649,936)
Dividends (note 23)	–	–	–	–	(1,308,677)	(1,308,677)
Transfer to reserve fund (note 17)	–	–	–	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
Net income for the year	–	–	–	–	4,636,102	4,636,102
Dividends (note 23)	–	–	–	–	(1,317,681)	(1,317,681)
Reserve for ECCB loan provision (note 17)	–	–	–	431,505	(431,505)	–
Appreciation in market value of investment securities, net of tax	–	1,046,181	–	–	–	1,046,181
Transfer to reserve fund (note 17)	–	–	–	556,959	(556,959)	–
Balance, June 30, 2005	**7,478,150**	**(597,481)**	**1,586,632**	**5,866,333**	**14,164,655**	**28,498,289**

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

For the year ended June 30th, 2005

(expressed in Eastern Caribbean dollars)

	2005 $	2004 $
Cash flows from operating activities		
Operating income for the year	**4,748,527**	3,021,945
Items not affecting cash		
Provision for loan impairment, net	**24,965**	117,038
Provision for doubtful receivables	**80,847**	–
Depreciation	**509,369**	423,132
Gain on disposal of property, plant and equipment	**–**	(35,001)
Interest income	**(17,510,443)**	(13,711,020)
Interest expense	**8,551,417**	5,912,979
Impairment loss on available-for-sale investment securities	**735,387**	189,365
Operating losses before changes in operating assets and liabilities	**(2,859,931)**	(4,081,562)
Changes in operating assets and liabilities		
Decrease (increase) in restricted fixed deposits	**2,462,705**	(2,698,062)
Increase in deposits held for regulatory purposes	**(2,535,010)**	(2,619,890)
Increase in loans and advances	**(26,364,514)**	(8,137,780)
(Increase) decrease in other assets	**(164,455)**	707,295
Increase in customer deposits	**46,282,120**	41,114,942
Increase in other liabilities and accrued expenses	**3,502,886**	2,022,849
Cash generated from operations	**20,323,801**	26,307,792
Interest paid	**(7,732,943)**	(5,700,244)
Interest received	**17,133,961**	13,433,319
Income tax paid	**(324,132)**	(404,412)
Net cash from operating activities	**29,400,687**	33,636,455
Cash flows from investing activities		
Purchase of property, plant and equipment	**(756,873)**	(3,367,556)
Proceeds from sale of property, plant and equipment	**–**	35,001
Decrease (increase) in investment securities	**29,819,860**	(23,855,592)
Increase in fixed deposits	**(4,129,021)**	(113,401)
Net cash from (used in) investing activities	**24,933,966**	(27,301,548)
Cash flows used in financing activities		
Issue of redeemable shares	**2,066,285**	-
Dividends paid	**(1,317,681)**	(1,308,677)
Net cash from (used in) financing activities	**748,604**	(1,308,677)
Increase in cash and cash equivalents	**55,083,257**	5,026,230
Cash and cash equivalents, beginning of year	**110,622,212**	105,595,982
Cash and cash equivalents, end of year (note 24)	**165,705,469**	110,622,212

The accompanying notes form an integral part of these financial statements

Notes to the Consolidated Financial Statements

June 30th, 2005

(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.

On July 29, 2004 the Bank of Nevis International Fund Limited was incorporated. The Fund is an open-ended public mutual fund approved to be registered under the Nevis International Mutual Fund Ordinance, 2004. It commenced operations on February 9, 2005.

The Bank employed 48 persons during the year (2004: 44 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.

b) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, Bank of Nevis International Limited, Bank of Nevis Mutual Fund Limited and Bank of Nevis Fund Managers Limited. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2 Significant accounting policies ... *continued*

c) Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

d) 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.

e) 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 recognized at cost (which includes transaction costs). Originated debt investments are carried at amortized 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 recognized at cost or amortized cost respectively once they are not impaired. Fair value of investments in equity instruments that do not have a quoted market price in an active market is determined by management.

Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized 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 recognized in the income statement.

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 amortized 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.

2 Significant accounting policies … *continued*

e) Investment securities … *cont'd*

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 recognized at trade date, which is the date the Bank commits to purchase or sell the asset.

f) Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower at draw down are categorized as originated loans and are carried at amortized 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 recognized 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.

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.

g) Provisions

Provisions are recognized 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.

2 Significant accounting policies … *continued*

h) 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.

i) 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.

j) 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.

2 Significant accounting policies … *continued*

j) Deferred income tax *...cont'd*

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

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 recognized in the income statement together with the deferred gain or loss.

k) Dividends on ordinary shares

Dividends on ordinary shares are recognized 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 (note 23).

l) Interest income and expense

Interest income and expenses are recognized in the income statement for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

m) Fees and commissions income

Fees and commissions are generally recognized 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 recognized 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 recognized on completion of the underlying transaction.

2 Significant accounting policies … *continued*

n) Foreign currency translation

Items included in the financial statements of Bank of Nevis International Limited are measured using United States dollars, 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.

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Eastern Caribbean dollars which is the Bank's functional and presentation currency.

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the closing rates of exchange prevailing at the balance sheet date. Foreign currency transactions are translated at the rates prevailing on the transaction dates. Foreign exchange gains or losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

o) 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.

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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management … *continued*

b) Credit risk

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

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.

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 collateralized and therefore carry less risk than direct borrowing.

(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, 2005										
St. Christopher and Nevis	171,813,062	45	159,809,055	45	14,885,014	67	25,435,641	82	756,873	100
United States of America and Canada	151,855,181	40	183,341,521	52	3,936,699	18	5,464,480	18	–	–
Other Caribbean states	46,816,803	12	3,030,131	1	2,269,038	10	–	–	–	–
Europe	12,701,175	3	8,477,225	2	995,015	5	–	–	–	–
	383,186,221	100	354,687,932	100	22,085,766	100	30,900,121	100	756,873	100
As at June 30, 2004										
St. Christopher and Nevis	147,849,480	45	121,544,461	40	11,045,969	68	6,383,807	100	3,367,556	100
United States of America 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	16,188,425	100	6,383,807	100	3,367,556	100

3 Financial risk management … *continued*

Geographical concentration of assets, liabilities and off balance sheet items … *cont'd*

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:

	2005 $	2005 %	2004 $	2004 %
St. Christopher and Nevis	**99,161,574**	**100**	72,575,353	100

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

	2005 $	2005 %	2004 $	2004 %
Tourism	**6,025,412**	**6**	2,625,262	4
Government bodies	**16,548,090**	**17**	7,170,171	10
Manufacturing	**328,550**	**–**	506,054	1
Agricultural	**86,210**	**–**	90,256	–
Professional	**326,223**	**–**	330,483	–
Business services	**2,181,931**	**3**	72,617	–
Land, housing, other	**73,665,158**	**74**	61,780,510	85
	99,161,574	**100**	72,575,353	100

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.

	2005	2004
Loans and advances		
Loans	**10.00%**	9.49%
Advances	**8.57%**	6.59%
Credit card advances	**17.50%**	18.50%
Investment securities		
Government treasury bills	**6.70%**	6.90%
Investment securities, fixed deposits and other investments	**6.17%**	5.90%
Fixed rate bonds	**4.13%**	1.00%
Customer deposits		
Demand deposits	**0.71%**	0.68%
Savings deposits	**3.10%**	2.97%
Time deposits	**5.57%**	5.37%

d) Currency risks

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.

(expressed in Eastern Caribbean dollars)

3 Financial risk management *...continued*

d) Currency risks ... *cont'd*

Concentrations of assets, liabilities and credit commitments

	XCD $	USD $	EURO $	GBP $	CAD $	Other $	Total $
Assets							
Cash and balances due from other banks	15,402,507	111,938,967	5,211,661	2,176,461	256,112	84,146	135,069,854
Treasury bills	54,676,814	–	–	–	–	–	54,676,814
Investment securities	4,131,708	82,377,776	–	–	–	–	86,509,484
Income tax receivable	30,381	–	–	–	–	–	30,381
Loans and advances	86,008,199	10,887,485	–	–	–	–	96,895,684
Other assets	1,161,529	174,810	–	–	–	–	1,336,339
Property, plant and equipment	8,667,665	–	–	–	–	–	8,667,665
Total assets	170,078,803	205,379,038	5,211,661	2,176,461	256,112	84,146	383,186,221
Liabilities							
Customers' deposits	148,850,842	187,551,377	5,170,586	630,593	80,534	–	342,283,932
Other liabilities and accrued expenses	2,567,582	7,269,180	–	–	–	–	9,836,762
Provisions for income tax	60,282	–	–	–	–	–	60,282
Deferred tax	440,671	–	–	–	–	–	440,671
Redeemable shares	–	2,066,285	–	–	–	–	2,066,285
Total liabilities	151,919,377	196,886,842	5,170,586	630,593	80,534	–	354,687,932
Net balance sheet position	18,159,426	8,492,196	41,075	1,545,868	175,578	84,146	28,498,289
Credit commitments	6,075,907	24,824,214	–	–	–	–	30,900,121

(expressed in Eastern Caribbean dollars)

3 Financial risk management *…continued*

d) Currency risks … *cont'd*

	XCD $	USD $	EURO $	GBP $	CAD $	Other $	Total $
As of June 30, 2004							
Total assets	135,586,492	187,007,733	379,565	1,909,267	1,412,184	94,492	326,389,733
Total liabilities	119,058,186	183,197,860	–	–	–	–	302,256,046
Net balance sheet position	16,528,306	3,809,873	379,565	1,909,267	1,412,184	94,492	24,133,687
Credit commitments	5,880,022	503,785	–	–	–	–	6,383,807

(expressed in Eastern Caribbean dollars)

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.

Maturities of assets and liabilities, June 30, 2005

	Up to 1 year	1-5 years	Over 5 years	Total
Assets				
Cash and due from other banks	129,680,054	–	5,389,800	135,069,854
Treasury bills	53,676,814	–	1,000,000	54,676,814
Income tax receivable	30,381	–	–	30,381
Investment securities	20,203,833	40,744,492	25,561,159	86,509,484
Loans and advances	32,329,270	49,551,836	15,014,578	96,895,684
Other assets	1,279,544	56,795	–	1,336,339
Property, plant and equipment	38,896	155,587	8,473,182	8,667,665
	237,238,792	90,508,710	55,438,719	383,186,221
Liabilities				
Customer deposits	327,263,822	15,020,110	–	342,283,932
Other liabilities and accrued expenses	9,836,762	–	–	9,836,762
Provision for income tax	60,282	–	–	60,282
Deferred tax	–	440,671	–	440,671
Redeemable shares	2,066,285	–	–	2,066,285
	339,227,151	15,460,781	–	354,687,932
Net liquidity gap, June 30, 2005	**(101,988,359)**	**75,047,929**	**55,438,719**	**28,498,289**

3 Financial risk management *…continued*

	Up to 1 year	1-5 years	Over 5 years	Total
Maturities of assets and liabilities, June 30, 2004				
Total assets	172,232,356	98,547,343	55,610,034	326,389,733
Total liabilities	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

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 terms 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.

f) Fair value

	Carrying value		Fair value	
	2005 $	**2004 $**	**2005 $**	**2004 $**
Financial assets				
Cash and due from other banks	**135,069,854**	97,936,994	**135,069,854**	97,936,994
Treasury bills	**54,676,814**	32,240,183	**54,676,814**	32,240,183
Loans and advances to customers	**96,895,684**	70,156,992	**96,895,684**	70,156,992
Investment securities	**86,509,484**	116,382,672	**86,509,484**	116,382,672
Other assets	**1,336,339**	1,252,731	**1,336,339**	1,252,731
	374,488,175	317,969,572	**374,488,175**	317,969,572
Financial liabilities				
Customers' deposits	**342,283,932**	295,183,338	**342,283,932**	295,183,338
Other liabilities and accrued expenses	**9,836,762**	6,333,876	**9,836,762**	6,333,876
Redeemable shares	**2,066,285**	–	**2,066,285**	–
	354,186,979	301,517,214	**354,186,979**	301,517,214

3 Financial risk management *…continued*

f) Fair value *...continued*

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. The fair value of investments in equity investments that do not have a quoted market price in an active market is determined by management.

- 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.

- 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 Business segments

At June 30, 2005, the Group is organized into four main business segments:

(1) Retail and Corporate banking – incorporating private banking services, customer current accounts, savings, deposits, consumer loans and mortgages and other credit facilities, overdrafts, debit cards;

(2) Offshore Banking – incorporating private banking services, customer current accounts, savings, deposits, consumer loans and mortgages and other credit facilities, overdrafts to non-residents of Nevis;

(3) Credit cards – extending credit to customers through various card products and services; and

(4) Mutual Funds – Open-ended public mutual funds comprising US dollar Money Market investments.

Transactions between the business segments are on normal commercial terms and conditions.

(expressed in Eastern Caribbean dollars)

4 Business segments *...continued*

	Retail and corporate banking $	Offshore banking $	Credit cards $	Mutual fund $	Eliminating entries $	Group $
At June 30, 2005						
External revenue	12,455,923	8,611,057	672,207	385,061	–	22,124,248
Revenue from other segments	1,599,490	197,959	–	–	(1,797,449)	–
Total revenues	14,055,413	8,809,016	672,207	385,061	(1,797,449)	22,124,248
Segment result and profit before tax	1,179,117	3,312,396	25,402	231,612	–	4,748,527
Income tax expense	(22,310)	(90,115)	–	–	–	(112,425)
Profit for the year	**1,156,807**	**3,222,281**	**25,402**	**231,612**	**–**	**4,636,102**
Segment assets	**194,046,841**	**161,360,490**	**2,974,645**	**24,804,245**	**–**	**383,186,221**
Segment liabilities	**182,893,425**	**169,193,715**	**489,977**	**2,110,815**	**–**	**354,687,932**
Other segment items						
Impairment provision – investments	–	735,387	–	–	–	735,387
Impairment provision – loans	24,965	–	–	–	–	24,965
Depreciation	435,340	74,029	–	–	–	509,369
Capital expenditure	719,662	37,211	–	–	–	756,873

(expressed in Eastern Caribbean dollars)

4 Business segments *...continued*

	Retail and corporate banking $	Offshore banking $	Credit cards $	Mutual fund $	Eliminating entries $	Group $
As June 30, 2004						
External revenues	9,251,511	6,454,409	482,505	–	–	16,188,425
Revenues from other segments	1,367,028	33,204	–	–	(1,400,232)	–
Total revenues	10,618,539	6,487,613	482,505	–	(1,400,232)	16,188,425
Segment result and profit before tax	765,398	2,534,368	(277,821)	–	–	3,021,945
Income tax expense	(174,151)	(57,824)	–	–	–	(231,975)
Profit (loss) for the year	591,247	2,476,544	(277,821)	–	–	2,789,970
Segment assets	151,570,546	173,010,446	1,808,741	–	–	326,389,733
Segment liabilities	139,185,235	163,070,811	–	–	–	302,256,046
Other segment items						
Impairment provision – investments	–	189,365	–	–	–	189,365
Impairment provision – loans	117,038	–	–	–	–	117,038
Depreciation	356,519	66,613	–	–	–	423,132
Capital expenditure	3,132,139	235,417	–	–	–	3,367,556

(expressed in Eastern Caribbean dollars)

5 Cash and balances due from other banks

	2005 $	2004 $
Cash on hand	**1,643,128**	1,527,730
Balances with Eastern Caribbean Central Bank (ECCB) other than mandatory deposits	**1,695,505**	849,365
Cash and current accounts with other banks	**51,582,404**	33,363,340
Fixed deposits	**–**	2,219,690
Cheques in the course of collection	**503,787**	648,089
Short-term marketable securities	**57,040,013**	41,035,873
Included in cash and cash equivalents (note 24)	**112,464,837**	79,644,087
Mandatory reserve deposits with the ECCB	**10,781,427**	8,246,417
Restricted fixed deposits	**5,659,290**	8,121,995
Fixed deposits	**5,862,421**	1,733,400
	134,767,975	97,745,899
Interest receivable	**301,879**	191,095
Total cash and balances due from other banks	**135,069,854**	97,936,994

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 $5,862,421 represents certificates of deposit held at the Grenada Co-operative Bank and accrues interest at rates ranging from 4.5% to 0.5% (2004: 5%) per annum. The restricted fixed deposits comprise deposits held with Bank of America of $269,490 (2004: $269,490) and $2,694,900 bearing interest of 1% and 2% (2004: 1.05% and 1%) per annum respectively; a deposit held with Caribbean Credit Card Corporation of $Nil (2004: $2,462,705) bearing interest of 4% (2004: 4%) per annum; and a deposit with ABN AMRO of Nil (2004: $2,694,900), which is not interest-bearing, and with Union Planters Bank of $2,694,900 (2004; Nil) bearing interest of 3.5%. These deposits are not available for use in the company's day-to-day operations.

June 30th, 2005

(expressed in Eastern Caribbean dollars)

6 Treasury bills

	Nominal Value 2005 $	Cost 2005 $	Nominal Value 2004 $	Cost 2004 $
Treasury bills – Government of Saint Christopher and Nevis, maturing August 23, 2005 with interest rate of 6.5%.	**43,226,500**	**42,524,070**	23,500,000	23,118,125
Treasury bill – Government of Grenada, maturing on July 8, 2005 with interest rate of 6.44%	**2,900,000**	**2,856,562**	–	–
Treasury bills – Nevis Island Government maturing July 26, 2005 with interest rate of 7%.	**8,000,000**	**7,860,000**	8,000,000	7,860,000
Included in cash and cash equivalents (note 24)	**54,126,500**	**53,240,632**	31,500,000	30,978,125
Treasury bill – Nevis Island Government maturing July 26, 2005 with interest rate of 7%	**1,017,813**	**1,000,000**	1,017,813	1,000,000
	55,144,313	**54,240,632**	32,517,813	31,978,125
Interest receivable	**–**	**436,182**	–	262,058
Total treasury bills	**55,144,313**	**54,676,814**	32,517,813	32,240,183

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.

7 Investment securities

	2005 $	2004 $
Originated debt		
Taurus Services Limited		
Fixed rate bond bearing interest at 10.125%	**–**	3,187,797
Government of Antigua and Barbuda		
Fixed rate bond bearing interest at 9%	**2,609,452**	–
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 5.5%	**2,600,000**	–
Long-term bond bearing interest at 6%	**–**	100,000
Total investment securities – originated debt	**10,359,452**	8,437,797
Available for sale		
Debt securities:		
– unquoted, at amortized cost	**–**	1,929,613
– quoted, at market value	**73,223,389**	103,753,937
Equity securities at market value	**1,703,097**	531,606
Equity securities – unquoted	**199,596**	398,200
Total investment securities – available for sale	**75,126,082**	106,613,356
Interest receivable	**1,023,950**	1,331,519
Total investment securities	**86,509,484**	116,382,672

(expressed in Eastern Caribbean dollars)

7 Investment securities *...continued*

	Originated debt $	Available for sale $	Total $
Balance as of June 30, 2004	8,437,797	106,613,356	115,051,153
Additions	5,294,899	10,815,570	16,110,469
Disposals (sale and redemption)	(3,373,244)	(42,445,981)	(45,819,225)
Gain from change in fair value, net	–	878,524	878,524
Impairment loss	–	(735,387)	(735,387)
Balance as of June 30, 2005	10,359,452	75,126,082	85,485,534

Gains less losses from investment securities comprise:

	2005 $	2004 $
Net realized gains (losses) from disposal of available-for-sale financial assets	**(22,913)**	(72,326)

8 Loans and advances

	2005 $	2004 $
Reducing balance loans	**88,380,581**	59,751,901
Overdrafts	**7,619,327**	11,089,378
Credit card advances	**2,368,958**	1,051,073
Discount loans	**1,127**	290,563
Interest receivable	**791,581**	392,438
	99,161,574	72,575,353
Less: Allowance for loan impairment	**(2,265,890)**	(2,418,361)
Total loans and advances	**96,895,684**	70,156,992

June 30th, 2005

(expressed in Eastern Caribbean dollars)

8 Loans and advances *...continued*

Allowance for loan impairment

	2005 **$**	**2004** **$**
The movement in allowance for loan impairment is as follows:		
Balance, beginning of year	**2,418,361**	3,981,418
Provision for loan impairment	**24,965**	309,694
Recoveries during the year	**–**	**(192,656)**
Loans and advances written off during the year as uncollectible	**(177,436)**	**(1,680,095)**
Balance, end of year	**2,265,890**	2,418,361

According to the Eastern Caribbean Central Bank loan provisioning guidelines, the calculated allowance for loan impairment amounts to $2,619,521 (2004: $2,174,485).

Included in interest income is an amount for interest on non-productive loans of $245,074 (2004: $358,600). The total value of non-productive loans at the end of the year amounted to $9,726,735 (2004: $9,517,777).

The interest receivable on non-productive loans and advances but not recognized in the financial statements at the end of the year amounted to $1,734,846 (2004: $1,723,115).

9 Other assets

	2005 **$**	**2004** **$**
Due from merchant processor	**2,128,947**	2,128,947
Items in-transit	**987,345**	854,785
Other receivables	**134,452**	117,720
Prepayments	**188,768**	191,583
Credit card and stationery stock	**83,779**	50,124
Miscellaneous	**22,842**	38,519
	3,546,133	3,381,678
Less: Provision for other receivables and amounts due from merchant processor	**(2,209,794)**	(2,128,947)
Total other assets	**1,336,339**	1,252,731

(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Total $
At 1 July 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**
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
Writeback of depreciation charge	–	–	–	–	–	55,000	55,000
Disposals	–	–	–	–	–	(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**

(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment …*continued*

	Land $	Buildings $	Furniture & fixtures $	Equipment $	Computer equipment $	Motor vehicle $	Total $
Year ended 30 June 2005							
Opening net book amount	3,759,086	3,588,189	118,401	248,394	639,691	66,400	8,420,161
Additions	274,619	–	18,035	49,513	414,706	–	756,873
Depreciation charge	–	(91,422)	(49,814)	(67,471)	(263,839)	(36,823)	(509,369)
Closing net book amount	**4,033,705**	**3,496,767**	**86,622**	**230,436**	**790,558**	**29,577**	**8,667,665**
At 30 June 2005							
Cost	4,033,705	3,656,866	656,263	605,929	2,439,312	83,000	11,475,075
Accumulated depreciation	–	(160,099)	(569,641)	(375,493)	(1,648,754)	(53,423)	(2,807,410)
Net book amount	**4,033,705**	**3,496,767**	**86,622**	**230,436**	**790,558**	**29,577**	**8,667,665**

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 16).

The following is the historical cost carrying amount of land and buildings carried at revalued amounts as of June 30, 2005:

	Land $	Buildings $	Total $
Cost	382,279	2,758,340	3,140,619
Accumulated Depreciation	–	(607,750)	(607,750)
Net book values	**382,279**	**2,150,590**	**2,532,869**

(expressed in Eastern Caribbean dollars)

11 Customers' deposits

	2005 $	2004 $
Current accounts	**166,105,731**	157,374,767
Time deposits	**108,353,322**	93,074,653
Savings accounts	**64,236,693**	41,854,168
Merchant reserve accounts	**875,656**	985,694
Interest payable	**2,712,530**	1,894,056
Total customers' deposits	**342,283,932**	295,183,338

Included in the customers deposits at year end are balances for other financial institutions amounting to $9,200,713 (2004: $4,819,523).

12 Other liabilities and accrued expenses

	2005 $	2004 $
Accounts payable and accrued expenses	**6,685,472**	1,765,242
Items-in-transit	**1,302,864**	3,997,800
Staff bonus payable	**873,478**	–
Manager's cheques	**744,288**	190,109
Government stamp duty	**230,660**	380,725
Total other liabilities and accrued expenses	**9,836,762**	6,333,876

(expressed in Eastern Caribbean dollars)

13 Taxation

	2005 $	2004 $
Deferred income tax		
Balance, beginning of year	**486,007**	145,326
Current tax expense	**11,217**	100,847
Deferred tax on revaluation of available for sale investment securities, net of tax	**(56,553)**	239,834
Balance, at end of year	**440,671**	486,007
Income tax payable		
Income tax payable, beginning of year	**252,825**	526,109
Payments made during year	**(324,132)**	(404,412)
Current tax expense	**95,745**	66,349
Prior year tax expense	**5,463**	64,779
Income tax payable net, end of year	**29,901**	252,825

The income tax payable (net) is comprised of:

	2005 $	2004 $
Income tax payable	**60,282**	252,825
Income tax receivable	**(30,381)**	–
	29,901	252,825

Income tax expense		
Operating income for the year	**4,748,527**	3,021,945
Income tax expense at standard rate of 35% (2004: 35%)	**1,661,984**	1,057,681
Non-deductible expenses	**196,871**	67,771
Income from tax exempted entity	**(2,550)**	–
Withholding tax	**19,323**	15,200
Untaxed interest income	**(884,447)**	(402,480)
Effect of lower tax rate in subsidiary company	**(1,076,529)**	(804,167)
Prior year income tax adjustment	**5,463**	64,779
Deferred tax over (under) provided	**11,883**	(4,598)
Effect of losses carried forward	**180,427**	237,789
Actual income tax expense	**112,425**	231,975

June 30th, 2005

(expressed in Eastern Caribbean dollars)

13 Taxation *…continued*

The company has carry forward income tax losses of $1,194,906 at June 30, 2005, which have not been confirmed by the Comptroller of Inland Revenue. The losses were incurred as follows:

Year of Loss	**$**
2004	679,400
2005	515,506
Total losses carried forward	1,194,906

The deferred tax asset of $418,217 (2004: $237,790) associated with these losses have not been recognized in the financial statements because of the uncertainty of its recovery.

14 Redeemable shares

	2005 **$**	**2004** **$**
Bank of Nevis International Fund Limited		
76,674 Class 'B' shares at cost of US $10 each	**2,066,285**	–

15 Share capital

	2005 **$**	**2004** **$**
Authorized 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

(expressed in Eastern Caribbean dollars)

16 Revaluation reserves (deficit)

	2005 $	2004 $
Balance, beginning of year	**(57,030)**	1,564,016
Appreciation (depreciation) in market value of investment securities, net of tax	**1,046,181**	(1,621,046)
Balance, end of year	**989,151**	(57,030)
Represented by revaluation reserves attributable to:		
Available for sale investment securities	**(597,481)**	(1,643,662)
Property	**1,586,632**	1,586,632
	989,151	(57,030)

An independent valuation of land and buildings was conducted in July 2003 (see note 10).

17 Other reserves

	2005 $	2004 $
Other reserves:		
Balance at beginning of year	**4,877,869**	4,541,778
Transfer of 20% of net income for the year	**556,959**	336,091
Reserve for loan impairment	**431,505**	–
Total other reserves	**5,866,333**	4,877,869
Other reserves is represented by:		
Reserve fund	**5,434,828**	4,877,869
Reserve for loan impairment	**431,505**	–
	5,866,333	4,877,869

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.

(expressed in Eastern Caribbean dollars)

17 Other reserves *...continued*

Reserve for loan impairment

This reserve is created to set aside the amount by which the loan loss provision calculated under the Prudential Guidelines of the Eastern Caribbean Central Bank exceeds the loan loss provision calculated in accordance with IAS 39.

18 Other operating income

	2005 $	2004 $
Fees and commissions	**2,094,803**	1,520,130
Foreign exchange	**1,947,231**	528,099
Credit card fees	**445,411**	361,653
Rental income	**33,000**	14,000
Dividend income	**54,878**	53,389
Miscellaneous revenue	**–**	134
Total other operating income	**4,575,323**	2,477,405

19 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.

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

	2005 $	2004 $
Loans to Directors		
Loans outstanding at beginning of year	**3,783,863**	4,074,621
Loans issued during the year	**5,612,045**	515,000
Loans repayment during the year	**(2,320,364)**	(805,758)
Loans outstanding at end of year	**7,075,544**	3,783,863

Interest income earned on directors' loans and advances during the year is $568,825 (2004: $300,337). Interest rates on directors' loans range from 9% to 11%. The Bank's commitment to extend credit to directors in the future, amounted to $171,306 at the year end.

19 Related party transactions *…continued*

	2005 $	2004 $
Deposits by Directors		
Deposits at beginning of year	**13,409,822**	4,937,192
Deposits received during the year	**5,529,122**	8,835,976
Deposits repaid during the year	**(633,214)**	(363,346)
Deposits at end of year	**18,305,730**	13,409,822

Interest expense paid on directors' deposits during the year is $982,109 (2004: $442,524). Interest rates on directors' deposits range 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 $102,666 (2004: $100,816). Rental income was also earned from R.L. Kawaja and Associates of $33,000 (2004: $14,000).

At the year end there was a non-productive loan due from a company whose principal shareholder is a director of the Bank. The balance on the facility at the year end amounted to $343,459. The provision recorded in respect of the non-productive loan is $167,727.

20 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.

	2005 $	2004 $
Net profit attributable to shareholders	**4,636,102**	2,789,970
Weighted average number of ordinary shares in issue	**7,478,150**	7,478,150
Basic and diluted earnings per share	**0.62**	0.37

21 Pension scheme

In 2003 the Bank introduced a defined contribution pension scheme for its employees. Contributions to the pension scheme for the year ended June 30, 2005 amounted to $93,184 (2004: $80,862).

22 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 including costs of US$27,000 was accrued for. The plaintiff has appealed and the Bank filed a Counter Notice of Appeal. The appeal filed by the plaintiff was dismissed and Bank's counter appeal was upheld. BONI was awarded costs of EC$130,000 in relation to the plaintiff's appeal and EC$86,666 in relation to their appeal. The amounts remain outstanding and have not been recognized in the accounts.

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

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

Taxation

The company was assessed tax liabilities of $352,035 by the Inland Revenue Department for the years ended June 30, 2002 to 2004, in respect of certain expenses that have been disallowed for tax purposes. The company has accepted and paid $77,295 of the assessments and is disputing the remaining portion of $274,740. The company's directors believe that there are strong grounds upon which to challenge the assessment and a formal objection has been made. The outcome of this review is not presently determinable and no provision has been made in these financial statements for the disputed amount.

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:

	2005 $	2004 $
Undrawn commitments to extend advances	**30,900,121**	6,383,807

23 Dividends

The financial statements reflect a dividend of $1,308,677 for the year ended June 30, 2004 which was approved at the eighteenth Annual General Meeting held on December 9, 2004 and paid subsequently.

A dividend in respect of 2005 of EC$0.20 per share (2004 actual dividend EC$0.175 per share) amounting to a total of EC$1,495,630 (2004 actual EC$1,308,677) is proposed. The financial statements for the year ended June 30, 2005 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, 2006.

24 Cash and cash equivalents

	2005 $	2004 $
Cash and balances due from other banks (note 5)	**112,464,837**	79,644,087
Treasury bills (note 6)	**53,240,632**	30,978,125
Total cash and cash equivalents	**165,705,469**	110,622,212

Notes to the Consolidated Financial Statements

June 30th, 2005

(expressed in Eastern Caribbean dollars)

25 General and administrative expenses

	2005 $	2004 $
Salaries and related costs	**3,182,784**	2,672,285
Credit card processing expense	**426,557**	350,290
Advertisement and promotion	**345,620**	189,540
Stationery and supplies	**271,796**	228,841
Insurance expense	**245,755**	130,499
Telephone, telex and cables	**215,147**	167,923
Professional fees	**182,894**	297,784
Debit card expenses	**179,390**	–
Legal fees	**140,853**	147,218
Repairs and maintenance	**138,171**	75,749
Credit card start up expense	**122,833**	282,656
Utilities	**107,580**	89,413
Travel and entertainment	**99,988**	165,349
Credit card chargeback loss	**97,415**	146,242
Equipment repairs	**97,157**	108,121
Printing costs	**89,901**	49,144
Provision for doubtful receivables	**80,847**	–
Taxes and licences	**75,075**	66,354
Stamps and postage	**58,053**	48,486
Rent	**57,601**	44,228
Subscriptions and fees	**54,047**	84,906
ECSE fees and expenses	**31,873**	30,118
Miscellaneous expenses	**30,914**	44,692
Cleaning	**18,016**	20,600
Online banking expenses	**15,941**	–
Secretarial	**12,228**	12,234
Security services	**4,861**	9,071
Cash shorts	**3,055**	2,848
Provision for lawsuit	**(72,762)**	13,475
Gain on disposal of assets	**–**	(35,001)
Total general and administrative expenses	**6,313,590**	5,443,065

(expressed in Eastern Caribbean dollars)

26 Comparative figures

Certain items in the notes to the consolidated financial statements 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:

a) Financial risk management (note 3) – The amounts included in the economic sector risk concentration note for commercial and personal loans for $72,575,353 have been reclassified as follows:

	$
Government bodies	7,170,171
Manufacturing	506,054
Agricultural	90,256
Professional	330,483
Business services	72,617
Land, housing, other	61,780,510
Tourism	2,625,262
	72,575,353

b) Investment securities (note 7) – An amount of $398,200 included in the available for sale securities has been reclassified from debt securities – unquoted, at amortized cost to equity securities – unquoted.

Non-consolidated Balance Sheet

As of June 30th, 2005

(expressed in Eastern Caribbean dollars)

	2005 $	2004 $
Assets		
Cash and balances with the Central Bank (note 4)	**14,120,060**	10,623,512
Due from other banks (note 5)	**44,509,395**	35,926,889
Treasury bills (note 6)	**35,912,778**	26,276,765
Investment securities (note 7)	**4,131,708**	1,841,577
Loans and advances (note 8)	**88,693,195**	68,712,941
Other assets (note 9)	**1,150,786**	828,293
Income tax receivable (note 15)	**30,381**	–
Investment in subsidiaries (note 10)	**2,350,000**	1,000,000
Property, plant and equipment (note 11)	**8,473,182**	8,188,860
Due from subsidiaries (note 16)	**2,290,462**	947,360
Total assets	**201,661,947**	154,346,197
Liabilities		
Customers' deposits (note 12)	**180,492,371**	134,170,659
Other liabilities and accrued expenses (note 13)	**4,198,557**	4,442,749
Provision for income tax (note 15)	**–**	85,820
Deferred tax (note 15)	**440,671**	486,007
Total liabilities	**185,131,599**	139,185,235
Shareholders' Equity		
Share capital (note 17)	**7,478,150**	7,478,150
Revaluation reserve (note 18)	**1,927,011**	2,032,038
Other reserves (note 19)	**4,666,333**	3,677,869
Retained earnings	**2,458,854**	1,972,905
Total shareholders' equity	**16,530,348**	15,160,962
Total liabilities and shareholders' equity	**201,661,947**	154,346,197

Approved by the Board of Directors on September 30,2005.

_______________ **Chairman**

_______________ **Director**

_______________ **Director**

Non-consolidated Statement of Income

As of June 30th, 2005

(expressed in Eastern Caribbean dollars)

	2005 $	2004 $
Interest income		
Income from loans and advances	**7,633,827**	6,777,430
Income from deposits with other banks and investments	**3,037,272**	1,431,843
	10,671,099	8,209,273
Interest expense		
Savings accounts	**1,639,264**	946,631
Time deposits and current accounts	**5,508,547**	3,595,657
	7,147,811	4,542,288
Net interest income	**3,523,288**	3,666,985
Losses from investment securities	**(111,104)**	–
Other operating income (note 20)	**4,167,625**	2,891,769
Operating income	**7,579,809**	6,558,754
Operating expenses		
General and administrative expenses (note 25)	**3,842,209**	3,532,780
Depreciation (note 11)	**435,340**	355,980
Directors' fees and expenses	**242,111**	209,750
Provision for loan impairment (note 8)	**(14,591)**	309,694
Correspondent bank charges	**141,814**	163,035
Audit fees and expenses	**127,526**	132,909
	4,774,409	4,704,148
Operating income for the year	**2,805,400**	1,854,606
Taxation (note 15)		
Current tax expense	**11,093**	8,525
Prior year tax expense	**–**	64,779
Deferred tax expense	**11,217**	100,847
	22,310	174,151
Net income for the year	**2,783,090**	1,680,455
Earnings per share (note 21)	**0.37**	0.22

Non-consolidated Statement of Cash Flows

For the year ended June 30th, 2005

(expressed in Eastern Caribbean dollars)

	2005 $	2004 $
Cash flows from operating activities		
Operating income for the year	**2,805,400**	1,854,606
Items not affecting cash		
Provision for loan impairment	**(14,591)**	309,694
Depreciation	**435,340**	355,980
Interest income	**(10,671,099)**	(8,209,273)
Interest expense	**7,147,811**	4,542,288
Operating losses before changes in operating assets and liabilities	**(297,139)**	(1,146,705)
Changes in operating assets and liabilities		
Decrease (increase) in restricted deposits with other banks	**2,462,705**	(2,698,062)
(Increase) decrease in mandatory deposits held with Central Bank	**(2,535,010)**	(2,619,890)
(Increase) decrease in other assets	**(322,493)**	(405,851)
(Increase) in loans and advances, net of repayments received	**(19,681,488)**	(8,229,876)
Increase in customers' deposits	**45,520,655**	48,290,657
(Decrease) increase in other liabilities and accrued expenses	**(244,192)**	2,006,941
Cash generated from operations before interest and tax	**24,903,038**	35,197,214
Interest paid	**(6,346,754)**	(4,334,681)
Interest received	**10,238,365**	8,170,448
Income tax paid	**(127,294)**	(389,412)
Net cash from operating activities	**28,667,355**	38,643,569
Cash flows from investing activities		
Purchase of property, plant and equipment	**(719,662)**	(3,132,139)
Purchase of investment securities	**(2,388,895)**	–
Investments in subsidiaries	**(1,350,000)**	–
Net cash used in investing activities	**(4,458,557)**	(3,132,139)
Cash flows from financing activities		
Dividends paid	**(1,308,677)**	(1,308,677)
(Repayments to) subsidiary companies	**(1,343,102)**	(2,058,520)
Net cash used in financing activities	**(2,651,779)**	(3,367,197)
Increase in cash and cash equivalents	**21,557,019**	32,144,233
Cash and cash equivalents, beginning of year	**58,922,386**	26,778,153
Cash and cash equivalents, end of year (note 24)	**80,479,405**	58,922,386

Non-consolidated Statement of Changes in Equity

As of June 30th, 2005

(expressed in Eastern Caribbean dollars)

	Share capital $	Revaluation reserve: property $	Revaluation reserve: available for sale investments $	Other reserves $	Retained earnings $	Total $
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 (note 18)	–	–	445,406	–	–	445,406
Transfer to reserve fund (note 19)	–	–	–	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
Net income for the year	–	–	–	–	2,783,090	2,783,090
Dividends (note 14)	–	–	–	–	(1,308,677)	(1,308,677)
Depreciation in market value of investment securities, net of tax (note 18)	–	–	(105,027)	–	–	(105,027)
Reserve for loan impairment (note 19)	–	–	–	431,505	(431,505)	–
Transfer to reserve fund (note 19)	–	–	–	556,959	(556,959)	–
Balance, June 30, 2005	**7,478,150**	**1,586,632**	**340,379**	**4,666,333**	**2,458,854**	**16,530,348**